



THE CITY OF KEY WEST

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

EXECUTIVE SUMMARY

TO: Jim Scholl, City Manager

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

DATE: May 16, 2011

SUBJECT: Ratification of Amendment #1
Task Order 01-10-GEN
General Fund Cost Allocation Study

Action Statement:

This resolution will ratify the execution of Amendment #1 to Task Order 01-10-GEN for Malcolm Pirnie/Red Oak Consulting in the amount of \$18,000 to provide additional research, review and analysis of data required in the development of a General Fund Cost Allocation Study. Approve the use of City Manager's General Fund Contingency to cover the cost of the additional research, data review and analysis.

Background:

The Task Order 01-10-GEN was 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.

Amendment #1 was executed by the Assistant City Manager – Administration, with approval from the City Manager, on April 22, 2011. The original tasking was for \$49,000, therefore the new lump sum value when considering the additionally \$18,000 is \$67,000. The Amendment was executed pursuant to City Code 2-797, (2), Emergency Procurement, and is required to come before the City Commission for ratification. A delay in executing the amendment would jeopardize the City's ability to incorporate the conclusions and recommendations of the General Fund Cost Allocation Study into the Fiscal Year 2011-12 operating budget, thereby making critical enterprise and special revenue fund allocations, based on supportable and empirical data, less likely. Having an accepted allocation method for assigning overhead or

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

MEMORANDUM

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.

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. 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 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.

Financial Considerations:

Since the subject study was not an approved appropriation (to include Amendment #1), use of the City Manager's General Fund Contingency account is recommended. Staff has reviewed the proposed 40 hours necessary to conduct the additional research, data review and analysis and has determined such hours to be fair and reasonable. Furthermore, the additional hours and expenses required to participate in additional teleconferences and meetings have been reviewed and accepted as fair and reasonable. 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:

Ratify the execution of Amendment #1 to Task Order 01-10-GEN for Malcolm Pirnie/Red Oak Consulting in the amount of \$18,000. The new lump sum value for Task Order 01-10-GEN when considering the additionally \$18,000 is \$67,000.