



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

	Overhead Allocation Allowable	Overhead Allocation Charged	Overhead Allocation Uncharged
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
Total	\$949,052	\$764,605	\$1,713,657



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
Public			
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
Private	\$4,444,168,636	95.305%	\$19,222,270
Total	\$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
	\$108,805	\$36,934	\$145,739



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%	\$702,010
Sewer	\$1,715,720	34.3%	\$587,793
			<u>\$1,289,802</u>





End of Presentation

