



## **STAFF REPORT TO THE CITY COUNCIL**

**DATE:** Regular Meeting of February 27, 2018

**TO:** Members of the City Council

**SUBMITTED BY:** David Biggs, City Manager  
Annie To, Finance Director

**SUBJECT:** Citywide Full Cost Allocation Plan and OMB Compliant Cost Plan

**RECOMMENDED ACTION:** Receive, report, discuss, and provide direction, if any on the Citywide full cost allocation plan and OMB Compliant Cost Plan.

**FINANCE COMMISSION REVIEW:** The Finance Commission reviewed the Full Cost Allocation and the OMB Compliant Cost Plan at their special meeting held on Thursday, February 8, 2018. The commission recommended the approval of the plan.

### **FISCAL IMPACT OF RECOMMENDATION:**

**DISCUSSION:** The City hired Matrix Consulting group to develop a full Cost Allocation Plan and an OMB Compliant Cost Allocation Plan and provide an electronic model for the plan. The key staff for this project are Courtney Ramos, Project Manager and the leader of the Financial Services practice, and Khushboo Hussain, Lead Analyst, with experience in both financial services and management studies, and Jessica Deshon, Data Analyst and Model Developer.

The team from Matrix identified departments that provide services primarily to other City or Agency Departments such as City Manager, Finance, HR, etc. They worked with staff to understand the services they process in support of other departments or agencies. They determined the best allocation method to use for each service and identified utilizing tangible data and statistics. They ensure allocations are fair and equitable to all receivers.

The City has not had a Cost Allocation Study for over five years. The benefit of having a Cost Allocation Study and OMB Compliant Cost Allocation plan is that it provides a detailed picture of the total indirect /administrative cost associated with the City's funds, departments, divisions or programs. It can help justify the cost reimbursement transfers from Non-General Funds to the General Fund.

There are two types of cost allocation plans – Full Cost and OMB Compliant Cost

### **Full Cost Plan**

- A full Cost Plan can be based on actual or budgeted expenditures whereas an OMB plan must be based on Actual expenditures
- It can be used to justify transfers of revenue to the General Fund.
- It can also be incorporated into the Fee schedule in order to show the full cost of providing service.

### **OMB Compliant Cost Allocation Plan**

- An OMB plan must be based on actual expenditures and is typically used for recovering state or federal grant funding.
- It can also be used for recovering State or Federal grant funding.
- It is used in future funding requests.

Ms. Courtney Ramos, Project Manager from Matrix will be attending the City Council meeting to provide an overview of the Cost Allocation report.

### **REVIEW AND ANALYSIS**

Staff will be reviewing current indirect charges and determine if recovery increases are feasible during the preparation of the FY18-19 budget.

### **FUTURE POLICY CONSIDERATION**

As staff develops the FY18-19 budget, staff will utilize the Cost Allocation plan in the development of the 2018/19 budget with the exception of those funds which may not be able to absorb the documented costs. For instance, some of the Landscape & Lighting Assessment Districts (L&LAD) will be unable to absorb these costs without increasing current operating deficits. L&LAD will be the subject of a more detailed review and analysis in the next 30 to 60 days as we look towards the annual renewal and a Proposition 218 balloting process in some Zones. Another fund that will not absorb the cost is the Storm Water fund as it currently runs a deficit which is ultimately covered by the City's General Fund. The City Council will consider some policy options in regard to these funds at a future date.

### **ATTACHMENTS:**

1. Hercules Cost Allocation Plan
2. Hercules OMB Cost Compliant Allocation Plan
3. Consultant Presentation

### **Financial Impact**

**Description:** There are no fiscal impact in FY17-18. The cost allocation plan will be incorporated in the FY18-19 budget.

**Funding Source:**

**Budget Recap:**

Total Estimated cost:	\$	New Revenue:	\$
Amount Budgeted:	\$	Lost Revenue:	\$
New funding required:	\$	New Personnel:	\$
Council Policy Change:	Yes <input type="checkbox"/> No <input type="checkbox"/>		