

Task Order 1-10-GEN
General Fund Cost Allocation Study
City of Key West, Florida

The execution of this Task Order by the City of Key West, Florida (the “City”) will establish permission for Red Oak Consulting, a division of Malcolm Pirnie, Inc (“Red Oak”) 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”) between the City and Red Oak. The project tasks to be completed by Red Oak are outlined below.

1. Kickoff Meeting

Red Oak will meet with the City staff for a Kickoff Meeting at the City’s offices to confirm the scope, schedule, and approach outlined in this proposal. The purpose, uses, and goals for the Cost Allocation Plan will be discussed to ensure that the project meets the City’s current and future needs. During this meeting, we will clarify any implications that OMB Circular A-87 might have on the project methodology and discuss the best approach to meeting its requirements. We will also discuss Red Oak’s data needs, which will be provided in memorandum format prior to the meeting. The kickoff meeting will coordinate the project schedule with City staff schedules in order to ensure that key milestone dates are met, as well as confirm our respective team members’ roles and responsibilities and communication needs/protocols throughout the assignment.

Task 1 Deliverables:

Kickoff Meeting minutes
Data request memorandum.

Task 1 Meeting:

Kickoff meeting lasting two hours, and data gathering.

Task 1 City Staff Resource Commitments:

Attend Kickoff meeting
Provide requested data, as available.

2. Information Gathering and Review, including Interviews

Following the kickoff meeting, and upon receipt of the requested data, Red Oak will review the City’s financial records (e.g. budget, salaries paid to existing positions, benefit costs) in order to determine existing and potential cost centers and cost allocation approaches. Other useful documents will include organizational charts and organizational/program descriptions. The document review will be completed to understand the City’s current practices related to direct and indirect cost allocation.

Red Oak will then schedule and facilitate group and one-on-one interviews with selected personnel in order to further our understanding of current operational and direct and indirect cost allocation practices, in order to select the most appropriate cost allocation approach to utilize for each General Fund function.



As part of our information gathering and review, we will hold approximately 12 interviews with key City employees 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 Service employee representative
- General Services representative
- Building Services representative
- Code Compliance representative
- Port Operations representative

Task 2 Deliverables:

List of interview questions.

Task 2 Meetings:

Twelve interviews and approximately 24 hours of group or one-one-one interviews with selected personnel.

Task 2 City Staff Resource Commitments:

Attend and assist in scheduling interviews.

Provide requested data, as available.

3. Cost Allocation Plan

Red Oak will develop an Excel™-based model that will be the basis for the City's Cost Allocation Plan. Ultimately this plan will identify the cost allocation method used to allocate indirect General Fund costs to the various enterprise, special revenue and internal services funds, and the costs resulting from such allocation.

Allocation Criteria

Red Oak will work with the City in determining service provisions and cost categories for current City programs in order to develop the cost allocation plan. Red Oak will also develop allocation criteria to distribute costs among the City's departments. Red Oak will use our previous experience as well as work directly with the City to determine those criteria (for example, the criteria used to allocate IT costs may be based on the number of computers or servers in each department).

This will ultimately 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, special 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 City rights of way.

Two-step Methodology

Red Oak will use a two-step allocation methodology in developing the cost allocation plan, in accordance with industry standards. The first step identifies all General Fund and categorizes them into direct and indirect cost categories. These costs are then allocated proportionately to any department that benefit from the services. The second step isolates the costs that were allocated to any central department and proportionately reallocates those costs to the remaining operating departments. The purpose of this approach is to appropriately allocate costs to the City's operating departments.

Cost Allocation Model Specifications

The cost allocation model will allow for the addition or removal of direct and overhead costs so that the allocation of costs can be easily modified by the City as necessary in the future. The model will also have the ability to adjust the cost allocation based on the increase or decrease in future General Fund direct or indirect costs, and evaluate hypothetical future service enhancements and the ability to calculate the estimated costs of providing these future services.

Task 3 Deliverables:

Draft Cost Allocation Plan (provided under Task 4)
Copy of the Draft Cost Allocation Model (provided under Task 4)

Task 3 Meetings:

Up to four (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

4. Cost Allocation Plan Report

Red Oak 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 thorough description of the cost allocation methodology, the rationale behind allocation criteria used, a summary of the findings, and recommendations including alternatives where applicable. The draft plan will provide an executive summary of all the major findings and graphic summarizations wherever applicable. The Cost Allocation Plan will include formulas for distributing indirect costs to operating departments.

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

Task 4 Deliverables:

Draft Cost Allocation Plan
Final Cost Allocation Plan (up to 10 hard copies + electronic version)
Cost Allocation model (electronic version)

5. City Responsibilities

The City will expeditiously provide all the necessary information to Red Oak, including financial records, and any other information that may be deemed necessary to complete the General Fund Cost Allocation Study. City management and staff will be available for interviews and to answer questions pertaining to operations and the current method of allocating costs.

6. Schedule

The anticipated schedule for the completion of the Task Order will be approximately three months from the notice to proceed, assuming that the necessary information to complete the study is received from the City in a timely manner.

7. Cost Estimate

Red Oak will bill the City on a lump sum basis for \$49,000. Red Oak will provide monthly invoices to the City for the work performed. Invoices are due and payable within 30 days after receipt by the Client.

City of Key West

Red Oak Consulting, a division of Malcolm Pirnie, Inc.

By: _____

By: _____

Title: _____

Title: _____

Signature: _____

Signature: _____

Date: _____

Date: _____