

## 4 Findings

Based upon the 2005 actual activity, frequencies, service levels and the methodology described in the previous section of this report, the following findings can be made:

### **Administrative Overhead Allocation**

The interview process revealed the departments and tasks which can be properly classified as overhead or support activities to direct line functions. As mentioned earlier in this report, these are activities which are undertaken in order to support employees that are providing direct services to the citizens of Shakopee. Various departments, ranging from City Council to Public Works, were identified as providing support services such as policy direction, accounting and reporting, budgeting, and management information services. Also included in the overhead calculation are the costs of providing building maintenance, vehicle and mechanical maintenance and insurance.

Figures A-1 through A-14 in Exhibit A display the allocation of staff time in each City department by function and the relative dollar amount of each department's budget for those functions. This information was used to determine categories which are considered for inclusion in the administrative overhead allocation, and areas where service is being provided to other funds by General Fund personnel.

Figure 1 on the next page displays the total amount of calculated administrative overhead for the City of Shakopee for actual 2005. The total dollar amount of this overhead is \$1,597,783 which translates to an overhead rate of 14.96% for 2005. In other words, for each dollar spent on providing a direct service during 2005, another approximately 15¢ is incurred providing support services for that task. When determining the total cost of providing a service, this overhead must be included with identifiable direct costs and should be reviewed and updated each year during the budget process.

Figure 1

| Department            | General Support Category | Wages and Benefits       | Supplies and Services | Miscellaneous | Capital Outlay | Totals       |
|-----------------------|--------------------------|--------------------------|-----------------------|---------------|----------------|--------------|
| GENERAL FUND          |                          |                          |                       |               |                |              |
| Administration        | City Administration      | \$296,553                | \$89,008              | \$43          | \$14,816       | \$400,420    |
| City Clerk            | City Administration      | 171,878                  | 68,560                | 30            | 4,248          | 244,717      |
| Community Development | City Administration      | 33,468                   | 16,721                | 12            | 35             | 50,237       |
| Engineering           | City Administration      | 10,449                   | 2,051                 | 6             | 16             | 12,523       |
| Finance               | City Administration      | 231,505                  | 452,744               | 41            | 147            | 684,436      |
| Legal                 | City Administration      | 0                        | 92,559                | 0             | 0              | 92,559       |
| Mayor and Council     | City Administration      | 46,122                   | 59,673                | 1,036         | 37             | 106,868      |
| RECREATION FUND       |                          |                          |                       |               |                |              |
| Recreation Programs   | City Administration      | 3,022                    | 960                   | 34            | 7              | 4,024        |
|                       | Totals                   | \$792,997                | \$782,278             | \$1,202       | \$19,306       | \$1,595,783  |
|                       |                          | Total Funds              |                       |               |                | \$18,443,802 |
|                       |                          | Less: Non-General Funds  |                       |               |                | (6,183,831)  |
|                       |                          | Total General Fund       |                       |               |                | 12,259,971   |
|                       |                          | Total Support Costs      |                       |               |                | (1,595,783)  |
|                       |                          | Overhead Denominator     |                       |               |                | \$10,664,188 |
|                       |                          | City Overhead Percentage |                       |               |                | 14.96%       |

Detailed worksheets compiled during the interview process and used in the calculation of the information displayed in Figure 1 and Appendix A are on file.

### Transfer Charges

As described in the Methodology section of this study, the interview process identified employees in several departments that provided direct services to various City funds in 2005 which, for the most part, should be self-supporting. By using the direct costs identified with these funds and adding the administrative overhead allocation previously calculated, the City may consider appropriate adjustments to the transfers from these funds to the General Fund. Figure 2, on the next page, details these findings:

Figure 2

| Fund/Department                                 | Allocated Benchmark Cost | Direct Charges to General Fund | Unreimbursed Costs |
|---|--------------------------|--------------------------------|--------------------|
| <u>Economic Development Authority</u>           |                          |                                |                    |
| General Fund - Administration                   | \$ 38,697                |                                |                    |
| General Fund - Community Development - Planning | 1,426                    |                                |                    |
| General Fund - Mayor and Council                | 85                       |                                |                    |
|   | \$ 40,208                | \$ 20,364                      | \$ 19,844          |
| <u>Recreation Fund</u>                          |                          |                                |                    |
| General Fund - Engineering                      | \$ -                     |                                |                    |
| General Fund - Park Maintenance                 | -                        |                                |                    |
| General Fund - Street                           | -                        |                                |                    |
|   | \$ -                     | \$ -                           | \$ -               |
| <u>Sanitary Sewer Fund</u>                      |                          |                                |                    |
| General Fund - Engineering                      | \$ 10,285                |                                |                    |
| General Fund - Park Maintenance                 | 815                      |                                |                    |
| General Fund - Street                           | 227,646                  |                                |                    |
|   | \$ 238,746               | \$ 70,033                      | \$ 168,714         |
| <u>Storm Drainage Fund</u>                      |                          |                                |                    |
| General Fund - Engineering                      | \$ 11,309                |                                |                    |
| General Fund - Park Maintenance                 | 437                      |                                |                    |
| General Fund - Shop                             | 1,229                    |                                |                    |
| General Fund - Street                           | 597,775                  |                                |                    |
|   | \$ 610,750               | \$ 16,364                      | \$ 594,386         |
| <u>Telecommunications Fund</u>                  |                          |                                |                    |
| General Fund - Administration                   | \$ 4,288                 |                                |                    |
| General Fund - City Clerk                       | 1,673                    |                                |                    |
| General Fund - Community Development - Planning | 4,791                    |                                |                    |
| General Fund - Finance                          | 243                      |                                |                    |
| General Fund - Information Technology           | 481                      |                                |                    |
|   | \$ 11,476                | \$ 9,014                       | \$ 2,462           |
| <u>Transit Fund</u>                             |                          |                                |                    |
| General Fund - Community Development - Planning | 20,479                   |                                |                    |
|   | \$ 20,479                | \$ 9,131                       | \$ 11,349          |
| TOTALS  | \$ 921,660               | \$ 124,905                     | \$ 796,755         |

As can be seen from Figure 2, an additional net transfer of approximately \$796,522 from these funds to the General Fund could be considered by the City exclusive of the Recreation Fund. An increase in the transfer charges to this level will more appropriately identify costs associated with each fund, as well as reduce the General Fund subsidy currently involved.

The General Fund does provide services to the Recreation Fund for administrative functions. The Recreation Fund also provides services for building and construction related activities that generate revenue for the General Fund. A final determination of the net service provided to the Recreation Fund will be done with the completion of a fee study for that fund.

The City may as a policy decision choose not to make a transfer to the General Fund from a fund whose primary revenues are other than user fees, such as taxes or grants, or where the user fees could not support the activities and a subsidy is necessary.