

## MEMORANDUM

**TO:** Lauren Bradley, Finance & Management Services Director  
**FROM:** Tony McDowell, Budget Manager  
**DATE:** January 28, 2013  
**SUBJECT:** Cost Allocation Plan Update

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Maximus has completed its annual update to the Cost Allocation Plan (CAP) and submitted a draft for our review. The updated CAP, which distributes central service overhead costs to operating departments, is based on expenses and workload data from FY 2011-12. Budget staff worked closely with the consultants at Maximus this year to comprehensively review and refine the cost data and the allocation basis for each of the City's central service functions to ensure that allocations were being made in the fairest and most accurate manner possible. Several revisions were made this year to allocation bases. For example, the City has historically allocated Information Technology Service (ITS) Department costs based on the number of pc's and percentage of computer usage by operating department. In working with ITS staff and the consultants at Maximus, we were able to identify a more accurate allocation basis for ITS costs using work order (help desk) data compiled by ITS staff. As another example, general accounting division costs have historically been allocated based on the sheer number of accounting transactions processed on MUNIS. This year, staff assigned weights to each different type of transaction based on the amount of staff time required for processing.

As a result of these data refinements, and an overall decrease in central service department expenditures between FY 2010-11 and FY 2011-12 (\$16.44 million in FY 2011-11 compared to \$15.79 million in FY 2011-12), there were some changes in the amounts allocated to each operating department. *For example, the central service cost allocated to the Water Department per the CAP decreased from \$2.1 million to \$1.9 million.*

### Other Enterprise Funds

The City has historically charged the Water Fund its share of central service overhead costs through the budget process, however, it has not charged other Enterprise Funds as a part of their budgets. In order to more accurately reflect the true cost of service provision in the other Enterprise Funds, Finance staff is recommending that we begin charging all Enterprise Funds as part of the FY 2013-14 budget. Given the potential impact on Enterprise Fund budgets, Finance staff is proposing a two-year phase-in of the CAP allocation, with 50% of the CAP amount charged in the FY 2013-14 budget, increasing to the full amount in FY 2014-15. The chart below shows the CAP amounts for each

Enterprise Fund. Staff will discuss this proposal with the Finance Committee at its February meeting.

	Full CAP Amount	Proposed 50% CAP Amount
Parking	375,845	187,923
Street Cut	304,295	152,148
Stormwater	564,408	282,204
Civic Center	385,566	192,783
Transit	82,619	41,310

A copy of the draft CAP can be found at:

..\\COMMON\BudgetInstructions\Draft FY2012 cost allocation plan.PDF