



**BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND**

**AB 6475
May 7, 2024
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 6475: 2024 Update to the City’s Cost Allocation Plan	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution
RECOMMENDED ACTION:	Adopt Resolution No. 1660 amending the City’s Financial Management policies to adopt the Cost Allocation Plan update for 2024.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director Robbie Cunningham Adams, Management Analyst to the City Manager
COUNCIL LIAISON:	Salim Nice Craig Reynolds Wendy Weiker
EXHIBITS:	1. Resolution No. 1660 2. Red-line Financial Management Policies with 2024 Cost Allocation Plan Update
CITY COUNCIL PRIORITY:	4. Focus efforts and actions to be an environmentally and fiscally sustainable, connected, and diverse community.

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

The purpose of this agenda bill is to introduce for City Council review and adoption an update to the City’s Financial Management Policies to include a Cost Allocation Plan.

- A goal outlined in the 2023-2024 Biennial Budget Work Plan included a comprehensive review and update to the approach used to assign direct and indirect expenses to the departments, projects, funds, or other cost centers that benefit from them, referred to as “cost allocation.”
- In 2023, staff compared established best practices and recently adopted procedures in neighboring cities with long-standing approaches to allocate costs in Mercer Island.
- In early 2024, the City Council Ad Hoc Finance Committee met with staff to review findings and discuss potential process improvements.
- The result of these efforts is the newly drafted Cost Allocation Plan, Appendix B in the City’s Financial Management Policies (see Exhibit 1). A redline version of the revisions is included in Exhibit 2.
- The Cost Allocation Plan provides clear direction as to why allocating costs is important and how to effectively and efficiently do it. It creates continuity, promotes transparency in budgeting, and ensures City programs and operating departments are allocated resources based on actual needs.

BACKGROUND

An established budgeting best practice in local government involves spreading the costs of internal services, such as attorney services, finance, and human resources, to the various City funds and programs that benefit from those services. This practice is referred to as “cost allocation.”

Cost allocation is a long-standing practice in the City of Mercer Island. Every year, the Finance Department uses a systematic approach to assign direct and indirect or “overhead” expenses to the departments, projects, funds, or other cost centers that benefit from them.

In 2023, staff from the City Manager’s Office and Finance Department set out to update the City’s cost allocation methodology, a goal outlined in the 2023-2024 Biennial Budget. Staff evaluated best practices from the Government Finance Officers Association (GFOA), Washington State Auditor’s Office, and the Municipal Research and Services Center (MRSC). Long-standing practices used in Mercer Island were compared to similar cities with recently updated Cost Allocation Plans.

In early 2024, the City Council Ad Hoc Finance Committee met with staff to review findings and discuss potential process improvements. Between January and March, Mayor Nice, Councilmember Reynolds, and Councilmember Weiker met with staff to provide feedback and help shape the Cost Allocation Policy update.

The result of these combined efforts is the Cost Allocation Plan, Appendix B of the Financial Management Policies (see Exhibit 1).

ISSUE/DISCUSSION

The Cost Allocation Plan, as presented, will exist separate from the biennial budget, and will be reviewed and updated as required or at minimum, every five to seven years. The framework for the new Cost Allocation policy is as follows:

- Accurately calculate the full cost of providing public goods and services.
- Establish an equitable way to identify and allocate indirect costs.
- Maintain the basis for allocating direct and indirect costs that is reasonably implementable and does not require excessive staff time or outside support to maintain and update.
- Ensure alignment of user fees with actual costs to ensure cost-recovery goals are met and fees are updated annually in the Master Fee Schedule.
- Monitor and evaluate data related to internal services, informing City leadership on how best to distribute overhead resources.
- Ensure accurate pricing for services provided externally.

The Cost Allocation Plan provides consistency and continuity across biennial budgets and promotes transparency and fairness in budgeting. It ensures City programs, external services, operating departments, and/ or allocable funds are assigned resources based on actual needs. It also supports ongoing work to strengthen the City’s financial position and service levels overtime.

RECOMMENDED ACTION

Adopt Resolution No. 1660 amending the City’s Financial Management policies to adopt the Cost Allocation Plan update for 2024.