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DEPARTMENT OF
FINANCE

ACCOUNTING DIVISION

MICHAEL H. STAMPER
ACCOUNTING MANAGER

CITY OF SACRAMENTO
CALIFORNIA

October 6, 1989
FAD:89095:MHS:LMH

CITY HALL
ROOM 12
915 I STREET
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FEDERAL 94-6000410
STATE 800-38498

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

**SUBJECT: ADOPTION OF THE "FULL COST" COST ALLOCATION PLAN AND
INDIRECT COST RATES FOR FISCAL YEAR 1989-90**

SUMMARY

The City of Sacramento cost allocation plan and the indirect cost rates are presented for City Council adoption each year in order to establish the authority to make charges based on these computations. The cost allocation plan and indirect cost rates for Fiscal Year 1989-90 are presented here for adoption.

BACKGROUND

Cost Allocation Plan

Annually the Department of Finance directs the development of a cost allocation plan for the purpose of spreading the internal support costs of the City to the line operating departments. Included within the central support costs spread through the cost allocation plan are general governmental costs associated with personnel, procurement, labor relations and data management, payroll processing, accounting and financial reporting, building and equipment usage and legal representation. The cost plan essentially spreads the traditional overhead costs of the organization. The cost allocation plan was produced by the consulting firm of David Griffith and Associates under contract with the City.

As a result of this analysis, functions supported by enterprise funds, internal service funds and agency funds are "billed" through interfund transfers for services provided by departments funded by the General Fund. These interfund transfers are incorporated in the base operating budget each year. The total of the interdepartmental transfers based on the cost allocation plan is \$8,383,947.

Indirect Cost Rates

The cost allocation plan also becomes the first element in the identification of indirect costs to be utilized in both internal and external "full cost recovery" procedures. Examples of the types of charges where indirect costs are applied are the cost of managing a capital improvement project (internal) and billings to utility companies for the repair of street cuts (external). The firm of David Griffith and Associates also conducted the study necessary to establish indirect cost rates for specified City Departments.

In addition to the City-wide overhead factor from the cost plan, indirect cost rates also incorporate department, division and section overhead. Within these costs are the administration, supervision, support staff, and services and supplies that can not or do not lend themselves to direct cost accounting. The elements of cost contained within each rate include:

- City-wide Cost Plan - central support functions
- Department Overhead - Depart. Head, central admin staff, etc.
- Division Overhead - Div. Mgr., clerical and admin support personnel, etc.
- Section Overhead - direct supervision, supplies, fleet charges, etc.
- Non-productive Time - vacation, sick leave, etc.

The indirect cost rate is applied only against the dollar value of direct salaries attributable to the project or task. Thus for a project with \$100 of Engineering Design staff salaries the indirect cost would be \$90.16 because that section's rate is 90.16%.

Once again the indirect cost rates presented with this report reflect an increased emphasis on the level of accuracy and detail associated with the identification of indirect costs in order to assure full cost recovery wherever possible. In some instances, this emphasis has resulted in a marked increase in the indirect cost rates proposed for use in 1989-90.

Indirect cost rates are not established for every function of City Government. Due to the extra consultant cost associated with developing the rate information, we have elected to generate rates for only those functions with a likelihood of significant charges that would require an indirect cost.

FINANCIAL DATA

The City Council adopts the cost allocation plan and indirect cost rates annually in order to create the authority to levy these charges. The revenue and offsets generated as the result of these two types of "charges" have been estimated in budget projections. Thus the approved 1989-1990 operating budget will be amended to reflect the final adopted cost allocation plan and indirect cost rates.

POLICY CONSIDERATIONS

None.

MBE/WBE EFFORTS

No impact.

RECOMMENDATION

It is recommended that the Budget and Finance Committee forward the attached resolution to the City Council with a recommendation for adoption.

Respectfully submitted,



MICHAEL H. STAMPER
Accounting Manager

RECOMMENDATION APPROVED:



FOR

JACK R. CRIST
Deputy City Manager

October 17, 1989
ALL DISTRICTS

CONTACT PERSON: MICHAEL H. STAMPER
Accounting Manager 449-5736

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

RESOLUTION ADOPTING THE CITY'S "FULL COST" COST ALLOCATION PLAN AND INDIRECT COST RATES FOR USE IN 1989-1990

WHEREAS, the City of Sacramento annually develops a "full cost" Cost Allocation Plan for use in the assignment of central support costs to line functions, and

WHEREAS, indirect cost rates are calculated for those functions of the City with outside billings and/or interfund charges,

NOW THEREFORE BE IT RESOLVED that:

1. The City Council of the City of Sacramento does hereby adopt the Cost Allocation Plan and the attached indirect cost rate schedule as developed by David Griffith and Associates for use in Fiscal Year 1989-1990.
2. The 1989-1990 Approved Budget will be amended reflecting the Approved Cost Allocation Plan and Indirect Cost Rate Schedule.

MAYOR

Attest:

City Clerk

FOR CITY CLERK USE ONLY

RESOLUTION NO. _____

DATE ADOPTED: _____

CITY OF SACRAMENTO
1989/90
INDIRECT COST RATE PERCENTAGES

1934	MECHANICAL MAINTENANCE	69.38%
1935	ELECTRICAL MAINTENANCE	83.47%
1936	RESOURCE POOL	72.44%
1937	STRUCTURAL	83.55%
1938	DESIGN & CONSTRUCTION	151.56%
1962	FIRE ALARM - FIRE	148.89%
1962	FIRE ALARM - CABLE	285.24%
2520	FIRE PREVENTION (FIRE PERMITS)	198.19%
2530	FIRE SUPPRESSION	33.78%
3122	TRAFFIC SIGNS/MARKINGS	99.25%
3125	LIGHTS & SIGNALS	132.14%
3128	TRAFFIC ENGINEERING	53.65%
3130	ENGINEERING DIVISION	95.47%
3131	ENGINEERING ADMINISTRATION	262.61%
3132	ENGINEERING DESIGN	90.16%
3134	CONSTRUCTION	94.06%
3135	RIGHT OF WAY/ASSESS DISTR	116.64%
3136	TRANSPORTATION & DEVELOPMENT	132.65%
3192	STREET MAINTENANCE	67.31%
3512	ECONOMIC DEVELOPMENT	65.87%
3522	ADVANCED PLANNING	168.85%
3523	CURRENT PLANNING	176.64%
3524	PRESERVATION/DESIGN REVIEW	69.59%
3525	ENVIRONMENTAL	281.06%
3532	COMMUNITY PLAN CHECK	85.95%
3533	BUILDING & HOUSING	104.12%
3535	ELECTRICAL	111.40%
3536	PLUMBING & MECHANICAL	113.25%
3537	RESIDENTIAL PLAN CHECK	70.34%
3538	HOUSING/DANGEROUS BUILDING	291.33%
3540	NUISANCE ABATEMENT	163.24%
4514	PLANNING & DEVELOPMENT	192.12%
4522	HUMAN SERVICES	66.35%
4523	RECREATION SERVICES - SOUTH	83.34%
4524	RECREATION SERVICES - NORTH	134.06%
4550	OLD SACRAMENTO WATERFRONT	161.47%
4582	SPECIAL SERVICES	143.64%
4583	PARK MAINTENANCE - NORTH	87.06%
4584	PARK MAINTENANCE - SOUTH	101.85%
4590	TREE SERVICES	104.50%
4621	ZOO	212.38%
4622	FAIRYTALE TOWN	218.84%

NOTE: THE 18.7% FACTOR FOR VACATION, HOLIDAY AND SICK LEAVE ACCRUAL IS NOT INCLUDED IN THIS OVERHEAD RATE.

FOR EXTERNAL BILLINGS REFER TO FINANCE POLICY INSTRUCTION 15, REVISED OCTOBER 25, 1989.

FOR INTERNAL BILLINGS (e.g. CAPITAL IMPROVEMENT PROJECTS), THE COST ALLOCATION MODULE OF LGFS WILL EFFECT THE RECOVERY OF INDIRECT COSTS ON A MONTHLY BASIS, INCLUDING RECOVERY OF ACCRUED VACATION, HOLIDAY AND SICK LEAVE.



DEPARTMENT OF
FINANCE

ACCOUNTING DIVISION

MICHAEL H. STAMPER
ACCOUNTING MANAGER

CITY OF SACRAMENTO
CALIFORNIA

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POLICY CONSIDERATIONS

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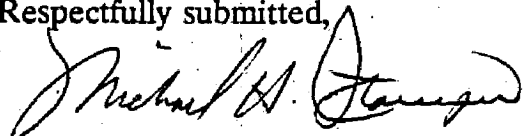
MBE/WBE EFFORTS

No impact.

RECOMMENDATION

It is recommended that the City Council adopt the attached resolution.

Respectfully submitted,



MICHAEL H. STAMPER
Accounting Manager

RECOMMENDATION APPROVED:

WALTER J. SLIPE
City Manager

October 24, 1989
ALL DISTRICTS