

RESOLUTION NO. 2016-03

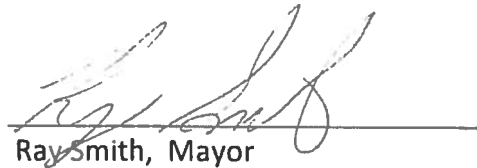
A RESOLUTION APPROVING the Indirect Cost Allocation Plan and Model.

WHEREAS, an indirect allocation for overhead expenses has been included in the budget for Fiscal Years 2014-15 and 2015-16; and

WHEREAS, The City Council has accepted the plan and model for allocating indirect costs,

NOW, THEREFORE, BE IT RESOLVED, that the City of Coburg hereby approves the Indirect Cost Allocation Plan and model for the Fiscal Year 2016.

Adopted by the City Council of the City of Coburg, Oregon, by a vote of 4 for and 0 against, this April 12th, 2016.



Ray Smith, Mayor

ATTEST:



Sammy L. Egbert, City Recorder



CITY OF COBURG
INDIRECT COST ALLOCATION PLAN
FISCAL YEAR 2016

and

Analysis for Fiscal Years 2008-2014 Indirect Cost Allocation

Adopted by Resolution 2016-03

4/12/2016

TABLE OF CONTENTS

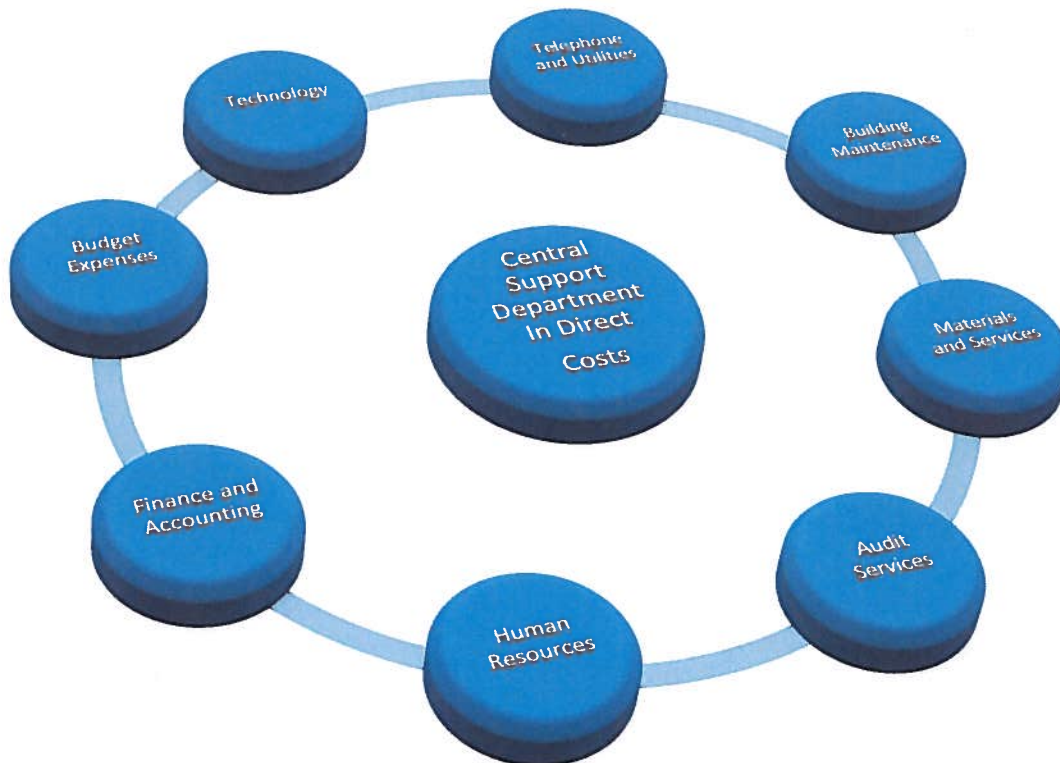
- 2. Table of Contents**
- 3. Overview of Cost Allocation**
- 8. City of Coburg Cost Allocation Method**
- 13. Historical Overhead Allocation Analysis**

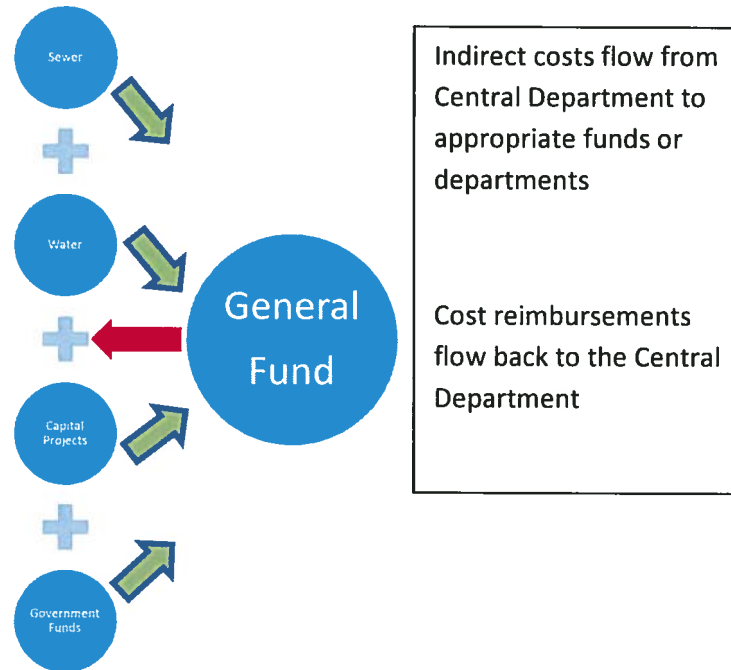
OVERVIEW OF COST ALLOCATION

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. 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, 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 were identified, the indirect costs of program administration were 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. In addition, depreciation costs for the use of City facilities is included. Certain costs that are one-time in nature and costs funded by special assessments such as the Local Improvement District are excluded.

Basis for Allocation

The City has chosen the following cost centers for the basis of allocation:

- General Administration Expenses
- Personnel
- Facility Expenses
- Planning

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

- Revenue – 100%
- Materials and Services – 100%
- Administrative Personal Services – 100%
- Capital Outlay – 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
- Building
- Street Capital
- Water Capital
- Sewer Capital

Overhead allocation is not allocated to the following funds:

- General Fund
- Park Fund
- Park Capital Fund
- Sewer Debt Fund

As funds reserved for debt service may not be charged an allocation, the Sewer Debt Fund can't be included in the funds to which an allocation is assigned. Therefore, the costs of administrative expenses for the Sewer Debt Fund must be absorbed by the Sewer Fund.

PUBLIC WORKS ADMINISTRATION ALLOCATION

Beginning in Fiscal Year 2015, Public Works administrative expenses were allocated to the enterprise funds. This eliminates the need for employees to record detailed time in each payroll. However, time analysis is conducted periodically and always adjusted during the budget process.

Public Works Administration Allocation includes:

- Personal services for Public Works Director, Utility Workers and Sewer Plant Operators

In Fiscal Year 2016 the allocation basis is the net impact of departments on the City calculated by the Public Works Director as:

- Sewer- 52%
- Water – 18%
- Street – 18%
- Parks – 20%

This allocation will updated annually based on the work plans of the Public Works Department.

The allocation is recorded as a PW Administrative transfer at the end of each month. Transfers should be adjusted periodically through the year, and always at year end to reflect the actual costs of PW Administration.

DATA COLLECTION AND SOURCE DOCUMENTS

As allocations will be part of the budget process, the actual budgeted 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 as the year progresses, and always at the year-end.

Exhibit A - Budgeted Year Allocation Method

HISTORICAL OVERHEAD ALLOCATION ANALYSIS

Exhibit B represents a historic analysis on the indirect costs of the administration for the 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 Pully Rogers, LLC who is the current auditor of the City

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

In addition, the analysis was vetted through:

- The City Finance and Audit Committee
- Independent CPA and Consultant Kathy Taylor

Some important information was gleaned from this analysis that should be considered:

- Administrative payroll was charged to funds annually. Therefore, the costs of payroll was deducted from the overall all expenses of the funds and added back to the General Fund. This matched the allocation method used in Fiscal Year 2016 budget process. Funds were then given credit for the expenses they actually paid.
- Payroll appears to be charged in excess to the Water Capital Account and results in a negative allocation of \$(84,403.05). This amount would be part of the overall allocation adjustment.
- Had an allocation be 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.