

AGENDA
Blue Ribbon Commission Phase II

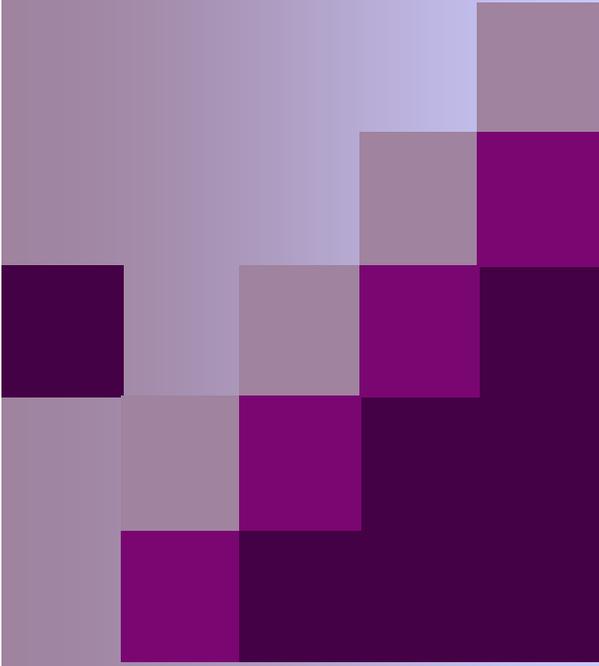
December 10, 2009 Meeting
6:00 p.m. to 8:00 p.m.

13th Street Meeting Room

(Free parking is available after 5 p.m. at the Municipal Bldg.)

Food will be provided since several members of the Commission are coming from other meetings or work.

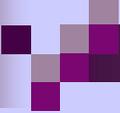
| <u>Time</u> | <u>Topic</u> |
|--------------------|--|
| 6:00 to 6:10 | - Public Participation |
| 6:10 to 6:40 | - Overview of Cost Accounting Systems for Municipalities |
| 6:40 to 7:10 | - Discuss Follow-up Items Provided from Previous Meetings: 1.) Subsidized Services/Programs 2.) Other? |
| 7:10 to 8:00 | - Review Current Draft of BRC II Final Report: 1.) Principles from BRC I Report 2.) "Action Items" for BRC II Report |



Cost Accounting and Cost Allocation in Local Government

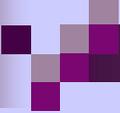
BRC II

November 12, 2009



How is it Different than Regular Accounting?

- Cost accounting:
 - management analytical and decision-making
- Financial accounting:
 - reporting, monitoring and compliance
- Two separate software systems for two different purposes



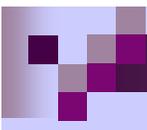
Key Terms: Wrong Method Can Mean Wrong Decision

- Direct Cost: Cost assigned to a program
- Indirect Cost: Overhead assigned to more than one program or service (multiple levels)
- Fixed Cost: Does not change with +/- in service level provided (rent)
- Variable Cost: Changes with +/- service provided (direct salary)



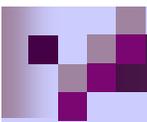
Key Terms Continued

- Sunk Cost: cost already incurred so disregard it (current computer system)
- Marginal Cost: +/- change in total cost of a service as increases or decreases
- Life Cycle Cost: Total of all costs from acquisition through disposal
- Opportunity Cost: The cost if an alternative is not pursued



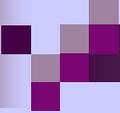
Cost Analysis is Used For:

- Monitoring and Increasing Efficiency
- Determining Fees and Charges
- Changing the Level of a Service + or –
- Make vs. Buy Decisions
- Internal or Outsource a Program or Service
- Buying Capital Equipment



The Challenge of Determining the Cost of

- Direct costs: salaries, benefits, supplies
- Applying indirect costs:
 - at the department level for division costs
 - Supervision, office costs, supplies, commodities
 - Indirect costs at the fund level
 - Supervision, support services, commodities
 - Indirect costs at the city level
 - Supervision, support services, commodities
 - Other indirect costs
 - Council, advertising, security at council meetings



Options to Account for Program and Service Costs

- Direct Cost Only
- Direct Cost and Cost Allocation
- Cost Accounting
- Hybrid (some use cost allocation; some do not)



Direct Cost Only

- Includes only the known specific costs:
 - The easiest and least costly to do; provides high level but not detailed information for total cost of a program or service
 - Used in many general fund programs or services
 - Is what is done in most general fund programs in Colorado
 - Government financial accounting systems capture salaries, benefits, supplies and contract costs
 - does not capture shared overhead
 - Internal Service Funds allocate overhead



Cost Allocation

Basic problem in calculating the cost of a service is that the resources used to support one service are also used to support many other services.

- Costs in support programs are assigned to the program or service
- Allocated indirect costs are based on a nexus:
 - Telephone costs based on number of phones
 - Payroll costs based on number of employees



Direct Cost and Cost Allocation

- Captures all expenditure in direct cost slide
- Allocates overhead costs to other funds
- Cost allocation for general fund departments (e.g., police, fire, etc.) is not allocated
 - Cost allocation to general fund could be added and then offset in the budget to show the cost but not distort the amount of change in the budget
- Is cost effective and captures overall costs without having to purchase cost accounting software or adding staff
 - An enterprise accounting, payroll and HR system = \$3.0 million



Cost Accounting Systems

- 85% of cost accounting is non-financial
 - The city is required by charter and state law to do financial accounting and is staffed for it
 - Cost accounting allocates overhead based on nexus and is more detailed than cost allocation
- Additional staff and software is needed
 - The software for financial accounting is usually not adaptable for cost accounting without significant modifications or a separate module
 - Can be looked at when new software is considered



Hybrid

- What is used in the city of Boulder
 - Includes:
 - Direct costs
 - Cost allocation of overhead outside of the general fund
 - Internal service fund costs to all funds if a major costs
- Could be adapted to show overhead allocations in the general fund then net them out so as not to distort budgets
- Recreation Activity Fund and Climate Action Plan Fund do not pay cost allocation