

Staff Report

TO: Board of Directors

FROM: Sandra Dunlap, Director of Finance

DATE: August 28, 2024

SUBJECT: Cost Allocation Plan (CAP)

FINANCE

RECOMMENDATION:

Approve the 2024 Cost Allocation Plan.

BACKGROUND:

As part of the District's Operational Initiatives presented to the board February 28, 2024, the District is to perform a full Cost Allocation Plan (CAP) to properly account for direct and indirect overhead costs. This would be done by creating a defensible model to accurately represent the true costs of providing services by each fund and departments with a more diverse set of factors. The completion of this would provide clarity and consistency to account for and allocate internal service costs equitably.

In 2022, the District created a new fund for overhead costs (Fund 70 Internal Services). These costs are inclusive of the following divisions: Directors, Management, Watershed, Human Resources, Information Technology, Safety, Communications, Accounting, Purchasing, and Shop Operations. These departments provide support services to the entire District, and therefore the costs associated with the fund are allocated proportionately by formula to the District's operating Funds below. The District has been using an internal calculation from FY2022 through present, with the current year division of costs calculated as:

- Fund 10 Water 65%
- Fund 30 Recreation 5%
- Fund 50 Hydro 30%

In February 2024, the District distributed a Request for Proposal (RFP) and received five responses. Of the five responses only two were able to meet the criteria. The District awarded Willdan Financial Services a contract in April 2024. The CAP kicked off in May 2024 with several data requests and calls with staff to understand the District’s operations.

Nevada Irrigation District																	
Cost Allocation Plan																	
Project Schedule																	
Scope of Services	May				June				July				August				
	6	13	20	27	3	10	17	24	1	8	15	22	29	1	8	15	22
Task 1: Initial Document Request	☞1																
Task 2: Kick-off / Refine Scope (web-meeting)					☞2												
Task 3: Gather Staffing Information and Develop Model (web-meeting)					☞3												
Task 4: Test and Review Cost Allocation Methodology (call)									☞4								
Task 5: Prepare and Present Draft Report (web-meeting)													☞5				
Task 6: Discuss and Revise Report (call)													☞6				
Task 7: Prepare and Present Final Report/Instruct Staff on Model (web-meeting)													☞7				

Deliverables:

☞1: Information Request	☞5: Final Model/Draft Report
☞2: Revised Project Scope and Schedule (if needed)	☞6: Revised Draft Report/Final Report
☞3: User-friendly Model in Microsoft Excel	☞7: Final Report – Hard and Electronic Copies
☞4: Draft Cost Allocation Plan Model Review	

Below are some highlights from the process:

1. An excel model was created specifically for the District that includes many factors such as revenues, expenditures, number of CIPs, number of POs, and FTEs. The CAP results to be used in the 2025 budget are as follows:
 - Fund 10 Water 64%
 - Fund 30 Recreation 5%
 - Fund 50 Hydro 31%
2. The Engineering department was determined to be an overhead cost and moved to Fund 70 Internal Services from Water Fund 10.
3. Annually the District will update the Cost Allocation Model as part of the annual budget process to ensure the allocation remains accurate. Percentages may change due to number of capital projects by fund, revenues, and operational expenditures.

BUDGETARY IMPACT:

There is no impact to the current budget related to the adoption of the CAP. However, the CAP will be utilized in future budget cycles to distribute overhead costs between the three operating funds.

Nevada Irrigation District

Cost Allocation Plan



What is a Cost Allocation Plan

Cost Allocation Plan (CAP) ensures that costs associated with Central Service Departments are appropriately allocated to respective Operating Departments, branches and/or funds

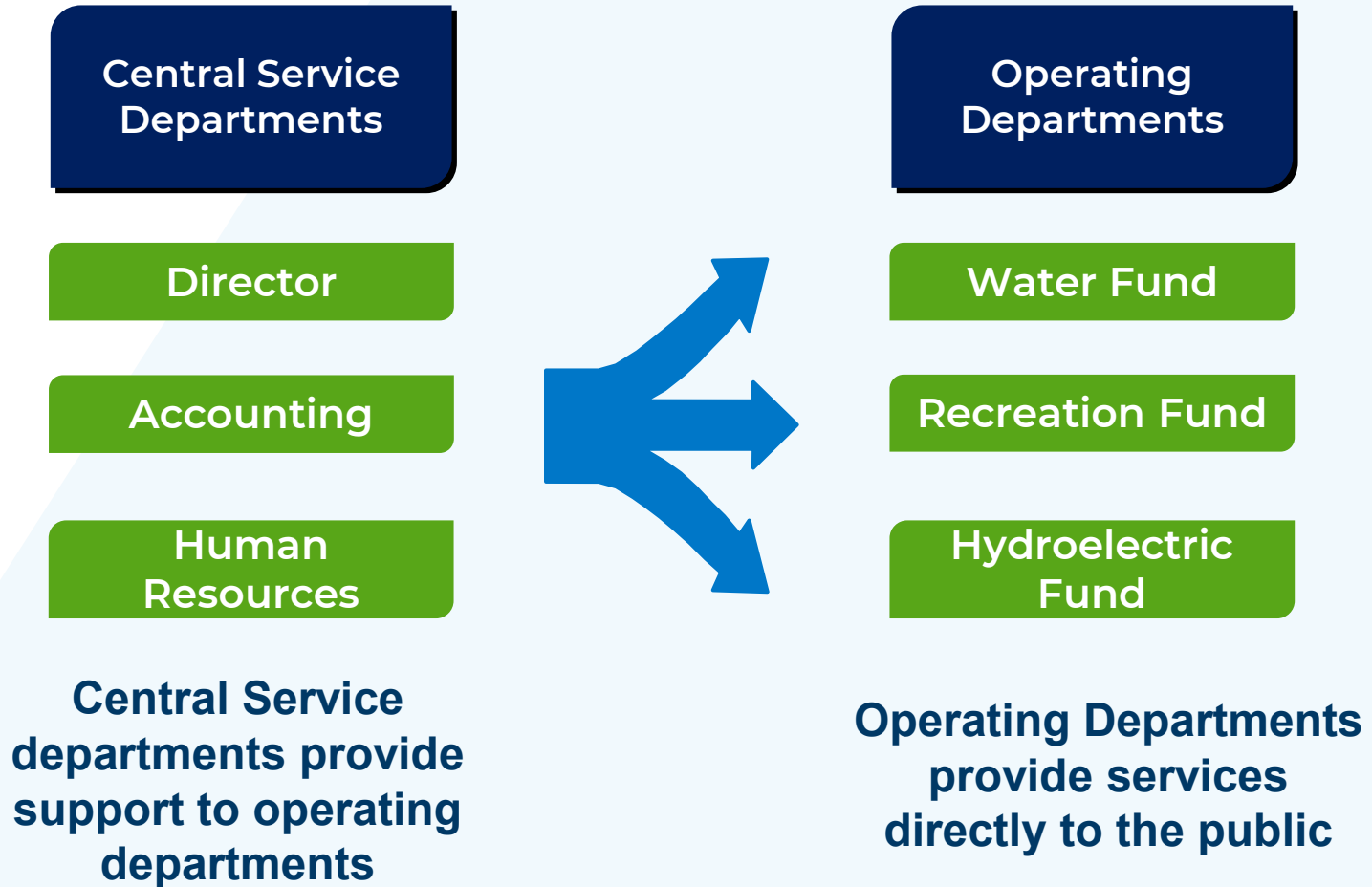
Tool that formulates an equitable methodology to identify and allocate indirect costs to direct cost programs

Allocations should reasonably represent how the recipients use and benefit from central support services

Building Blocks of a Cost Allocation Plan

- Evaluate costs of central service departments to determine which amounts are appropriately allocable to each operating department and fund
- Identify the major functions of each central service
- Determine how operating departments utilize and benefit from central overhead service functions
- Identify distribution bases that best represent those functions and collect necessary data
- Allocate the cost of central services using the distribution bases

Agency Departmental Structure



Overhead Cost Allocation Update Process

Kick-off discussion

Gather financial and expenditure data

Develop model to reflect District's budget structure

- (i.e. fund, department, cost codes, etc.)

Review and analyze expenditures to identify allocable costs

Review existing CAP, identify feasibility, effectiveness and areas for improvement

Identify central support function, direct operating services, and ISFs

Meetings with staff to:

- Understand structural or functional changes within expenditure data
- Highlight and resolve issues or anomalies
- Discuss appropriate and defensible allocation bases
- Gather necessary data regarding selected allocation bases

Example of Allocation Bases

Central Service Department	Modified Total Direct Cost	Salaries & Benefits	Total FTE's	Total Agendas	Total Purchase Orders
Accounting	75%		25%		
Communications	100%				
Directors	33%		33%	33%	
Human Resources		50%	50%		
Purchasing					100%

Summary of Allocable Costs

Allocable Cost Summary - Central Services

Fiscal Year 2023-2024

Summary	Total Cost	Unallocable Cost	Allocable Cost
	\$ 18,102,716	\$ 4,052,183	\$ 14,050,533
Central Service			
10: Water Fund- ENGINEERING	3,829,675	311,295	3,518,380
70: Internal Services Fund- ACCOUNTING	1,359,858	-	1,359,858
70: Internal Services Fund- ADMINISTRATION	4,261,200	3,740,888	520,312
70: Internal Services Fund- COMMUNICATIONS	209,600	-	209,600
70: Internal Services Fund- DIRECTORS	161,525	-	161,525
70: Internal Services Fund- HUMAN RESOURCES	507,885	-	507,885
70: Internal Services Fund- INFORMATION SERVICES	1,927,532	-	1,927,532
70: Internal Services Fund- MANAGEMENT	1,931,628	-	1,931,628
70: Internal Services Fund- PURCHASING	701,351	-	701,351
70: Internal Services Fund- SAFETY	348,276	-	348,276
70: Internal Services Fund- SHOP OPERATIONS	883,764	-	883,764
70: Internal Services Fund- WATERSHED	1,980,422	-	1,980,422

Summary of Costs Allocated to Operating Groups

Allocated Cost Summary

Operating Department / Division / Fund	Total Allocation
	\$14,050,533
10: Water Fund- ADMINISTRATION	\$332,894
10: Water Fund- CASHIERING	\$18,942
10: Water Fund- CUSTOMER SERVICE	\$279,751
10: Water Fund- INFORMATION SERVICES	\$0
10: Water Fund- MAINTENANCE	\$2,286,481
10: Water Fund- MANAGEMENT	\$0
10: Water Fund- PURCHASING	\$0
10: Water Fund- SAFETY	\$0
10: Water Fund- SHOP OPERATIONS	\$0
10: Water Fund- VEGETATION	\$229,154
10: Water Fund- WATER OPERATIONS	\$2,683,100
15: Water Capital Fund	\$3,146,270
21: Cement Hill Assessment District	\$1,289
22: Rodeo Flat Assessment District	\$1,044
30: Recreation Fund- ADMINISTRATION	\$11,903
30: Recreation Fund- GENERAL RECREATION	\$664,171
35: Recreation Capital Fund	\$0
50: Hydroelectric Fund- ADMINISTRATION	\$171,157
50: Hydroelectric Fund- HYDRO ADMIN	\$652,862
50: Hydroelectric Fund- HYDRO MAINTENANCE	\$1,211,492
50: Hydroelectric Fund- HYDRO OPERATIONS	\$680,331
55: Hydroelectric Capital Fund	\$1,679,692

Summary of Costs Allocated at the Fund level

Allocated Cost Summary

Operating Fund	Total Allocation
	\$14,050,533
Water Fund	\$8,978,926
Recreation Fund	\$676,074
Hydroelectric Fund	\$4,395,534

- **Percent Share of total allocation**
 - **Water Fund – 64%**
 - **Recreation Fund – 5%**
 - **Hydroelectric Fund – 31%**

Questions



Municipal Advisor Disclaimer

The Nevada Irrigation District further represents, acknowledges, and agrees that:

- (i) The District uses, or may use, the services of one or more municipal advisors registered with the U.S. Securities and Exchange Commission (“SEC”) to advise it in connection with municipal financial products and the issuance of municipal securities;
- (ii) The District is not looking to Willdan to provide, and District shall not otherwise request or require Willdan to provide, any advice or recommendations with respect to municipal financial products or the issuance of municipal securities (including any advice or recommendations with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues);
- (iii) The provisions of this proposal and the services to be provided hereunder as outlined in the scope of services are not intended (and shall not be construed) to constitute or include any municipal advisory services within the meaning of Section 15B of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules and regulations adopted thereunder;
- (iv) For the avoidance of doubt and without limiting the foregoing, in connection with any revenue projections, cash-flow analyses, feasibility studies and/or other analyses Willdan may provide the District with respect to financial, economic or other matters relating to a prospective, new or existing issuance of municipal securities of the District, (A) any such projections, studies and analyses shall be based upon assumptions, opinions or views (including, without limitation, any assumptions related to revenue growth) established by the District, in conjunction with such of its municipal, financial, legal and other advisers as it deems appropriate; and (B) under no circumstances shall Willdan be asked to provide, nor shall it provide, any advice or recommendations or subjective assumptions, opinions or views with respect to the actual or proposed structure, terms, timing, pricing or other similar matters with respect to any municipal financial products or municipal securities issuances, including any revisions or amendments thereto; and
- (v) Notwithstanding all of the foregoing, the District recognizes that interpretive guidance regarding municipal advisory activities is currently quite limited and is likely to evolve and develop during the term of the potential engagement and, to that end, the District will work with Willdan throughout the term of the potential Agreement to ensure that the Agreement and the services to be provided by Willdan hereunder, is interpreted by the parties, and if necessary amended, in a manner intended to ensure that the District is not asking Willdan to provide, and Willdan is not in fact providing or required to provide, any municipal advisory services.