

# AB 6475

## Cost Allocation Update

May 21, 2024



# Agenda

1. Background into Cost Allocation
2. Focus for the 2024 Update
3. Ad Hoc Committee
4. Questions

# Cost Allocation in Mercer Island

- ❑ Spread indirect costs to the City funds or programs that benefit from those services.
  - ❑ *Ex: HR, Legal, Finance indirectly support Marine patrol.*
- ❑ Long-standing practice in Mercer Island.
- ❑ Good management to review costs allocation every 5-7 years.

# Cost Allocation Update

- ❑ Evaluated best practices from GFOA, SAO, and MRSC.
- ❑ Compared basis for allocating costs among peer cities.
- ❑ Finance Ad Hoc Committee helped oversee 2024 update:
  - ❑ Reviewed indirect services and costs.
  - ❑ Improved the basis of allocating indirect costs.
  - ❑ Drafted policy to guide efforts here forward.

# Cost Allocation Update

## Goals for the new Cost Allocation Policy:

1. Accurately calculate the fully burdened cost of public services.
2. Equitably allocate indirect costs & use internal service data.
3. Maintain the basis for allocating costs & keep the process reasonable.

# Internal Services

**Eight overhead groupings with updated basis to allocate costs.**

1. Legal
2. Administration & Leadership
3. Human Resources
4. Payroll
5. Finance & Accounts Payable
6. Communications
7. General Liability Insurance
8. Facilities

# Cost Allocation Example

OVERHEAD GROUPING	BASIS OF ALLOCATION	COST CENTER	
		Marine Patrol <i>External Program</i>	Street Fund <i>Allocable Fund</i>
Finance & Accounts Payable	<b>% of prior year budget</b>	0.82%	4.95%

## 2023 charges for financial services to two cost centers

- ❑ Marine Patrol program charged \$9,436.
- ❑ Street Fund charged \$57,271.

# Cost Allocation Benefits

- ❑ Promotes transparency and fairness in budgeting.
- ❑ Provides continuity across biennial budgets.
- ❑ It ensures City programs, external services, operating departments, and/ or allocable funds are assigned resources based on actual needs.
- ❑ Strengthens the City's financial position and service levels.



# Next Steps

- ❑ Cost allocation well established for internal operations.
- ❑ Updated practices will be phased into interlocal agreements.
- ❑ Communications underway updating partner jurisdictions who contract City services.

# Staff Recommendation

Adopt Resolution No. 1660 amending the City's Financial Management Policies to adopt the Cost Allocation Plan Update for 2024.

# Questions

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