



## Council Agenda Report

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Item 6c

**Department:** Finance  
**Cost Center:** 2005  
**For Agenda of:** 5/21/2024  
**Placement:** Consent  
**Estimated Time:** N/A

**FROM:** Emily Jackson, Finance Director  
**Prepared By:** Traci Kawaguchi, Accountant

**SUBJECT:** 2024-25 CENTRAL SERVICES COST ALLOCATION PLAN

### RECOMMENDATION

Adopt the 2024-25 Central Services Cost Allocation Plan including the Cost of Services Allocation and Labor Rates.

### POLICY CONTEXT

The annual cost allocation plan informs the City of the true total cost of delivering services through the various support departments and programs. This forms the base for policies related to cost recovery goals which rely on understanding total cost, including reimbursement transfers from enterprise funds to the General Fund for services received by General Fund departments and labor rates used to charge outside parties for employee's activities, such as for grants or damage to City property.

### DISCUSSION

#### Background

Consistent with governmental best practices, the City annually prepares a formal Central Services Cost Allocation Plan (CAP). One of the primary uses of the CAP is to quantify, in dollars, the relationship between administrative and support services contained within the General Fund and the operations programs they support throughout the organization. As such, the CAP provides reimbursement for those services from the four enterprise funds and the Whale Rock fund to the General Fund. The CAP also serves to determine the appropriate amount of administrative and support costs that may be charged to federal and state grants and provides the base for the labor rates used for cost recovery charges, such as when a private party causes damage to City property.

The CAP is prepared by a consultant that specializes in preparing such plans, using actual operating expenses from the last audited year and the resulting cost allocations are programmed into the City's budget two years later. Basing the CAP on the audited financials allows the City to avoid the need to recalculate and true-up the allocations at a later date and ensures that the allocation is based on actual costs and not budget assumptions. The CAP presented to Council for consideration is based on audited financials for FY 2022-23 and will be applied in FY 2024-25.

## Two Cost Allocation Plan Documents Required

There are two CAP documents presented for review and approval. The first is a full cost plan which considers all administrative and support costs that are allocated across all programs (Attachment A). The second CAP is the “2 Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (2 CFR 200) (Attachment B). The purpose of 2 CFR 200 is to streamline the Federal government's guidance on administrative requirements, costs principles, and audit requirements to focus Federal resources more effectively on improving performance and outcomes while ensuring the financial integrity of taxpayer dollars in partnership with non-Federal stakeholders. The 2 CFR 200 is used to determine the cost that can be allocated to federal grant programs. Upon approval by the City Council, the 2 CFR 200 certification will be signed by the Director of Finance/City Treasurer.

## Cost Allocation to Enterprise Funds

Since internal services are supported exclusively by the General Fund but equally provided to the City's four enterprise funds and Whale Rock fund, the CAP establishes the cost for services and reimbursement from the enterprise funds. The table below shows the cost as applicable for the Water, Sewer, Parking, Transit, and Whale Rock funds. Table 1 below summarizes the calculated amounts to be reimbursed to the General Fund from the City's four enterprise funds and the Whale Rock fund in FY 2023-24 compared to FY 2022-23

**Table 1**

ID	Fund	2023-24 Allocation*	2024-25 Allocation**	Change
<b>Reimbursement Transfer (Full Cost Allocation Plan)</b>				
1	Water Enterprise	\$ 1,751,033	\$ 1,559,425	(\$ 191,608)
2	Sewer Enterprise	\$ 1,911,466	\$ 1,838,634	(\$ 72,832)
3	Parking Enterprise	\$ 1,019,047	\$ 1,256,841	\$ 237,794
4	Whale Rock	\$ 274,375	\$ 252,099	(\$ 22,276)
5	Transit Enterprise	\$ 463,493	\$ 460,609	(\$ 2,884)
6	<b>Total</b>	<b>\$ 5,419,414</b>	<b>\$ 5,367,608</b>	<b>(\$ 51,806)</b>

\* Fiscal Year 2023-24 allocations are based on 2021-22 actuals

\*\* Fiscal Year 2024-25 allocations are based on 2022-23 actuals

The methodology used to calculate and allocate shares of costs through the Cost Allocation Plan is consistent with that used in prior years. Costs are allocated on a basis that is directly related to the level of services being provided by the General Fund to the City's five enterprise fund services. Examples of the various methodologies for calculating costs include, but are not limited to:

- Use of and cleaning of buildings is calculated based upon the total square footage of a building occupied by a department.
- Accounts payable support provided by the Finance Department is based upon the number of accounts payable transactions.
- Council agenda support provided by the City Clerk is based upon a count of Council agenda items submitted by a department/fund.
- Server support provided by Information Technology is based upon the number of physical and virtual servers or appliances within a department or fund.

- Support provided by Risk Management is based upon the number of full-time equivalent (FTE) employees within a department/fund.

The allocations based on share of cost for each enterprise fund and the Whale Rock fund are increasing overall due to the increased cost of doing business.

Since the CAP considers the City's overall expenditure based on the annual audited financials, it also provides the basis for the City's labor rates. The updated rates are included as Attachment C.

### Cost of Services Analysis

In addition to the Cost Allocation Plan, the City has also prepared a Cost-of-Service analysis, (Attachment D) which establishes the annual cost of providing the Water, Sewer, and Parking Enterprise Funds with access to and use of the City's rights-of-way and property, as well as the cost of providing police and fire protection for the Water and Sewer Fund programs and assets.

As part of the Cost-of-Service fee analysis that was prepared, enterprise facilities that are not within the City limits (Water Treatment Plant) were excluded from consideration of public safety costs, as provision of police and fire protection for those facilities is provided by the County Sheriff and CalFIRE. For FY 2024-25, the total Cost-of-Service transfer to the General Fund will amount to \$2,839,608, as shown in Table 2.

The Parking Enterprise Fund is allocated a share of any right-of-way maintenance that occurs in the downtown core area. In FY 2023-24, there were no specifically identified costs associated with the area, although the prior two annual calculations included allocations to the Parking Fund. This amount can vary from year to year, based on maintenance needs.

**Table 2**

ID		2023-24*	2024-25**	Change
<b>Water Enterprise</b>				
1	Public Safety	\$ 202,186	\$ 171,448	(\$ 30,738)
2	Right-of-Way Maintenance	\$ 872,924	\$ 1,216,544	\$ 343,620
3	<b>Total</b>	<b>\$ 1,075,111</b>	<b>\$ 1,387,992</b>	<b>\$ 312,882</b>
<b>Sewer Enterprise</b>				
4	Public Safety	\$ 516,287	\$ 508,953	(\$ 7,334)
5	Right-of-Way Maintenance	\$ 676,402	\$ 942,663	\$ 266,261
6	<b>Total</b>	<b>\$ 1,192,689</b>	<b>\$ 1,451,616</b>	<b>\$ 258,927</b>
<b>Parking Enterprise</b>				
7	Public Safety	\$ 0	\$ 0	\$ 0
8	Right-of-Way Maintenance	\$133,000	\$ 0	(\$ 133,000)
9	<b>Total</b>	<b>\$133,000</b>	<b>\$ 0</b>	<b>(\$ 133,000)</b>
10				
11	All Funds Public Safety	\$718,473	\$ 680,401	(\$ 38,072)
12	All Funds Right-of Way Maintenance	\$1,682,327	\$ 2,159,207	\$ 476,881
13	<b>Total All Funds</b>	<b>\$2,400,800</b>	<b>\$ 2,839,608</b>	<b>\$ 438,809</b>

\* Fiscal Year 2023-24 allocations are based on 2021-22 actuals

\*\* Fiscal Year 2024-25 allocations are based on 2022-23 actuals

**Previous Council or Advisory Body Action**

The City Council annually adopts the Central Services Cost Allocation Plan including the Cost of Services Allocation and Labor Rates.

**Public Engagement**

The City's Cost Allocation Plan and Cost of Services analysis is updated annually based on the City's audited financials and adopted at a public meeting of the City Council.

**CONCURRENCE**

The Public Works and Utilities Departments have reviewed the CAP and Cost of Service charges and concur with the recommendations contained within this report.

**ENVIRONMENTAL REVIEW**

This is not a project under CEQA. The California Environmental Quality Act does not apply to the recommended action in this report, because the action does not constitute a "Project" under CEQA Guidelines Sec. 15378.

**FISCAL IMPACT**

Budgeted: Yes

Budget Year: 2024-25

Funding Identified: Yes

**Fiscal Analysis:**

<b>Funding Sources</b>	<b>Total Budget Available</b>	<b>Current Funding Request</b>	<b>Remaining Balance</b>	<b>Annual Ongoing Cost</b>
General Fund	\$0	\$	\$	\$
State				
Federal				
Fees				
Other:				
<b>Total</b>	<b>\$0</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

There are no fiscal impacts directly associated with the adoption of this item. Adoption of the FY 2024-25 Cost Allocation Plan, Cost of Services Allocation, and Labor Rates supports the development of the FY 2024-25 budget by identifying the true total cost of providing services within the City's Enterprise Funds. The FY 2024-25 Central Services Full Cost Allocation Plan results in a total cost recovery of \$8,207,216 to the General Fund, including the Cost of Services reimbursement as outlined in Attachment D. This amount has been incorporated into the long-term forecast for the General Fund and the applicable transfers will be included in the recommended budget for FY 2024-25 in the 2023-25 Financial Plan.

## ALTERNATIVES

***Do not approve the 2024-25 Central Services Full Cost Allocation Plan.*** This is not recommended as the General Fund would bear the full costs for various programs, contracts, and agreements provided on behalf of the City's enterprise funds and the Whale Rock Fund.

## ATTACHMENTS

- A – Central Services Cost Allocation Plan FY 2022-23
- B – 2CFR 200 Cost Allocation Plan FY 2022-23
- C – Labor Rates FY 2024-25
- D – Cost of Services FY 2024-25