



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: CONVENTION AND CULTURAL
AFFAIRS FUND OVERHEAD

DATE: May 21, 2009

Approved

Christine J. Shippin

Date

5-22-09

BACKGROUND

At the May 7, 2009 City Council Study Session on the Community and Economic Development CSA, Councilmember Constant inquired about the Convention and Cultural Affairs Fund overhead rate. The City's convention and cultural facilities, which are managed by Team San Jose, are accounted for in the Convention and Cultural Affairs Fund.

The Finance Department develops an annual overhead plan that recovers costs for indirect central administrative support services such as activities performed by Human Resources, Information Technology, City Attorney, City Manager, City Auditor, Finance, etc. These central administrative costs are calculated consistent with overhead costs calculated for grants and other costs allocation plans developed by the City's Finance Department under the current guidance of the US Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments. Generally, these costs are recovered as indirect costs to the programs. The methodology used to reimburse recipients for the central administrative support services is calculated in the City-wide indirect cost rates.

The costs for these central administrative support service activities are referred to as overhead charges that support direct activities, such as Airport operations, sewage treatment, capital projects and special funds and programs. It is important the City maintains integrity of the Cost Allocation Plans and that the methodology is consistent with the OMB Guidelines.

Each year the development of the overhead plan for the upcoming budget is based on the most recent available financial information, such as the current year budget. To support the development of the proposed budget, Finance strives to complete the overhead rates by early January. For example, for the 2009-2010 Proposed Budget, Finance completed the calculation of the related overhead rates using the 2008-2009 budget information by early January 2009.

Overhead rates fluctuate yearly due to changing activity levels in direct services, changing costs in indirect services, and continuous refinements in overhead rate calculations. Recognizing that fluctuations in overhead rates have direct impacts on direct services, Finance initiated two review periods with departments. Prior to calculating overhead rates for the upcoming fiscal year,

Finance staff offered to meet with departments to learn from prior year overhead rate calculations. Prior to releasing overhead rates for inclusion in the proposed budget process, Finance also offered to meet with departments to discuss draft overhead rates for the upcoming fiscal year.

ANALYSIS

Team San Jose (TSJ) is a direct activity that benefits from the support provided by indirect service activities. During the development and review of prior year's (2008-2009) overhead plan rates, Finance identified several issues for refinement of the Convention and Cultural Affairs Fund overhead rate. Based on the identification of these issues, instead of an initial increase in the rate, Finance adjusted the rate downward for Fiscal Year 2008-2009.

In developing the overhead rates for 2009-2010, Finance thoroughly reviewed the Convention and Cultural Affairs Fund overhead rate calculation. The calculation of the rate for 2009-2010 resulted in an increase in the rate from 16.25% to 23.68%. The rate increase is due to increased indirect costs specifically related to Team San Jose operations, including an increase in the workers' compensation claims cost allocation related to medical costs based on historical data, audits by the City Auditor's Office, Information Technology network services costs, and increases to City Attorney's Office activities. The methodology for calculating the overhead rate for the Convention and Cultural Affairs Fund is consistent with the methodology used across the entire organization, and a departure from this methodology could jeopardize the integrity of the plan and would require either subsidizing the support service costs to be borne by the General Fund or could cause unjustifiable costs being allocated to other programs without proper justification for the charges.

As outlined above, overhead rates fluctuate yearly due to changing activity levels in direct services, changing costs in indirect services, and continuous refinements in overhead rate calculations.

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office.


SCOTT P. JOHNSON
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