

SEP 21 2009

FINANCE OFFICE



Finance Committee Agenda Report

Meeting Date: September 22, 2009

TO: Finance Committee

FROM: Administrative Services Director (896-7204)

RE: Monthly Report on Questions and Answers Regarding City Finances

At the February 24, 2009, Finance Committee meeting, members of the public inquired how the City could accommodate a request that all questions to and answers from staff related to City finances be made available to the general public. The City Manager indicated that all questions should be directed to him and that he would then forward to the appropriate staff for a response, with all questions and answers to be included in the Reports and Communications section of the next scheduled Committee meeting and posted to the City's website. At its meeting on March 24, 2009, the Committee established the deadline for communications that would be included in the report as the second Tuesday of each month. Questions answered after that day will be included in the following month's report.

Because the August 25, 2009, Finance Committee meeting was cancelled, the report below covers inquiries over a two-month period that were answered as of September 8, 2009. The questions and answers are set forth on the attached Exhibit "A."

Report Covering Inquiries for the Period 07/15/09 Through 09/08/09

Name	Subject	Date of Initial Request	Date of Final Response	Response Preparation Time
Stephanie Taber	Indirect Cost Allocations	07/17/09	07/28/09	1 hour
Stephanie Taber	Revenue Projections	08/12/09	08/13/09	10 minutes

Prepared by:

Cindy Pierce

Cindy Pierce, Administrative Services Director

Approved by:

David Burkland

David Burkland, City Manager

DISTRIBUTION:

City Clerk (16)

Finance Director (w/electronic copy to post to website)

ATTACHMENTS:

Exhibit "A"

FILE: D-11-1-5

Exhibit "A"

Summary of Questions and Answers Regarding City Finances Inquiries for the Period 07/15/09 Through 09/08/09

A. Inquiry from Stephanie Taber on 07/17/09 and response from Finance Director:

Question: The definition of Indirect Cost is: A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned, such as administrative support, facility maintenance or custodial services. The list provided below is specific in the amounts that were transferred into Fund 001. Please provide the breakdown of each amount listed for each fund transfer in the context of the above definition; e.g. of the \$58,789 transferred from Transportation (Fund 212) how much (in dollar amounts) was administrative support, facility maintenance, custodial services or whatever else dictated that transfer back into the Gen & Park Fund in order to assure the expenditure realized outside the fund was "captured" and "returned". Hopefully I have made the question specific enough to get an answer that a non-governmental employed person can readily understand.

Answer: The City's Cost Allocation Plan is one of the most complex financial models we have, unfortunately, so I've summarized it the best I can for you. I wanted to provide some explanation as to how a Cost Allocation Plan is created, why it is so complex, and why the City uses such a plan.

A Cost Allocation Plan is created to determine the fair and accurate distribution of City administrative costs to the benefitting operating departments. In order to properly (and in some cases, legally) recover General Fund administrative costs from other funds, the City must have a method of identifying and distributing administrative costs that is comprehensive, well documented and fully defensible. The creation of a Cost Plan is a lengthy, detailed process, however the basic concept includes the following steps:

- 1) Identify all central service (administrative) departments to be allocated
- 2) Classify all of the various functions performed by each allocated department
- 3) Determine the allocation basis for each function within each department
- 4) Determine the benefitting/receiving departments of these central service functions
- 5) Build an analytical model to include the data and/or statistics on which the functions will be allocated
- 6) Calculate and interpret results of the analytical model by department and by fund

The complexity of such a model comes in to place from step #2-3 above. I'll use the Finance department as an example. Within the Finance Dept, each separate function (ie. payroll, accounts payable, financial reporting, budget administration, debt management, etc.) has been identified and assigned a % of the overall Finance Budget, by approximating the % of time of each employee spent on each function. The cost of each function is then calculated and the basis for which these costs will be allocated is determined. The most straight-forward example of an allocable function within Finance is that of Payroll. The Cost Allocation Plan model calculates the cost of administering Payroll for all employees, then allocates these costs based on the number of payroll checks issued per department (as determined in #3 above). The model then allocates the associated dollars to each department that receives the "benefit" of the payroll function. The Cost Plan model does this for each and every function within each central service department. The departments that are considered "central service" include City Council, City Clerk, City Management, City Attorney, Risk Management, Human Resources, Finance, Treasury, Central Garage/Fleet & Building/Facilities.

Cities utilize two types of Cost Allocation Plans. One, known as a Full Cost Plan, which follows the same steps noted above. The other type of plan is known as an OMB A-87 Plan, and it is a subset of a Full Cost Plan that is required by the Federal Government in order to recover indirect costs from a Federally-funded program/grant. The City of Chico has a Full Cost Plan in place right now, and is in the process of updating both the Full Cost Plan and the A-87 Plan.

B. Inquiries from Stephanie Taber on 08/12/09 and response from Finance Director:

Question: Since the quarterly (1st & 2nd quarter) sales tax figures for calendar year '09 are reported after the City has already closed its books for the 08-09 fiscal year, what makes up the "actual" amount reported in the budget? If the figure is less than was projected how is that reconciled.? Does it effect the 09-10 budget?

Answer: The City has an extended accrual period for Sales Tax revenue so that we can accrue the 2nd Quarter (April-June sales) payment back to the correct fiscal year. So, when we receive the payment from the State Board of Equalization in mid-September, we will book the appropriate amount back to FY2008-09. Therefore, the "actuals" represent the sales tax revenue received for sales occurring between July 2008 through June 2009. If the actuals come in less than budgeted, then the shortfall is offset by any other revenues that came in over budget, or by available fund balance. If the shortfall is significant, and the projections for FY09-10 are impacted, then we would present a Supplemental Appropriation to the City Council requesting an adjustment to the FY2009-10 Budget for Sales Tax revenue.

Question: The ER reported that there will be a reduction of \$ 8.4 million in property tax collection based on reassessments. Do we (City) know now how much that reduction will be and in which fiscal years it will effect the City?

Answer: Regarding the re-assessments, I have been in contact with the County Assessor's Office over the past several months to get as much information as possible so that we can reflect the potential reductions in our Property Tax Revenue budgets. The exact impact on the City is not yet known, as the numbers they report are Countywide figures. We've factored in a decline of 2.5% in these specific Property Tax line items for FY2009-10 to account for the re-assessments.

Question: Also can you let me know when the 09-10 budget book will be available for purchase and the cost?

Answer: The Final FY09-10 Budget binder should be available in a few weeks, and the cost will be \$70 per copy.