REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Shannon Buckley, Assistant City Manager

Date: October 8, 2024

Subject: Cost Allocation Plan

Recommendation

Adopt and implement the Cost Allocation Plan prepared by Willdan Financial Services and approving the 19% overhead rate.

Background

The City of Lake Elsinore engaged Willdan Financial Services (Willdan) to determine the total costs incurred by the City to support the various activities for which the City charges user fees. Due to the complexity and breadth of performing a comprehensive review of fees, Willdan employed a variety of fee methodologies to identify the total costs of individual fees and program activities. This report and the appendices herein identify 100% total cost recovery for City services and the recommended level of recovery as determined through discussion with departmental staff. The reality of the local government fee environment is that significant increases to achieve 100% cost recovery can often not be feasible, desirable, or appropriate depending on policy direction, particularly in a single year. The recommended fees identified herein are either at or less than full cost recovery.

Discussion

A cost allocation plan is a comprehensive study that determines the fair and equitable allocation of the cost of the City's central administrative functions: city administration, finance, human resources, city clerk, and city attorney. The study will analyze each function, determine its cost, and develop the appropriate allocation basis necessary to distribute costs to the receiving operating departments within the City. The study has determined a cost allocation plan rate of 19% to ensure central services department costs are appropriately allocated to the operating departments.

The primary purpose of a CAP is to provide a fair and defensible document that clearly outlines

the support provided to general fund and non-general fund sources from central service departments. The results of a CAP are typically considered a more transparent and justifiable methodology for establishing transfers from non-general fund sources, as well as outlining indirect costs for inclusion in cost-of-service (user fee and development impact fee) studies. A CAP analyzes the annual support provided by central service departments. Department and city-specific metrics are then used to validate the support from central service departments to all sources. The methodology to develop a CAP follows guidelines set by the Office of Management and Budget (OMB) and Generally Accepted Accounting Principles (GAAP). A more detailed explanation of the methodology used to develop the CAP can be found in the full report.

In addition to collecting the direct cost of labor and materials associated with processing and administering user services, it is common for local governments to recover support costs. Support costs relate to a local government's central service departments that are properly allocable to the local government's operating departments. Central services support cost allocations were derived from the City's Cost Allocation Plan. As labor effort and costs associated with the provision of services fluctuate over time, a significant element in the development of any fee schedule is its flexibility to remain current.

Therefore, it is recommended that a comprehensive review of the models utilized to develop the Cost Allocation Plan be reviewed, modified, and updated as appropriate every three to five years. This comprehensive study should identify direct and indirect costs to ensure the City is not overcharging for services in compliance with Proposition 218 and Government Code 66016 or undercharging for services rendered. Additionally, an approved Cost Allocation Plan is required to allocate overhead costs to projects/programs funded by federal and/or state grants.

Fiscal Impact

Funds were budgeted in the FY23-24 Annual Operating Budget.

Attachments

Attachment 1 - Cost Allocation Plan