



2018 Full Cost Allocation Plan

for the

City of Chico

PROJECT SUMMARY

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BACKGROUND

The City of Chico engaged Wohlford Consulting to prepare a Cost Allocation Plan (CAP) to identify the appropriate distribution of citywide administrative costs to the operating departments.

The consultant worked with key representatives from the Finance Department and each contributing department to determine the best structure, approach, and relevant details used for the study. The City contributed all of the base data used for the study.

This document is intended to provide a summary review of the project approach and methodologies used to achieve those results. Under separate cover, the City received documentation of the full analysis and a worksheet of the summary results. The analysis documentation provides a very detailed and complex view of the “flow” of costs from the administrative departments to the recipients of their services.

Goals and Objectives

A Cost Allocation Plan is designed to:

- Fairly and appropriately distribute indirect and overhead costs, by using measurable, objective, and defensible allocation bases and methods;
- Clearly identify the cost of administrative activities to customer departments and funds, through logical and traceable calculations and displays;
- Create an enhanced internal understanding of administrative programs and support, by demonstrating the true cost of the services provided;
- Facilitate improved quality of related cost studies (e.g., user fees), by calculating citywide overhead and other support costs; and
- Enhance fairness and equity, by ensuring that each department receives its appropriate share of the cost.
- Establish appropriate charges to external funding sources, such as federal, state, and county grants and cost-sharing (Federal CAP); and
- Provide cost bases for secondary studies and analyses, such as the calculation of Indirect Cost Rate Plans (Federal CAP).



PROJECT APPROACH AND METHODOLOGIES

General Principles

The City of Chico received a “Full Cost” Allocation Plan, which seeks to identify all legitimate costs for distribution. (Other plan types are more restrictive to meet externally mandated restrictions.) The development of a CAP follows a series of general guidelines and principles, which originate from federal guidelines established in 2 CFR Part 225 (formerly OMB Circular A-87). These principles can be summarized in the following points:

- The costs to be allocated must be necessary and reasonable to the operation of the government.
- The cost allocations must be based upon the relative benefit received by the other departments.
- Allocation “Bases” must reasonably relate to the effort provided by the central service department or the benefit received by the other departments.

The “full cost” plan has separate uses and is less restrictive than a “federal” plan that complies fully with federal and state guidelines. The City of Chico will also receive a federal plan following the completion of the Full Cost CAP described herein.

Departments and Functions Included in the Cost Allocation Plan

The Cost Allocation Plan distributes the costs of City departments that serve a central administrative or service function supporting the other departments in the City. These “Central Service Departments” include:

- | | |
|-------------------------|---------------------------------|
| ✓ 101 - City Council | ✓ 130 - Workers’ Comp ISF |
| ✓ 103 - City Clerk | ✓ 130 – Unemployment Ins. ISF |
| ✓ 106 - City Manager | ✓ 140 – Risk Management ISF |
| ✓ 130 – Human Resources | ✓ 150 – Treasury ISF |
| ✓ 150 – Finance | ✓ 180 – Info Systems ISF |
| ✓ 160 – City Attorney | ✓ 185 – GIS ISF |
| ✓ Building Use Charge | ✓ 630 – Vehicle Maintenance ISF |
| ✓ Equipment Use Charge | ✓ 640 – Facilities Maint. ISF |

A Cost Allocation Plan does not distribute the cost of *all* services provided by every City department to the others, such as direct support and assistance. As a



general rule, the allocations are limited to the costs of centralized administrative or support services from the departments listed above.

City of Chico Internal Service Funds (ISF's) already distribute their costs based upon separately calculated rates and/or allocations, as prepared internally by City staff. The Cost Allocation Plan does not allocate any of these funds to customer departments. Instead, the Cost Allocation Plan identifies the "incoming" costs from the Central Service Departments and distributes this cost to the receiving departments on the same basis as the ISF charges.

The analysis documentation includes a description of the functions and services of each Central Service Department included in the CAP.

Methodology

The simple purpose of a Cost Allocation Plan is to accurately, fairly, and reasonably distribute the City's central administrative costs (e.g., Finance, Human Resources, City Attorney, etc.) to the operating departments in the City.

The three main project phases are as follows:

1. Determine the Cost of Functions

The total cost of each Central Service Department is allocated to its Functions based on Staff Time Estimates (% of workload).

The best way to ensure the accuracy and fairness of the allocations is to separate the distinct "functions" of each central service department and allocate them individually whenever feasible.

The Finance Department (150), as an example, was divided into 19 different functions, including Payroll, Accounting Services, Accounts Payable, Budget Preparation, Treasury Administration, and 14 others.

Staff from the Finance Department identified the percent of work time that each employee budgeted to 150 spent working on tasks related to each Function (totaling 100%). Those time estimates formed the basis for allocating all other costs to the Functions.

All costs are based on the FY 2017-18 Final Budget.

2. Allocate Each Function

Each Function is then allocated to the Receiving Departments based on its most appropriate Allocation Basis (statistical data).



The general method for allocating costs from each administrative department to the other departments is to identify an “allocation basis” and distribute the costs proportionately. These allocation bases consist of various available data/statistics that best reflect the workload related to the recipient of the service. The following table shows some examples:

Sample Allocation Structure: *Finance*

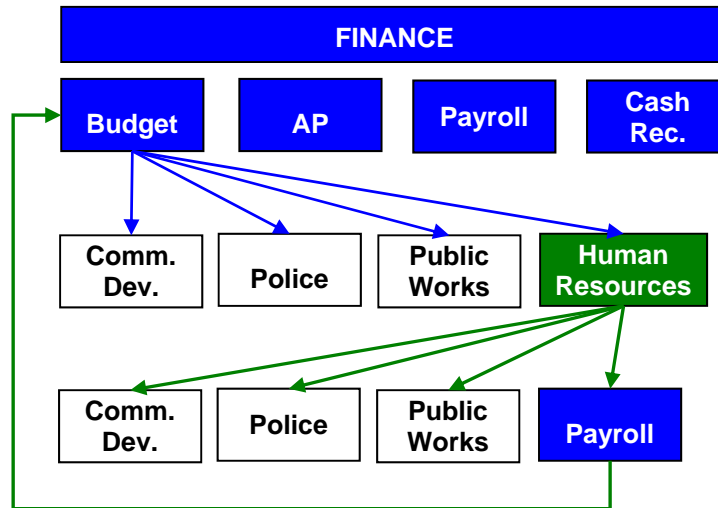
Function	Allocation Basis
Payroll	FTE (# of personnel)
Accounts Payable	AP Transactions
Accounting Services	Operating Budget Expenditures
Budget Preparation	Total Expenditure Budget

Dozens of allocation bases are potentially available, and the selection of the most appropriate measure followed a discussion with key department staff. The Chico CAP utilized 30 different allocation bases overall. Some of the other allocation bases included: agenda items, other accounting transactions, square footage, and operating budget, among others.

3. Step-Down Sub-allocations

The incoming costs to Central Service Departments are sub-allocated (re-allocated) to the other Receiving Departments.

As with the operating Receiving Departments, the Central Service Departments provide support to each other. Consequently, they receive allocations from each other also. The following chart illustrates this situation:





In order to fully distribute all Central Service costs to the Receiving Departments, it is necessary to further allocate those “incoming” costs to the other Receiving Departments. This process is often called a “step-down” routine, and this occurs twice in the Chico’s CAP. These second and third allocations were based upon the same proportions as the initial allocations.

Project Steps

The summary steps to accomplish this study included:

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1. Meet with City staff to customize the structure of the analysis and the model;
 2. Identify and classify the Central Service (administrative) Departments;
 3. Classify the “functions” of each allocated department;
 4. Determine the optimal allocation basis for each function;
 5. Identify the source and collect allocation bases data/statistics;
 6. Populate analytical model and calculate results;
 7. Employ quality control processes;
 8. Review results with the City;
 9. Revise and finalize;
 10. Document and communicate results.
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City Input and Participation

City staff was instrumental to the successful completion of the Cost Allocation Plan, as they contributed the following information, review, and assistance:

- City Documents:
 - Budgets and Basic Cost Data
 - Specific Line-Item Review
 - Personnel Information
- Model Design:
 - Design/Customize the Cost Plan Structure to fit the City
 - Identify Staffing Structure and Involvement
- Data Collection:
 - Workload Estimates
 - Allocation Basis Data (statistics)
 - Other Allocation Measures
- Quality Control (Review Results):
 - Critical Review of Multiple Iterations
 - Internal Quality Control
 - Respond to Queries and Challenges



Quality Control

A cost analysis study is almost entirely reliant upon the data provided by the City. Since all study components are interrelated, bad data at any step in the process will cause the ultimate results to be flawed. To avoid accuracy problems and other quality flaws, the study included a series of Quality Control measures.

Our Quality Control measures are designed to ensure that we have covered all of the issues, appropriately accounted for positions and resources in the models, and factored all other data fairly and accurately in the study. The elements of our Quality Control process include:

- ✓ Clear instructions and guidance to City staff
- ✓ Process Checklists
- ✓ Reasonableness Tests and Validation
- ✓ Challenge and Questioning
- ✓ Balance and Cross-Checks
- ✓ Internal City Review
- ✓ External Consultant Review

Every critical step in our study process included a Quality Control check.



SUMMARY OF RESULTS

The ultimate product of a Cost Allocation Plan is a worksheet (*Summary of Allocated Costs by Department*) that illustrates the final distribution of costs from each Central Service Department to each of the receiving departments and funds. This document, along with the supporting workbook that details all of the distributions and their bases, has been provided to the City under separate cover.

The following table presents a summary of the results showing the final distributions to each receiving department:

SUMMARY OF ALLOCATION RESULTS

Fund	Dept. Code	Receiving Department	Allocation Total	% of Total
		Operating Programs:		
1	110	Environmental services	\$ 2,231	0.0%
1	112	Economic development	\$ 5,962	0.1%
1	121	Community Agencies	\$ 1,373	0.0%
1	150	Business Licensing	\$ 40,649	0.6%
1	300	Police	\$ 2,024,627	30.1%
1	348	Animal Services	\$ 76,139	1.1%
1	400	Fire	\$ 1,204,920	17.9%
1	410	Fire Reimbursable Response	\$ 1,550	0.0%
97	400	SAFER Grant (Fire)	\$ -	0.0%
		Development Services:		
1	510	Planning Services	\$ 40,383	0.6%
862	510	Planning Services	\$ 39,191	0.6%
863	510	Planning Services	\$ 24,182	0.4%
1	535	Code Enforcement	\$ 26,821	0.4%
213	535	Code Enforcement	\$ 8,973	0.1%
1	605	Building & Development Services	\$ 11,595	0.2%
862	520	Building Inspection	\$ 130,421	1.9%
862	615	Development Services	\$ 15,394	0.2%
863	615	Development Services	\$ 22,755	0.3%
850	615	Development Services	\$ 19,862	0.3%
862	535	Code Enforcement	\$ -	0.0%
850		Sewer Fund-Level Allocation	\$ 140,465	2.1%
862		Private Development Fund-Level Allocation	\$ 41,656	0.6%
863		Subdivisions Fund-Level Allocation	\$ 22,774	0.3%
862	400	Fire	\$ 10,114	0.2%
		Public Works Department:		
1	601	Public Works Administration	\$ 84,231	1.3%
1	620	Street Cleaning	\$ 245,793	3.7%
1	650	Right of way Maintenance	\$ 286,948	4.3%



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Fund	Dept. Code	Receiving Department	Allocation Total	% of Total
2	682	Parks and Open Spaces	\$ 177,665	2.6%
2	686	Street Trees/Public Plantings	\$ 109,731	1.6%
850	670	Water Pollution Control Plant	\$ 281,002	4.2%
850	99	Sewer Debt Service	\$ 4,804	0.1%
853	660	Parking Facilities Maintenance	\$ 38,698	0.6%
929	630	Central Garage [Included in Central Service Depts.]	\$ -	0.0%
941	614	Community Maintenance Districts	\$ 27,219	0.4%
	614	Community Maintenance Districts (Other Funds)	\$ 51,336	0.8%
853	300	PD Parking Service Specialists	\$ 58,463	0.9%
853		Parking Revenue Fund-Level Allocation	\$ 5,713	0.1%
Grants:				
50	121	Donations	\$ 107	0.0%
50	682	Donations	\$ 314	0.0%
98	300	JAG Grant	\$ 166	0.0%
99	300	State COPS Grant	\$ 7,859	0.1%
100	300	Grants - PD	\$ 343	0.0%
100	326	Grant - PD	\$ 321	0.0%
50	300	Donations - Police General	\$ 1,843	0.0%
Housing and RDA Successor:				
201	540	CDBG Housing	\$ 37,372	0.6%
206	540	HOME Housing	\$ 12,545	0.2%
373	540	Housing Successor Entity	\$ -	0.0%
390	115	RDA Successor Agency	\$ 104,009	1.5%
392	540	Affordable Housing	\$ 38,360	0.6%
1	540	Gen - Housing	\$ -	0.0%
Transit and Transportation:				
212	653	Transit Services	\$ 44,252	0.7%
212	654	Transportation - Bike/Ped	\$ 7,391	0.1%
212	655	Transportation - Planning	\$ 9,485	0.1%
212	659	Transportation - Depot	\$ 2,285	0.0%
212		Transportation Fund-Level Allocation	\$ 6,060	0.1%
Airport:				
303	118	Passenger Facility Charges	\$ -	0.0%
856	118	Airport Management	\$ 75,169	1.1%
856	691	Aviation Facility Maintenance	\$ 30,003	0.4%
856		Airport Fund-Level Allocation	\$ 47,553	0.7%
Other Funds, Programs, and Services:				
217	300	Asset Forfeiture	\$ 343	0.0%
399	150	JPFA	\$ 33,875	0.5%
400	610	Capital Projects Services	\$ 252,788	3.8%
330		Community Park (GSD)	\$ 66	0.0%
333		Linear Parks/Greenways (GSD)	\$ 1,747	0.0%



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Fund	Dept. Code	Receiving Department	Allocation Total	% of Total
300		Capital Grants	\$ 47,590	0.7%
590/1	613	Landscape & Lighting Districts	\$ 829	0.0%
1	545	Neighborhood Services	\$ -	0.0%
		Leased (out) Space - Old Muni Building	\$ 31,621	0.5%
		Leased (out) Space - Chico Start	\$ 4,087	0.1%
204		HOME - State Grants	\$ 4,680	0.1%
210		PEG - Public, Educational & Government Access	\$ 711	0.0%
301		Building/Facility Improvement	\$ 30	0.0%
305		Bikeway Improvement	\$ 694	0.0%
306		In Lieu Off-site Improvement (Cap Projects)	\$ -	0.0%
307		Gas Tax	\$ 4,715	0.1%
308		Street Facility Improvement	\$ 11,374	0.2%
309		Storm Drainage Facility	\$ 3,383	0.1%
312		Remed Fund	\$ 889	0.0%
315		General Plan Reserve	\$ 25	0.0%
320		Sewer-Trunk Line Cap	\$ 5,256	0.1%
321		Sewer-WPCP Capacity	\$ 16,347	0.2%
322		Sewer-Main Installation	\$ 150	0.0%
323		Sewer Lift Station	\$ 80	0.0%
332		Bidwell Park Land	\$ 1,560	0.0%
336		Admin Building (Nexus update / Bldg Dev Rev Fee)	\$ -	0.0%
335		Street Maintenance Equipment	\$ 8	0.0%
337		Fire Protection Building and Equipment	\$ 46	0.0%
338		Police Protection Building and Equipment	\$ 49	0.0%
341		Fund 341 - Zone A - Neighborhood Parks	\$ -	0.0%
347		Fund-Level Allocation (Department Unspecified)	\$ 214	0.0%
396		HRBD Remediation Monitoring	\$ 1,290	0.0%
920		Revolving Fund	\$ 3,327	0.0%
931		Technology Replacement	\$ 1,342	0.0%
932		Fleet Replacement	\$ 5,131	0.1%
933		Facility Maintenance	\$ 1,513	0.0%
934		Prefunding Equip Liab Reserve	\$ 661	0.0%
936		Payroll Revolving Fund	\$ 4,169	0.1%
937		Police Staffing Prefunding	\$ -	0.0%
410		Bond Proceeds from Former RDA	\$ -	0.0%
443		Eastwood Assessment Capital	\$ 225	0.0%
1	99	Debt Service	\$ 1,958	0.0%
655	99	2001 TARBS Debt Service	\$ 13,040	0.2%
657	99	2005 TABS Debt Service	\$ 17,440	0.3%
658	99	2007 TABS Debt Service	\$ 5,605	0.1%



SUMMARY OF ALLOCATION RESULTS

Fund	Dept. Code	Receiving Department	Allocation Total	% of Total
903	99	CalPERS Unfunded Liability Reserve - Debt Service	\$ 27,818	0.4%
211		Traffic Safety Fund	\$ -	0.0%
100	400	Fire Grants	\$ 200	0.0%
2		Fund-Level Allocation (Department Unspecified)	\$ 291	0.0%
50		Fund-Level Allocation (Department Unspecified)	\$ 120	0.0%
943		Public Infrastructure Replacement Fund (Waste Franchise)	\$ -	0.0%
		Other Categories:		
	9998	All Other	\$ 3,003	0.0%
	9999	Unallocated	\$ 496,631	7.4%
		TOTALS:	\$ 6,715,997	100.0%

CONCLUSION

The Cost Allocation Plan prepared on behalf of the City of Chico identifies the fair, accurate, and reasonable distribution of service costs from central administrative departments to their customer departments and funds.

The City can use this information to establish overhead costs and rates to include in subsequent cost studies, such as those to determine external rates and charges. These results can also be used to establish charges to some other external funding sources, such as non-federal or non-state grants. (A subsequent study will address allocations that meet the federal and state guidelines.) Finally, these results can help City departments and funds better understand the service and cost relationships between themselves.