

## FISCAL YEAR 1991-92 COST ALLOCATION PLAN

### DEFINITION OF TERMS

All Support Services fund expenses can be divided into two types: Direct or Indirect.

**Direct Costs:** Those costs that can be identified with a specific function or purpose of a particular department and benefit only that area.

**Indirect Costs:** Those costs incurred for a common or joint purpose benefiting more than one area and not readily assignable to a benefiting area without effort disproportionate to the results achieved.

Another way to distinguish between these two types of costs is to ask yourself if these costs could just as easily be budgeted in the benefiting area. If the answer is yes, then the cost is more than likely a direct cost. For example, personal services expenses for waste reduction promotion and education are budgeted in the Public Affairs department. These costs clearly benefit only one specific function of the solid Waste department and could just as easily be budgeted in the Solid Waste department. As such they are considered a direct cost to the Solid Waste department.

Personnel Office costs, however, are incurred for the common purpose of, among other things, recruitment and selection of employees and the administration of benefits, and clearly benefit more than one area. It would be very difficult to budget and administer these expenses in each benefiting department. The effort required to do so would be disproportionate to the results achieved. These costs are correctly defined as indirect costs.

Indirect costs are then divided into two types: Specific and Pooled costs.

**Specific costs:** Those indirect costs which can be allocated to a specific functional area based on actual usage or benefit.

**Pooled costs:** Those indirect costs which cannot be allocated to a specific functional area based on actual usage of benefit. These are the support services costs incurred by the Support Services fund.

### PURPOSE OF THE COST ALLOCATION PLAN

The Metro budget includes seven operational areas plus the Support Services Fund. The operational areas - Zoo, Solid Waste, Regional Facilities, Planning & Development, Transportation, Metro ERC and the General Fund - have direct sources of revenue. The Support Services

Fund does not have a direct source of revenue. Its operating costs are paid by the other seven areas. The "Cost Allocation Plan" is the mechanism by which Metro funds the costs of operating the parts of the organization that have no direct revenue source.

The Cost Allocation Plan serves two purposes. It determines the amount of the interfund transfers by systematically identifying and distributing the support services costs (including building and insurance) to those department benefiting from the services. It also determines the indirect cost rate which Metro may apply as overhead to federal grants. Because of this, the plan adheres to federal regulations for setting indirect cost rates. In 1987, the Federal Highway Administration, Metro's cognizant agency, examined and approved Metro's cost allocation plan. The plan was found in compliance with the policies and procedures of the Office of Management and Budget, Circular A-87.

#### PROCESS OF DISTRIBUTING COSTS

Before any costs may be distributed to benefiting departments, an accurate method or basis of allocation is determined. To the maximum extent possible, these methods are based on actual data. Records on actual use are kept throughout the year to be used in this process. Once all bases have been determined, the data is collected and analyzed to compute the specific cost percentages for each department. A basis of allocation may be applied to as large a category as an entire appropriation level, as is the case of the Accounting Division, or it may be applied to as small a category as part of one line item, as in the case of Maintenance & Repair-Copiers under the Office Services Division.

The process for distributing the support services costs to the benefiting departments is accomplished in two steps. The first step identifies and distributes the specific costs for each operational area based on the method of allocation determined the most accurate for that cost. For example, in the attached Exhibit A, printing costs are assigned to each operational based on the actual number of copies made by the areas. The analysis of this item shows that 74.4% of this printing costs reflects the actual usage by the operational areas.

The second step allocates the cost of each support services item that cannot be distributed to a operational area. These are the costs of the central services used by the Support Services Fund departments. These "pooled" costs are assigned to the operational areas on some consistent basis. In Exhibit A, the balance of the cost, 25.6% is attributable to the Support Services Fund. This would include the printing done for personnel recruitments and the budget, for example. This pooled cost is distributed to the operating funds on the basis of their overall usage of the Support Services division functions. For

example, the Zoo utilizes 3.3% of all Support Services division functions. Therefore, 3.3% of all pooled printing costs are distributed to the Zoo.

There are several instances where a function has no specific use of a service but pays for the "pooled" costs. For example, as shown in Exhibit B, the Metro ERC is not part of the downtown office telephone system and has no direct benefit so it has no specific cost. However, the Metro ERC does utilize 0.6% of all Support Services Division functions so, therefore, is allocated 0.6% of the telephone costs of central services. This pays the Metro ERC's share of telephone costs for Accounting, General Counsel and other Support Service Fund staff.

In any case where a direct cost is involved, the amount of the direct cost is deducted from the budgeted amount before any specific or pooled percentages are applied. For example, in Exhibit C, the budget for Data Processing Materials & Services is \$447,267. However, \$6,644 is a direct cost to the Transportation Planning Fund for specific needs. The difference between the budget amount and the direct costs, \$440,623, is the amount that is allocated as specific and pooled costs.

The sum of all specific and pooled costs for each operational area makes up one component of each areas total transfer to the Support Services Fund.

#### BUILDING AND INSURANCE FUND ALLOCATION

The Building and Insurance fund costs are allocated using the same method as already described. However, the method used to determine the amount to be allocated and the manner in which the transfers are portrayed in the budget vary slightly from the Support Services Fund.

In both cases, the amount to be allocated is determined by subtracting the estimated revenues to be received other than transfers from the total anticipated requirements of the fund. This is done to ensure that only the remaining amount needed to cover all expenditures is received through transfers.

In all operational areas, the amounts shown in the budget as Indirect Transfer to the Building or Insurance fund reflects only the specific costs for building and insurance needs for each fund. The Support Service Fund's building and insurance needs, or "pooled" costs, become another component of each operational areas total transfer to the Support Service Fund. The Support Service fund then transfers the "pooled" costs to the Building and Insurance funds. This properly portrays the true costs of the Support Service Fund where the expense is incurred.

COMPONENTS OF THE SUPPORT SERVICE FUND TRANSFER

Each transfer to the Support Service Fund is made up of three components. These components are:

1. The sum of the Support Service Fund specific and pooled costs
2. The Building fund "pooled" costs
3. The Insurance fund "pooled" costs

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EXHIBIT A

ALLOCATION WORKSHEET

SUPPORT FUNDS

FUND: SUPPORT SERVICE FUND

DIVISION: Office Services

EXPENDITURE TYPE: MATERIALS & SERVICES SPECIFIC COSTS:

ITEM DESCRIPTION: Printing

TOTAL BUDGET : \$ 56,870

LESS DISALLOWED : \$ 0

LESS ELIMINATION: \$ 0

LESS DIRECT : \$ 0

PLANNING & DEVEL.	14.6%	\$	8,303
SOLID WASTE	11.8%	\$	6,711
ZOO	5.5%	\$	3,128
REGIONAL FAC	0.2%	\$	114
MERC	1.0%	\$	569
TRANSPORTATION	8.2%	\$	4,663
GENERAL GOVERNMENT	33.1%	\$	18,824
SPECIFIC TOTAL COST:		74.4%	\$ 42,311

\*\*\*\* POOLED COSTS \*\*\*\*

PLANNING & DEV	19.5%	\$	2,846
SOLID WASTE	24.3%	\$	3,544
ZOO	3.3%	\$	474
REGIONAL FAC	1.3%	\$	195
MERC	0.6%	\$	86
TRANSPORTATION	16.3%	\$	2,373
GENERAL GOV'T	34.6%	\$	5,042

TOTAL POOL  
100% OF 100.0% \$ 14,559

SPECIFIC TOTAL COST: 74.4% \$ 42,311

INDIRECT COSTS : 100.0% \$ 56,870

BASIS: Total Number of Copies

EXHIBIT B

ALLOCATION WORKSHEET

SUPPORT FUNDS

07-Mar-91

FUND:

SUPPORT SERVICE FUND

DIVISION:

Support Services

EXPENDITURE TYPE:

MATERIALS & SERVICES

SPECIFIC COSTS:

ITEM DESCRIPTION:

M&R/Telephone

TOTAL BUDGET :

\$ 63,073

LESS DISALLOWED :

\$ 0

LESS ELIMINATION:

\$ 0

LESS DIRECT :

\$ 0

PLANNING & DEVEL.	9.7%	\$	6,118
SOLID WASTE	19.3%	\$	12,173
ZOO	0.0%	\$	0
REGIONAL FAC	3.4%	\$	2,144
MERC	0.0%	\$	0
TRANSPORTATION	15.3%	\$	9,650
GENERAL GOVERNMENT	10.8%	\$	6,812

SPECIFIC TOTAL COST: 58.5% \$ 36,898

\*\*\*\* POOLED COSTS \*\*\*\*

PLANNING & DEV	19.5%	\$	5,116
SOLID WASTE	24.3%	\$	6,372
ZOO	3.3%	\$	852
REGIONAL FAC	1.3%	\$	350
MERC	0.6%	\$	154
TRANSPORTATION	16.3%	\$	4,267
GENERAL GOV'T	34.6%	\$	9,065

TOTAL POOL

100% OF 100.0% \$ 26,175

SPECIFIC TOTAL COST: 58.5% \$ 36,898

INDIRECT COSTS : 100.0% \$ 63,073

BASIS: Number of Telephones

EXHIBIT C

ALLOCATION WORKSHEET

SUPPORT FUNDS

07-Mar-91

FUND: SUPPORT SERVICE FUND

DIVISION: Data Processing

EXPENDITURE TYPE: MATERIALS & SERVICES SPECIFIC COSTS:

ITEM DESCRIPTION: Materials & Services

TOTAL BUDGET : \$ 447,267

LESS DISALLOWED : \$ 0

LESS ELIMINATION: \$ 0

LESS DIRECT : \$ 6,644

PLANNING & DEVEL	1.1%	\$	4,847
SOLID WASTE	57.7%	\$	254,239
ZOO	13.7%	\$	60,365
REGIONAL FAC	0.4%	\$	1,762
MERC	18.7%	\$	82,397
TRANSPORTATION	4.1%	\$	18,066
GENERAL GOVERNMENT	0.9%	\$	3,966

SPECIFIC TOTAL COST: 96.6% \$ 425,642

\*\*\*\*\* POOLED COSTS \*\*\*\*\*

PLANNING & DEV	2.6%	\$	397
SOLID WASTE	53.5%	\$	8,014
ZOO	15.8%	\$	2,366
REGIONAL FAC	1.0%	\$	143
MERC	16.5%	\$	2,477
TRANSPORTATION	7.9%	\$	1,179
GENERAL GOV'T	2.7%	\$	405

TOTAL POOL  
100% OF 100.0% \$ 14,981

SPECIFIC TOTAL COST: 96.6% \$ 425,642

INDIRECT COSTS : 100.0% \$ 440,623

BASIS: Number of Accounting Transactions