

Memorandum

Date: June 19, 2014

To: Ed Meece, City Manager

From: Jessie Hogg, Chief Finance Officer

Re: Administrative Cost Allocation

In Fiscal year 2011, the Finance Department undertook a process to update the administrative cost allocation. Prior to this time, a flat fee was charge to some functions (not all), with no methodology for allocation. Herein is a brief background on Administrative Cost Allocations, and the City of Livingston method for allocating indirect costs.

Background:

An administrative cost allocation (ACA), or an indirect cost allocation, is a rational, systematic methodology for allocating indirect costs. These indirect costs include shared administrative expenses where a function incurs costs for support that it provides to other departments/agencies. These are typically legal, finance, human resources, facilities, etc. Allocating these costs allow management to see the true cost of government services, establish fees and charges that adequately pay for the costs of these services. In some cases the method provides a basis for indirect costs charged to grant administration. There are a number of acceptable methods that administrative costs may be allocated, this process is a recommended best practice by the Government Finance Officers Association (GFOA). Below is a brief description of the City of Livingston's method.

City of Livingston's Method:

1. Determine cost of services to include in ACA

The costs that are allocated are broken up into two major divisions: insurance and administrative support.

Insurance costs that are allocated include liability, property (including buildings, vehicles, and contractor's equipment), boiler, and surety bonds.

Administrative support includes personnel and operating costs for the following departments: legislative, administration, finance, legal, facilities, central purchasing, and central communications.

Funds that do not incur specific administrative costs are not charged for those items. For example, the library does not participate in the liability program and is therefore not charged for those costs.

The finance department utilizes a three year average for the cost of services to allocate. This allows a more steady cost to be applied to functions and avoid large swings in expenditures as a result of one-time cost increases, such as studies. The average is the budgeted amount of the prior fiscal year, and the actuals for the preceding two years. For example, FY15 ACA is made of up the budgeted amounts for FY 14 and actuals for FY 13 & FY 12.

2. Determine percentage of costs allocated to applicable funds

The method of allocation is based on a 3 year average of expenditures of the functions that are utilizing administrative services and/or insurance. The average is the budgeted amount of the prior fiscal year, and the actuals for the preceding two years. The functions allocated administrative costs are: the General Fund, the Livingston/Park County Library,

Dispatch, Street Maintenance District, Water, Waste Water, Solid Waste, and Ambulance Funds. The percentage of their allocation is based on their function’s expenditures (including annual capital outlay expenditures) ratio of the sum of these funds. An example can be seen below:

Applicable Funds	Actual Expenditures FY 12	Actual Expenditures FY 13	Budgeted FY 14	3 - Year Average	Percentage Allocation
General Fund Costs	\$ 3,863,415	\$ 3,999,182	\$ 4,203,947	\$ 4,022,182	39.24%
Library	392,875	398,428	411,678	400,994	3.91%
Dispatch	409,661	380,187	402,506	397,451	3.88%
Street Maintenance Costs	542,220	526,804	790,307	619,777	6.05%
Water	984,254	1,110,178	1,639,316	1,244,583	12.14%
Wastewater	1,377,990	1,607,753	1,857,935	1,614,559	15.75%
Solid Waste	1,082,405	1,051,720	1,009,940	1,048,022	10.23%
Ambulance	882,130	1,137,572	686,294	901,999	8.80%
Total	\$ 9,534,950	\$ 10,211,824	\$ 11,001,923	\$ 10,249,566	100.00%

3. Apply Allocation Percentage from step 2 to ACA costs determined in step 1.

The total administrative cost to allocate is then multiplied by the function’s allocation percentage to determine the administrative cost for the current budget year. This calculation can be seen below:

Administrative Costs to Allocate		\$ 1,083,251 *		
Funds	Percentage Split	Share	Non-applicable Costs	Net Allocation
General Fund	39.24%	\$ 425,094		\$ 425,094
Library	3.91%	42,380	(8,783)	33,597
Dispatch	3.88%	42,006		42,006
Street Maintenance	6.05%	65,503		65,503
Water Fund	12.14%	131,537		131,537
Wastewater Fund	15.75%	170,639		170,639
Solid Waste Fund	10.23%	110,763		110,763
Ambulance	8.80%	95,330		95,330
Total	100%	\$ 1,083,251	\$ (8,783)	\$ 1,074,468

*Applicable ACA costs determined in step 1.

This process is repeated every budget year, updating the allocation costs and percentages based on actual 3 year trends. This allocation method has been approved by the City’s external auditors and is widely regarded as an accounting best practice.