



## THE CITY OF KEY WEST

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MEMORANDUM

### EXECUTIVE SUMMARY

**TO:** Jim Scholl, City Manager  
**FROM:** Mark Z. Finigan – Finance Director  
**DATE:** February 8, 2018  
**SUBJECT:** General Fund Cost Allocation Study

**Action Statement:**

Authorize City Manager to execute Task Order 01-2018 with Arcadis U.S., pursuant to the May 2015 Master Agreement to Furnish Financial and Other Consulting Services, to deliver a General Fund Cost Allocation Study Update at a cost of \$36,940. Authorize the appropriate budget transfers as outlined in the Financial Impact section.

**Background:**

The City of Key West (City) requires a periodic update to the General Fund Cost Allocation Model to properly account for the full cost of those services provided to the non-General Fund activities. Having an accepted allocation method for assigning overhead or indirect costs to the other funds/departments provides the City information to better manage the financial operation and to effectively pass those appropriate costs onto the final consumer.

In June of 2010 the City issued a Task Order to have the initial cost allocation model developed. The model was subsequently updated in 2015. That model will be four years old when starting preparations for the FY 18-19 budget and requires an update to ensure that the cost allocations are adjusted as the City's needs and processes change.

The goal of this project is to reevaluate the City's processes and update the allocation of the indirect function costs to the City's six enterprise funds, nine special revenue funds, two capital project funds and the insurance internal service fund. In addition, the City desires to update payments-in-lieu-of-taxes for police and fire service, as well as for use of the City's rights-of-way for water and wastewater services. To identify and select allocation factors the organization must be surveyed and reviewed. The updated model will

*Key to the Caribbean – Average yearly temperature 77° F.*

calculate the full cost to be allocated, but the City may elect to adopt lower rates if full cost allocation is impractical. Arcadis, U.S. (formerly Malcolm Pirnie/Red Oak) created and developed the current model. Arcadis has prepared various financial reports for the City; they clearly understand the fund structure and flow of the funds, adding assurance that the desired objectives of the study will be attained.

The deliverable for this project will be a report outlining the methodology and the assumptions used in the model construction. The cost allocation model, built in Microsoft Excel, will be delivered and staff trained in its use and its modeling capabilities.

The original study and model was strongly supported by the City's external auditors. To follow is the auditor comment the 2009 annual external audit:

**2009-01: Adopt a Formal Cost Allocation Plan**

*The City has not adopted a formal cost allocation plan that details the various methodologies used to support expenditure allocations such as: 1) payments in lieu of taxes (PILOT) from each enterprise fund to the general fund and 2) charges from the internal service fund to every fund/department for various insurances. This situation has caused and may cause future delays in the approval and payment process of grant funding to the City. We recommend that the management of the City develops a formal cost allocation plan, reviewed annually, that reflects a measurement of costs charged to the individual funds/departments.*

**Scope of Work:**

Arcadis, U.S. will prepare the cost allocation update as described in the attached Scope of Work Task Order.

**Financial Impact:**

The subject study was not budgeted in the FY 17-18 operating budget. A transfer from the City Manager's General Fund Contingency account to the General Fund – account number 001-1900-519.31-00 – will be necessary to support the General Fund Cost Allocation update.

**Recommendation:**

Approve the resolution authorizing the City Manager to execute Task Order 01-2018 with Arcadis U.S. to deliver a General Fund Cost Allocation Study Update at a cost of \$36,940.