

## Results of Full Cost Allocation Plan

The City of Calimesa, California contracted with the Matrix Consulting Group to prepare a Full Cost Allocation Plan (CAP) that documents current indirect costs associated with Citywide services. This plan helps ensure that transfers into the general fund from non-general fund sources are fair and accurate. Additionally, it ensures that indirect costs are captured through the fee study.

The City developed an internal Full Cost Allocation Plan as outlined in their FY23-24 budget document. The following subsections are meant to provide a summary overview of the Full Cost Plan developed for the City.

### Purpose and Benefits of a Cost Allocation Plan

The primary purpose of a CAP is to provide a fair and defensible document, which clearly outlines the support provided to general fund and non-general fund sources from central service departments. The results of a CAP are typically considered a more transparent and justifiable methodology for establishing transfers from non-general fund sources, as well as outline indirect costs for inclusion in cost-of-service (user fee and development impact fee) studies.

A CAP analyzes the annual support provided by central service departments. The utilization of department and City specific metrics are then used to validate the support from central service departments to all sources. The methodology used to develop a CAP follows guidelines set by the Office of Management and Budget (OMB), as well as Generally Accepted Accounting Principles (GAAP). A more detailed explanation of the methodology used to develop the CAP can be found in the full report.

### Overview of Central Services

Matrix Consulting Group worked with the City's staff to identify key central services for the City, which were as follows:

- **Non-Departmental** – represents expenditures used Citywide rather than by a particular City Department.

- **City Council** – represents the City’s governing body, responsible for enacting policy and legislation.
- **City Manager** – acts as the City’s administrative head, responsible for general administrative and managerial support Citywide
- **City Clerk – General Operation** – responsible for managing, maintaining, and archiving City records and providing support to City Council
- **City Clerk – Human Resources** – is responsible all overseeing and managing all employee-related activates and records
- **City Clerk – Risk Management** – is responsible for overseeing and managing workers compensation, liability, and property insurance on behalf of the City.
- **City Attorney** – is responsible for providing the City and its staff with legal advice and counsel; along with representing the City in all legal proceedings.
- **Finance** – is responsible for general fiscal management Citywide, including; processing transactions and payroll, accounting, auditing, and the developing of financial reports.
- **Information Services** – is responsible for procurement, maintenance, and monitoring of all City technological hardware, software, and infrastructure.
- **Public Works** – is responsible for routine and emergency maintenance and janitorial services for City buildings, streets, parks, as well as refuse services and development engineering.

These 10 central service departments provide various services which are in direct support of other City departments. Matrix worked with City staff to select relatable allocation bases for the service functions provided. Then the central service department’s expenditures, along with incoming allocations from other central service departments, were allocated to receiving departments. There were 18 unique metrics utilized ranging from equal to all departments to AP transactions per Fund / Department.

## Costs Allocated Through the Plan

The Full Cost Plan developed for the City was based on FY24 budgeted expenditures and starts with \$4,757,468 of costs for allocation. The following table identifies the budgeted expenditures associated with each central service, along with any cost adjustments.

**Table 1: Costs Allocated Through Full Cost Plan**

Fund	Dept.	Desc.	FY24 Budgeted Exp.	Cost Adjustments	Total Costs
01-8100	General Fund	Non-Departmental	\$2,370,730	\$29,327	\$2,400,057
01-1100	General Fund	City Council	\$77,955	\$0	\$77,955
01-1200	General Fund	City Manager	\$390,509	\$0	\$390,509
01-1300	General Fund	City Clerk - General Ops / Functions	\$158,699	\$13,795	\$172,494
01-1320	General Fund	Human Resources	\$78,906	\$4,894	\$83,800
01-1330	General Fund	Risk Management	\$218,401	\$13,706	\$232,107
01-1400	General Fund	City Attorney	\$185,000	\$0	\$185,000
01-2000	General Fund	Finance	\$409,631	\$58,427	\$468,058
01-2100	General Fund	Information Technology	\$217,032	\$29,789	\$246,821
01-5100	General Fund	Public Works Department	\$484,812	\$15,855	\$500,667
<b>Total</b>			<b>\$4,591,675</b>	<b>\$165,793</b>	<b>\$4,757,468</b>

While budgeted expenditures for central service departments for FY24 total approximately \$4.6 million, an additional \$166,000<sup>1</sup> was added in as cost adjustments to increase the total costs to \$4.8 million.

Additionally, not all functions provided by the identified central services are in support of other City departments and funds. Therefore, some costs were “unallocated,” in order to ensure receiving departments were not unfairly burdened with costs for services not received. The following table outlines the allocated and unallocated costs associated with each central service.

**Table 2: Breakdown of Allocated & Unallocated Costs**

Fund	Dept.	Desc.	Total Cost	Unallocated Costs	Allocated Costs
01-8100	General Fund	Non-Departmental	\$2,306,176	\$2,266,860	\$39,316
01-1100	General Fund	City Council	\$106,427	\$0	\$106,427
01-1200	General Fund	City Manager	\$419,041	\$0	\$419,041
01-1300	General Fund	City Clerk - General Ops / Functions	\$138,790	\$0	\$138,790
01-1320	General Fund	Human Resources	\$108,319	\$0	\$108,319
01-1330	General Fund	Risk Management	\$167,270	\$0	\$167,270
01-1400	General Fund	City Attorney	\$141,059	\$21,956	\$119,103
01-2000	General Fund	Finance	\$507,345	\$44,746	\$462,599
01-2100	General Fund	Information Technology	\$212,657	\$0	\$212,657
01-5100	General Fund	Public Works Department	\$650,384	\$612,546	\$37,838
<b>Total</b>			<b>\$4,757,468</b>	<b>\$2,946,108</b>	<b>\$1,811,360</b>

<sup>1</sup> These cost adjustments reflect the “credit” associated with cost allocation, and as the purpose of this plan is to allocate out the total costs, those credits should not be included.

In order to accurately reflect the true indirect costs associated with departments and funds, roughly \$2.95 million of the \$4.8 million was not allocated as it is in relation to costs associated with services not performed in support of other departments and funds. The remaining \$1.8 million was passed onto receiving departments and funds. Services that were not allocated out to departments and funds included:

- **Non-Departmental** – services and costs associated with credit card fees, external special supplies transfers out, community partnerships, and miscellaneous expenditures.
- **City Attorney** – services and costs associated with litigation.
- **Finance** – services and costs associated with business licensing.
- **Public Works** – services and costs associated with street and park maintenance and contracted activities.

The identified services were not performed to support other departments and funds; thus, were not further allocated.

The expenditures associated with each central service department outlined in Table 1 directly tie to the City's adopted budget. The total costs identified in Table 2, however, will differ from the budgeted expenditures, as this amount accounts for both budgeted expenditures, as well as indirect costs allocated to Receiving departments only. However, the total for both tables is the same (\$4,757,468).

As an example, City Manager allocates a total of \$390,509 (shown in Table 1) to all funds and departments, both Central Service and Receiving. Of that amount, \$28,532 was allocated to other Central Service departments, which then allocate those costs out to Receiving departments. The remaining \$419,041 (shown in Table 2) was allocated directly to Receiving departments. This cross-check demonstrates that the costs allocated through the plan do not exceed the starting costs for the City and there is no double counting.

## Use of Full Cost Plan Results

The primary purpose of a CAP is to provide a fair and defensible document, which clearly outlines the support provided to general fund and non-general fund sources from central service departments. The results from this Cost Plan can be utilized as follows:

- **Incorporation into User Fee Study:** The detailed results of the Full Cost Plan show the indirect cost associated with many City fee-related services and the indirect

costs associated with those departments will be incorporated into the Citywide fee study.

- **Transfers from Non-General Fund Sources:** The plan details the costs that the general fund could recover from other funds such as LLMD, CFD, and Gas Tax.
- **Calculate Administrative Overhead on Projects and Deposits:** The plan can be used to generate a Citywide Indirect Rate; calculated utilizing Direct Expenses (Personnel + Operating Expenses).

The City is in the midst of conducting a user fee study and as such the Full Cost Plan will be utilized and incorporated into that analysis.

As it relates to recovery from non-general fund sources, the City should review the purpose and funding restrictions of each fund to determine if administrative indirect costs can be recovered from any of those funds. If any of the above funds support payment of administrative costs, the City could then review the associated fund balance, and determine if a general fund transfer should be instituted. The City should consider developing an indirect internal cost policy document that outlines the following information for each fund:

- **Ability to Recover Administrative Overhead:** This would outline any local, state, or federal guidelines that limit or explicitly preclude the City's ability to recover administrative indirect costs.
- **Administrative Cost Recovery Goal:** This would detail the percentage or dollar amount that the City targets to recover for administrative overhead.
- **Fund Affordability:** If a fund cannot afford the maximum charge, the City should identify the charge that is appropriate to be recovered. An internal policy decision should be documented, that the maximum recovery of the fund would be set based upon a predetermined percentage of the maximum justifiable amount.
- **Reasons for Non-Recovery:** If the City has the ability to recover costs from a fund, but chooses not to, this reasoning should be documented. This will allow future decision makers to understand current reasonings and make adjustments should future circumstances dictate it.

While the CAP identifies the total allowable administrative costs that can be charged to a fund or department, it is up to the City to determine if, and how much, should be recovered annually.

Lastly, as mentioned, the results of this plan can be used to generate a Citywide Indirect Rate, which can then be used to recover indirect costs associated with deposit-based services. The following tables show the indirect rate calculations for the City of Calimesa:

**Table 3: Districtwide Composite Rate – Total Expenses**

$$\frac{\text{Total Indirect Costs Allocated } \$1,811,360^2}{\text{Total Citywide Direct Expenses } \$7,171,097^3} = 25.26\%$$

The 25.26% is significantly above the standard de-minimis rate of 10%, which is what the City has been using. This rate can be applied by the City against the full deposit amount to incorporate support to City staff and contracted services.

## Cost Plan Comparison

The following subsections discuss compare the current and proposed cost plan as well as the results of the plans.

### Central Service Department, Function, and Metric Comparison

Central service departments are those departments which provide various internal services in direct support of other City departments. Functions are those identified internal services which central services departments provide to other City departments; as such, a single central service department could provide one or multiple functions. Additionally, each function has a relatable metric which is used to numerically represents the service provided.

The current plan identifies eight (8) Central Service with eight unique metrics, while the proposed plan identifies 10 Central Services with 18 unique metrics. The following table compares by central service the proposed allocation methodology:

**Table 4: Function and Metric Comparison**

Central Service	Current Plan	Proposed Plan
Non-Departmental	50% budget size & 50% # of Employees	Equal to All Departs, \$ of Revenue, and Direct to City Departments
City Council	N / A	# of Agenda Items
City Manager	N / A	Equal to All Dept
City Clerk	# of Agenda Items	# of Agenda Items
Human Resources	# of Employees and Contracted Employees	# of FTE

<sup>2</sup> The \$1.8 million ties to the total costs allocated from the Cost Plan (Table 2).

<sup>3</sup> Direct expenses represent all Citywide actual expenditures less Central Service Expenditures (Table 2) and large one-time expenditures (i.e., Debt and Transfers).

Central Service	Current Plan	Proposed Plan
Risk Management	# of Employees and Contracted Employees	# of FTE, GL Claims, and Sq. Ft of Property Insured
City Attorney	N / A	Legal Hours
Finance	50% GL Trans & 50% Budget Size	Equal to All Dept, # of AP Transactions, # of Cash Receipts, # of FTE, 2 yr Avg of Grants
Information Services	50% GL Trans & 50% # of Employees	# of FTE + Contracted Employees
Public Works	7.5% to the City's CIP	Sq. Ft. Occupied
Engineering	5% to the City's CIP	N / A

The current plan assigns each at maximum two different metrics for each central service. The proposed plan provides more detailed break downs of central service department functions, allowing the utilization of more specialized metrics to spread support.

The modifications incorporated into the proposed plan provide a clear representation of staff time spent providing services to receiving departments, strengthening the overall defensibility of the plan. However, cost allocation plans are a snapshot in time, as such, it is best practice to reevaluate assumptions every three to five years. This practice ensures reorganization, responsibility shifts, or new tracking methods can be incorporated.

## Cost Recovery Comparison

The City currently charges 23 funds, recovering approximately \$170,000. The City's current charges are based on maximum allowable charges for certain funds. By comparison, the new Cost Allocation Plan proposes the ability to recover a maximum of \$517,000 from the same funds. The following table provides a breakdown of potential cost recovery for each fund for both the current and proposed plans, along with the associated difference.

**Table 5: Costs Recovery Comparison from Non-General Fund Sources**

Fund	Current Allocated	Proposed Allocation	Difference
14 Special Law Enf. Safety	\$500	\$3,653	\$3,153
19 Library Support Fund	\$8,300	\$43,955	\$35,655
24 Gas Tax	\$36,770	\$43,605	\$6,835
25 Measure A	\$25,440	\$13,453	(\$11,987)
28 LLMD	\$20,000	\$30,527	\$10,527
31 Fire Facilities Fees	\$6,184	\$13,099	\$6,915
32 Flood Control & Drainage Fees	\$5,184	\$21,626	\$16,442
33 Administrative Facilities Fees	\$5,984	\$13,894	\$7,910
34 Library Facilities Fees	\$5,184	\$12,976	\$7,792
35 Law Enf. Facilities Fees	\$5,184	\$13,029	\$7,845
36 Traffic Improvement Fees	\$9,384	\$55,119	\$45,735
39 Park Improvement Fees	\$5,184	\$19,722	\$14,538

Fund	Current Allocated	Proposed Allocation	Difference
47 CFD 2018-1 IA1 Summerwind	\$3,740	\$30,338	\$26,598
49 CFD 2012-1 IA 2 Singleton Hgts	\$3,990	\$21,090	\$17,100
51 CFD - Public Services 1	\$3,753	\$25,648	\$21,895
52 CFD 2013-1 IA 1 JP Ranch	\$3,028	\$24,052	\$21,024
53 CFD 2012-1 IA 1 Singleton Hgts	\$3,990	\$23,068	\$19,078
54 CFD 2012-1 IA 3 JP Ranch	\$2,122	\$20,023	\$17,901
55 CFD 2012-1 Maint Singleton Hgts	\$2,567	\$20,976	\$18,409
56 CFD 2013-1 Maint JP Ranch	\$2,567	\$19,117	\$16,550
57 CFD 2018-1 Maint Summerwind	\$3,247	\$17,719	\$14,472
59 CFD 2013-1 IA 2 JP Ranch	\$3,027	\$19,986	\$16,959
67 Successor Agency	\$4,500	\$23,037	\$18,537
<b>Total Max Cost Recovery</b>	<b>\$169,829</b>	<b>\$529,710</b>	<b>\$359,881</b>

The proposed plan includes approximately \$360,000 more in recoverable costs than the previous plan, as such, the General Fund has the potential to recover more cost from various funds. Only one fund shows a proposed decrease and that is Measure A. However, it is important to note that the figures in this table (Table 4) are the maximum charges. ***The City is not obligated to charge the funds these amounts and, in some instances, may be unable to assess this amount due to restrictions on funds.***

## 5 Summary

As a means to create a fair and equitable Cost Allocation Plan, the project team worked with City staff to identify various service areas and relatable metrics which represent the level support received by receiving funds and departments. By doing so a defensible document was created, which allocates to all City funds and departments, regardless of the City's ability to recover the administrative costs from those funds and departments. It is best practice to review metrics and costs at an in-depth level every three to five years to ensure that the plan is still appropriately reflective of the current level of services being provided.

The detailed Full Cost Plan report has been provided under separate cover to City staff. These reports are extensive and provide additional information on how indirect costs were allocated to various funds and departments to meet the fairness, equitability, and defensibility criteria for successful cost allocation plan.