



CITY OF
PORTLAND, OREGON

OFFICE OF THE CITY AUDITOR
Audit Services Division

Barbara Clark, City Auditor

Richard Tracy, Director of Audits

Mailing: 1220 S.W. Fifth Ave., Room 120

Portland, OR 97204

Walk In: 1400 S.W. Fifth Ave., 4th Floor

(503) 823-4005, FAX (503) 823-4459

April 21, 1997

TO: Mayor Vera Katz
Commissioner Jim Francesconi
Commissioner Charlie Hales
Commissioner Gretchen Miller Kafoury
Commissioner Erik Sten
Bureau Managers

Attached is a report entitled General Overhead Cost Trends. This is the third in a series of special reports we are preparing in response to Measure 47 information demands. We worked closely with Dennis Rohek and other staff from the Office of Finance and Administration and other City offices and bureaus to determine General Fund overhead components and subcomponents as well as reasons for significant increases or decreases. We hope this report will help you and others in the process of preparing and adopting the City's budget for FY 1997-98.

If you have any comments or questions about the report, or need copies of past audits or studies, please call me or Audit Director Richard Tracy.

Barbara Clark, CPA
City Auditor

Audit Team: Richard Tracy, Eric Hofeld, Janis Hull, Ellen Jean

General Fund Overhead Cost Trends

April 1997

A report by the Audit Services Division
Report #235



Office of the City Auditor
Portland, Oregon

Table of Contents

Introduction	1
Report objectives	1
Definition and funding of overhead	2
Components of overhead	2
Scope and methodology	4
 Review Results	 5
Summary	5
Office of Finance and Administration	6
City Council	8
City Auditor	9
City Attorney	10
Purchasing	11
Special Appropriations	12

Introduction

This report was prepared by the Audit Services Division of the Office of the Portland City Auditor. It was conducted in accordance with the Auditor's revised FY 1996-97 audit schedule published December 6, 1996. It is the third in a series of special reports we are preparing to address Measure 47 information demands. This report was not prepared in accordance with generally accepted government auditing standards; however, the work was conducted by independent, qualified professional staff and due care was taken to produce reliable and accurate information.

Report objectives

The objective of this report is to provide information to City Council and the public to help make budget and other policy decisions. The report defines and reviews the six major components of General Fund overhead. It also presents 5-year trend data (adjusted for inflation) on total costs, revenues, and overhead for each component and applicable subcomponents.

**Definition and
funding of
overhead**

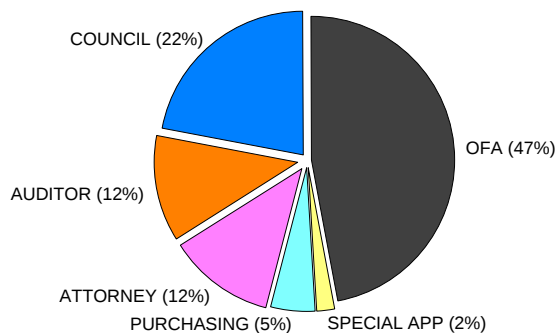
Overhead costs are typically those costs associated with the general management and administration of an entity, as distinguished from the direct costs of providing services to customers.

General Fund overhead includes costs that are necessary for the functioning of the government as a whole such as legislation and governance, budget and finance, and legal representation. It also includes the costs of central services which support and benefit all of the City's service delivery offices and bureaus. Examples include human resources, information services, purchasing, and records and archives.

The total costs of these central service bureaus and offices, minus any internal (mostly interagency) and external revenues generated, is the General Fund overhead amount that is allocated to the City's service delivery offices and bureaus. Certain services (such as Information Services) recover the majority of their costs through interagency charges to user bureaus. Other services (such as Audit Services) are entirely supported by General Fund overhead charges.

**Components of
overhead**

For the City of Portland, General Fund overhead consists of six components. Each component or function is carried out by the offices, bureaus, and departments described below. The relative size of these components in FY 1995-96 is shown by the following chart.

FY 1995-96 General Fund overhead components

Source: FY 1995-96 year-end IBIS reports.

1. Office of Finance and Administration (47%)

Because of the wide range of services provided, the Office of Finance and Administration (OFA) requires the largest share of General Fund overhead. OFA has five major subcomponents: Administration and Financial Planning (including Urban Services and Grants Compliance), Accounting, Personnel Services, Information Services, and Treasury.

2. City Council and Government Relations (22%)

The City Council and Government Relations require the second largest share of General Fund overhead. The Council fulfills its function through the elected Mayor and four commissioners. The Office of Government Relations represents the City before the state and federal legislatures.

3. City Auditor (12%)

The third largest share of General Fund overhead is attributable to the City Auditor. The City Auditor has three major subcomponents. The

Recorder includes the Council Clerk and operation of the City's archive and record center. Audit Services includes both performance and financial audit costs. Other Services includes administration and portions of the Code Hearings Officer and Liens and Assessments costs.

4. City Attorney (12%)

Slightly behind the City Auditor is the cost of legal review and representation performed by the City Attorney.

5. Purchasing (5%)

The next smallest portion of General Fund overhead is attributable to the Bureau of Purchasing for compliance with public contract law.

6. Special Appropriations (2%)

The smallest portion of General Fund overhead is attributable to other general government expenditures which are authorized annually by Council as Special Appropriations.

Scope and methodology

We reviewed those costs included in General Fund overhead. We did not review the methodology and basis for allocating General Fund overhead to the various bureaus, nor did we review bureau or division-level overhead in City service delivery bureaus and offices. Cost and revenue data were obtained from final year-end IBIS reports. Staffing data were taken from adopted City budgets. Costs and revenues were adjusted for inflation, and trends were developed over a 5-year period, from FY 1991-92 through FY 1995-96.

Review Results

Summary While the FY 1995-96 General Fund overhead exceeded \$18 million, it was still less than 3% of the net City budget (total City budget minus interagency transfers and debt transactions). As shown by the table below, General Fund overhead, adjusted for inflation, has grown only 3.5% over the last five years while the net City budget has grown by more than 10%.

General Fund overhead (adjusted for inflation)

	General Fund overhead	Net * City budget	% of net City budget
'91-92	\$17,596,608	\$624,622,584	2.82%
'92-93	\$17,626,254	\$648,126,752	2.72%
'93-94	\$17,267,779	\$690,735,873	2.50%
'94-95	\$18,205,498	\$659,890,394	2.76%
'95-96	\$18,207,934	\$688,985,235	2.64%
% change	+3.5%	+10.3%	

* Total City budget, less amounts for transfers between departments, debt borrowings and debt repayments.

SOURCE: Year-end IBIS reports and Adopted Budgets

Changes in the major components of General Fund overhead from five years ago are shown by the following table.

Change in components of overhead from 5 years ago (adjusted for inflation)		
	FY '95-96 GF overhead	Change from FY '91-92
City Attorney	\$2,175,903	+ \$204,932 (+ 10%)
OFA	\$8,496,956	+ \$422,389 (+ 5%)
City Auditor	\$2,240,563	+ \$41,348 (+ 2%)
City Council	\$4,013,693	+ \$34,377 (+ 1%)
Purchasing	\$975,462	- \$79,110 (- 8%)
Special Appropriations	\$305,357	- \$12,602 (- 4%)
TOTAL	\$18,207,934	+ \$611,334

SOURCE: Year-end IBIS reports and Adopted Budgets

The following sections present five year trend data for each of the components and related subcomponents, together with explanatory comments where appropriate.

Office of Finance and Administration

While FTEs grew 4%, total costs declined slightly. However, the decline in costs was not enough to offset the 14% and 16% respective reductions in internal and external revenues. As a result, OFA's FY 1995-96 contribution to General Fund overhead was 5% higher than five years ago.

Office of Finance & Administration trends (adjusted for inflation)

	FTEs	Total cost	Revenue		OVERHEAD (net cost)
			Internal	External	
'91-92	162	\$12,433,201	\$4,102,770	\$255,864	\$8,074,567
'92-93	169	\$12,654,177	\$3,952,781	\$272,026	\$8,429,370
'93-94	167	\$12,795,248	\$4,508,543	\$234,709	\$8,051,996
'94-95	168	\$12,657,303	\$3,938,239	\$182,980	\$8,536,084
'95-96	168	\$12,237,393	\$3,524,234	\$216,203	\$8,496,956
change	+4%	-2%	-14%	-16%	+5%

SOURCE: Year-end IBIS reports and Adopted Budgets

As shown below, Administration & Financial Planning overhead costs were 46% higher than five years ago. This was due primarily to additions in Financial Planning costs for Council-directed programs such as the Comprehensive Organizational Review and Evaluation (CORE), the Public Utility Review Team, and Public Utilities Review Board. Accounting decreased primarily due to decentralization of the accounts payable function. Information Services decreased slightly because costs declined more than interagency revenues. While Treasury increased 8%, the increase was less than \$35,000 and was due primarily to City-wide adjustments to employee compensation and increased cost of benefits.

Overhead from OFA subcomponents (adjusted for inflation)

	OVERHEAD COSTS		Change
	'95-96	(% of total)	from '91-92
Administration & Financial Planning *	\$2,826,104	(33%)	+46%
Accounting	\$2,482,349	(29%)	-16%
Personnel Services	\$2,194,735	(26%)	-1%
Information Services	\$513,322	(6%)	-4%
Treasury	\$480,446	(6%)	+8%
TOTAL	\$8,496,956	(100%)	+5%

* also includes Urban Services and Grants Compliance

SOURCE: Year-end IBIS reports and Adopted Budgets

City Council While the total number of full-time employees grew by 3 (7%), total costs declined 9% which helped offset the decline in revenues and hold the total 5-year increase to only 1%. The significant increase in external revenues in FY 1995-96 came from Multnomah County in support of the Portland-Multnomah Progress Board.

City Council trends (adjusted for inflation)					
	FTEs	Total cost	Revenue		OVERHEAD (net cost)
			Internal	External	
'91-92	46	\$4,592,868	\$592,735	\$20,817	\$3,979,316
'92-93	42	\$4,401,757	\$677,526	\$29,322	\$3,675,227
'93-94	49	\$3,885,005	\$134,613	\$6,315	\$3,744,077
'94-95	52	\$4,188,512	\$135,243	\$49,245	\$4,004,024
'95-96	49	\$4,181,825	\$0	\$168,132	\$4,013,693
change	+7%	-9%	-	+707%	+1%

SOURCE: Year-end IBIS reports and Adopted Budgets

The following table shows that the Office of Government Relation's contribution to General Fund overhead grew by 41%. This was due primarily to the elimination of interagency funding from the Bureaus of Environmental Services and Water, and the Office of Transportation.

Overhead from City Council subcomponents (adjusted for inflation)			
	OVERHEAD COSTS		Change from '91-92
	'95-96	(% of total)	
Mayor	\$1,212,571	(30%)	-4%
Comm. #1	\$592,322	(15%)	0%
Comm. #2	\$524,611	(13%)	-7%
Comm. #3	\$567,574	(14%)	-4%
Comm. #4	\$582,622	(15%)	-2%
Govt. Relations	\$533,993	(13%)	+41%
TOTAL	\$4,013,693	(100%)	+1%

SOURCE: Year-end IBIS reports and Adopted Budgets

City Auditor City Auditor total costs were 12% higher than five years ago; however, increases in revenues worked to hold the total increase in the City Auditor's portion of General Fund overhead to 2%. The growth in internal revenues is due primarily to increased activity in Liens and Assessments and the Code Hearings Office.

City Auditor trends (adjusted for inflation)

	FTEs	Total cost	Revenue		OVERHEAD (net cost)
			Internal	External	
'91-92	50	\$3,180,299	\$848,575	\$132,509	\$2,199,215
'92-93	50	\$3,535,981	\$1,010,376	\$161,190	\$2,364,415
'93-94	52	\$3,482,692	\$1,219,155	\$215,050	\$2,048,487
'94-95	53	\$3,600,085	\$1,216,307	\$171,439	\$2,212,339
'95-96	52	\$3,575,311	\$1,177,404	\$157,344	\$2,240,563
change	+4%	+12%	+39%	+19%	+2%

SOURCE: Year-end IBIS reports and Adopted Budgets

The increase in costs for the Recorder function, shown below, is due primarily to position upgrades, increased costs for benefits, facilities improvements and new optical scanning equipment. General Fund overhead from Other Services declined 9% because City Auditor administrative costs declined and revenues for the Hearings Officer grew more than costs.

Overhead from City Auditor subcomponents (adjusted for inflation)

	OVERHEAD COSTS		Change from '91-92
	'95-96	(% of total)	
Recorder	\$877,453	(39%)	+12%
Audit Services	\$825,778	(37%)	0%
Other services	\$537,332	(24%)	-9%
TOTAL	\$2,240,563	(100%)	+2%

SOURCE: Year-end IBIS reports and Adopted Budgets

City Attorney As shown in the following table, the number of full-time employees declined by 3 (8%); however, total costs were 18% higher than five years ago. This was due primarily to City-wide adjustments to employee compensation, position upgrades, and increased cost of benefits.

However, increases in both internal and external revenues of 30% and 115%, respectively, held the five-year increase in the City Attorney's contribution to General Fund overhead to 10%.

City Attorney trends (adjusted for inflation)

	FTEs	Total cost	Revenue		OVERHEAD (net cost)
			Internal	External	
'91-92	39	\$3,158,762	\$1,177,703	\$10,089	\$1,970,970
'92-93	37	\$3,194,620	\$1,191,226	\$6,709	\$1,996,685
'93-94	36	\$3,249,975	\$1,264,827	\$8,338	\$1,976,810
'94-95	36	\$3,519,550	\$1,486,338	\$12,218	\$2,020,994
'95-96	36	\$3,724,495	\$1,526,943	\$21,649	\$2,175,903
change	-8%	+18%	+30%	+115%	+10%

SOURCE: Year-end IBIS reports and Adopted Budgets

Purchasing The table below shows that over the last five years, the number of full-time employees has increased by 1 (6%) and total costs were 10% higher.

Purchasing trends (adjusted for inflation)					
	FTEs	Total cost	Revenue		OVERHEAD (net cost)
			Internal	External	
'91-92	16	\$1,206,058	\$68,866	\$82,620	\$1,054,572
'92-93	19	\$1,203,983	\$266,079	\$167,227	\$770,677
'93-94	17	\$1,202,861	\$138,477	\$129,562	\$934,821
'94-95	16	\$1,181,854	\$170,956	\$12,200	\$998,698
'95-96	17	\$1,330,677	\$349,922	\$5,293	\$975,462
change	+6%	+10%	+408%	-94%	-8%

SOURCE: Year-end IBIS reports and Adopted Budgets

However, the increased costs, plus a 94% decrease in external revenues were more than offset by the hefty (408%) increase in internal revenues. As a result, Purchasing's FY 1995-96 contribution to General Fund overhead was 8% less than five years ago.

Special Appropriations

As shown in the following table, the total amount of General Fund overhead attributable to Special Appropriations are 4% less than five years ago.

Special Appropriations trends (adjusted for inflation)

	OVERHEAD (total cost)
'91-92	\$317,959
'92-93	\$389,880
'93-94	\$511,588
'94-95	\$433,360
'95-96	\$305,357
change	-4%

SOURCE: Year-end IBIS reports

The Special Appropriations included in FY 1995-96 General Fund overhead were as follows:

1995-96 Special Appropriations

Memberships and dues	\$234,038
Customer Survey	\$42,755
Quality Customer Service	\$10,663
Leaders Roundtable	\$10,000
Council emergency funds	\$7,000
Management Council	\$701
Employee Suggestion program	\$200
TOTAL	\$305,357

SOURCE: OFA General Fund Overhead and year-end IBIS reports

