



Indirect Cost Allocation Plan

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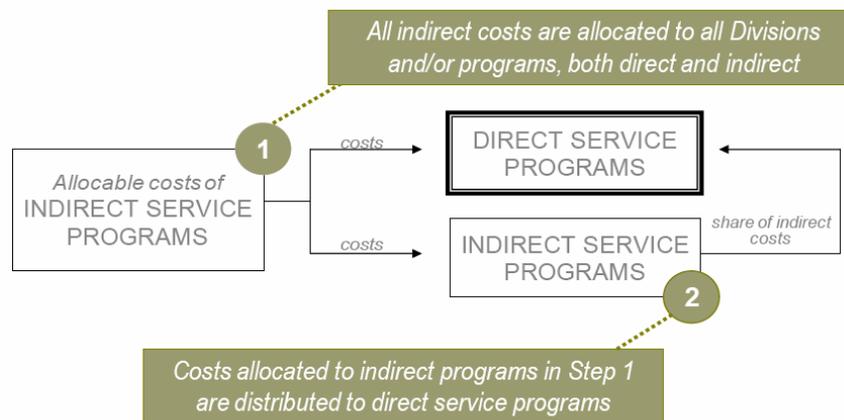
Indirect Cost Allocation Plan

1. INDIRECT COST ALLOCATION METHODOLOGY & SUMMARY

Overview

The methodology used for the indirect cost allocation plan involves a two-step approach. This approach is shown in Exhibit 1. The first step is the primary allocation of Citywide indirect costs to all departments, including those departments that provide indirect or support services. This step assures that the full cost of the indirect services is being allocated. The second step is a secondary allocation that takes the indirect service departments' share of those primary allocated costs and reallocates those costs to the direct service departments.

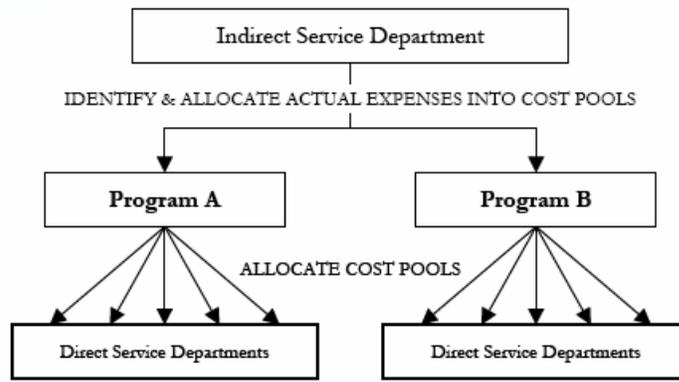
Exhibit 1
Example of Two Step Methodology



The first step in the cost allocation process is to identify the departments that provide indirect or support services to the direct service departments. In this step, the expenditures for an indirect service (overhead) department are grouped into various cost pools that are referred to as "program areas". The expenditures in these cost pools are reviewed, and costs not appropriate for allocation are removed. These resulting cost pools are ultimately allocated as overhead to the City's direct service departments.

The second key step is to identify how each cost pool or program area should be allocated to the departments using the services. Working with representatives from the City, the allocation basis for each program area was established. The cost pool process is portrayed in Exhibit 2.

Exhibit 2
Description of "Cost Pool" Methodology



Once the program areas and allocation bases are defined, the costs are then allocated to the departments using the primary allocation and then the secondary allocation processes. The first step is the primary allocation where all departments, including the indirect service departments, receive a share of the indirect costs. For example, Human Resources' cost is allocated based on each department's full-time employees (FTEs). Thus, if a direct service department has 10% of the total FTEs at the City, it would receive 10% of Human Resources' costs in the primary allocation. The secondary allocation process reallocates the indirect service departments' share of the primary allocations. Using the same allocation factors, a direct service department's share of a secondary allocation is based on its share of the allocation factor compared to only the other direct service departments. For example, where a department might have 10% of the total FTEs in the City, it might have 15% of the total FTEs for direct service departments. The 15% figure would then be used in the secondary allocation to distribute Human Resources' share of the primary allocation.

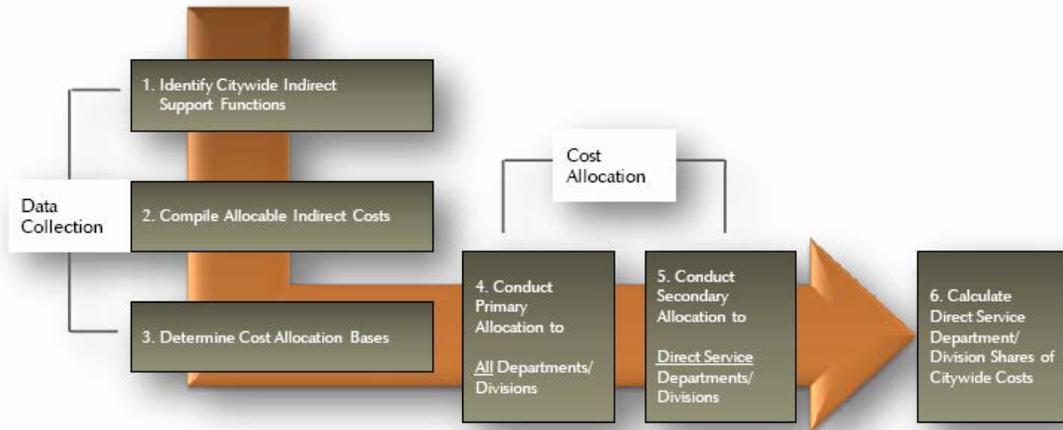
Based on these principles, the Indirect Cost Allocation Plan identifies the annual cost of Citywide overhead for each of the City's direct service departments and funds. This plan can also be used to identify annual allocations and interfund transfers necessary to reimburse the City's General Fund.

Technical Steps

The analysis of the City's indirect costs for the Indirect Cost Allocation Plan followed a series of technical steps to identify the total costs and resources used to support direct services. Exhibit 3 shows an illustration of the technical steps involved in the Indirect Cost Allocation Plan.

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**Exhibit 3
Indirect Cost Allocation Steps**



2. INDIRECT COST ALLOCATION STEPS

Step 1: Identify Citywide Indirect Support Functions

The first step in developing the Indirect Cost Allocation Plan was to determine which departments provided support services for the City and what type and level of support they provided. City staff identified the following department and functions that provide the Citywide support services. The identified indirect services included the following departments and program areas:

Exhibit 4

Citywide Indirect Cost Pools (Primary & Secondary Allocations)	
Dept #	Department Name - Division Name - Function Name
05	City Council
15	Mayor
20	City Administrator
28	Human Resources
30	Finance - Budget, Accounting and Cash Management
35	Legal - Legal Advice and Support
38	Development Services
45	General Governmental

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These indirect services are provided to the following City direct service departments and funds:

Exhibit 5

Direct Service Departments	
Dept #	Department Name - Division Name - Function Name
10	Judicial
15	City Attorney – Prosecution
50	Police and Animal Control
55	Fire / EMS
70	Parks and Recreation
75	Library
FD 2-6	Miscellaneous General Fund
FD 101	Street Fund
FD 104	Arterials
FD 105	Transportation Capital Improvement
FD 106	Paths & Trails Fund
FD 115	Art Acquisition Fund
FD 116	Lodging Tax Fund
FD 125	Neighborhood Park Fund
FD 126	Community Park Fund
FD 129	Senior Center Fund
FD 201	1996 Public Safety Bond
FD 230	2008 LOCAL Fire Bond
FD 311	1st 1/4% REET Fund
FD 312	2nd 1/4% REET Fund
FD 320	Municipal Pier Fund
FD 325	Waterfront Redevelopment Fund
FD 401	Water Fund
FD 402	Wastewater Fund
FD 403	Solid Waste Fund
FD 404	Storm & Surface Water Fund
FD 410	Marina Fund
FD 501	Equipment Rental Fund
FD 502	Equipment Replacement Fund
FD 505	Technology Fund
FD 510	Facility Fund

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The associated overhead costs for these services represent a portion of the full cost of providing direct services to the public. Consequently, by allocating the Citywide overhead costs, a pro rata share of those costs can be included in any fee calculations, and/or be included in overhead rate calculations.

Step 2: Compile Allocable Indirect Costs

The costs associated with the indirect services, such as Finance, City Clerk, City Attorney, etc., are identified.

Step 3: Determine Cost Allocation Factors

To allocate overhead costs in the primary and secondary allocation processes, specific allocation factors or workload measures are identified that were representative of the level of support services received by a department or fund. For example, the number of employees per department correlates to the relative share of costs associated with Human Resources. Allocation factors may change from year to year depending on actual experience. However, to assure consistency in future updates and to provide for relative easy data gathering, workload measures should use data that are already collected on a regular basis or are easily generated when needed. Exhibit 6 shows the indirect service departments and the allocation factor used to distribute the costs to the various direct services.

Exhibit 6

Citywide Indirect Cost Pools (Primary & Secondary Allocations)		
05	City Council	FTE & Budgeted Expenditures & Agendas
15	Mayor	FTE & Budgeted Expenditures & Agendas
20	City Administrator	Budgeted Expenditures & FTEs
28	Human Resources	Number of FTEs
30	Finance Department:	
	Accounts Payable	Number of invoices processed
	Utilities Office	Number of Utility Accounts
	City Clerk	Number of Agendas
	Accounting	Budgeted Expenditures
35	Legal - Legal Advice and Support	FTE & Budgeted Expenditures & Agendas
38	Development Services	Development Services Time Sheets
45	General Governmental	FTE & Budgeted Expenditures & Agendas

Step 4: Conduct Primary Allocation to All Departments/Funds

The primary allocation distributes the total allocable overhead costs to all the departments and funds based on the allocation factors described in Step 3. As a result, even the overhead departments such as the Finance Department, Human Resources, City Manager, etc. receive a share of their own costs as well as a share of the other overhead costs. Overhead departments and support activities are often major users of each other's services, and by allocating to them a share of the overhead costs, the full cost of the services can be established.

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Step 5: Conduct Secondary Allocation to Direct Service Departments

To redistribute the support costs assigned to the overhead departments, a secondary allocation is necessary. The secondary allocation assures that the full costs of support activities are assigned to the direct service departments and funds.

Step 6: Calculate Direct Service Department/Fund Shares of Citywide Costs

The totals from the primary and secondary allocations for the direct service departments/funds were added together to establish each department's or fund's full share of overhead costs.

3. DESCRIPTION OF INDIRECT SERVICE DEPARTMENTS AND ALLOCATION FACTORS

The following are brief descriptions of each of the indirect service departments and program areas that are included in the plan and of the allocation factors used to distribute their costs.

City Council

The City Council meets regularly to consider land use applications, approve expenditures of funds, set employment and personnel policies, and set public policy for the community, with the primary criteria being the safety, health, and general welfare of the community. Costs are allocated 12.5% by the number of FTEs, 12.5% by budgeted expenditures, and 75% using the total number of Council agenda items for each department or fund.

Mayor

The Mayor is the chief executive officer of the City and is directly responsible for planning, organizing, and directing all activities of the City. Costs are allocated 12.5% by the number of FTEs, 12.5% by budgeted expenditures, and 75% using the total number of Council agenda items for each department or fund.

City Administrator

The City Administrator is directly responsible to the Mayor for the day-to-day operations of the City. The City Administrator deals primarily with issues involving the management of personnel and the initiation of those operational and project components of the City's adopted biennial budget. Costs are allocated 50% by the number of FTEs, and 50% by budgeted expenditures.

Human Resources

The Human Resources Department provides all services related to personnel, risk management, benefits administration, and labor negotiations for the City. The costs of insurance were excluded because it is

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anticipated that they will be charged to departments through a different plan. The remaining costs were allocated using total number of FTEs.

Finance Department

The Finance Department provides financial, budgetary, accounting, payroll, City Clerk, and bill paying services to all City funds. The Finance Department costs are allocated on a two-tier methodology. The first level of allocation is the assignment of Finance Department personnel to one of the four core service areas provided to other funds. Of the 10 members of the Finance Department, 1 staff member (10%) is allocated to accounts payable/payroll processing, 4 members (40%) are allocated to budget and accounting, 4 members (40%) are allocated to cash receipting and phone support, with the remaining 1 member (10%) assigned to City Clerk functions. The accounts payable/payroll function (10% of department costs) is allocated 50% by FTEs and 50% by the number of accounts payable invoices. The budget and accounting function (40% of department costs) is allocated by budgeted expenditures. The cash receipting and phone support function (40% of department costs) is allocated 25% to the number of utility accounts, 25% to the number of phones, and 50% by the number of cash transactions processed. The City Clerk function is allocated by the number of agenda bills assigned to each fund or department.

Legal Department

The Legal Department provides a variety of professional legal services to the Council, staff, and boards and commissions of the City. These services include the preparation and review of various legal documents, legal research and opinions on federal, state, and local, personnel laws, court decisions, attendance at various meetings, and prosecution in the Municipal Court. The costs for the prosecution laws in the Municipal Court and appearing before the hearing examiner have been excluded because they represent direct services to the public. Costs are allocated 12.5% by the number of FTEs, 12.5% by budgeted expenditures, and 75% using the total number of Council agenda items for each department or fund.

Development Services

Development Services provides ongoing implementation and refinement services of the community's Comprehensive Plan and its related development regulations and design standards. To ensure that the vision becomes a reality, staff conscientiously applies and administers the City's development regulations to public and private development projects. The costs associated with the Building Services Division are excluded from this plan. In addition, costs that are reimbursed by grant monies are excluded.

While development related services are not typically allocable for the purposes of this plan, Development Services staff do work as project specialists for specific utility and street projects. During these times, the department maintains specific individual time sheets used to record actual time spent on these ad hoc projects. The number of hours identified as being spent on these projects is divided by

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the total number of department hours worked during the year in order to set a percentage of allocable time.

General Governmental

The General Governmental department is responsible for those costs not directly attributable to a specific fund or department. These general overhead type costs are only allocated to the extent that each fund benefits from those services. Many costs of the General Governmental department are general government service cost related and, therefore, are not allocated. Examples of these excluded costs are voter election costs, National League of Cities and Association of Washington Cities dues, pollution assessment charges, and subsidies to specific funds.