



September 6, 2018

Board of Directors
Ventura Regional Sanitation District
Ventura, California

APPROVAL OF A NEW CENTRAL ADMINISTRATIVE INDIRECT COST ALLOCATION METHODOLOGY BEGINNING IN FY2019-20

RECOMMENDATION

- A. Receive and file the report from the Personnel & Finance (P&F) Committee on the issue of Central Administration Department indirect cost allocation; and
- B. Approve, and direct staff to implement, a new indirect cost allocation methodology for Central Administration costs based on VRSD expenses, beginning in FY 2019-20.

FISCAL IMPACT

The effect of the new indirect cost allocation methodology (using FY2017-18 budgeted numbers) is a shift of approximately \$430,000 in Central Administration Indirect charges from the Solid Waste Function to the Water/Wastewater Function.

BACKGROUND/ANALYSIS

The District has three major functions from a budgetary perspective; they are Central Administration, Solid Waste, and Water/Wastewater. Solid Waste and Water/Wastewater are the primary revenue producing functions. Central Administration supports both Solid Waste and Water/Wastewater functions by providing necessary financial, planning, contracting, and personnel services. Central Administration costs need to be allocated to the two revenue producing functions in a rational and equitable way so that the benefits of Central Administration are fairly proportional to the burden placed on Central Administration by the two other functions. Some costs are easy to allocate and some costs are harder to allocate. Thus, the indirect cost allocation question becomes relevant and is the focal point of this Board letter.

On June 15, 2017, the VRSD Board established Goal No. 3-6, titled "Examine the Overhead Allocation Methodology" for District staff review and analysis for FY2017-18. The crux of Goal No. 3-6 is to examine the amount of and the allocation methodology for the indirect overhead charges from the District Central Administration Function. This analysis was designed to determine if the proper or appropriate amount of indirect overhead charges from the Central Administration Function are being applied to the Water/Wastewater (WWW) Function vs. the Solid Waste Function.

Staff prepared material and presented it to the P&F Committee on March 6, 2018 ahead of the VRSD Board meeting on this subject on March 15, 2018. Staff sought and received additional direction and clarification at a subsequent VRSD Board meeting on March 22, 2018.

The Board remanded this process to the P&F Committee, requested that involvement of interested client agencies be sought, and requested a final report by the end of the calendar year. The P&F Committee met four times as shown below:

- April 3, 2018
- April 17, 2018
- May 1, 2018
- August 23, 2018

These meetings were attended intermittently by various interested parties (i.e., water/wastewater clients or customers of VRSD), and the P&F Committee has concluded their meetings and consideration of this question. The P&F Committee developed a recommendation for the full VRSD Board for today's meeting.

RECOMMENDED PROPOSAL

The current methodology for assigning Central Administration costs is a revenue-based allocation methodology, which allocates central administrative costs to certain functions based upon the revenue generated by VRSD from that activity or function. The Committee examined a total of eleven separate methodologies, and ultimately decided upon an expense-based methodology that would redirect or shift approximately 5% of additional overhead charges from the Solid Waste Function to the WWW Function.

One concern that members of the Board, the P&F Committee, and the interested client parties had about the analysis of central administrative cost allocation was that any significant redirection or shift of overhead charges to WWW clients from Solid Waste could result in the loss of WWW clients due to the increase in their costs associated with VRSD's published labor rates.

Thankfully, however, it appears that this concern will not be realized due to the modest increases that WWW clients will see should the Board agree with the Committee's recommendation. The new indirect allocation methodology would be implemented first for FY2019-20.

Ultimately, the P&F Committee recommended that staff follow a methodology based on VRSD budgeted expenses for each of the four programs which were used to study the allocation methodologies. The allocation base in the recommended scenario consists of net operating expenses (which equals operating expenses less other revenues). This results in 65% of Central Administration cost directed to the Solid Waste Function, and 35% directed to the WWW Function (currently, 70% and 30%, respectively).

Staff will summarize the process that the P&F Committee undertook with a PowerPoint presentation at today's meeting.

On March 31, 2018, a new goal for FY 2018-19 encompassing the ongoing process initiated with Goal No. 3-6 from FY2017-18 was formulated:

Goal 5 –Present the Results of the Examination of the Overhead Allocation Methodology for Board Consideration and Approval

With the Board's acceptance of the P&F Committee's recommendations in this board letter, Goal 5 for FY2018-19 will be completed.

This letter has been reviewed by Legal Counsel as to form.

If you should have any questions or need additional information, please contact me at (805) 658-4600 or via email at ChrisTheisen@vrsd.com.

CHRIS THEISEN, GENERAL MANAGER

APPROVED FOR AGENDA:



Chris Theisen - General Manager

Attachments: None

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