



## Council Agenda Report

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Item 5f

**Department:** Finance  
**Cost Center:** 2001  
**For Agenda of:** 5/17/2022  
**Placement:** Consent  
**Estimated Time:** N/A

**FROM:** Brigitte Elke, Finance Director

**SUBJECT:** 2022-23 CENTRAL SERVICES COST ALLOCATION PLAN

### RECOMMENDATION

Adopt the 2022-23 Central Services Cost Allocation Plan including the Cost of Services Allocation and Labor Rates.

### DISCUSSION

#### **Cost Allocation and applicable Reimbursement to the General Fund**

Consistent with governmental best practices, the City annually prepares a formal Central Service 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.

The CAP is prepared 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 cost and not budget assumptions. The CAP presented to Council for consideration is based on audited financials for FY2020-21 and will be applied in FY2022-23.

#### **Two CAP Documents Required**

There are two CAP documents presented. 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.

The 2 CFR 200 is also used to allocate cost to the Transit Fund since it is mainly funded from the Federal Transit Authority. Under the 2 CFR 200, the cost of the governing body is not allocated to other programs.

### **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, the CAP established the cost for services and reimbursement from the enterprise funds. The table below shows the cost as applicable for the Water, Sewer, Parking, and Whale Rock funds. The cost allocation for the Transit Fund is reflective of the assessment within the 2CFR 200 CAP.

<b>2022-23 Reimbursement Transfer (Full CAP)</b>	
<b>Fund</b>	Cost Allocation based on 2020-21 Actuals
<b>Water</b>	\$1,535,075
<b>Sewer</b>	\$1,497,395
<b>Parking</b>	\$ 872,976
<b>Whale Rock</b>	\$ 190,488
<b>Total</b>	\$4,095,934

<b>2022-23 Reimbursement Transfer (2 CFR 200)</b>	
<b>Fund</b>	Cost Allocation based on 2020-21 Actuals
<b>Transit</b>	\$357,013

Upon approval by the Council, the 2 CFR 200 certification will be signed by the Director of Finance/City Treasurer.

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 update rates are including in the CAP 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, Parking Enterprise Funds with access to and use of the City's right-of way-property, as well as the cost of providing police and fire protection for the Water and Sewer Fund in accordance with Proposition 218. As part of the fee analysis that was prepared, enterprise facilities that are not within the City limits were excluded from consideration (Water Treatment Plant). This document was incorporated into the Cost Allocation Plan as Appendix A. For FY 2022-23, the total transfer to the General Fund will amount to \$2,008,379.

<b>Water Enterprise</b>	<b>2021-22</b>	<b>2022-23</b>
<b>Public Safety</b>	\$230,214	\$267,776
<b>Right of Way</b>	\$467,983	\$508,802
<b>Total</b>	<b>\$698,197</b>	<b>\$776,578</b>
<b>Sewer Enterprise</b>	<b>2021-22</b>	<b>2022-23</b>
<b>Public Safety</b>	\$223,767	\$319,332
<b>Right of Way</b>	\$357,726	\$757,056
<b>Total</b>	<b>\$581,492</b>	<b>\$1,076,388</b>
<b>Parking Enterprise</b>	<b>2021-22</b>	<b>2022-23</b>
<b>Right of Way</b>	<b>\$-</b>	<b>\$155,413</b>

### **Policy Context**

The annual cost allocation plan informs the City of the true cost of delivering the services through the various support departments and programs. This forms the base for policies related to cost recovery goals, including reimbursement transfers and labor rates.

### **Public Engagement**

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

### **CONCURRENCES**

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

Funding Identified: Yes/No

Budget Year: 2022-23

**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	\$ N/A	\$	\$	\$
State				
Federal				
Fees				
Other:				
<b>Total</b>	<b>\$ N/A</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

The 2022-23 Central Services Full CAP results in a total cost recovery of \$6,461,326 to the General Fund, including the Cost of Services reimbursement as outlined in Appendix A. This amount has been incorporated into the long-term forecast for the General Fund and the applicable transfers are included in the 2022-23 Budget Supplement.

**ALTERNATIVES**

***Do not approve the 2022-23 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.

**ATTACHMENTS**

- A - Central Services CAP FY 2021
- B - 2CFR 200 CAP FY 2021
- C - Labor Rates 2022-23
- D - Cost of Services 2022-23