



THE CITY OF KEY WEST

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

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EXECUTIVE SUMMARY

TO: Jim Scholl, City Manager

FROM: Mark Z. Finigan, Asst. City Manager – Administration
Roger Wittenberg – Finance Director

DATE: June 29, 2010

SUBJECT: Approval of Task Order 01-10-GEN
General Fund Cost Allocation Study

Action Statement:

This resolution will approve Task Order 01-10-GEN for Malcolm Pirnie/Red Oak Consulting in the amount of \$49,000 to plan, develop and deliver a General Fund Cost Allocation Study and authorize the City Manager to execute same. The Task Order is executed pursuant to City Code 2-841, Contracts for Professional Services, and the City's Master Agreement with Red Oak Consulting (a division of Malcolm Pirnie - City Commission Resolution # 09-137) for financial consulting services. Approve the use of City Manager's General Fund Contingency for the study.

Background:

The City of Key West (City) requires an indirect cost allocation study and model to account properly for the full cost of those City services it provides to the non-General Fund activities. Having an accepted allocation method for assigning overhead or indirect costs to the operating departments provides the City information to manage better the financial operation and to effectively pass those appropriate costs onto the final consumer.

To accomplish this project, the goal is to determine appropriate allocations for each indirect function to be allocated to the City's six enterprise funds, eight special revenue funds, and the insurance internal service fund. In addition, the City desires to develop 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

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

and reviewed. The model will calculate the full cost to be allocated, but the City may elect to adopt lower rates if full cost allocation is impractical.

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.

Additionally, the City's external auditors have recommended the City conduct such a study. 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:

Malcolm Pirnie/Red Oak Consulting will prepare the allocation study as described in the following scope of work:

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.

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.

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

Task 4 Deliverables:

Draft Cost Allocation Plan

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

Cost Allocation model (electronic version)

Financial Impact:

The lump sum price for this task order will be \$49,000. In an effort to ensure the competitiveness of the proposed lump sum by Malcolm Pirnie, the City secured written proposals from the two other financial consultants the City had previously entered into financial consultant service agreements with, CDM and HDR. CDM proposed a lump sum of \$49,975 and HDR proposed a not to exceed arrangement of \$58,500. In addition to offering the lowest lump sum proposal, Malcolm Pirnie is considered to have greater experience in preparing similar studies and clearly understood the fund structure and flow of funds of the City, adding further assurance the desired objectives of the study will be attained.

Since the subject study was not a Fiscal year 2009-2010 approved appropriation, use of the City Manager's General Fund Contingency account is recommended. Subsequent to the final study, it is recommended the various "user" funds reimburse the General Fund based on the allocable percentages determined by the study.

Recommendation:

Approve Task Order 01-2010-GEN for Malcolm Pirnie/Red Oak Consulting in the amount of \$49,000 to plan, develop and deliver a General Fund Cost Allocation Study and authorize the City Manager to execute same.