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DEPARTMENT OF
FINANCE

BUDGET, POLICY AND STRATEGIC
PLANNING

CITY OF SACRAMENTO
CALIFORNIA

730 I STREET, STE. 215
SACRAMENTO, CA
95814

PH. (916) 808-8788
FAX (916) 264-5755

February 12, 2003

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: INDIRECT COST PLAN REPORT BACK

LOCATION AND COUNCIL DISTRICT: All

RECOMMENDATION:

This report is for information only.

CONTACT PERSON: Reina Schwartz, Budget Manager, 808-7195
Mark Griffin, Senior Management Analyst, 808-8788

FOR COUNCIL MEETING OF: February 18, 2003

SUMMARY:

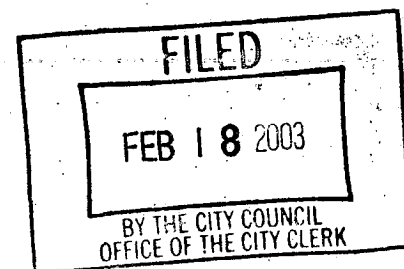
In August of 2002, Council awarded a consultant contract for the evaluation and assessment of the public facilities project delivery process of the City. The consultant report is scheduled for Council March 4, 2003. Council also requested that prior to the presentation of the consultant report, staff report back on why the City charges staff time to projects, how this is done and whether projects are consistently charged. This report back addresses these questions. The consultant report will address the appropriateness of the charges as well as the other issues associated with the project delivery process.

COMMITTEE/COMMISSION ACTION:

None.

BACKGROUND:

The City of Sacramento uses an Indirect Cost Plan to identify and to reimburse the cost of support services. The Plan annually identifies the cost of support services for each of the three project delivery divisions of the City – in Parks, Public Works and Utilities. Projects all have costs that include the staff directly working on the project as well as all the supporting



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costs necessary to make the staff available for the project: the building; the division support staff, department administration, and central support functions including Council, the City Manager, Purchasing, Human Resources and Budget. The Indirect Cost Plan allocates the costs of these support services to the divisions directly managing the project. These allocated costs are then budgeted as reimbursements through the annual budget process.

The allocation of indirect costs and their reimbursement through an Indirect Cost Plan is a commonly used methodology used by governments for all projects and services. The methodology is also sanctioned and certified by the State and Federal governments for indirect cost reimbursements on grants.

The Plan is also a policy document of the City of Sacramento that represents policy decisions on how projects are to be funded and charged. The allocation of support costs:

- discloses the true cost of projects
- allows comparisons between City costs and the private sector
- supports fees for service.

Charging to reimburse costs provides funding for legitimate costs and eliminates the need to fund these costs from other sources. In the General Fund for Fiscal Year 2002/03, \$9.4 million is budgeted for reimbursements from capital projects. A modification to the current practice of actual reimbursements would require that resources be provided from elsewhere, that costs be reduced, or both.

There are two areas in which the City has chosen not to apply indirect reimbursements. These are projects funded from Community Development Block Grant funds and Tax Increment funds administered by the Sacramento Housing and Redevelopment Agency.

FINANCIAL CONSIDERATIONS:

The Indirect Cost Plan is an integral part of the City of Sacramento's budget. Cost reimbursements are budgeted annually and a key element in the 5-Year General Fund forecast. In Fiscal Year 2002/03, capital projects are budgeted to reimburse \$9.4 million to the General Fund.

ENVIRONMENTAL CONSIDERATIONS:

None

POLICY CONSIDERATIONS:

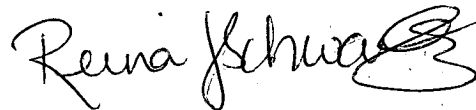
The information provided in this report has a specific bearing on the methods used to fund capital projects. As such, this information is consistent with several goals of the City's 2001-2004 Strategic Plan, including (1) Enhance and Preserve the Neighborhoods, (2)

Promote and Support Economic Vitality and (3) Preserve and Expand the Arts and Culture, Open Space, Urban Forest, Parks and Recreation Opportunities.

ESBD CONSIDERATIONS:

This report is for information only. Therefore, ESBD considerations do not apply.

Respectfully submitted,



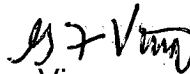
Reina Schwartz
Manager, Budget, Policy and Strategic
Planning

RECOMMENDATION APPROVED:



ROBERT P. THOMAS
City Manager

APPROVED:



Gus Vina
Director of Finance

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Today's Objectives

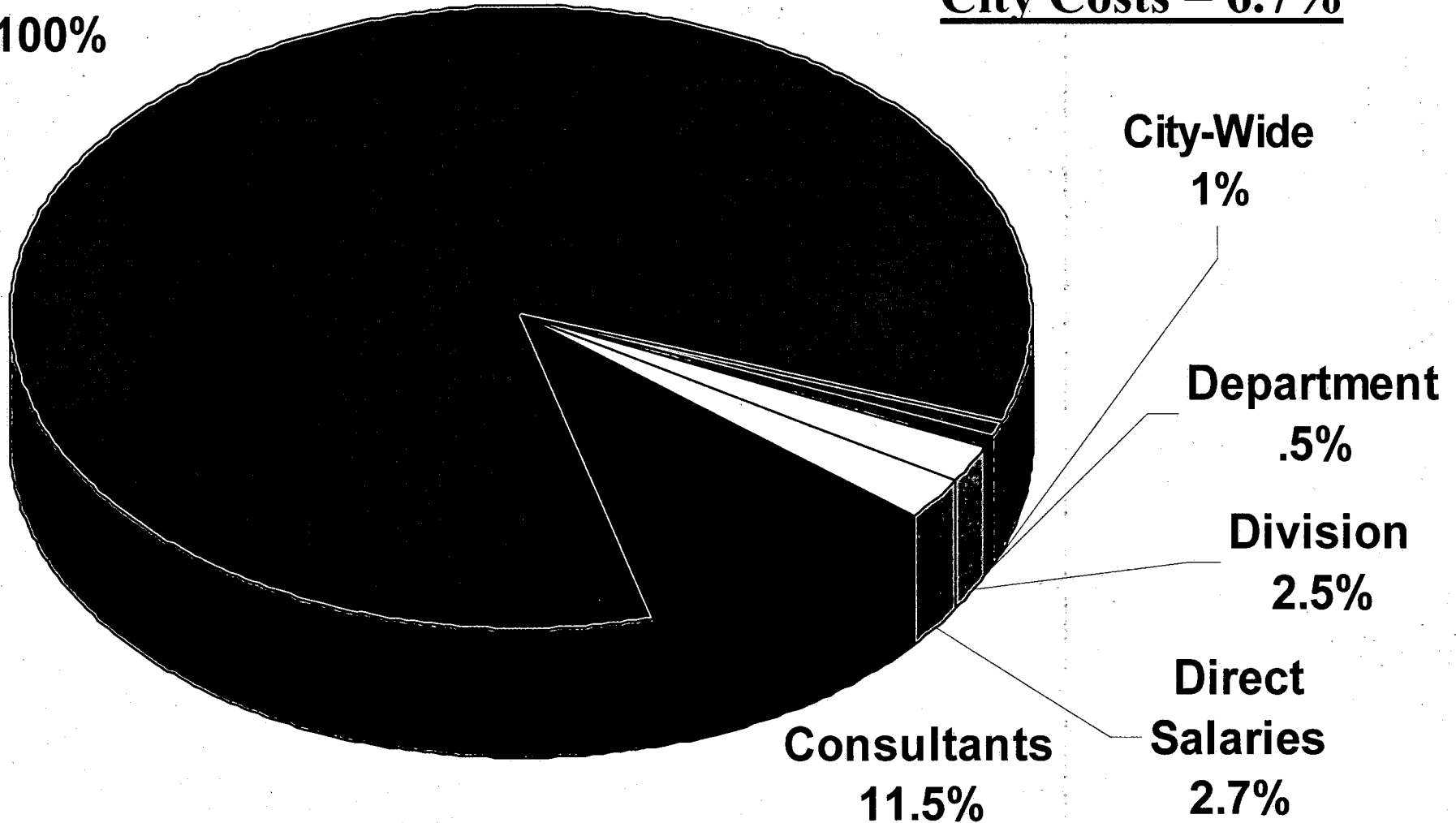
- Report Back at Council's Request
- Why are projects charged City costs?
- Do we always charge?
- Information Only
- Project Delivery Assessment on March 4

Average Project

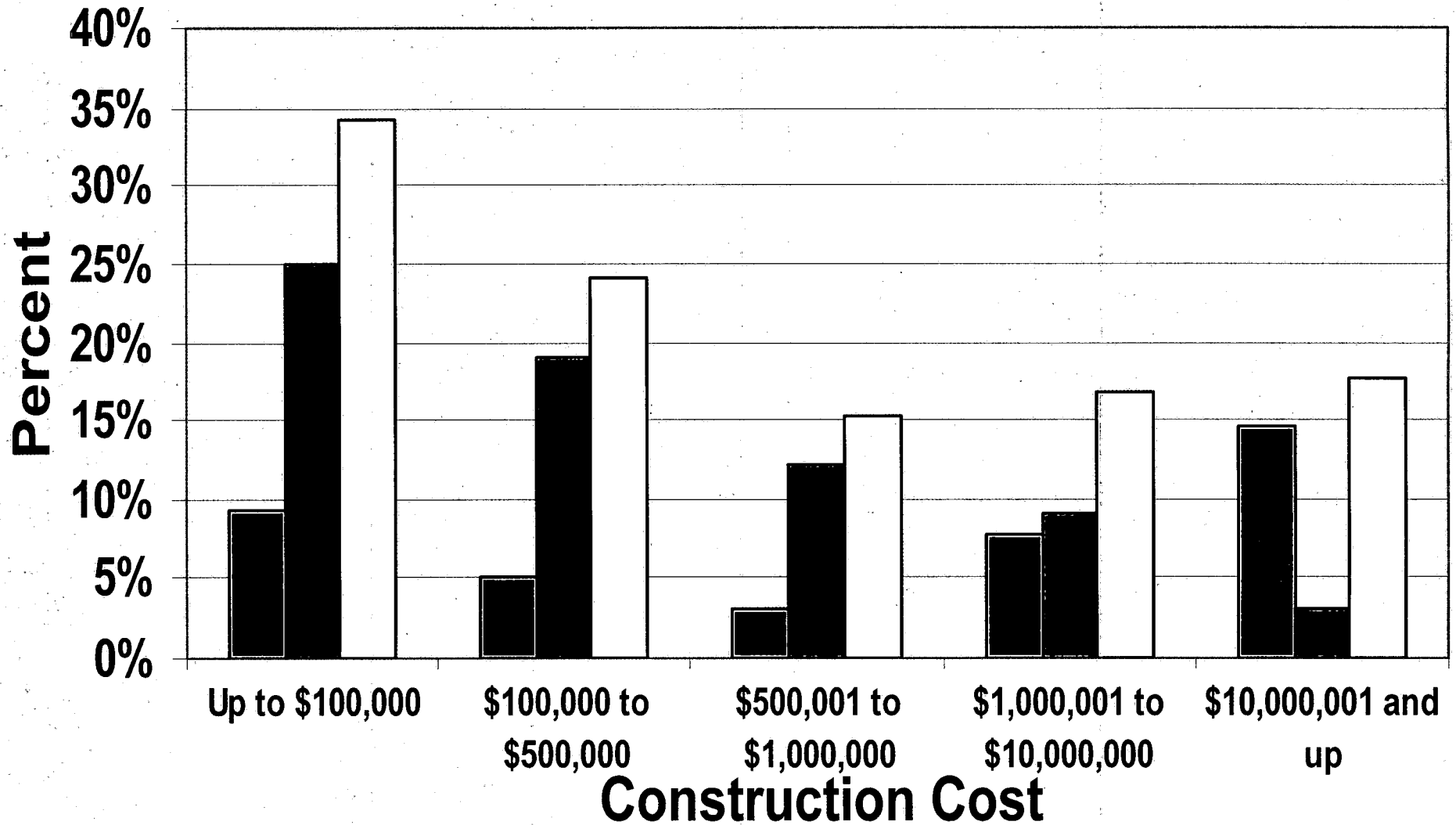
Average Project Cost \$1.7 Million

Construction
100%

City Costs = 6.7%



Delivery Costs as Percent of Project Costs



■ Consultants ■ City Costs □ Total Delivery Cost

Why We Charge City Costs

- To measure and disclose full project costs
- To reimburse legitimate costs

City Costs Reimbursed From Projects FY03

Public Works	\$7.8 million
Parks	<u>\$1.6 million</u>
General Fund	\$9.4 million
Utilities	<u>\$5.6 million</u>

How We Charge

- City Costs are identified annually through the Indirect Cost Report or Plan.
- Identifies City-wide, department, division and direct salary cost for every service delivery function in the City.
- Based on averages
- The most efficient method compared with real-time cost accounting.

Indirect Cost Plan

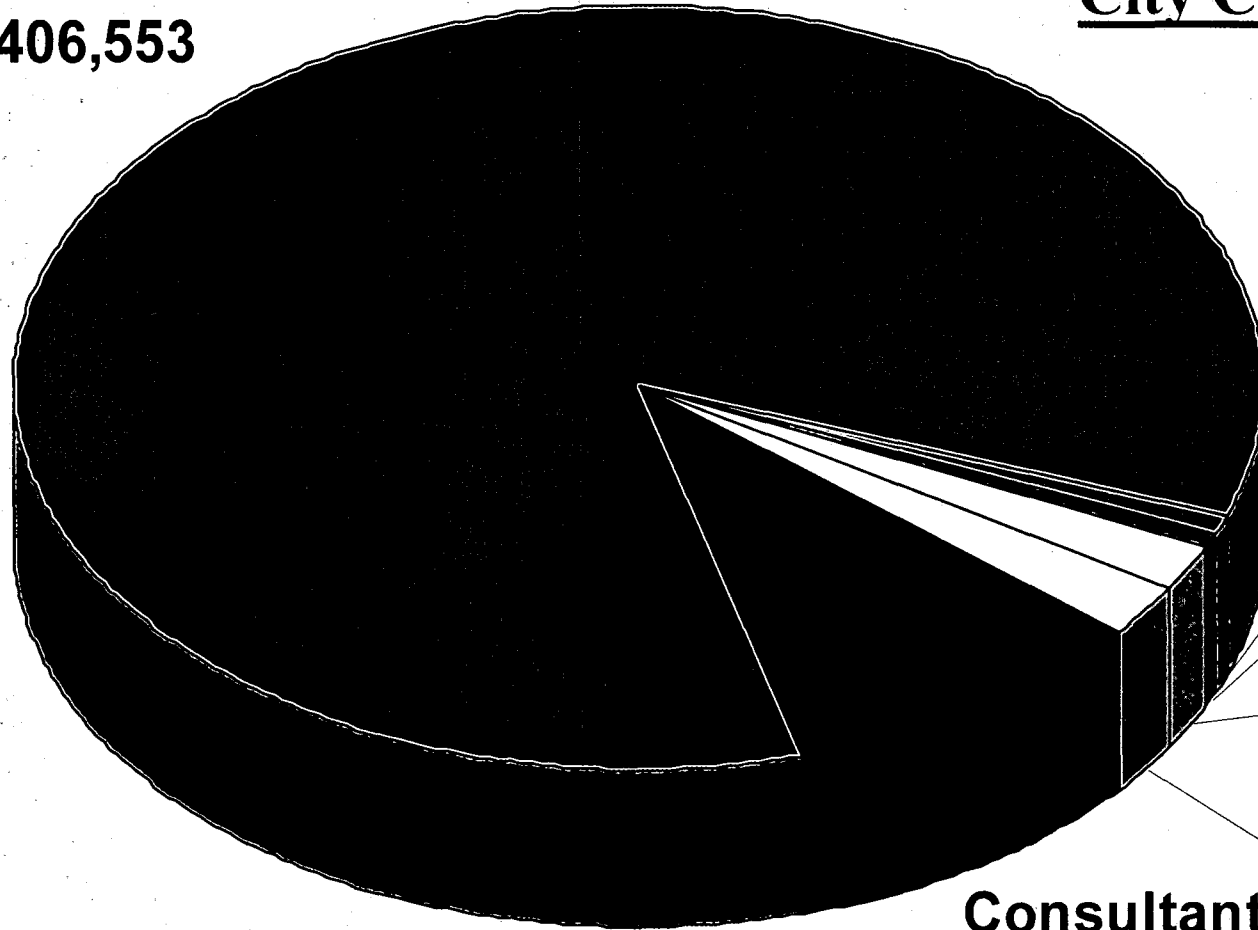
- An integral part of the budget
- 5-Year assumes project reimbursements

Average Project

Average Project Cost \$1.7 Million

Construction
\$1,406,553

City Costs = \$94,043



City-Wide
\$13,975

Department
\$7,176

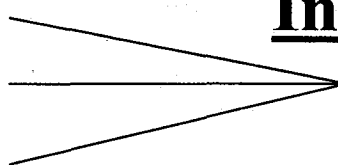
Division
\$35,424

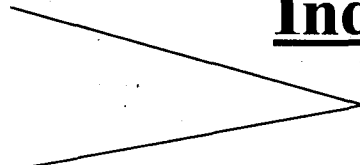
Direct Salaries
\$37,467

Consultants
\$160,657

Average Indirect Cost Rate

City Costs:

City-Wide	\$13,975		<u>Indirect Costs</u>
Department	\$7,176		\$56,576
Division	\$35,424		
Direct Salaries	\$37,467		

Indirect Costs	\$56,576		<u>Indirect Cost Rate</u>
Divided By			151%
Direct Salaries	\$37,467		

Example:	Hour Charged	\$30
	Indirect Charged	<u>\$45</u>
	Total Charged	\$75

Where Indirect Cost Rates Apply

- General Fund
- Transportation Funds
- Enterprise Funds
- Federal Grants
- Most State Grants
- Development Fee Funds
- Special Districts

Where Indirect Cost Rates Do Not Apply

- CDBG
- SHRA Tax Increment
- Propositions 12, 13 and 40 Grants
- Certain Other Grants

Indirect Cost Plan

- Represents policy decisions on how projects are funded and charged.

Recovery From Projects

Public Works \$7.8 million

Parks \$1.6 million

General Fund \$9.4 million

Utilities \$5.6 million

Project Delivery Assessment Report

- Scheduled March 4
- Will assess reasonableness of the Indirect Cost Plan/Rate
 - Internally
 - With other jurisdictions