

Exhibit B – Cost Allocation Plan

Background

Indirect cost allocation is a method to determine and assign the cost of central services to the internal users of those services. Cost allocation enables local governments to more accurately account for the complete cost of the services it provides, and to provide a clear/concise method to use in budget development.

Indirect costs include central services costs related to legislative, executive, finance, legal and human resources expenses.

Cost allocation plans share indirect costs across programs, activities, funds and departments. The term “allocation” implies that there is no precise method for charging indirect costs, however cost allocations should be designed to provide a consistent, reasonable and equitable means to allocate costs.

Funds to Be Charged

An indirect cost allocation plan is intended to charge restricted funds for a fair and equitable portion of central services costs. The City has two fund types that could be eligible for indirect cost allocation – special revenue funds and business-type funds.

Special revenue funds must be at least partially funded by an externally restricted or internally assigned revenue source; however, the special revenue funds can be, and many are, subsidized by the general fund. Therefore, there is no benefit to be had by including most special revenue funds in the indirect cost allocation plan (increasing expenses in funds subsidized by the general fund would simply increase the amount of general fund subsidy required).

The City’s business-type funds must be self-supporting and cannot receive general fund support in the form of subsidization or services provided at no charge. An indirect cost allocation plan is the appropriate way to charge business-type funds for services provided by the general fund. The City’s current business type funds subject to allocation are Water, Sewer and Stormwater.

The indirect cost allocation plan shall be developed based on the principle that costs will be split between general government activities (those pertaining to the general fund and special revenue funds) and business-type activities. Business-type activities will be further allocated by fund, based on the criteria described below. General government activities will remain in the general fund.

Costs to Be Allocated

The following costs are subject to allocation:

- ❖ Salaries, benefits, supplies, training, equipment, etc. associated with:
 - Mayor and City Council
 - City Clerk Department
- ❖ Contracted legal, audit and accounting services

All the costs listed above are paid for out of the general fund and primarily exist for the support of the City as a whole. Costs included in the allocation plan should be administrative in nature and must be reasonably perceived to benefit all City funds. Therefore, the cost of services such as public safety, street maintenance, community events, etc. are excluded from the plan and are not subject to allocation.

Activities & Measurement Criteria

The activities on which to base allocations and the measurement criteria for those activities are identified in the following table.

ACTIVITIES <i>(based on April 2021 time study)</i>	MEASUREMENT CRITERIA
Accounts Payable	Non-salary expenses (2021 budget)
Mayor and Council	# of agenda items (2020 actual)
Payment Processing	Revenue (2021 budget)
Utility Billing	# of accounts (December 2020 actual)
Budget, Accounting, Annual reporting	Total expenses (2021 budget)

Percentages

Salaries and benefits for the Mayor, Council, City Clerk-Treasurer, Deputy Clerk-Treasurer and Administrative Assistant shall be allocated using the following percentages.

Position	General				
	Government	King Co	Water	Sewer	Storm
Council	69.77%	0.00%	10.47%	8.14%	11.63%
Mayor	69.77%	0.00%	10.47%	8.14%	11.63%
Clerk/Treasurer	60.88%	0.00%	13.36%	19.42%	6.34%
Deputy Clerk/Treasurer	0.00%	50.00%	16.68%	16.55%	16.77%
Admin Assistant	79.69%	0.00%	7.32%	10.08%	2.91%

Supplies, training, and other expenses associated with the City Council and Mayor shall be directly coded to various funds based on the Council and Mayor allocation percentages shown above. These percentages are based on the allocation of actual council agenda items from 2020.

Supplies, training, and other expenses associated with the Clerk’s Office, including payment of contracted accounting and auditing services shall be directly coded based on the percentages shown below. These percentages are based on 2021 budgeted expenditures. The same percentages shall be used to allocate legal expenses.

	General Government	Water	Sewer	Storm
Contracted Services	60.59%	13.46%	19.78%	6.17%

Updates to the Plan

The cost allocation plan should be reviewed annually during budget development. It is not necessary to update the activities or measurement criteria on an annual basis as long as the plan has been reviewed for general reasonableness. If significant changes have been made which may affect the overall allocation percentages then the plan should be updated. The plan should be updated at least every three years.