



THE CITY OF KEY WEST

Post Office Box 1409 Key West, FL 33041-1409 (305) 809-3700

EXECUTIVE SUMMARY

TO: Jim Scholl, City Manager

VIA: Sarah Hannah-Spurlock, Assistant City Manager

FROM: Nancy S. Kielman – Finance Director

DATE: January 29, 2015

SUBJECT: Authorize City Manager to execute an agreement with Arcadis, U.S. to deliver a General Fund Cost Allocation Study Update at a cost not to exceed \$30,000.

Action Statement:

This resolution will authorize the City Manager to execute an agreement with Arcadis U.S. in an amount not to exceed \$30,000 to plan, develop and deliver a General Fund Cost Allocation Study Update.

Because Arcadis has assisted the City with many financial analyses, and, therefore has a clear understanding of the City's fund structure, the agreement will be executed pursuant to City Code 2-797 (4) b., which allows the City Manager to "exempt a purchase from the competitive bid requirements of this subdivision for the best interest of the city" with "a resolution before the City Commission for approval of such exemption".

Background:

The City of Key West (City) requires an 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 a cost allocation model developed. The model is now 4 years old and requires an update to ensure that the cost allocations are adjusted as the City's needs and processes

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

MEMORANDUM

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, seven special revenue 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 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, will be delivered and staff trained in its use and its modeling capabilities.

The original study and model was initiated by the City's external auditors. To follow is the auditor comment:

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.

Financial Impact:

The subject agreement is an approved fiscal year 2014-2015 appropriation in the General Fund – account number 001-1900-519.32-00.

Recommendation:

Approve the resolution authorizing the City Manager to execute an agreement with Arcadis, U.S. in the amount not to exceed \$30,000 to plan, develop and deliver an updated General Fund Cost Allocation Model.