



*City of Greenfield Budget & Finance Advisory Board*  
*Meeting*

*April 9, 5:30 PM*

599 El Camino Real Greenfield CA 93937 831-674-5591  
www.ci.greenfield.ca.us

A. CALL TO ORDER

B. ROLL CALL

C. BUSINESS

1. Introduction and Overview of the Proposed 2015-2016 / 2016-2017 Budget

- a. Basic Review of Budget Document Structure – 5:35 – 5:45 p.m.
- b. General Fund Budget Overview and Cost Allocation Plan Proposal – 5:45 – 6:15 p.m.
- c. Review of Employee Services Cost Model – 6:15 – 6:45 p.m.
- d. Other Funds Overview – 6:45 – 7:25 p.m.
- e. What's not budgeted: future costs of personnel, capital projects, and replacement of technology, vehicles, and equipment – 7:25 – 7:30 p.m.
- f. Feedback and Discussion of Focus for Next Budget Review Meeting, April 16, 2015 – 7:30 – 7:35 p.m.

D. ADJOURNMENT

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Your courtesy is requested to help our meeting run smoothly. If you will be kind enough to follow the rules of conduct for public participation in City Council meetings, we can make the best possible use of your time and ours. Please refrain from public displays or outbursts such as unsolicited applause, comments or cheering and any disruptive activities that substantially interfere with the ability of the City Council to carry out its meeting will not be permitted and offenders will be requested to leave the meeting. **Please turn off cell phones and pagers.**

This agenda is dually posted outside City Hall and on the City of Greenfield web site: [www.ci.greenfield.ca.us](http://www.ci.greenfield.ca.us).

# William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

March 20, 2015



## Proposal to the City of Greenfield COST ALLOCATION PLAN

### OVERVIEW

This proposal is in response to the City's interest in moving forward with the preparation of a formal Cost Allocation Plan. In better documenting reimbursement transfers from the enterprise funds – and most likely supporting an increase in them – the preparation of a Cost Allocation Plan was one of my recommendations in the Revenue Options Study presented to the Council on March 10, 2015. As noted in the Study, the preparation of a Cost Allocation Plan could be done in conjunction with a comprehensive cost of services study (which the Revenue Options Study also recommends). However, preparing a cost of services study will cost more and take longer than just preparing a Cost Allocation Plan, which can be prepared independently. Accordingly, as a first step, the City is interested in preparing a Cost Allocation Plan now, which can be used in subsequently preparing a cost of services study if the City decides to do so.

The 2014-15 Budget will be the basis in preparing the Cost Allocation Plan. Final “deliverables” will include electronic versions of the Cost Allocation Plan (including hourly labor rates) in Word, Excel and Adobe Acrobat. Any “hard copy” reproduction will be at the City's expense.

The proposed compensation is a fixed fee of \$5,750.00, which includes up to two on-site visits as needed. Any additional site visits or other services outside of the workscope will be charged on a time and materials basis at \$125.00 per hour.

**Proposal Organization.** This proposal is organized as follows:

- Cost Allocation Plan Purpose and Methodology
- Work Program
- Compensation
- Completion Date
- Deliverables
- Qualifications

## COST ALLOCATION PLAN PURPOSE AND METHODOLOGY

### Purpose of Cost Allocation Plans

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The purpose of cost allocation plans is to identify the total costs of providing specific city services. Why is a separate cost accounting analysis required to do this? Because in almost all organizations—whether in the private or the public sector—the cost of producing goods or delivering services can be classified into two basic categories: direct and indirect costs.

“Direct costs” by their nature are usually easy to identify and relate to a specific service. However, this is not the case for “indirect costs.” As such, if we want to know the “total cost” of providing a specific service, then we need to develop an approach—a plan—for reasonably allocating indirect costs to direct cost programs.

***What are direct and indirect costs?*** Direct costs are those that can be specifically identified with a particular cost objective, such as street maintenance, police protection and water service. Indirect costs are not readily identifiable with a direct operating program, but rather, are incurred for a joint purpose that benefits more than one cost objective. Common examples of indirect costs include accounting, legal services, human resources and building maintenance. Although indirect costs are generally not readily identifiable with direct cost programs, their cost should be included if we want to know the total cost of delivering specific services.

***Budgeting and accounting for indirect costs.*** Theoretically, all indirect costs could be directly charged to specific cost objectives; however, practical difficulties generally preclude such an approach for organizational and accounting reasons. As such, almost all organizations in both the private and public sector separately budget and account for direct and indirect costs at some level depending on their financial reporting needs and the level of sophistication and complexity of their operations.

### Determining and Allocating Indirect Costs

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In order to determine the total cost of delivering specific services, some methodology for determining and distributing indirect costs must be developed, and that is the purpose of cost allocation plans: to identify indirect costs and to allocate them to benefiting direct cost programs in a logical, consistent and reasonable manner.

***Plan goal: reasonable allocation of costs.*** It is important to stress that the goal of cost allocation plans is a reasonable allocation of indirect costs, not a “perfect” one. By their very nature, indirect costs are difficult to link with direct costs. As such, in developing an allocation approach, it is important to keep this goal in mind balancing the cost and of effort of complicated allocation methods with the likely benefits from the end results.

***Determining indirect costs.*** The first step in preparing the City’s Cost Allocation Plan will be determining direct and indirect costs. Program costs that primarily provide service to the public will be identified as direct costs, whereas the cost of programs that primarily provide services to the organization will be identified as indirect costs. This

will include use allowance costs for City facilities and equipment. In accordance with generally accepted accounting principles, only operating costs will be considered in preparing the Cost Allocation Plan. As such, capital outlay, debt service, interfund transfers and any “pass-through” costs will be excluded from the calculations.

***Allocating indirect costs.*** For general purposes, the City-wide indirect cost rate can be used as the basis for allocating indirect costs. The indirect cost rate is simply the ratio between indirect and direct costs, which can be easily computed for the City as a whole once the direct and indirect cost base has been determined. By applying the overall indirect cost rate to any specific direct cost program, the total cost of the program can be determined. For example, if the overall indirect cost rate was 25%, the total cost for a direct program of \$100,000 would be \$125,000 with this approach. The Revenue Options Study includes a very high-level calculation of the City-wide indirect cost rate at 21.2%.

However, this method of cost allocation assumes that all indirect costs are incurred proportionately to the direct cost of the program. However, this may not be a reasonable assumption in all cases, as the benefit received from certain types of support service programs may be more closely related to another indicator of activity than cost.

For example, if a program service is primarily delivered through contract and does not have any City staffing directly associated with it, distributing payroll preparation and human resources costs to it may result in an inequitable allocation of costs. Because of this, the proposed Cost Allocation Plan will establish separate *bases of allocation* for each major indirect cost category. With this approach, indirect costs can be allocated to each direct cost program in a fair, convenient, and most importantly, consistent manner.

Some of bases of indirect cost allocation lend themselves to an easily justified, rational approach of distribution. For example, the number of employees supported is a common basis for allocating payroll and human resources costs. While allocation bases for other indirect costs may not be as intuitive, they will be developed in consultation with staff and in accordance with generally accepted accounting principles. They will also be prepared in recognition of the concept that the cost of developing the information necessary to perform the cost allocations should not exceed the benefits likely to be gained.

### **Simple Method of Allocating Costs**

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In performing the cost allocations, all indirect costs will be allocated only to direct cost programs rather than using a more complex sequential allocation system. Although there are some conceptual difficulties with this approach, all indirect costs are ultimately allocated to direct programs, and as such, the difference in the end result is insignificant. However, the cost of preparation, review and audit is significantly reduced; and how indirect costs are allocated is more transparent.

For example, the cost of general administration by the City Manager’s Office will be allocated solely to direct cost programs like Police and Public Works. However, as the general administration program also benefits the other indirect cost programs such as

human resources and finance, the cost allocations could appear to be distorted since no allocations are made to them. Similarly, payroll preparation also benefits the general administration program (and in fact, also benefits itself).

Under a more complicated two-step system, the cost of the general administration program would be allocated to the other indirect costs programs as well as direct cost programs, with iterative allocations then made to direct cost programs until all indirect costs are distributed. However, this process is extremely time consuming (and places far more reliance on the underlying significance of the allocation bases than may be appropriate) and results in the same basic cost allocations as the simpler method since all indirect costs are allocated in the final product. Again, as noted above, the Cost Allocation Plan's goal is a reasonable allocation of costs, not a "perfect" one.

### **Uses of the Cost Allocation Plan**

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By identifying total program costs, the Cost Allocation Plan can be used as an analytical tool in many financial decision-making situations, including:

- ***Reimbursement transfers.*** The Cost Allocation Plan will provide a clear methodology for identifying the costs incurred by the General Fund in providing administrative support services to the City's other funds such as enterprise operations. Recommended reimbursement transfers based on the Cost Allocation Plan compared with budget estimates will be provided in the Plan document.
- ***General Fund user charges.*** Similar to ensuring that enterprise fund revenues fully recover their costs, the Cost Allocation Plan can also be used in determining appropriate user fees for General Fund services, such as planning applications, building permits and recreation activities, in ensuring that the full cost of services are considered in setting rates.
- ***Labor rates.*** Along with accounting for salary, benefits and paid leave (such as vacation, sick and holidays), "full cost" hourly labor rates can be developed that appropriately include indirect costs. Based on information for salary and benefits provided by the City, the Cost Allocation Plan will provide hourly labor rates for all regular City positions.
- ***Contracting-out for services.*** By identifying total costs, the Cost Allocation Plan can also be helpful in analyzing the costs of contracting for services versus performing services in-house.
- ***Grant administration.*** Under federal cost accounting policies (Circular A-87), it is permissible to include indirect costs in accounting for grant programs. By establishing indirect cost rates, the Cost Allocation Plan can be used in recovering the total costs (direct and indirect) associated with implementing grant programs.

## **WORK PROGRAM**

The following summarizes key tasks in preparing the Cost Allocation Plan:

### **1. Project Kick-Off/ Data Gathering**

- a. Finalize workscope and schedule.
- b. Begin gathering key financial and organizational documents.

### **2. Review Data and Existing Documentation**

- a. Review fiscal and organizational documents, including 2014-15 Budget, Comprehensive Annual Financial Report and job classification/salary range tables.
- b. Request and receive via email or phone additional background data on costs or allocation bases as needed.

### **3. Initial Assessment of Key Cost and Allocation Factors**

- a. Develop as necessary further breakouts of indirect cost areas based on information provided by the City.
- b. Prepare initial listing of direct and indirect costs and proposed bases for allocating costs.
- c. Prepare draft plan narrative.
- d. Review initial results and any other preliminary issues via teleconference with City staff and finalize before proceeding with next tasks.

### **4. Detail Cost Allocations**

- a. Prepare detailed cost allocations for each individual cost area.
- b. Summarize allocations by major cost area and fund.

### **5. Labor Hourly Rates**

- a. Working with City staff, identify salary and paid and leave benefits by major class of employees.
- b. Based on salary, benefit and indirect cost allocations, prepare hourly labor rates for all regular City positions.

**6. Prepare Draft Report and Present Findings to Key Staff**

- a. Prepare and distribute draft report to key staff via email.
- b. Review findings to identify (and resolve) any unexpected or in-intended results with key Finance and other staff members via teleconference.
- c. Hold on-site briefing with key operating department staff (and especially “enterprise fund” managers) to ensure they are “on-board” with the initial results of the Cost Allocation Plan. Additionally, their review is important in fleshing-out any misunderstandings or flaws in the underlying cost data or allocation bases.

**7. Prepare and Issue Final Cost Allocation Plan**

Incorporate any changes from *Task 6* and issue final plan in electronic format (Word, Excel and Adobe Acrobat).

**COMPENSATION**

**Fixed Fee: \$5,750.00**

This fee assumes that most work will be completed via email and teleconference. As noted above, it includes two on-site briefings or presentations as needed. As reflected in Task 6(b), one of these site visits to brief key staff on the draft results. The other on-site visit could include a briefing for the Budget and Finance Advisory, Council presentation or other purpose as needed. If additional on-site visits are required or if other services are requested during the course of this work, these will be charged on a time and materials basis at \$125.00 per hour. Services will be billed monthly based on progress to-date.

**COMPLETION DATE**

While this largely depends on the schedule and availability of City staff, the draft report under *Task 6* should be ready for review within 75 days after authorization to proceed.

**DELIVERABLES**

All written materials will be provided to the City in electronic form via email in Excel, Word, Adobe Acrobat or PowerPoint as appropriate. Any “hard-copy” reproduction will be at the City’s expense. The underlying documents, including the Cost Allocation Plan narrative (prepared in Word) and the indirect cost allocation model (prepared in Excel) will be provided to the City, for future updating by the City.

**QUALIFICATIONS**

As set forth in the following Qualifications Summary, I have extensive experience in a broad range of municipal financial management practices, which have received state and national recognition for excellence in financial planning and reporting. This included serving as the Director of Finance & Information Technology/City Treasurer for the Coty

of San Luis Obispo for 22 years and as the Finance Officer for the City of Simi Valley for ten years before that.

My experience includes playing key leadership roles in the profession, which included serving as a member of the Board of Directors of the League of California Cities, President of the League's Fiscal Officer Department and President of the California Society of Municipal Finance Officers; and setting accounting and financial reporting standards as a member of the California Committee on Municipal Accounting.

I have also published extensively on municipal finance best practices, including co-authoring the recently published *Guide to Local Government Finance in California*; and provided highly-rated training for a number of professional organizations.

Additionally, I have provided financial management advice for the following agencies:

**Strategic Plans, Fiscal Forecasts and Long-Term Financial Plans**

- City of Monrovia (in collaboration with HSM Team)
- City of Willits (in collaboration with the HSM Team)
- City of Bell
- City of Salinas
- City of Camarillo
- City of Pismo Beach
- Bear Valley Community Services District

**Organizational Analysis and Policy Advice**

- Pro Bono Financial Management Transition Team and Policy Advice: City of Bell
- Preparation for Possible Revenue Ballot Measure: City of Monterey
- Financial Assessment: City of Guadalupe
- Financial Condition Assessment: City of Grover Beach
- General Fund Reserve Policy: City of Lompoc
- Benchmark Analysis: City of Capitola
- Financial Management Improvements: City of Capitola
- Organizational Review: City of Willits (in collaboration with the HSM Team)
- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Finance Department Organizational Review: City of Ceres (in collaboration with national consulting firm)

**Other Financial Management Services**

- Interim Finance Director: City of Monterey
- Interim Finance Director: San Diego County Water Authority
- Interim Finance Director: City of Capitola
- Revenue Options Study: City of Greenfield
- Revenue Options Study: City of Pismo Beach
- Cost Allocation Plan: City of Guadalupe

- Cost Allocation Plan: City of Port Hueneme
- Cost Allocation Plan: City of Grover Beach
- Water and Sewer Rate Reviews: Avila Beach Community Services District
- Water and Sewer Rate Reviews: City of Grover Beach
- Joint Solid Waste Rate Review of Proposed Rates from South County Sanitary Company: Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District

Specific cost allocation plan preparation experience includes work for the cities of:

- Guadalupe
- Port Hueneme
- Grover Beach
- San Luis Obispo
- Simi Valley

In each case, I believe the contracting agencies were delighted with the high-quality results they received at a very reasonable cost. (References from the senior managers of these agencies are available upon request.)

**SUMMARY**

I am looking forward to this opportunity to serve the City of Greenfield. Please call or email me if you have any questions concerning this proposal.

Sincerely,



William C. Statler

*Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review*



## QUALIFICATIONS SUMMARY

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### SENIOR FINANCIAL MANAGEMENT EXPERIENCE

Bill Statler has over 30 years of years of senior financial management experience, which included serving as the Director of Finance & Information Technology/City Treasurer for the City of San Luis Obispo for 22 years and as the Finance Officer for the City of Simi Valley for 10 years before that.

Under his leadership, the City of San Luis Obispo received national recognition for its financial planning and reporting systems, including:

- Award for Distinguished Budget Presentation from the Government Finance Officers Association of the United States and Canada (GFOA), with special recognition as an outstanding policy document, financial plan and communications device. *San Luis Obispo is one of only a handful of cities in the nation to receive this special recognition.*
- Awards for excellence in budgeting from the California Society of Municipal Finance Officers (CSMFO) in all four of its award budget categories: innovation, public communications, operating budgeting and capital budgeting. *Again, San Luis Obispo is among a handful of cities in the State to earn recognition in all four of these categories.*
- Awards for excellence in financial reporting from both the GFOA and CSMFO for the City's comprehensive annual financial reports.
- Recognition of the City's financial management policies as "best practices" by the National Advisory Council on State and Local Budgeting.

The financial strategies, policies and programs he developed and implemented resulted in strengthened community services and an aggressive program of infrastructure and facility improvements, while at the same time preserving the City's long-term fiscal health.

### FINANCIAL MANAGEMENT SERVICES FOR OTHER AGENCIES

#### Strategic Plans, Fiscal Forecasts and Long-Term Financial Plans

- Strategic Planning: City of Monrovia (in collaboration with HSM Team)
- Council Goal-Setting: City of Willits (in collaboration with the HSM Team)
- Long-Term Financial Plan and Council Goal-Setting: City of Bell
- Long-Term Financial Plan: City of Salinas
- Long-Term Financial Plan: City of Camarillo
- Long-Term Financial Plan: City of Pismo Beach
- Long-Term Financial Plan: Bear Valley Community Services District

**Organizational Analysis and Policy Advice**

- Pro Bono Financial Management Transition Team and Policy Advice: City of Bell
- Preparation for Possible Revenue Ballot Measure: City of Monterey
- Financial Assessment: City of Guadalupe
- Financial Condition Assessment: City of Grover Beach
- General Fund Reserve Policy: City of Lompoc
- Benchmark Analysis: City of Capitola
- Financial Management Improvements: City of Capitola
- Organizational Review: City of Willits (in collaboration with the HSM Team)
- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Finance Department Organizational Review: City of Ceres (in collaboration with national consulting firm)

**Interim Finance Director**

- City of Monterey
- San Diego County Water Authority
- City of Capitola

**Other Financial Management Services**

- Revenue Options Study: City of Greenfield
- Revenue Options Study: City of Pismo Beach
- Cost Allocation Plan: City of Guadalupe
- Cost Allocation Plan: City of Port Hueneme
- Cost Allocation Plan: City of Grover Beach
- Water and Sewer Rate Reviews: Avila Beach Community Services District
- Water and Sewer Rate Reviews: City of Grover Beach
- Joint Solid Waste Rate Review of Proposed Rates from South County Sanitary Company: Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District

**PROFESSIONAL LEADERSHIP**

- Member, Board of Directors, League of California Cities (League): 2008 to 2010
- Member, California Committee on Municipal Accounting: 2007 to 2010
- Member, GFOA Budget and Fiscal Policy Committee: 2005 to 2009
- President, League Fiscal Officers Department: 2002 and 2003
- President, CSMFO: 2001
- Member, Board of Directors, CSMFO: 1997 to 2001
- Chair, CSMFO Task Force on “GASB 34” Implementation
- Fiscal Officers Representative on League Policy Committees: Community Services, Administrative Services and Environmental Quality: 1992 to 1998

- Chair, Vice-Chair and Senior Advisor for CSMFO Committees: Technology, Debt, Career Development, Professional and Technical Standards and Annual Seminar Committees: 1995 to 2010
- Member, League Proposition 218 Implementation Guide Task Force
- Chair, CSMFO Central Coast Chapter: 1994 to 1996

**TRAINER**

- League of California Cities
- Institute for Local Government
- California Debt and Investment Advisory Commission
- Government Finance Officers Association of the United States and Canada
- California Society of Municipal Finance Officers
- Municipal Management Assistants of Southern California and Northern California
- National Federation of Municipal Analysts
- Probation Business Manager's Association
- Humboldt County
- California Association of Local Agency Formation Commissions

Topics included:

- Long-Term Financial Planning
- The Power of Fiscal Policies
- Financial Analysis and Reporting
- Fiscal Health Contingency Planning
- Effective Project Management
- Providing Great Customer Service in Internal Service Organizations: The Strategic Edge
- Strategies for Downsizing Finance Departments in Tough Fiscal Times
- Top-Ten Skills for Finance Officers
- Telling Your Fiscal Story: Tips on Making Effective Presentations
- What Happened in the City of Bell and What We Can Learn from It
- Debt Management
- Transparency in Financial Management: Meaningful Community Engagement in the Budget Process
- Financial Management for Non-Financial Managers
- Preparing for Successful Revenue Ballot Measures
- Integrating Goal-Setting and the Budget Process
- Multi-Year Budgeting
- Financial Management for Elected Officials
- 12-Step Program for Recovery from Fiscal Distress
- Strategies for Strengthening Organizational Effectiveness

## **PUBLICATIONS**

- *Planning for Fiscal Recovery*, Government Finance Review, February 2014
- *Guide to Local Government Finance in California*, Solano Press, July 2012 (Co-Author) [www.solano.com](http://www.solano.com)
- *Managing Debt Capacity: Taking a Policy-Based Approach to Protecting Long-Term Fiscal Health*, Government Finance Review, August 2011
- *Fees in a Post-Proposition 218 World*, League of California Cities, City Attorney's Department Spring Conference, May 2010
- *Municipal Fiscal Health Contingency Planning*, Western City Magazine, November 2009
- *Understanding the Basics of County and City Revenue*, Institute for Local Government, 2008 (Contributor)
- *Financial Management for Elected Officials*, Institute for Local Government, 2010 (Contributor)
- *Getting the Most Out of Your City's Current Revenues: Sound Fiscal Policies Ensure Higher Cost Recovery for Cities*, Western City Magazine, November 2003
- *Local Government Revenue Diversification, Fiscal Balance/Fiscal Share and Sustainability*, Institute for Local Government, November 2002 (Co-Author)
- *Why Is GASB 34 Such a Big Deal?*, Western City Magazine, November 2000
- *Understanding Sales Tax Issues*, Western Cities Magazine, June 1997
- *Proposition 218 Implementation Guide*, League of California Cities, 1997 (Contributor)

## **HONORS AND AWARDS**

- Cal-ICMA Ethical Hero Award (for service to the City of Bell)
- CSMFO Distinguished Service Award for Dedicated Service and Outstanding Contribution to the Municipal Finance Profession
- National Advisory Council on State and Local Government Budgeting: Recommended Best Practice (Fiscal Policies: User Fee Cost Recovery)
- GFOA Award for Distinguished Budget Presentation: Special Recognition as an Outstanding Policy Document, Financial Plan and Communications Device
- CSMFO Awards for Excellence in Operating Budget, Capital Improvement Plan, Budget Communication and Innovation in Budgeting

- GFOA Award of Achievement for Excellence in Financial Reporting
- CSMFO Certificate of Award for Outstanding Financial Reporting
- National Management Association Silver Knight Award for Excellence in Leadership and Management
- American Institute of Planners Award for Innovation in Planning
- Graduated with Honors, University of California, Santa Barbara

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Visit my web site for additional information at [www.bstatler.com](http://www.bstatler.com)

