



CITY OF FORT BRAGG

416 N. FRANKLIN, FORT BRAGG, CA 95437
PHONE 707/961-2823 FAX 707/961-2802

COUNCIL COMMITTEE ITEM SUMMARY REPORT

MEETING DATE: OCTOBER 21, 2020
TO: FINANCE AND ADMINISTRATION COUNCIL COMMITTEE
FROM: TABATHA MILLER, CITY MANAGER
AGENDA ITEM TITLE: Cost Allocation Plan Update

BACKGROUND AND OVERVIEW:

For the 2019-20 Fiscal Year, the Finance Department revised the City's Cost Allocation Plan to incorporate the detailed tracking of City Staff time.

The purpose of the City's Cost Allocation Plan is to identify the total costs of providing specific City services and appropriately allocate these costs to the Programs and or Funds that benefit from the identified services. Why is a separate cost accounting analysis required to do this? Because the cost of delivering services can be classified into two basic categories: direct and indirect costs. Programs that incur only direct costs benefit from the City's administrative structure and therefore should be charged for that support.

Direct versus Indirect Costs:

"Direct costs" by their nature are usually easy to identify and relate to a specific service. However, this is not the case for "indirect costs." As such, if we want to know the "total cost" of providing a specific service, then we need to develop an approach for reasonably allocating indirect costs to direct cost programs.

Direct costs are those that can be specifically identified with a particular cost objective, such as street maintenance, police protection and water service. Indirect costs are not readily identifiable with a direct operating program, but rather, are incurred for a joint purpose that benefits more than one cost objective. Although indirect costs are generally not readily identifiable with direct cost programs, their cost should be included if we want to know the total cost of delivering specific services.

Common examples of indirect costs provided by City programs include: the Finance Department provides financial management and utility billing services, the Administrative Services Department provides legal services and personnel administration and the City's Public Works Administration department provides engineering, work load planning and personnel oversight.

It is common to use “Cost Drivers” when allocating costs from Indirect Programs/Functions to Direct Programs. A cost driver is the unit of an activity that causes the change in activity's cost. Examples of cost drivers are; operating budget, agenda items and full time equivalent staffing (FTEs).

Plan Goal: Reasonable Allocation of Costs. The goal of most Cost Allocation Plans is to provide a clear, consistent and reasonable basis for allocating indirect costs. It is important to stress that the goal of the Cost Allocation Plan is a reasonable allocation of indirect costs, not a “perfect” one. By their very nature, indirect costs are difficult to link with direct costs. As such, in developing an allocation approach, it is important to keep this goal in mind: balancing the cost and effort of complicated allocation methods with the likely benefits from the end results.

INDIRECT COST ALLOCATION STRATEGY

Personnel Costs:

The allocation plan begins with an allocation of personnel time and cost to each of the City's three Internal Services Funds, each of the City's Direct Programs and each of the City's Indirect Programs. This is accomplished through the City's time keeping software. The allocation is based entirely on the detailed timekeeping of each employee within the City. Once time and associated costs have been allocated, a count of full time equivalent staffing (FTEs) is developed.

Internal Service Funds:

After personnel costs have been allocated, the City's three Internal Service fund costs are allocated to both the Direct Cost Programs as well as the Indirect Cost Programs. The City has three Internal Service Funds; Facilities Repair & Maintenance, Technology Maintenance & Replacement and Fleet & Equipment Services:

- Facilities Repair & Maintenance uses a cost driver of “square footage”. In other words, each program is charged a Facilities charge based on an approximation of the facility square footage used by that program.
- Technology Maintenance & Replacement (IT) uses a cost driver of “devices” (including devices such as PCs, iPad, laptops, cell phones and servers). Each program is charged an IT charge based on the number of devices utilized by that program.
- Fleet & Equipment Services (Fleet) uses a cost driver of “fleet vehicles”. Each program is charged a Fleet charge based on the number of vehicles utilized by that program.

Indirect Cost Allocations:

The next step in preparing the City's Cost Allocation Plan is determining direct and indirect costs. Program costs that primarily provide service to the public are identified as direct costs, whereas the cost of programs that primarily provide services to the organization are identified as indirect costs.

The City's direct costs programs have been identified as follows: Public Safety (Including Police & Fire), Community Development, Parks, Storm Drains, Corporation Yard, Street Maintenance, Street Traffic & Safety, Water Utility and Wastewater Utility.

The City's indirect costs programs have been identified as follows: City Council, City Attorney, City Administration, Human Resources, City Clerk, Financial Management, Utility Billing and Public Works Administration.

- City Council uses a cost driver of “agenda items”. Each direct cost program is charged a City Council charge based on the number of City Council Agenda items related to that program.
- City Attorney uses a cost driver of “agenda items”. Each direct cost program is charged an Attorney charge based on the number of City Council Agenda items related to that program.
- City Clerk uses a cost driver of “agenda items”. Each direct cost program is charged a City Clerk charge based on the number of City Council Agenda items related to that program.
- Human Resources uses a cost driver of “full time equivalent (FTE) staffing”. Each direct cost program is charged a Human Resources charge based on the number of FTEs attributed to that program.
- City Administration uses a cost driver of “operating budget”. Each direct cost program is charged a City Administration charge based on the relative amount of the program's operating budget.
- Non-departmental uses a cost driver of “operating budget”. Each direct cost program is charged a Non-departmental charge based on the relative amount of the program's operating budget.
- Financial Management uses a cost driver of “operating budget”. Each direct cost program is charged a Financial Management charge based on the relative amount of the program's operating budget.
- Utility Billing uses a cost driver of “bills processed”. Each direct cost program is charged a Utility Billing charge based on the number of bills processed on behalf of that program.
- Public Works Administration uses a cost driver of “public works operating budget”. Each direct cost program is charged a Public Works Administration charge based on the relative amount of the program's public works operating budget.

The Cost Allocation Plan helps make a determination of total program costs possible by establishing a reasonable methodology for identifying and allocating indirect costs to direct cost programs. Because of this, the Cost Allocation Plan is a valuable analytical tool.

RECOMMENDATION:

The attached Cost Allocation Plan report compares the budgeted allocation costs versus the actual costs for fiscal year 2019-2020. During the FY 2020-21 Budget Adoption, staff suggested that the plan, which was implemented in FY 2019-20, be revised so that the Corporation Yard Program would be treated as an indirect program, so that the costs are allocated out to the Public Works programs that are supported by this facility. Unlike the other direct costs programs, the Corporation Yard does not provide services to the public. Instead, it provides support services to the public works functions including: Parks, Storm Drains, Street Maintenance, Street Traffic & Safety, the Water

Utility and the Wastewater Utility. This change would increase the reimbursement to the General Fund by \$35,081.

Additionally, staff suggested that the Fleet Internal Service Fund use the original purchase price of vehicles to allocate out the cost instead of the number of vehicles. The efforts and costs to purchase and maintain a trailer as compared to a Vactor Truck vary greatly and using a simple count allocates the same costs to each of these vehicles. This change in the Cost Allocation Plan would increase the reimbursement to the General Fund by \$56,673.

These two changes, if made in the FY 2019-20 Cost Allocation Plan, would have an increase reimbursement to the General Fund of \$91,754. Staff recommends implementing this change for the Fiscal Year 2020-21 Budget.

ATTACHMENTS:

1. Cost Allocation Plan FY 2019-2020 Budget versus Actual Results