



# City of La Verne Cost Allocation Study

Council Presentation

July 16, 2018



HF&H Consultants



# Presentation Outline

---

- Study Purpose
- Current Overhead Cost Allocations
  - Administrative
  - Operational
- Potential Enterprise Reimbursements
  - Public Safety
  - Governmental Facilities Capital
  - Right-of-Way Maintenance



# Study Purpose

---

- Review City's existing overhead cost allocations
  - Compliance with industry standards
  - Potential refinements
- Identify potential additional reimbursements from enterprises to General Fund for other services
  - Public Safety
  - Governmental Facilities Capital
  - Right-of-Way Maintenance
- Document current and proposed cost allocations
  - Methodology
  - Legal compliance



# Current Overhead Cost Allocations

## Summary of Overhead Allocations

	<b>Overhead Allocation Allowable</b>	<b>Overhead Allocation Charged</b>	<b>Overhead Allocation Uncharged</b>
Total	\$6,090,231	\$5,294,489	\$795,742
To Enterprises & Other Revenue Funds	\$1,950,842	\$1,155,100	\$795,742



# Current Overhead Cost Allocations

---

- Potential refinements
  - Identify any direct charges and exclude them from allocations based on budgets
  - Adjust for budget items that have relatively low associated overhead before making allocations based on budgets
    - Cost of purchased water



# Potential Enterprise Reimbursements

## Summary of Enterprise Allocations

Allocation Type	Water	Sewer	Subtotal
Public Safety	\$138,237	\$139,878	\$278,115
Governmental Facilities Capital	\$108,805	\$36,934	\$145,739
Right-of-Way Maintenance	\$702,010	\$587,793	\$1,289,802
<b>Total</b>	<b>\$949,052</b>	<b>\$764,605</b>	<b>\$1,713,657</b>



# Potential Enterprise Reimbursements

---

- Legal requirements
  - Reimbursements are subject to Article XIID of the California Constitution governing property related fees and charges (1996 - Proposition 218)
    - Water and sewer rates must be *proportional cost* of providing service
  - The *Roseville* decision (2002) validates reimbursements from enterprises to the General Fund for services received
    - Reimbursement must be based on *cost*



# Potential Enterprise Reimbursements

---

- Three reimbursements
  - Public safety
    - The enterprises' shares of the cost of protecting utility infrastructure
    - Allocations based on property value
  - Governmental facilities
    - The use by the enterprises of governmental facilities paid for by the General Fund
    - Allocations based on employee headcount
  - Right-of-way maintenance
    - Costs of maintaining rights-of-way overlying and protecting buried infrastructure
    - Allocations based on subsurface volume





# Public Safety Reimbursement

---

- Police and Fire services protect property
- Police and Fire budgets are allocated in proportion to the value of property
- Public property valuation
  - Based on “replacement cost new less depreciation”
  - Common method for establishing fair market value of utilities
- Private property value
  - Based on assessed value adjusted for market value
  - Includes vehicles



# Public Safety Allocation

	Property Value	Allocation Factor	Allocation of Public Safety Budget
<b>Public</b>			
Water Enterprise	\$31,960,348	0.685%	\$138,237
Sewer Enterprise	\$32,339,635	0.694%	\$139,878
Enterprise Total	\$64,299,983	1.379%	\$278,115
Other Municipal	\$154,655,386	3.317%	\$668,928
Total Public	\$218,955,369	4.695%	\$947,043
<b>Private</b>	\$4,444,168,636	95.305%	\$19,222,270
<b>Total</b>	\$4,663,124,005	100.000%	\$20,169,313





## Governmental Facilities Reimbursement

---

- The General Fund paid for governmental facilities that are used by the City's services, including its enterprises
  - City Hall and City Yard
- The capital cost of these facilities should be reimbursed
  - Operations and maintenance costs are already reimbursed through overhead cost allocation
- Reimbursement is based on employee head count
  - City Hall: Water 11.11%, Sewer 2.78%
  - City Yard: Water 44.12%, Sewer 17.65%





# Governmental Facilities Allocation

- Annual Cost Recovery is based on a proportionate share of the capital cost
- Interest Cost is based on the outstanding principal balance on the capital cost

Government Facility	Water Share	Sewer Share	Total
Annual Cost Recovery	\$75,508	\$25,498	\$101,006
Interest Cost	\$33,297	\$11,437	\$44,734
	<b>\$108,805</b>	<b>\$36,934</b>	<b>\$145,739</b>



# Right-of-Way Maintenance Reimbursement

---

- The General Fund maintains the rights-of-way for surface and subsurface uses
- ROW maintenance expenses
  - Pavement and sidewalk repair, traffic signals, storm drainage, signage and markings, mapping, and record keeping
  - Does not include the cost of pavement repair paid for when pipes are installed or repaired
- Studies indicate that one-third of costs benefit buried infrastructure (water, sewer, stormwater, gas, electric)
  - Allocation among infrastructures is based on volumes of disturbed soil
  - Soil disturbance is directly related to premature wear of rights-of-ways and the need for repair





# Right-of-Way Maintenance Reimbursement

- \$1.29 million of the total \$6.92 million of ROW costs (19%) is allocated to water and sewer

	Right-of-Way Budget	Allocation Factors	Allocations
Surface only	\$2,427,583	0%	\$0
Surface and Subsurface	\$4,138,546	33%	\$1,365,720
Subsurface only	\$350,000	100%	\$350,000
ROW total	<u>\$6,916,129</u>		<u>\$1,715,720</u>
Allocation of Subsurface Costs			
Water	\$1,715,720	40.9%	<b>\$702,010</b>
Sewer	\$1,715,720	34.3%	<b>\$587,793</b>
			<u>\$1,289,802</u>





# End of Presentation

