



CITY OF FORT BRAGG

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FINANCE AND ADMINISTRATION COMMITTEE

MEETING DATE: October 5, 2016
TO: Finance and Administration Committee
AGENDA ITEM TITLE: **Receive Report and Make Recommendation to City Council and MID Board Regarding Repayment of Prior Year Over-Allocations of Non-Personnel Overhead Costs**

BACKGROUND AND OVERVIEW:

While developing the FY 2016-17 budget, an accounting error was discovered that in prior years resulted in an over allocation of non-personnel overhead costs to the Water and Wastewater Enterprises. At the Budget workshop held on May 25, 2016, Council directed staff to determine the extent of the over-allocation with the intent that the General Fund repay the Enterprise Funds.

City staff have determined that the error began in FY 2011. Over allocations from FY 2011 to FY 2016 to the Water Enterprise equal approximately \$1,426,506 and to the Wastewater Enterprise Fund approximately \$1,919,261. The methodology used to calculate the over-allocations and the resulting figures have been reviewed by the City's external auditors, JJACPA Inc. and have been found to be reasonable and accurate. The full JJACPA report is attached.

Thus far, the City Council has taken the following steps to remedy the error:

- Budgeted \$2M in FY 2016-17 for repayment
- Suspended utility rate increases for FY 2016-17
- Corrected the allocation methodology moving forward

RECOMMENDATION:

Staff recommends a plan to complete the repayment of prior year over-allocations which includes cash payments, transfers of fixed assets from the General Fund to the Enterprise Funds and an interfund loan.

**Summary of Over Allocation
Amounts Owed and Repayment Plan
As of 8/15/2016**

	Water	Wastewater	Total
Amounts Owed	<u>\$ 1,426,506</u>	<u>\$ 1,919,261</u>	<u>\$ 3,345,767</u>
Initial Cash Payment	847,175	1,152,825	2,000,000
Fixed Assets Transferred	579,331	579,331	1,158,662
5 Yr Interfund Loan		187,105	187,105
Total Repayment	<u>\$ 1,426,506</u>	<u>\$ 1,919,261</u>	<u>\$ 3,345,767</u>

1. As mentioned previously, Council has budgeted \$2M in FY 2016-17 for cash payments.
2. The fixed assets transfer includes transfer of 25% of shared buildings to each of the two Enterprise Funds. The shared buildings to be proportionately transferred are City Hall, Town Hall and the Corporation Yard. Details of the proposed assets transfer are attached.
3. The General Fund and the Wastewater Enterprise will enter into an interfund loan for the balance of \$187,105 with a term of 5 yrs at the LAIF interest rate of 0.55%. The proposed interfund loan document and amortization schedule are attached.

ALTERNATIVES:

1. Provide alternative direction to staff.

ATTACHMENTS:

1. Agreed Upon Procedures Report – Cost Allocation Application Review (JJACPA)
2. Proposed Schedule of Fixed Assets to be transferred
3. Proposed Interfund Loan Agreement and Amortization schedule