

Administration Service Charge

February 4, 2015



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Overview

- Introduction
- Cost Allocation Methodology
- Summary
- Next Steps
- Questions



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What is an Administration Service Charge?

- A comprehensive distribution of city-wide central service administrative costs to certain departments that benefit from these services.
- A cost allocation plan is used to distribute central service overhead costs to users of the services.
- The users of these services receive a direct benefit from general city services and in turn, reimburse the General Fund for that support.
- The administration service charge included in the cost allocation are the direct, indirect, and incremental costs to provide the services.



Cost Allocation Methodology

- The MAXIMUS[®] Cost Allocation and Rate System software is utilized to prepare the Full Cost Allocation Plan (FCAP).
 - Identifies the cost of central support services provided to operating departments, special funds, and other City entities.
 - Generally completed every two years during the preparation of the recommended budget.
 - Based on the FY 2015 expenditure budget and service activity from FY 2014.
 - Used to inform the development of the administrative service charges in the subsequent two fiscal years.
 - The administration service charge is updated in the second fiscal year with known financial changes.



Cost Allocation Methodology

(continued)

- The software uses a double step-down allocation process to distribute costs among central support services and to other city departments.
 - During the first step-down, cost allocations are made to all benefiting programs, including cross-allocations to other central services.
 - A second step-down allocation from each central service is made to ensure that the cross-benefit of services among central services is fully allocated to the receiving departments.
- Costs are allocated in accordance with the relative benefits received. For example, payroll costs are allocated to a department based on the number of FTEs in that department.



Cost Allocation Methodology

(continued)

First Allocation Step

The operating costs of the service activity, plus the allocated costs from other central services which have been identified up to that point.

First Allocation Step			Allocations to Receiving Departments			
Central Service Departments	Costs to be Allocated					
	Payroll	\$1,000				
	Procurement	\$1,000				
	Total to Allocate	\$2,000	Payroll	Procurement	Department A	Department B
Payroll	Operating Costs	\$1,000	10%	10%	50%	30%
	Incoming Costs	\$ -0-				
	Total to Allocate	\$1,000	\$100	\$100	\$500	\$300
Procurement	Operating Costs	\$1,000	10%	0%	60%	30%
	Incoming Costs	\$ 100				
	Total to Allocate	\$1,100	\$110	\$-0-	\$660	\$330
First Allocation Subtotal					\$1,160	\$630



Cost Allocation Methodology

(continued)

Second Allocation Step

The costs from other central services made subsequent to that service activity's first allocation. After the second allocation of each central support service, that activity cannot receive any additional allocations from other central service activities. The software recalculates the allocation percentages based on the allocation statistics from the first allocation step.

Second Allocation Step			Allocations to Receiving Departments			
Central Service Departments	Costs to be Allocated after First Allocation		Payroll	Procurement	Department A	Department B
Payroll	Operating Costs	\$ -0-	0%	11%	56%	33%
	Incoming Costs	\$ 210				
	Total to Allocate	\$ 210	\$-0-	\$23	\$118	\$69
Procurement	Operating Costs	\$ -0-	0%	0%	67%	33%
	Incoming Costs	\$ 23				
	Total to Allocate	\$ 23	\$-0-	\$-0-	\$15	\$8
Second Allocation Subtotal					\$133	\$77
Total Allocation \$2,000					\$1293	\$707



Cost Allocation Methodology

(continued)

- FCAP Preparation Example
 - Year 1 - Plan Year (e.g. FY 2013): Financial and operating data from this year are used to prepare the plan. Reports of service department costs and service delivery activity are generated for each central service function.
 - Year 2 – Preparation Year (e.g. FY 2014): The plan is prepared using the financial and operating data from Year 1.
 - Years 3 & 4 (e.g. FY 2015 & FY 2016) – The FCAP developed in Year 2 from the Year 1 data is used to inform the development of the administrative service charges for use in Years 3 and 4.
- Effect of Subsequent Events
 - FCAP results based on Year 1 data may be subsequently adjusted based on operational or financial events that occurred or are projected to occur during Years 2, 3, or 4.



Cost Allocation Methodology

(continued)

- The completed FCAP:
 - Provides a narrative description of the central service functions;
 - Presents the total costs to be allocated based on the financial data; and
 - Identifies the cost basis and the costs allocated by each service department to each receiving department.
- Draft results of the FCAP are reported to the affected departments for their review and comment.
- The FCAP is finalized upon completion of the review process.
- The administrative service charges are determined and made a part of the recommended budget.



Grantees and Central Service

- Departments are either Grantees or Central Service departments
 - Central Service departments provide services to other city departments
 - Grantees receive services from Central Service departments



Activities

- An activity is the type of work performed by a department
 - Examples:
 - Accounts Payable
 - Payroll
 - Investments
 - Auction Services
- Each Central Service must have at least one activity
- Each activity is allocated on a defined basis



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Allocation Basis

- Allocations are the statistics used to distribute expenditure
 - Examples:
 - Total number of FTEs
 - Total weighted expenditures, less direct charges
 - Total salaries and benefits
 - Number of collection transactions processed
 - Number of purchase orders issued
 - Number of VOIP devices
 - Number of IT servers



Summary

- City staff prepares a cost plan to allocate the cost of providing central support services to its operating departments, special funds, and other entities of the City.
- The plan builds on the work conducted by a cost consultant and utilizes specialized cost allocation software.
- The Mayor and Council have adopted user fee and cost recovery policies supported by the cost allocation methodology and software.
- Results of the plan are used to inform the determination of the administrative service charges to the affected departments.
- The Citizen's Water Advisory Committee (CWAC) Finance Subcommittee endorsed the cost allocation methodology as a basis for negotiating the service charge to Tucson Water.



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Next Steps

- Budget and Internal Audit staff are completing the process for the FY 2016 budget
- Departments will have two weeks to review the results
- Present to Citizens' Water Advisory Committee the results for Tucson Water at the March, 2015 meeting



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Questions?



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