

Kenai Peninsula Borough
Finance Department

MEMORANDUM

TO: Wayne Ogle, Assembly President
Members, Kenai Peninsula Borough Assembly

THRU: Charlie Pierce, Mayor *cp*

FROM: Brandi Harbaugh, Finance Director *BH*

DATE: February 8, 2018

RE: Resolution 2018-010, Authorizing the Reestablishment of a Cost Allocation Plan for Service Area Operating Funds and Certain Funds (Mayor)

As part of the FY19 budgetary process, an administrative service fee ("admin fee") based on a percentage of each service area's expenditures is being proposed. The intent is to recover for the borough general fund a portion of the monies expended by the borough in providing an array of administrative functions for the service areas within the Kenai Peninsula Borough.

An admin fee was originally introduced in FY06 through Resolution 2006-036, *Establishing a Cost Allocation Plan*, at two different rates: 6.25% for service area operating funds and 3.04% for service area capital project funds, effective July 1, 2006 (FY07). The fee was to be charged on each year's appropriated budget, not on any carry-over fund balances. The resolution indicated that the rate would be set each year as part of the budget process. Subsequently, the operating fund rate was reduced to 3.04% and then in FY10 reduced to zero, but remained in effect for the capital project funds on a sliding scale from 0.5% to 2%.

For the FY19 budget it is proposed that the annual admin fee on service area operating budgets be set at 2.5%. The admin fee is intended to cover the cost of services that the General Fund is providing to the service areas such as legal services, human resources, processing of payroll, accounts payable, cash receipts, tax billing and collection, miscellaneous billing and collection, elections and information technology. Such a fee structure is often referred to as an "indirect cost reimbursement."

The service areas (14 in all, across the borough) have 208 employees and volunteers and a combined operating budget of \$24 million in FY18, requiring substantial administrative support from borough staff. The intent of the admin fee is to fairly allocate a portion of the financial responsibility of the borough's general government expenditures to the service areas that use those services.

The admin fee is not meant to cover the cost of services that would be incurred by the General Fund regardless of the service areas. For example, the borough has to assess the taxable value of property, regardless whether that parcel is within any service areas. The admin fee, therefore, is not intended to recover the cost of assessing individual parcels. But, the assessing and finance staff members expend significant resources to track and account for which parcels are in which service areas and to ensure that property tax receipts are correctly distributed to the right service area accounts. The admin fee is intended to help cover at least some of the cost of that additional effort expended on behalf of the service areas.