

**General Fund Cost Allocation Study Update
City of Key West, Florida**

1. Authorization to Proceed

The execution of this agreement with the City of Key West, Florida (the “City”) or receipt of a purchase order for the compensation in the amount detailed in Section 5 will establish permission for Arcadis, U.S., Inc. (“ARCADIS”) to proceed with the scope of work detailed herein.

2. Scope of Work

The purpose of this project for the City is to identify and allocate the General Fund cost of providing services internally for the purposes of budgeting and allocating costs to various funds. The following General Fund departments will be analyzed to identify the allocable costs:

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

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

Enterprise Funds:

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

2.1 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 members' 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 2.1 Deliverables:

- Facilitation of Project Initiation Meeting
- Preparation of meeting minutes
- Monthly Status Summary and Invoicing

Task 2.1 City Staff Resource Commitments:

- Attend Project Initiation Meeting

2.2 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. Detail of expenditures in non-departmental.
3. List of departments that supply services on behalf and/or for Enterprise funds.
4. Listing of personnel and personnel salaries for each department or fund. Identify positions and percentage of costs that are paid directly from the Enterprise funds. Detailed organizational chart listing funds and personnel in each department.
5. Line-item expenditure details by department and fund for FY2013 and FY2014, and FY2015 budget details, if available.
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 Accounts Payable invoices processed each FY by each Department and Fund.
9. Number of annual purchase transactions by department and fund.
10. Number of revenue and expense transactions by department and fund.

11. Number of citywide IT user accounts, number of Enterprise accounts, and Enterprise systems supported by General Fund IT department.
12. 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, cashiering for utility payments, payroll, etc.
13. Number of legal staff hours spent by department. This would include approval of contracts, legal opinions, etc.
14. Square footage of building space occupied by department.
15. Number of vehicles maintained by department.
16. Detail description of internal service funds and how allocation to funds/departments are calculated.
17. Description of insurance funds and allocation to 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 and 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 Managers (2)
- 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

Task 2.2 Deliverables:

- Data request memorandum

Task 2.2 City Staff Resource Commitments:

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

2.3 Develop Cost Allocation Plan

ARCADIS will update the Excel™-based model that was prepared as part of the work that was completed in 2011 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, special 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 determining service provisions and cost categories for current City programs in order to develop the cost allocation plan. We will also develop allocation criteria to distribute costs among the City's funds, and 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

ARCADIS will use a two-step allocation methodology in developing the cost allocation plan, 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.

Task 2.3 Deliverables:

- Draft Cost Allocation Plan (provided under Task 2.4)
- Copy of the Draft Cost Allocation Model (provided under Task 2.4)
- 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 2.3 City Staff Resource Commitments:

- Participate in conference calls as necessary

2.4 Cost Allocation Plan Report

ARCADIS 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 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 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 provide to the City.

Task 2.4 Deliverables:

- Draft Cost Allocation Plan (electronic version)
- Final Cost Allocation Plan (up to 5 hard copies + electronic version)
- Cost Allocation model (electronic version)

3. City Responsibilities

The City will provide the necessary data and information to complete this scope of work in a timely manner, including the information described above, and any other information that may be deemed necessary to complete the study.

4. Schedule

It is anticipated that the work will be completed within approximately three to four months from the notice to proceed, assuming that the necessary information to complete the study is received from the City in a timely manner.

5. Cost of the Project

We propose to complete the scope of work for a lump sum, fixed fee of \$30,000. We will bill the City monthly based on the percent of project completion.

(Remainder of Page Intentionally Left Blank)

If this scope of work and cost estimate is acceptable to the City, please accept and sign below, and provide an executed copy to Mr. John Mastracchio at john.mastracchio@arcadis-us.com.

City of Key West

By: _____

Title: _____

Signature: _____

Date: _____

ARCADIS

By: John M. Mastacchio / John M. Mastacchio

Title: Associate Vice President

Signature: John M. Mastacchio

Date: 1/30/15