

Internal Cost Allocation Studies

All functions in city government can be divided into two categories. Those that provide a service directly to the community, such as parks, streets, and police or fire protection, are classified as line functions. Those that support the line activities are classified as staff functions. Sandy City accounts for some of its staff functions by creating separate internal service funds. Information Technology, Risk Management, and Fleet Management are all internal service funds. Other staff functions are included in the General Fund. An annual study is conducted for each of these funds to identify and appropriately allocate the costs associated with providing staff functions of the City.

Administrative Cost Allocation Study

Many of the City's line functions are financed through the General Fund. The primary sources of revenue for the General Fund are property, sales, and franchise taxes, although there are other general revenues such as fines and fees. Other line functions are accounted for separately from the General Fund in either a proprietary or special revenue fund. These funds have their own financing sources, typically through user fees or charges for the services provided. Examples of these funds include Water, Storm Water, Alta Canyon Sports Center, and Recreation. It is important to establish proprietary and special revenue funds separate from our General Fund because, in some cases, they serve individuals that do not pay taxes.

Proprietary and special revenue funds generally rely on the support of the same staff functions as the General Fund. Because many of those services are funded by tax revenues, it is important that the proprietary and special revenue funds reimburse the General Fund for the costs incurred. It is also important that the General Fund be accountable for the cost of the staff services provided.

The purpose of this study is to identify the full cost of all staff functions within the General Fund and allocate those costs among the various line functions throughout Sandy City. The table to the right shows an example of this type of allocation, as the full

administrative costs for the City Attorney department (staff function) are allocated to line functions in departments outside the General Fund. A similar allocation is completed for all

Example of Cost Allocation (City Attorney)		
	% Attorney	\$ Attorney
Economic Development	2.38%	52,445
RDA - All Areas	0.48%	10,539
CDBG	0.34%	7,527
Water	4.23%	93,088
Street Lighting	0.23%	5,018
Storm Water	0.68%	15,055
Weekly Waste Pickup	0.11%	2,509
City Cleanup	0.00%	-
Recreation	0.23%	5,018
Golf	0.00%	-
Alta Canyon	0.06%	1,255
Community Events	0.80%	17,564
Amphitheater	0.74%	16,309
Arts Guild	0.46%	10,036
Fleet	0.00%	-
Information Technology	1.40%	30,856
Risk Management	2.45%	53,949

staff functions within the General Fund, using various time studies and other allocation methodologies appropriate for each function.

While this study determines the full amount of General Fund costs that can justifiably be allocated to other funds, it is important to note that the Administration or City Council can choose not to allocate some (or possibly any) of the costs, in effect creating subsidies from the General Fund, should they deem it in the public’s best interest. In some cases, the current charges are lower than the amounts justified by the study, and, because of how much the charges can change each year, increases/decreases are typically capped at ±10% to provide continuity and ease the impact on individual budgets. A breakdown of the FY 2021 charges is shown in the chart to the right. In the budget, these are shown as Administrative Charges—expenses in the funds listed to the right, and revenue in General Fund departments.

	FY 2021 Administrative Charges
RDA - All Areas	\$ 281,605
CDBG	-
Public Utilities	
Water	905,925
Street Lighting	120,102
Storm Water	265,150
Waste Collection	
Weekly & Recycling	249,565
City Cleanup	124,323
Recreation	65,187
Golf	75,922
Alta Canyon	120,810
Amphitheater	18,739
Arts Guild	7,139
Fleet	239,327
IT Services	400,656
Risk Management	233,062
TOTAL	\$ 3,107,512

Information Technology Cost Allocation Study

The Information Technology (IT) fund was set up to account for the finances associated with providing technology support and infrastructure to all City departments. Because it is an internal service fund, it is reliant on City departments to fund its operations. IT support has an operations and maintenance (O&M) component and a capital component.

IT O&M costs are identified annually and categorized based on the IT system or area to which the costs belong (e.g., GIS Systems, Telecommunications, PC/Network, etc.). Allocable IT staff time is tracked in each of these categories throughout the year, and the staff time percentages are used to allocate personnel costs to departments based on users of those IT services. Costs related to software and hardware maintenance, licenses, access fees, and other direct costs are also allocated to City departments on a per-user basis. These costs make up the IT operating charges.

A long-term IT capital plan is also conducted each year to identify the equipment and costs required to maintain appropriate IT infrastructure for City operations. This plan tracks the expected useful life and replacement costs of all IT capital equipment. As shown in the example on the following page, these costs are annualized based on the expected useful life to calculate a target amount that must be collected from departments to ensure sufficient funding of long-term capital IT needs. These costs make up the IT capital charges.

Information Technology Capital Plan									
For FY 2021	Units	Unit Replacement Cost	Total Replacement Cost	Useful Life (in years)	Target Annual Revenue	Target Revenue per User	Current No. of Connections	Scheduled Replacement (FY Ending)	Target Reserves (end of year)
PC/Network									
Storage Area Network (SAN)	1	\$ 80,000.00	\$ 80,000.00	5	\$16,000.00	\$ 65.31	245	2025	\$ 16,000.00
Storage Area Network (SAN)	1	\$ 80,000.00	\$ 80,000.00	5	\$16,000.00	\$ 65.31	245	2022	\$ 64,000.00
Ruckus Wireless Access Points	1	\$ 42,000.00	\$ 42,000.00	7	\$ 6,000.00	\$ 24.49	245	2026	\$ 12,000.00
City Hall Virtual Servers	8	\$ 8,500.00	\$ 68,000.00	3	\$22,666.67	\$ 1,511.11	15	2023	\$ 22,666.67
UPS (Computer Rm)	1	\$ 50,000.00	\$ 50,000.00	10	\$ 5,000.00	\$ 20.41	245	2029	\$ 10,000.00
UPS Batteries	1	\$ 8,000.00	\$ 8,000.00	10	\$ 800.00			2024	\$ 5,600.00
UPS (Remote Sites)	6	\$ 500.00	\$ 3,000.00	3	\$ 1,000.00			2022	\$ 2,000.00
Data Switches	1	\$ 75,000.00	\$ 75,000.00	4	\$18,750.00	\$ 163.04	115	2023	\$ 37,500.00
Wireless WAN Radios	2	\$ 3,500.00	\$ 7,000.00	5	\$ 1,400.00			2025	\$ 1,400.00
Total PC/Network			\$413,000.00		\$87,616.67	\$ 1,849.66			\$ 171,166.67

IT operating and capital charges are allocated to City departments under the IT Charges line item. Operating and capital costs associated with the City's phone system are budgeted in the IT fund and included in the IT cost allocation study. These charges to City departments are included under the Telephone line item and are recorded as revenue in the IT fund as Telephone Charges.

Risk Management Cost Allocation Study

The Risk Management fund was created as an internal service fund to account for the finances associated with managing insurance needs and liability claims, as well as administering a safety program for City departments. The Risk Management budget is partially funded by a property tax levy specifically designated for purchase of insurance and the payment and/or defense of liability claims against the City. However, this property tax revenue only covers about 27% of the Risk Management budget. Hale Center Theater reimburses the City for the cost of the property insurance on that building. The vast majority of the remaining budget is covered by internal charges to City departments.

Workers Compensation insurance and related administrative expenses are charged to departments under the Fixed Benefits line item based on the number and type of employees in each department. This is shown as revenue in the Risk Management fund as Workers Compensation Charges.

The City's property insurance premium is allocated to departments based on the City properties assigned to those departments and the updated replacement values for those properties.

To identify and allocate the remaining anticipated costs in the Risk Management budget, an actuarial study is conducted each year. As part of this study, insurance premiums are estimated for the upcoming fiscal year, and an 11-year history of general liability claims is updated to calculate an estimate of expected losses due to general liability claims for the upcoming fiscal year. This calculation factors in the number of historical claims, the amounts paid for claims, and the amounts reserved for claims anticipated to be paid.

Once insurance premiums, expected claim payments, and other Risk Management costs are estimated for the upcoming year, a five-year history of liability claims by department is used to allocate these Risk Management costs to City departments. Department size is also factored in, but significant weight is given to each department's history of general liability claims. This methodology helps promote accountability and incentivize departments to foster a culture of safety and caution in their everyday operations, with respect to employees and the general public. Charges to departments for Risk Management services in FY 2021 are outlined in the table to the right. These charges and the associated revenue in the Risk Management fund are shown in the budget as Risk Management Charges.

Fund	FY 2021 Risk Mgt Charge
General Fund	381,592
RDA	2,934
Community Arts	22,539
Alta Canyon Sports Center	5,078
Water	383,100
Storm Water	16,367
Street Lighting	866
River Oaks Golf Course	21,594
CDBG	174
Recreation	16,513
Waste	5,930
Information Technology	7,560
Fleet	10,118
Total	\$874,365

Fleet Cost Allocation Study

Costs associated with the O&M, purchase, and repair of fleet vehicles are managed within the Fleet fund. Fleet O&M costs and the allocation of those costs to City departments are reviewed annually. As shown below, using actual costs incurred through the first seven months of the fiscal year, a basic analysis is conducted to project O&M costs through the end of the fiscal year. The resulting percentages are used to allocate fleet O&M costs to City departments for the following fiscal year. Fleet O&M costs are charged to departments through the Fleet O&M line item and the revenue is shown in the Fleet Operations fund under Fleet O&M Charges.

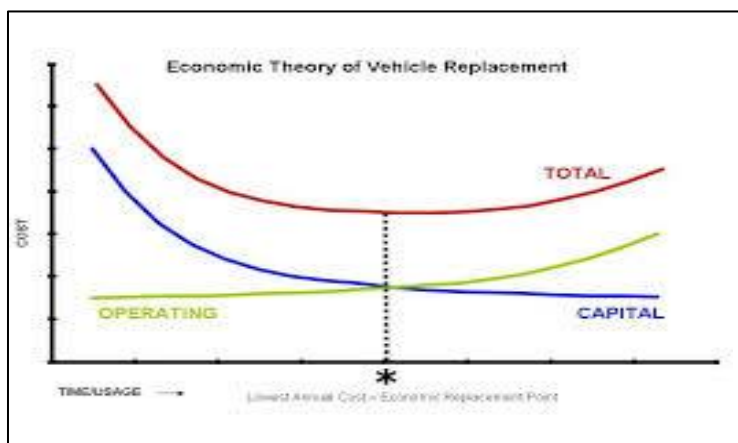
Fleet Operations and Maintenance Budget						
Department	FY 2020 Budget	FY 2020 YTD	FY 2020 Forecast	%	FY 2021 Budget	Variance
Street Lighting (6700)	18,886	6,868	11,774	0.58%	14,098	(4,788)
Engineering (3300)	24,022	8,814	15,110	0.64%	15,509	(8,513)
Fire (2200)	321,156	153,965	263,940	11.24%	270,923	(50,233)
Golf Course (5600)	3,439	1,990	3,411	0.15%	3,502	63
Parks & Cemetery (4200)	354,551	182,622	316,833	13.33%	321,349	(33,202)
Senior Citizens (4300)	10,021	4,847	8,309	0.35%	8,529	(1,492)
Planning (5100)	1,692	184	315	0.04%	1,057	(635)
Police (2110)	547,580	357,338	618,083	25.46%	613,862	66,282

Any revenue from the sale of City vehicles being replaced is also used to cover fleet O&M costs, thereby reducing charges to City departments. Furthermore, replacing City vehicles before they begin to require significant repairs helps maximize the City's return on those vehicles.

For these reasons, Fleet Management staff considers several factors when determining when to replace City vehicles. Using specialized software, they run a replacement scoring report, which tracks maintenance costs, down time, age, mileage, and visual condition. These factors assign points to each vehicle and help determine which vehicles need replacement. Illustrated in the chart below, the scoring report assigns points from 0-25 and color codes the score. Blue is excellent condition and is from 0-6 points. Green is a good condition and is from 7-11 points. Consider replacement is orange and runs between 12-18. Red shows needs replacement at 19-25 points. Additional assessment and visual inspection are also conducted by Fleet Management staff before recommending replacement.

UNIT #	POINTS	VEH YEAR	LIFE METER	PURCHASE PRICE	MAINT-COST	REPAIRS
0028	7	2017	7,126.40	\$ 125,000.00	\$ 12,532.80	5
0029	16	2000	82,619	\$ 335,481.75	\$ 248,902.03	2
0030	17	2008	976	\$ 6,805.00	\$ 5,706.88	0
0031	14	2001	24,554	\$ 25,703.00	\$ 34,384.81	2
0032	10	2016	32,035	\$ 235,857.59	\$ 12,691.60	8
0033	20	207	117,298	\$ 28,356.00	\$ 28,135.81	8
0034	6	2016	15,818	\$ 28,683.16	\$ 3,371.94	1
0035	14	2013	101,229	\$ 168,458.00	\$ 61,437.28	5
0036	16	2013	97,111	\$ 168,458.00	\$ 60,030.50	14
0037	17	2006	113,139	\$ 489,617.00	\$ 178,092.90	8
0038	18	2010	93,539	\$ 389,066.00	\$ 94,707.54	11

The following diagram illustrates the economic theory of vehicle replacement. The vertical dotted line is the “sweet spot” As the City’s capital investment loses value, and operating costs from maintenance increases, these values intersect. When operating costs become higher than the value of the vehicle, the vehicle should be replaced.



In an effort to balance fleet capital costs and operating costs, the City typically budgets for vehicles most in need of replacement each year, according to the criteria explained above. The City fleet is also occasionally expanded to accommodate increases in staffing and/or expansion of service. Departments are charged for their expansion or replacement vehicles through the Fleet Purchases line item, which comes in as revenue under Charges for Services in the Fleet Purchases fund where details of vehicle procurement are recorded.

Departments also pay for vehicles damaged while operated by their employees, if not covered by other drivers' insurance. These amounts are charged to departments through the Fleet Repair line item and shown as Charges for Services in the Fleet Repair fund where vehicle repair costs are recorded.