



January 12, 2024

FY24 FULL COST ALLOCATION PLAN REVIEW AND RESULTS

Fort Bragg currently conducts an in-house cost allocation process, which takes costs from general fund departments and allocates to general and non-general fund sources. This model was developed in-house and there is a true-up process that is conducted at the end of each fiscal year to ensure that the indirect costs assessed were appropriate.

The City would like to review the methodology of its current cost plan and determine if there are any opportunities for improvement to allow for the creation of the most defensible, fair, and equitable cost plan. The following memo provides a brief overview of the current plan methodology, proposed improvements, and a comparison of the differences between the City’s current plan and proposed plan.

Current Cost Allocation Plan

The City’s most recent cost allocation allocated roughly \$3.5 million in personnel, non-personnel, and operating expenditures. Indirect Programs are defined as functional areas which provide internal support functions to those funds and departments that are more public-facing (i.e., Public Safety, Utilities, etc.). For each of the Indirect Programs, an allocation metric was used to allocate the support provided to receiving programs. The following table outlines Indirect Programs, total cost allocated, and allocation metrics.

Table 1: Costs Allocated Through Current Full Cost Plan and Allocation Metrics

Service Area	Total Cost	Allocation Metric
City Council	\$343,480	# of Agenda Items
City Attorney	\$397,452	# of Agenda Items
City Clerk	\$227,217	# of Agenda Items
Human Resources	\$275,288	# of FTE
City Administration	\$306,300	Budgeted Exp
Non-Departmental	\$1,186,753	Budgeted Exp
Financial management	\$308,379	Budgeted Exp
Utility Billing	\$254,963	# of Bills Processed
Corp Yard	\$102,078	Budgeted Exp
PW Admin	\$146,281	Budgeted Exp
Total	\$3,548,191	

To determine the total indirect cost allocated to each Direct Program, the total quantity of each allocation basis or cost driver is divided by the total cost for the indirect program, resulting in a per metric cost. The driver rate is then multiplied by the individual amount of the metric that is specific to the Direct Program. For example, City Council is allocated based upon agenda items. There was a total of 308 agenda items processed, the total cost for City Council (\$343,480) is divided by the 308 to come up with a cost of \$1,115 per agenda item. 20 of the 308 agenda items were specific to Parks, therefore the 20 is multiplied by the driver rate of \$1,115 equaling \$53,297. This is repeated for every Indirect Program. The following table shows the total Indirect costs allocated to each Direct Programs.

Table 2: Costs Allocated to Direct Programs Through Current Full Cost Plan

Direct Program	Total Cost Allocated
Police/Fire Department	\$903,191
Community Development	\$439,507
Parks	\$159,809
Storm Drains	\$83,974
Street Maintenance	\$156,815
Street Traffic & Safety	\$106,234
Water Enterprise	\$852,774
Wastewater Enterprise	\$838,322
	\$3,540,626

Overall, \$3.5 million in indirect cost is allocated to Direct Programs through the City’s current cost allocation plan. The totals in Table 1 and Table 2 should align, but a discrepancy of \$7,565 exists between them. This discrepancy arises because there is an error with the Human Resource metric, which includes an Indirect Program (Corp Yard), resulting in a \$7,565 reduction in the allocation from Human Resources. Overall, the largest allocations are to Police / Fire (\$903,000), Water (\$853,000), and Wastewater (\$838,000).

Current Cost Allocation Methodology Recommendations

Based upon the project team’s review of the City’s Full Cost Allocation Plan process, there are many strengths. Current strengths include utilizing a variety of metrics and ensuring costs do get allocated to general fund sources along with non-general fund sources. However, we also identified, several opportunities for improvement to strengthen the defensibility of the cost allocation plan and ensure compliance with cost allocation best practices.

Currently, the City includes all expenses for all central services or providers of service, regardless of whether those costs are relatable to the service area. For example, the total

costs associated with City Clerk are spread across all departments despite costs associated with elections being present. Elections are not in relation to other city departments, but rather a more public-facing activity performed by the City Clerk. A more accurate and defensible approach would be to exclude or adjust costs that are non-essential to supporting other City Departments.

Recommendation:

The City should adopt the practice of allocating only cost which are “necessary and reasonable” to the function of a Department and the service they provide.

The current cost allocation model for the city takes general fund expenses and spreads it to specific general fund and non-general fund programs. In order for a plan to be considered fair, equitable, and defensible – costs must be allocated to all funds and departments regardless of their ability to afford those indirect costs. The City should revise its plan to include all funds and departments. Even if these other funds and programs are unable to pay the General Fund or “afford” those indirect costs, it helps the City understand the true indirect costs associated with its operations.

Recommendation:

The City should adopt the practice of allocating costs to all City Funds and Departments, regardless of their ability to recover costs.

The City’s current cost allocation strategy only distributes the budgeted / actual expenditures of Indirect Programs. To improve this approach the City should implement a double step-down method, which entails not only distributing direct costs but redistributing indirect costs incurred from other Indirect Programs. For example, City Manager and City Council provide support to Finance, as such, they would allocate indirect costs to Finance. When Finance then distributes costs to Direct Programs it would allocate direct costs (personnel, non-personnel, etc.) and indirect costs (those incurred from City Manager and City Council). This method provides a clearer, more accurate reflection of the true cost of services bore by Indirect Programs.

Recommendation:

The City should adopt the practice of utilizing a double step-down method to allocate costs to capture indirect costs from other central services.

The City currently conducts a “true-up” process. This means that at the end of the fiscal year, City staff track their time spent with each fund and department and based on that time, the total costs are allocated back to those funds and departments. If based on the budgeted cost allocation plan, there were higher costs, then those programs receive a

refund, otherwise, they may owe additional funds. A “true-up” process is not required for a Full Cost Allocation plan process. It can be cumbersome and can result in large variations year-to-year. It is typically only utilized in jurisdictions that do not have a process in place and are utilizing outdated information. As the City is annually updating the plan based upon tangible metrics it is not required nor needed to continue this process. Additionally, this process relies upon staff accurately coding their time. The purpose of the cost allocation plan is to eliminate time tracking and utilize tangible data to allocate indirect support.

Recommendation:

The City should utilize its Full Cost Allocation budgeted numbers for funds and departments rather than conducting a “true-up” process at the end of the year with actual time.

Proposed Cost Allocation Plan

Based upon the prior recommendations and opportunities for improvement, the project team developed a full cost allocation plan. Matrix Consulting Group worked with the City’s staff to identify which City Departments provide services and support to other City Departments. The following points provide an overview of the six Central services and their determined internal support

- **Non-Departmental** – represents expenditures used Citywide rather than by a particular City Department, but does include expenses such as retiree costs, liability insurance and property insurance, which are considered allocable to other funds and departments.
- **City Council** – represents the City’s governing body, responsible for enacting policy and legislation on behalf of city departments and its residents.
- **City Manager** – acts as the City’s administrative head, responsible for general administrative and managerial support Citywide. Additionally, this Department also houses the City’s City Clerk, City Attorney, and Human Resources, who are responsible for various services, including managing City records, preparing agenda packets, overseeing municipal elections, legal counsel and advice, litigation, general employee support, and benefits administration.
- **Finance** – is responsible for general fiscal management Citywide, including; processing transactions and utility billing, accounting and auditing, developing of financial reports, and administration of business license and taxes.

- **PW Admin / Engineering** – is responsible for administrative support to all of the Public Work divisions, along with providing engineering services and implementation of the City’s capital improvement program.
- **Corporation Yard** – is responsible for general maintenance and upkeep of the City’s streets, storm drains, utility meters, and fire hydrants.

The Full Cost Plan developed for the City was based on FY24 budgeted expenditures and starts with \$4.7 million of costs for allocation. The following table identifies the budgeted expenditures associated with each central service, along with any disallowed costs and cost adjustments.

Table 3: Costs Allocated Through Proposed Full Cost Plan

Name	FY24 Budgeted Exp	Disallowed Costs	Cost Adjustments	Total Costs
Non-Departmental	\$500,869	\$0	\$637,327	\$1,138,196
City Council	\$120,245	(\$5,000)	\$238,509	\$353,754
City Manager	\$705,428	(\$151,000)	\$428,605	\$983,033
Finance	\$569,345	\$0	\$224,148	\$793,493
PW Admin / Engineering	\$988,516	\$0	\$38,129	\$1,026,645
Corporation Yard	(\$354,388)	\$0	\$785,285	\$430,897
Total	\$2,530,014	(\$156,000)	\$2,352,003	\$4,726,018

While budgeted expenditures for central service departments for FY24 total approximately \$2.5 million, roughly \$156,000 of that was disallowed as they do not directly benefit a specific City department. Costs that were disallowed included:

- **Elections Costs** – \$5,000 of City Council costs were disallowed as they pertained to the administration of municipal elections.
- **Litigation** – \$151,000 of City Manager costs were disallowed as they pertained to services in association with contracted litigation.

Along with disallowed costs, \$2.4 million¹ in cost adjustments were made to the starting expenditures to increase the total costs to \$4.7 million.

Despite starting with \$4.7 million in costs, not all functions provided by the identified central services are in support of other City departments and funds. Therefore, some costs were “unallocated,” in order to ensure receiving departments were not unfairly

¹ These cost adjustments reflect the “credit” associated with cost allocation, and as the purpose of this plan is to allocate out the total costs, those credits should not be included, they essentially result in neutralizing the total budget for a department.

burdened with costs for services not received. The following table outlines the allocated and unallocated costs associated with each central service.

Table 4: Breakdown of Allocated & Unallocated Costs

Name	Total Costs	Unallocated Costs	Allocated Costs
Non-Departmental	\$845,236	\$65,312	\$779,925
City Council	\$350,894	\$91,240	\$259,654
City Manager	\$946,867	\$9,455	\$937,412
Finance	\$842,817	\$96,350	\$746,466
PW Admin / Engineering	\$1,107,117	\$529,683	\$577,435
Corporation Yard	\$633,087	\$0	\$633,087
Total	\$4,726,018	\$792,039	\$3,933,979

In order to accurately reflect the true indirect costs associated with departments and funds, roughly \$792,000 of the \$4.7 million was not allocated as it is in relation to costs associated with services not performed in support of other departments and funds. Services that were not allocated out to departments and funds included:

- **Non-Departmental** – services and costs associated with property tax, equipment and vehicles leases, various memberships (LAFCO, League of CA Cities, etc.), and miscellaneous expenditures, as these are not in relation to city services and departments.
- **City Council** – services and costs associated with legislative support provided to the larger the community, such as, proclamations, attending events, etc.
- **City Manager** – services and costs associated with elections that are administered by the City Clerk’s office housed in City Manager, as these are not in relation to city services and departments.
- **Finance** – services and costs associated with business licensing and sales taxes, as they are more about servicing the community rather than internal departments.
- **PW Admin / Engineering** – services and costs associated with engineering services and contracted staff, as these are more in relation to permits and inspection on behalf of the community rather than internal departments.

The expenditures associated with each central service department outlined in Table 3 (\$2.5 million) directly tie to the City’s adopted budget. The total costs identified in Table 4 (\$3.9 million), however, will differ from the budgeted expenditures, as this amount accounts for both budgeted expenditures, as well as indirect costs allocated to Receiving departments only.

Cost Plan Comparison

The following subsections compare the current and proposed cost plan as well as the results of the plans.

Central Service Department, Function, and Metric Comparison

The proposed plan identifies six Central Services with nine unique metrics. The following table compares by central service the proposed allocation methodology:

Table 5: Metric Comparison

Central Service	Proposed Plan Metrics	City's Current Metrics
Non-Departmental City Council	# of FTE	
	Direct to Finance	Budgeted Exp
	Sq. Ft. of Properties	
City Manager	# of Agenda Items	# of Agenda Items
	# of Agenda Items	# of Agenda Items
	Budgeted Exp	Budgeted Exp
Finance	# of FTE	# of FTE
	Direct to Water & Wastewater	
	Dollar Value of Fund Balance	Budgeted Exp
PW Admin / Engineering	# of Transactions	# of Bills Processed
Corporation Yard	PW Budgeted Exp	PW Budgeted Exp
	PW Budgeted Exp	PW Budgeted Exp

Overall, the proposed plan consolidates Central Services by budgeted Department. However, within those departments, multiple service areas were identified. For example, within Finance, there are three major allocated areas – Utility Billing, Investment Support, and Fiscal Support. These service areas are consistent with the current plan – Utility Support and Fiscal Management. However, the metrics are slightly different.

Overall, the major changes are the inclusion of a greater variety of metrics and the utilization of more specific metrics such as square footage and transactions. The modifications incorporated into the proposed plan provide a clear representation of staff time spent providing services to receiving departments, strengthening the overall defensibility of the plan.

Cost Allocation Results Comparison

The City currently allocates costs to eight funds and departments. By comparison, the proposed Cost Allocation Plan (CAP) allocates costs to 67 funds and departments. The following table provides a breakdown of potential cost recovery for each fund for both the current and proposed plans, along with the associated difference.

Table 6: Total Costs Allocated Comparison

Name	Current CAP	Proposed CAP	Difference
Police / Fire ²	\$903,191	\$557,792	(\$345,399)
Community Development	\$439,507	\$302,503	(\$137,004)
Marketing & Promotions	\$0	\$7,550	\$7,550
Community Contributions	\$0	\$317	\$317
Parks & Facilities	\$159,809	\$111,679	(\$48,130)
Street Maintenance	\$156,815	\$156,933	\$118
Streets-Storm Drains	\$83,974	\$42,808	(\$41,166)
Traffic Safety	\$106,234	\$76,174	(\$30,060)
Caspar Landfill & GF Debt	\$0	\$2,341	\$2,341
Economic Stabilization Reserve	\$0	\$1,210	\$1,210
Gen Fund Litigation Reserve	\$0	\$442	\$442
General Plan Maint Fee Fund	\$0	\$519	\$519
Housing Trust Fund	\$0	\$548	\$548
Development Projects Fund	\$0	\$8,628	\$8,628
Parking	\$0	\$77	\$77
Parkland Monitoring / Reporting	\$0	\$284	\$284
Tobacco License Fee	\$0	\$43	\$43
St Mandated Disab Access Fee	\$0	\$39,252	\$39,252
CDBG Funds	\$0	\$16	\$16
Cops Ab1913 Allocation	\$0	\$585	\$585
Ojp Vest Partnership Grant	\$0	\$85	\$85
Cdbg Program Income Account	\$0	\$6,820	\$6,820
HOME Program Income	\$0	\$33	\$33
Police Asset Seizure Revenue	\$0	\$6,738	\$6,738
Successor Agency	\$0	\$3,460	\$3,460
LMIH Successor Agency	\$0	\$407	\$407
Construction/Demo Ordinance	\$0	\$1	\$1
Waste Mgt Comm Benefit Pymt	\$0	\$1	\$1
Gas Taxes - HUTA	\$0	\$2,473	\$2,473
Stp D1 Streets & Hwys Alloc	\$0	\$299	\$299
Dist Sales Tax-Street Repair	\$0	\$5,090	\$5,090
Fire Tax - Fire Equip. Fund	\$0	\$470	\$470
OJ Park Maintenance Fund	\$0	\$5	\$5
MCOG OWP Funding	\$0	\$1,221	\$1,221
CDBG 2014 Super NOFA	\$0	\$53	\$53
SWRCB Storm Water Prop 84	\$0	\$85	\$85
Other State Grants	\$0	\$11,675	\$11,675
Other Federal Grants	\$0	\$1,725	\$1,725
Other Small Grants	\$0	\$338	\$338
CDBG 2016 SuperNOFA Grant	\$0	\$23	\$23
CDBG 2017	\$0	\$2,811	\$2,811
CDBG 2020	\$0	\$11,142	\$11,142
CDBG- COVID Grants	\$0	\$5,771	\$5,771
Blue Economy - Harbor Activity	\$0	\$8,737	\$8,737
Maple Street & SD Rehab	\$0	\$1,712	\$1,712

² To provide a more accurate comparison to the current plan Police / Fire were consolidated in this Table, and includes Departments 4200, 4202, and 4220.

Name	Current CAP	Proposed CAP	Difference
2022 Street Rehab	\$0	\$4,865	\$4,865
Town Hall Bathrooms and Window	\$0	\$2,446	\$2,446
Main Street Fire Station Rehab	\$0	\$2,631	\$2,631
Bainbridge Park- Soccer Fields	\$0	\$127	\$127
CIP-Broadband	\$0	\$6,571	\$6,571
Roof Replacement	\$0	\$6,466	\$6,466
EV Charging	\$0	\$4,071	\$4,071
Facilities Maint & Repair	\$0	\$53,752	\$53,752
Technology Maint & Repair	\$0	\$56,607	\$56,607
Fleet Services	\$0	\$200,346	\$200,346
Water Works O & M ³	\$852,774	\$856,055	\$3,282
Wastewater O & M ⁴	\$838,322	\$990,484	\$152,162
CV Starr Center	\$0	\$368,683	\$368,683
Total	\$3,540,626	\$3,933,979	(\$393,353)

The proposed plan includes approximately \$393,000 less in overall costs than the current plan. Reasons for this are not only the use of different fiscal years (FY22-23 vs. FY23-24) but also strengthening the plan by capturing “unallocated” costs of \$792,000 and disallowed costs of \$156,000. By comparison, the largest increases in allocation are to CV Starr and Wastewater, which increase by \$369,000 and \$152,000, respectively. The largest reductions are to Police / Fire (\$345,000) and Community Development (\$137,000).

The allocation to CV Starr (\$369,000) is a result of this fund being new, as such it has previously not been included in the plan. The largest portion of this allocation, \$275,000, comes from Non-Departmental due to the large number of staff associated with this fund.

The increased allocation to Wastewater is due to increased costs included for PW Administration and Corporation Yard, which help offset the proposed decreases to it from Non-Departmental and City Manager. The reasons for Police / Fire’s decreased allocation is due to changing the methodology for Non-Departmental from budgeted expenditures to staffing and square footage, which decreases their proportional support from 39% to 27%.

³ To provide a more accurate comparison to the current plan all Water Funds were consolidated in this Table, and includes Funds 610, 614, and 615.

⁴ To provide a more accurate comparison to the current plan all Wastewater Funds were consolidated in this Table, and includes Funds 710, 714, 715, 716, and 717.

Summary

As a means to create a fair and equitable Cost Allocation Plan, the project team worked with City staff to identify various service areas and relatable metrics which represent the level support received by receiving funds and departments. By doing so a defensible document was created, which allocates to all City funds and departments, regardless of the City's ability to recover the administrative costs from those funds and departments. It is best practice to review metrics and costs at an in-depth level every three to five years to ensure that the plan is still appropriately reflective of the current level of services being provided.

The detailed Full Cost Plan report has been provided under separate cover to City staff. These reports are extensive and provide additional information on how indirect costs were allocated to various funds and departments to meet the fairness, equitability, and defensibility criteria for successful cost allocation plan.