

Task Order: 01-2018

Indirect Cost Allocation Study Update

1. Authorization to Proceed

The execution of this Task Order by the City of Key West, Florida (the “City”) or receipt of a purchase order for the compensation in the amount detailed in Section 6 will establish permission for Arcadis U.S., Inc. (“Arcadis”), and its subconsultant Raftelis Financial Consultants, Inc. (“Raftelis”) to proceed with the scope of work detailed herein.

The parties agree that the Task Order presented herein shall be performed based on the terms and conditions established in the Master Agreement to Furnish Financial and Other Consulting Service (“Master Agreement”) made effective May 2015 between the City and Arcadis.

2. Scope of Work

Arcadis and Raftelis will assist the City in completing an Indirect Cost Allocation Study Update that will include an analysis of General Fund costs to be allocated to Special Revenue and Enterprise Funds for provided services and support. The following General Fund departments will be analyzed to identify the allocable costs:

- | | |
|--------------------------|----------------------|
| • City Commission | • Community Services |
| • City Manager | • Engineering |
| • City Clerk | • Police Department |
| • Finance | • Fire Department |
| • Human Resources | • Building Services |
| • Information Technology | • Code Compliance |
| • City Attorney | • Port Operations |
| • Planning | • Parking |
| • Non-Departmental | |

Costs will then be allocated and distributed to the applicable Enterprise Funds and Special Revenue Funds, as well as the Internal Services Insurance fund and the Capital Projects Fund.

Special Revenue Funds:

- | | |
|------------------------------|------------------------------|
| • Infrastructure Surtax Fund | • Law Enforcement Trust Fund |
| • Internal Improvements Fund | • Bahama Village |
| • Fort Taylor Surcharge Fund | • Caroline Street TIF Fund |
| • Affordable Housing Fund | |

Enterprise Funds:

- | | |
|--------------------|-----------------------|
| • Sewer Fund | • Key West Bight Fund |
| • Stormwater Fund | • Transit System Fund |
| • Solid Waste Fund | • Garrison Bight Fund |

Task 1: Project Initiation and Management

We will facilitate a kickoff meeting with the City (held via teleconference) to confirm the scope, schedule, and approach outlined in this proposal. The purpose, scope of work, roles, responsibilities, coordination, and project timeline for completion of the study tasks will be discussed. During this

meeting, we will also discuss information needed to complete the study, which will be provided in memorandum format prior to the meeting. Finally, we will coordinate the project schedule with City staff in order to ensure that key milestone dates are met, as well as confirm our respective team member's roles and responsibilities and communication needs/protocols throughout the assignment.

Project coordination, resource allocations, invoicing and monthly project status summary information will be provided to the city on a monthly basis throughout the project.

Task 1 Deliverables

- Facilitation of Project Initiation Meeting
- Preparation of meeting minutes
- Monthly status summary and invoicing

Task 1 City Staff Resource Commitments:

- Attend Project Initiation Meeting

Task 2: Information Gathering and Review

We will prepare a preliminary data request for information necessary to complete the study. It is anticipated that the following information will be requested from the City:

1. Description of each department and division
2. Detailed General Fund expenditures (specifically for Non-Departmental)
3. Listing of personnel and personnel salaries for each department or fund. Identify position and percentage of costs that are paid directly from the Enterprise Funds.
4. Detailed organizational chart listing funds and personnel in each department
5. Line-item expenditure details by department and fund for FY2017 and FY2018 budget.
6. Summary of full-time equivalents by Department, Division, and Fund.
7. Summary of existing direct cost allocations by Department, Division, and Fund.
8. Number of annual purchase transactions by department and fund.
9. Number of revenue and expense transactions by department and fund.
10. Number of citywide IT user accounts, number of Enterprise accounts, and Enterprise systems supported by the General fund IT department.
11. Any prior personnel service analysis reports for finance, legal, IT, human resources, identifying percent of time spent on various activities. Example for finance personnel; percent of time spent on budget, financial reporting, accounts payable, cashing for utility payments, payroll, etc.
12. Number of legal staff hours spent by department, including approval of contracts, legal opinions, etc.
13. Square footage of building space occupied by department
14. Number of vehicles maintained by department.
15. Detailed description of internal service funds and how allocation of funds/departments are calculated.
16. Description of insurance funds and allocation of various funds in the City.

We will review, analyze, and incorporate this information into the General Fund Indirect Cost Evaluation upon its receipt, and have assumed that one iteration/version of this data will be utilized during the study. Following the receipt and review of the requested data, we will schedule and facilitate group and one-on-one interviews with selected personnel in order to further our understanding of current operational, direct,

and indirect cost allocation practices, to aid in selection of the most appropriate cost allocation approach to utilize for each General Fund function.

As part of our information gathering and review, we will hold interviews with key City employees (meetings anticipated to be held in City offices) in order to understand the services, both direct and indirect, that are provided by the City's General Fund. These interviews are anticipated to be held with the following City employees:

- Assistant City Manager
- City Clerk
- Finance representative
- Human Resources representative
- Information Technology representative
- City Attorney
- Planning Department representative
- Community Services representative
- Engineering representative
- Building Services representative
- Code Compliance representative
- Port Operations representative

We have assumed one trip to the City to facilitate interviews with City staff. If more than one visit to the City, or if additional work scope beyond the scope identified above is requested by the City, then we can provide this additional work as an amendment to this task order.

Task 2 Deliverables

- Data request memorandum

Task 2 City Staff Resource Commitments

- Provide requested data, as available
- Staff interviews with selected personnel over approximately a two-day period

Task 3 Develop Cost Allocation Plan

We will update the Excel-based model that was prepared as part of the work that was completed in 2015 for the City on its Cost Allocation Plan. Ultimately, this plan will identify the cost allocation method used to allocate indirect General Fund costs to the various enterprise, specific revenue, and internal services funds, and the costs resulting from such allocations. We will streamline the model to make it more user friendly, where possible.

Allocation Criteria

We will work with the City in validating and/or updating service provisions and cost categories for current City programs in order to prepare the update of the cost allocation plan. We will also review and update the allocation criteria to distribute costs among the City to determine those criteria (for example, the criteria used to allocate IT costs may be based on the number of computer or serves in each department). This will result in developing formulas that will be used in the model to distribute General Fund indirect costs. These formulas will be used for internal, inter-fund, enterprise, specific revenue, and external billing and/or costing processes. The cost allocation criteria will also consider approaches, such as payment-in-lieu-of-taxes (PILOT) payments for police and fire service, as well as service fees for the use of the City rights of way.

Two-Step Methodology

We will use a two-step allocation methodology in preparing the cost allocation plan that is in accordance with common industry practices. The first step will identify General Fund costs and categorize them into

direct and indirect cost categories. These costs will then be allocated proportionately to funds that benefit from the services. The second step will be to re-allocate costs that were allocated to central funds in the first step, to the remaining operating funds. The purpose of this approach is to appropriately allocate costs to the City's operating funds.

Cost Allocation Model Specifications

The cost allocation model update will allow for the modification of the model in the future by the City as necessary. The model will have the ability to adjust the cost allocations based on increases or decreases in future General Fund costs, and will have the ability to evaluate hypothetical future service enhancements and the ability to calculate the estimated costs of providing these future services.

Franchise Fee Review

We will compare franchise fees assessed to the City's Sewer, Stormwater, Solid Waste, Transit, Key West Bight, and Garrison Bight funds with franchise fees assessed by other municipalities in Florida. We will also research any case law regarding franchise fees that has been published since the last indirect cost study was completed in 2015 to determine whether there have been any recent legal case decisions that may have affected the franchise fee legal environment in Florida since the last study was completed. The results of the review will be included in the Cost Allocation Plan Report.

PILOT Review

We will gather assessed value information for the City's Enterprise Funds, as well as the current property tax assessment millage rate, and use this information to calculate an updated PILOT payment amount for the City's Enterprise Funds. The results of the review will be included in the Cost Allocation Plan Report.

Task 3 Deliverables:

- Draft Cost Allocation Plan (provided under Task 4)
- Copy of the Draft Cost Allocation Model (provided under Task 4)
- Approximately three (3) one-hour conference calls, as needed, to review and discuss questions and comments pertaining to the development of the preliminary cost allocation plan.

Task 3 City Staff Resource Commitments:

- Participate in conference calls, as necessary.

Task 4 Cost Allocation Plan Report

We will develop a written draft Cost Allocation Plan based on the results of the cost allocation model, and provide the draft plan and model to the City for review. This report will include a description of the cost allocation methodology, the rationale behind the allocation criteria used, a summary of the findings, and recommendations including alternatives where applicable. The draft plan will provide an executive summary of the major findings and graphical summarizations wherever applicable. The Cost Allocation Plan will include formulas for distributing indirect costs to operating funds.

We will submit a draft Cost Allocation Plan to City Staff for one round of review and comment. We will incorporate comments received by staff regarding the draft Cost Allocation Plan. Once all comments have been addressed, a final report will be prepared and provided to the City.

Task 4 Deliverables:

- Draft Cost Allocation Plan (electronic version)
- Final Cost Allocation Plan (up to five hard copies + electronic version)
- Cost Allocation model (electronic version)

Task 4 City Staff Resource Commitments:

- Review of the Draft Cost Allocation Plan.

3. City Responsibilities

The City will provide the necessary data and information to complete the scope of work in a timely manner, including Comprehensive Annual Financial Reports, budget details, fixed asset records, number of accounts payable transactions, resolutions & ordinances, purchase orders, full-time equivalent staff, and expenses by Department, vehicle maintenance labor hours, millage rates, and any other information that may be necessary to complete the work.

4. Schedule

It is anticipated that the work will be completed in an expedited time frame that corresponds with the City's budget adoption process, or on a schedule that is mutually acceptable to both Arcadis and the City.

5. Task Order Costs

We propose to compete the scope of work on a lump sum basis for a fixed fee of \$36,940. We will invoice the City monthly based on the percentage of the actual work completed.

The budget estimate for this Task Order is summarized below:

Description	Rate	Hours	Subtotal	Total
Arcadis - Contract Administration, Analysis Support, and Deliverable Review				
Project Manager	\$290.00	8	\$2,320	\$2,320
Principal Consultant	\$290.00	8	\$2,320	\$2,320
Senior Consultant	\$180.00	16	\$2,880	\$2,880
Raftelis - Project Execution				
Director	\$290.00	40	\$11,600	\$11,600
Senior Consultant	\$200.00	70	\$14,000	\$14,000
Travel				\$3,820
Total				\$36,940

If this scope of work and cost estimate is acceptable to the City, please accept and sign below, and provide an executed copy to Ms. Leah Torres at Leah.Torres@arcadis.com.

City of Key West

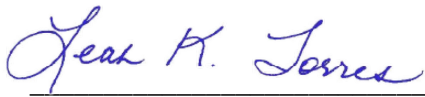
By: _____

Title: _____

Signature: _____

Date: _____

Arcadis:

 _____

Leah K. Torres, P.E.
Associate Vice President
Arcadis U.S., Inc.