

RESOLUTION 2019-10

A RESOLUTION APPROVING THE REVISED CITY OF COBURG INDIRECT COST ALLOCATION PLAN AND METHODOLOGY

WHEREAS, it is crucial that the administrative costs of managing the City be fairly distributed across the funds that utilize them,

WHEREAS, an Indirect Cost Allocation Plan and methodology for overhead allocation was approved by City Council in April of 2016; and

WHEREAS, the City has underwent changes in the way that City services are managed; and therefore changes to the plan are necessary; and

NOW, THEREFORE, BE IT RESOLVED, that the City of Coburg hereby approves the update of the City of Coburg Indirect Cost Allocation Plan and Methodology.

ADOPTED by the **City Council of City of Coburg**, Oregon, by a vote of 3 for and 0 against, this April 9th, 2019.



Ray Smith, Mayor

ATTEST:

Sammy L. Egbert, City Recorder

CITY OF COBURG
INDIRECT COST ALLOCATION PLAN

Updated and

Adopted by Resolution 2019-10

4/09/2019



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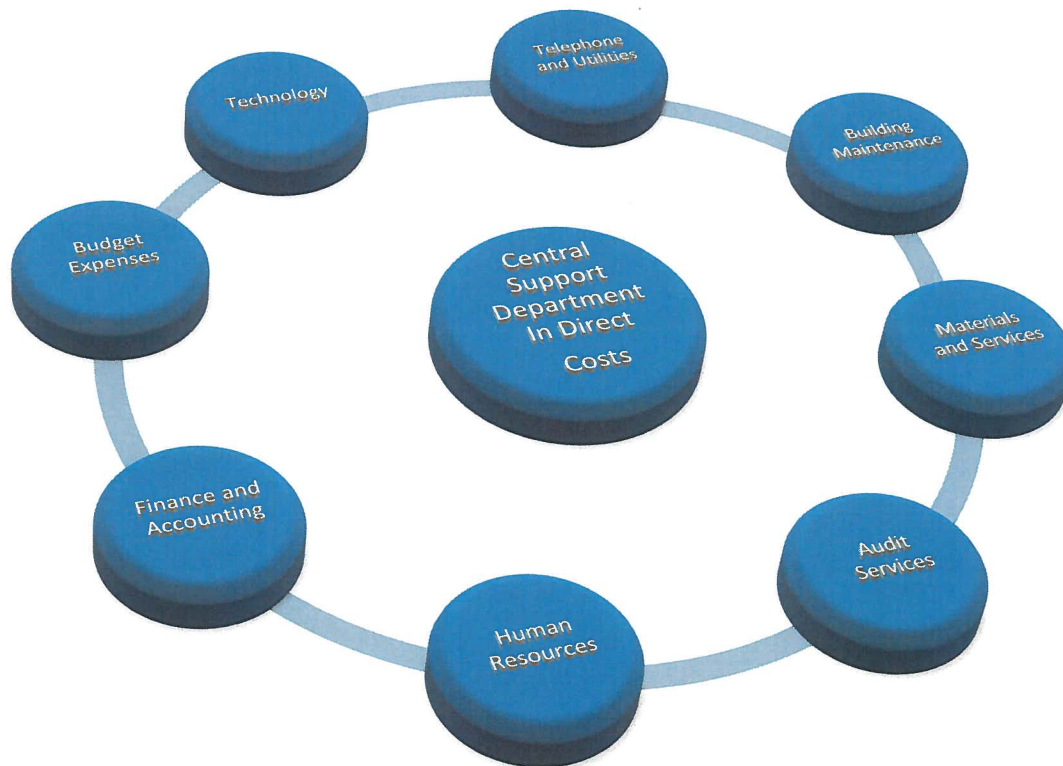
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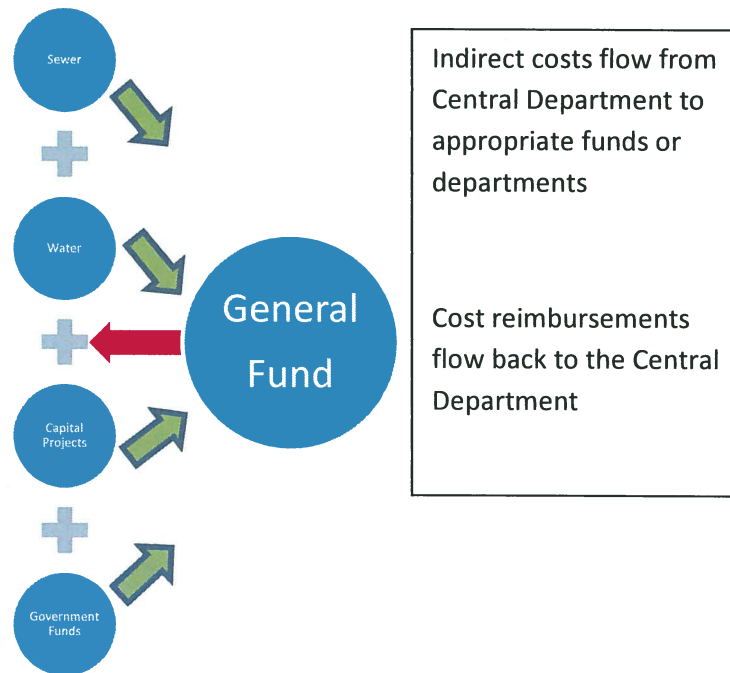
OVERVIEW OF COST ALLOCATION

OVERHEAD COST ALLOCATION

Public Managers, elected officials and staff recognize the implementation of an activity based cost allocation plan as a powerful tool in understanding the full costs of services. In an effort to control costs effectively, a cost allocation plan can be used as a support for:

- Increasing revenues by incorporating overhead costs for specific applications or charges against selected programs
- Applying the full costs of fee related services, including central service costs, in billing to internal service, enterprise and special revenue funds for inclusion in costs to end-users.
- Making educated decisions regarding strategic planning issues, such as whether to cut the cost of operations, raise fees, or privatize a service.





Overhead allocations consist of the costs of central services or support functions shared across departments and/or funds. They may include:

- Accounting
- Human Resources
- Payroll Information Technology
- Janitorial Services
- Utilities
- Materials and Supplies
- Information Technology
- Building Maintenance
- Professional and Consultant Services

Under state law, government officials may charge a portion of the costs for central overhead services to restricted funds, like utility funds or special revenue funds, only to the extent that each fund benefits from those services. The cost allocation process must be guided by an approved overhead cost allocation plan that describes how the organization will allocate costs reasonably and equitably across funds and departments, and identifies the document which approves and/or requires such allocation.

Consistent with state law, local government is not allowed to charge general government costs that benefit the public at large to the utilities, or the other funds. In these instances, the costs associated with these expenses must be absorbed by the General Fund. These include:

- Police and Public Safety
- Parks & Recreation
- Community and Economic Development
- Worker Apprenticeship Programs
- Lobbying
- Bad Debts
- Criminal or Civil Proceedings
- Contingencies
- Depreciation
- Fines and Penalties
- Late Payment Fees
- Fund Raising or Investment Fees
- Gains or Losses on the Disposition of Capital Assets
- Interest Expense
- Self-Assessed Taxes

SOUND PRACTICES FOR FAIRLY AND EQUITABLY ALLOCATING OVERHEAD COSTS TO BENEFITING FUNDS.

- 1. A well-developed overhead allocation plan**
 - a. Includes relevant, up to date information about overhead and how to allocate it equitably
 - b. Describes each cost center and which costs are allocable and which are not
 - c. Describes which factors and sources of data will be used for the allocation
 - d. It must describe the decisions made and the rationale for the decisions
 - e. It should be updated and approved annually by local governments
- 2. Use factors that equitably allocate central overhead costs to each fund**
 - a. Ensure that allocated factors are based on current and accurate information
 - b. Allocate reasonable costs and administer with prudence
 - c. If budgeted figures are used, governments should adjust them to actuals at the end of the year.
- 3. Allocate overhead to all benefitting funds and departments**

- a. If governments decide not to charge a fund then the general fund must absorb that fund's share of costs.
 - b. Excluding a fund or department cannot result in the overcharge to all remaining funds or departments
 - c. Allocate without deviation from the plan
- 4. Ensure that General Government costs or questionable costs are charged entirely to the General Fund**
- a. The primary purpose of general government is to serve public at large
 - b. Ensure that General Fund business expenses remain in the general fund
- 5. Properly Charge Departments**
- a. Forecasting of chargeable expenses is allowed. Costs can be charged monthly, quarterly, or annually.
 - b. Departments should be charged for actual costs. If the general fund charges departments based on estimated overhead costs, they should be reconciled and adjusted periodically, and always at the end of the year.
- 6. Maintain Appropriate Documentation**
- a. The actual costs of the overhead cost center
 - b. The level of service each provided to benefitting funds and how it was determined
 - c. The actual amount charged to each fund and department

COBURG COST ALLOCATION METHOD

GENERAL OVERHEAD ALLOCATION

City Of Coburg Municipal Code requires that staff review City's fees and charges periodically to ensure that the costs of providing certain City services are reasonably recovered through fees and charges.

PURPOSE

The purpose of the City's cost allocation plan is to identify the full cost of providing specific City Services. It also provides the basis for adjustment of City fees and charges. The cost of delivering City services can be classified into two basic categories: direct and indirect costs.

Direct Costs

Direct costs are those that can be specifically identified with a particular cost of a program, such as street maintenance, police, parks, and water or sewer services.

In-Direct Costs

In-direct costs are not readily identifiable with a direct operating program, but rather, are incurred in order to enable the operation of a program or service. Common examples of indirect costs include technology, accounting, personnel administration, legal services, and building maintenance. Although indirect costs are generally not readily identifiable with direct cost programs, their costs should be reflected as an integral part of the total cost of providing specific goods and services.

Direct costs are easier to identify because they are operational costs associated with providing a particular service, budgeted, and charged within that service fund. Indirect costs are typically harder to identify, and should be disbursed through a cost allocation plan. This step is important to make sure that the City departments are fairly paying their fair share of the administrative costs of running the City. These costs should be considered as part of the overall budget of the funds. If a fund's revenues can't cover the costs of operations as well as their fair share of indirect services, then consideration should be given as to whether the fees being charged for that fund are adequate, and should be reviewed by City staff as soon as possible.

CITY OF COBURG ALLOCATION METHOD

Beginning in fiscal year 2015, an overhead allocation was adopted with the City budget. Indirect expenses were part of the City approved budget and were allocated to the other Funds as part of the budget process. This process was vetted by the Council and Budget Committee and accepted as an appropriate method of allocating indirect costs.

DETERMINING DIRECT AND INDIRECT COSTS

Within the City's organization, the majority of the services performed by the City Council, City Manager, City Clerk, City Recorder, City Attorney, Finance, Planning, Human Resources, Information Services, and Facilities are considered indirect costs. These costs are distributed to various direct services or programs to determine the total cost of each program or service.

Other City departments such as the Police, Court, Park and Economic Development provide services to the general public and are considered direct cost programs.

Once the direct costs programs are identified, the indirect costs of program administration are then allocated to each fund using a logical and commonly accepted allocation factor.

It should be noted that in accordance with generally accepted accounting principles, only operating costs are considered in preparing the cost allocation plan. As such, capital outlay and debt service costs are excluded from the calculations except in the case of shared facilities for the purpose of administration. Certain costs that are one-time in nature and costs funded by special assessments such as a Local Improvement District are excluded.

BASIS OF ALLOCATION

For Fiscal Year 2020, the City has chosen the following cost centers for the basis of allocation:

- General Administration Expenses
- Personnel
- Facility Expenses
- Planning – 10%

The allocation Basis is the net impact of funds on the general administration of the City as calculated by:

- Materials and Services – 100%
- Administrative Personal Services or reimbursement for such services– 100%
- Capital Projects – 10%
- Debt Services – 10%

These cost centers represent management, support personnel, operating and supply costs, consultant services and training. Personnel costs are determined by the actual cost of the hourly rate of pay plus the cost of employer paid taxes and benefits (34%).

Funds to be charged for Allocation

Overhead is allocated to the following funds:

- Street
- Water
- Sewer

Overhead allocation is not allocated to the following funds:

- General Fund

CHANGES IN OPERATIONS OF THE CITY

As the City addresses substantial changes to the operations of the City the allocation method should be considered and adjusted accordingly so that it fairly addresses the fair and equitable costs to be allocated.

PUBLIC WORKS PERSONAL SERVICES ALLOCATION

Public Works Salaries are paid out of the General Fund and are reimbursed by the utility funds including Street, Water and Sewer. Employees are required to record detailed time reports throughout the year. Annually the Public Works Director reviews the time reports to establish percentage of time spent with each fund. The budgeted allocations for the new fiscal year are based on these percentages. The allocation is broken into monthly transfers that happen throughout the fiscal year. At the end of the year the transfers are compared against the actual costs of Public Works Personal Services and adjusted accordingly prior to audit. Public Works Administration Allocation includes:

- Personal services for Public Works Director and all Utility Workers. The allocation basis is the net impact of departments on the City calculated by the Public Works Director. An example of this allocation is follows:
- Sewer- 52%
- Water – 18%
- Street – 18%
- Park – 20% - Park allocation is not paid out as the Park Department is funded by the General Fund and has no notable revenues.

This allocation should be updated annually based on the work plan of the Public Works Department.

DATA COLLECTION AND SOURCE DOCUMENTS

As allocations will be part of the budget process, the actual allocation transfers will be based on the proposed budget. Using the agreed upon method, the Budget officer will determine the amounts to be transferred from departments to the General Fund. These allocations must be adjusted with the final approved budget. In addition, a periodic check should be conducted throughout the year to make sure that the amount being transferred represents the actual amount eligible for allocation. Differences should be adjusted when appropriate, and always at the year-end.

See Attachment B – “Methodology for Overhead Allocation”

HISTORICAL OVERHEAD ALLOCATION ANALYSIS

The following information is contained in this document in order to maintain a historical record of the Council decisions surrounding the allocation method.

Prior to fiscal year 2015 no allocation method was applied in order to reimburse the General Fund for costs associated with the administration of the whole City. Therefore an analysis was conducted for years 2008-2014 in order to establish what the associated costs would have been in order to come to an equitable pay back.

Prior to this analysis a method was established for how the City would apply allocation reimbursements. In 2016 the City Council adopted the recommended Allocation Plan in *Resolution 2016-03 (See Attached Exhibit B)*. Once the method was approved, it was applied not only for the future budgets, but to provide analysis for years 2008-2014.

The completion of this analysis was approved by Council in December of 2015. The purpose of this analysis was to recognize the impact on the General Fund had an adopted allocation method been in place for the years of the analysis.

Professional opinion for this analysis was collected from:

- Oregon Secretary of State
- Oregon Department of Revenue
- Roy Rogers of Pauly Rogers, LLC who was the auditor of the City at that time.
- City Finance and Audit Committee
- Independent CPA and consultant Kathy Taylor

The general consensus of the professional opinion concluded that such an analysis was beneficial to the City to establish the costs associated of the administration of City Services on the General Fund for years 2008-2014. In addition, if the City Council elected to pursue a one-time prior period adjustment, then that adjustment could be made by resolution in response to the results of this analysis.

The analysis results proved that had an allocation been charged in years 2008 – 2014, and using the current allocation method, the allocated transfer to the General Fund would have resulted in \$487,081.62.

After reviewing the above information, the City Council elected to approve a one-time prior period adjustment in *Resolution 2016-04* (see attached Exhibit C).

ATTACHMENT B

Attachment A Methodology for Overhead Allocation FY20

Allocate Cost of Administration to revenue generating funds based on impact to the City.

Reminder: This is representative of a method and does not represent actual numbers for budgetary purposes

Department	Type	Debt Proceeds	Personal Services	Materials and Services	Debt Service	Capital	Expenditures (Capital and Debt Service, 10%)	Percentage of Expenses	Share of Admin Exp	Allocate
General										
Administr Allocated			(417,960)	(204,064)	(41,697)		(626,194)	22%	-165,143	
Economic Allocated				(45,500)			(45,500)	2%	-11,999	
Facility M-Allocated				(66,600)		(20,000)	(68,600)	2%	-18,091	
Municipal Not Allocated			(99,370)	(36,425)			(135,795)	5%	-35,812	
Planning Allocated			(76,869)	(281,900)			(358,769)	12%	-94,616	
Police Not Allocated			(415,532)	(117,300)		(37,500)	(536,582)	18%	-141,510	
Park			-	(29,450)		(15,000)	(30,950)	1%	-8,162	
Parks Capital			-	(29,450)		(25,000)	(31,950)	1%	-8,426	
Sewer			(125,008)	(189,408)		-	(314,416)	11%	-82,919	
Sewer Capital			-	(3,544)		-	(3,544)	0%	-935	
Sewer Debt			-	(5,000)	(1,096,617)	-	(114,662)	4%	-30,239	
Street			(65,998)	(213,350)		(10,000)	(280,348)	10%	-73,935	
Street Capital			-	(5,629)		(350,000)	(40,629)	1%	-10,715	
Water			(91,838)	(91,325)	(193,028)	(10,000)	(203,466)	7%	-53,659	
Water Capital			-	(11,393)		(1,025,000)	(113,893)	4%	-30,036	
Total			(1,292,575)	(1,330,338)	(1,331,342)	(1,492,500)	-2,905,298	100.00%	-766,198	269,213

Total Amount to be Allocated

Accounts to be considered for allocation. Planning at 10%

Allocation to Funds

Percentage to be allocated

Total amounts toward percentage of expenses

Allocation is figured on expenses only on actual business conducted

Full Charge for general administrative expense including Materials and Services and Personal Service

Full Charge for Facilities

10% of Debt Service and Capital expenses

10% of Planning Expenses including Materials and Services and Personal Services