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AGENDA ITEM SUMMARY REPORT

MEETING DATE: February 7, 2018

TO: Finance and Administration Committee

AGENDA ITEM TITLE: RECEIVE REPORT AND CONSIDER RECOMMENDATION TO CITY COUNCIL AS TO THE SUFFICIENCY OF THE CITY'S COST ALLOCATION PLAN COST DRIVERS

BACKGROUND AND OVERVIEW:

At the FY 2017-18 Budget workshop held in May of 2017, Council requested that the Finance and Administration Committee review the City's Cost Allocation Plan (CAP) cost drivers and consider if changes are needed. The City's CAP is presented on page 67 of the FY17-18 Budget.

CURRENT ALLOCATION DRIVERS:

Staff time is allocated for each employee according to estimates provided by each department director as to time spent providing service to other departments, funds or functions outside of their home department. See pages 72 and 73 of the FY17-18 Budget.

Once staff time has been allocated, an analysis is performed to determine the percentage of total payroll for each department, fund or function and non-personnel costs are then allocated according to the resulting percentages. See page 74 of the FY17-18 Budget.

The Facilities Repair & Maintenance Internal Service Fund allocates shared facility project and maintenance costs at a rate of 50% to the General Fund, 25% to the Water Enterprise and 25% to the Wastewater Enterprise per previous City Council direction. Currently, shared facilities include City Hall, Town Hall and the Corporation Yard. See pages 144 and 148 of the FY17-18 Budget.

The Information Technology Internal Service Fund allocates all costs with one exception at a rate of 50% to the General Fund, 25% to the Water Enterprise and 25% to the Wastewater Enterprise per previous City Council direction. All costs for the Public Education and Governmental (PEG) television station are paid by the General Fund. See page 155 of the FY17-18 Budget.

The Fleet & Equipment Services Internal Service Fund allocates shared vehicle purchases costs according to estimates provided by the Public Works Director as to percentage of usage by departments, funds or functions. Maintenance costs are allocated using a cost driver of "number of vehicles". See page 162 and 164 of the FY17-18 Budget.

SAMPLE ALTERNATIVE ALLOCATION DRIVERS:

Staff time could be allocated using detailed timecard entries from staff rather than department director estimates. This would require a reassessment of the City's time card system, a reeducation of all City employees regarding the timecard system and hiring of a consultant to lead the effort. Even with these changes many entries will be estimates. For example, department directors would have to estimate the amount of time at each City Council meeting spent servicing the General Fund, Fleet Services, IT, Facilities, Streets Projects, Storm Drains, Water and/or Wastewater. This level of detailed time estimation would likely prove cumbersome and may not yield better estimates.

Non-personnel costs include costs such as alarm costs, janitorial costs, property tax, document shredding, certain safety training, printer leases, and telephone costs. Each and every line item of non-personnel costs could be assigned a cost driver. For example printer leases could be allocated according to the number of prints for each of the General Fund, Fleet Services, IT, Facilities, Streets Projects, Storm Drains, Water and/or Wastewater. This level of detailed data collection is likely to prove costly beyond the benefit provided.

The Facilities Repair & Maintenance Internal Service Fund shared facility costs could be allocated according to detailed cost allocation drivers. The amount of use of City Hall by the Water Enterprise, for example, could be determined by such drivers as number of purchase orders issued, number of customer payments received, number of resolutions processed, number or projects undertaken, dollar amount of projects undertaken, number of meetings held, etc. Again, this level of detailed data collection is likely to prove costly beyond the benefit provided.

The Information Technology Internal Service Fund shared facility costs could be allocated according to detailed cost allocation drivers. Possible drivers include, number of workstations, number of stored files, number of servers, number of emails or number of service calls. Some drivers would still require estimates – for example number of servers. Many servers are shared resources and so an estimate would have to be made as to exactly how each server is shared.

The Fleet & Equipment Services Internal Service Fund already allocates shared costs according to two detailed cost drivers;" Percentage of Use" for purchases and "Percentage of Total Fleet" for maintenance.

RECOMMENDATION:

Staff recommends leaving the City's CAP cost drivers unchanged. The City's CAP states the following:

> "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."

Staff believes the current allocation bases, while perhaps imperfect, are clear, consistent and reasonable. Staff does not believe that the cost involved in creating and implementing a more detailed allocation plan will result in increased benefit for the City.

IMPLEMENTATION/TIMEFRAMES:

The Committee's recommendation will be presented to the full City Council at the FY17-18 Mid-Year Budget Review work session.

ALTERNATIVES:

Appropriate funds and engage a consultant to develop a new City CAP. Appropriate funds and engage a consultant to reassess, redesign and implement the City's timecard system.

ATTACHMENTS:

1. FY2017-18 Budget