



## Legislation Details (With Board Report)

**File #:** BC 18-029      **Name:** FY2017-18 COWCAP Budget Modifications

**Type:** Budget Committee      **Status:** Agenda Ready

**File created:** 2/26/2018      **In control:** Budget Committee

**On agenda:** 3/8/2018      **Final action:**

**Title:**

- a. Support authorizing the Auditor-Controller to amend the FY2017-18 Adopted Budget for General Fund (Fund 001) by transferring appropriations among General Funds Appropriation Units as outlined in Attachment C, where overall appropriations are decreased by \$10,051,152; and
- b. Support authorizing the Auditor-Controller to amend the FY2017-18 Libraries' Adopted Budget, Fund 003, Appropriation Unit LIB001, to increase appropriations by \$179,333 financed by assigned fund balance; and
- c. Support authorizing the Auditor-Controller to amend the FY2017-18 Adopted Budget for Homeland Security Grant Fund, Fund 024, Appropriation Unit CAO023, to increase appropriations by \$2,753 financed by restricted fund balance; and
- d. Support the Auditor-Controller and the County Administrative Office to create a new assignment for the Building Improvement and Replacement Reserve for the funds collected through the Building Depreciation as calculated in the County-wide Cost Allocation Plan. The Building Depreciation was calculated as \$5,668,441.

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Attachment A - FY2017-18-COWCAP as approved by SCO, 2. Attachment B - FY2017-18 COWCAP Allocations Detail, 3. Attachment C - FY2017-18 COWCAP - Budget vs. Actual Analysis General Fund, 4. Attachment D - FY2017-18 COWCAP - Budget vs. Actual Analysis - Non General Funds

Date	Ver.	Action By	Action	Result
3/8/2018	1	Budget Committee		

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- d. Support the Auditor-Controller and the County Administrative Office to create a new assignment for the Building Improvement and Replacement Reserve for the funds collected through the Building Depreciation as calculated in the County-wide Cost Allocation Plan. The Building Depreciation was calculated as \$5,668,441.

**RECOMMENDATION:**

It is recommended that the Budget Committee:

- a. Support authorizing the Auditor-Controller to amend the FY2017-18 Adopted Budget for General Fund

(Fund 001) by transferring appropriations among General Funds Appropriation Units as outlined in Attachment C, where overall appropriations are decreased by \$10,051,152; and

- b. Support authorizing the Auditor-Controller to amend the FY2017-18 Libraries' Adopted Budget, Fund 003, Appropriation Unit LIB001, to increase appropriations by \$179,333 financed by assigned fund balance; and
- c. Support authorizing the Auditor-Controller to amend the FY2017-18 Adopted Budget for Homeland Security Grant Fund, Fund 024, Appropriation Unit CAO023, to increase appropriations by \$2,753 financed by restricted fund balance; and
- d. Support the Auditor-Controller and the County Administrative Office to create a new assignment for the Building Improvement and Replacement Reserve for the funds collected through the Building Depreciation as calculated in the County-wide Cost Allocation Plan. The Building Depreciation was calculated as \$5,668,441.

#### SUMMARY/DISCUSSION:

As discussed in the January 19, 2018 Budget Committee meeting, preparation of a cost allocation plan is a requirement of any non-federal entity who receives federal awards.

County-wide Cost Allocation Plan (COWCAP), prepared by the Auditor-Controller's Office (ACO) and approved by the California State Controller's Office (SCO), is designed to allocate central administrative and overhead costs of departments servicing the entire County (such as Purchasing, Human Resources & Development, Treasurer, Auditor, County Counsel, the County Administration Office etc.) to departments benefiting from those services, operating departments. (Refer to Attachment A - For FY2017-18 COWCAP)

The indirect and central service costs outlined in the COWCAP is allocated to the General Fund and Non-General Fund operating departments. The allocations are recorded in the general ledger due to the following reasons:

- 1) To support indirect costs claimed in Reimbursement Requests: County departments receiving reimbursement for costs through federal and state grants use the county's approved COWCAP in the grant claiming process. For Operating departments that are supported by State and Federal grants it is important the COWCAP allocations are recorded in the County's accounting ledgers. This way their claims can be supported by the expenditure reports during audits from granting agencies. Otherwise, grant receiving are at risk of audit findings, and could be required to return the amounts collected in relation to the indirect costs.
- 2) To be used as a Matching Share for a Grant: When recorded in the ledger, could be used as a matching share for those federal grants that don't provide funds for reimbursement of indirect costs, and will require the grantee to match a specified portion of the overall costs of the grant program.
- 3) To identify the true cost of programs: Departments charging for services to the public can utilize COWCAP allocations in determining their billing rate structures. The Board of Supervisors should be aware of the total cost of providing services when approving the billing rates, including its indirect costs should be considered. This will allow the County management to recommend, and Board of Supervisors to establish and approve fees at appropriate level where there is appropriate cost recovery based on true costs associated with the services provided.
- 4) To support transparency: COWCAP supports and delivers transparency because overhead is not hidden from total operating costs and therefore provides the public the true costs of the services provided for each function/program. Recording the COWCAP in the ledger also improves our financial reporting for the Comprehensive Annual Financial Report (CAFR).
- 5) Management Tool: If a fee is not being charged by a department, the concept explained above can

be employed as a management tool in identifying total costs of operations, and analyzing the services provided by the service departments. As indicated above, allocation of COWCAP in the system, provides the County Management and the Board of Supervisors true costs of the County operations. As final COWCAP Draft numbers become available by Baseline budget timelines, it will serve as a tool in budgeting. Departments and County Administrative Office's Budget Division can make informed budgetary decisions. It also serves as a tracking mechanism to track unallowable expenses, such as Cannabis activities.

COWCAP Allocations needs be recorded in the system (general ledger) before the March 2018 (Period 9) closes on April 5<sup>th</sup>. COWCAP allocations must be posted in Period 9, so grant funded programs/departments can request modifications/corrections to their quarterly grant reimbursement requests (i.e. 1<sup>st</sup> Quarter). Please refer to Attachment B of this Board Report for the COWCAP Allocations that will be recorded in the system for FY2017-18.

After receiving approval from SCO which finalized the COWCAP, an analysis between the budgeted amounts vs. the actual allocations was completed for all Funds and Appropriation Units affected by the COWCAP allocations by ACO. In order to post the allocations in Period 9, budgetary modifications are needed to certain Funds, and Appropriations Units. Refer to "Attachment C" for General Fund's analysis, and "Attachment D" for analysis performed for Non-General Funds.

For FY2017-18 budget, the departments were informed to budget for COWCAP based on prior year allocations or their best forecasts, as the FY2017-18 COWCAP was not available at the time. Not budgeting based on the latest COWCAP, due to unavailability of the approved COWCAP document, have caused significant budget differences in certain instances. As the final approved COWCAP document is available, ACO is taking the lead for the budget modifications associated with the COWCAP allocations.

ACO analyzed the budget modifications for each fund separately, as each fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, and to keep the integrity of the balanced budget for each fund in question. Based on the analysis performed, budget modifications are being requested for the following funds: General Fund, Library Fund, and Homeland Security Grant Fund.

General Fund (Fund 001):

ACO compared the budgeted vs. the actual FY2017-18 amounts for Cost Plan Charges (object code - 7301) for each Department, Organization & Appropriation Unit within the General Fund (Refer to Attachment C - "FY2017-18 COWCAP - Budget vs. Actual Analysis General Fund").

General fund service departments budgeted COWCAP credits totaling \$(21,784,120) where the actual COWCAP allocation credits will be \$(35,080,168), an overbudget of \$(13,296,048). The appropriations for service departments needs to be decreased to not artificially increase the appropriation of those service departments when the COWCAP allocations are posted in Period 9.

General fund operating departments budgeted COWCAP allocation charges totaling \$18,599,727 where the actual COWCAP allocation charges will be \$21,844,623, an underbudget of \$3,244,896. The appropriations for those operating departments needs to be decreased for them to have sufficient appropriations when the COWCAP allocations are posted in Period 9.

The recommended action transfers appropriations between budget units to allow increases and decreases among the General Fund appropriation units, where the overall appropriations are decreased by \$(10,051,152).

Library Fund (Fund 003):

The Library's FY2017-18 Adopted Budget for COWCAP allocations (object code 7301) was \$105,546. The actual allocations to the fund are \$284,879. Per discussion with the Library management team, based projected year end estimates, it was determined that an increase in appropriations would be necessary to absorb the COWCAP allocations. The recommended action increases appropriations for Fund 003, Appropriation Unit LIB001, object code 7301 financed by the assigned fund balances. The beginning fund balance was \$150,017 and currently estimated year end fund balance is approximately \$180,157.

Homeland Security Grant Fund (Fund 024):

The Homeland Security Grant Fund's FY2017-18 Adopted Budget for COWCAP allocations (object code 7301) was \$0. The actual allocations to the fund are \$2,753. Per discussion with the Fund's management team at County Administrative Office, based on projected year end estimates, it was determined that an increase in appropriations would be necessary to absorb the \$2,753 COWCAP allocations. The recommended action increases appropriations on Fund 024, Appropriation Unit CAO023, object code 7301 financed by the restricted fund balances. The available fund balance at the beginning of the fiscal year was \$202,140.

The following funds are in need in appropriations increases associated with COWCAP allocations, but have been excluded from the Board Report: Road Fund (Fund 002), and Office of Employment and Training Fund (Fund 007). Both of these funds fund balance deficits as the beginning of the fiscal year, and are expected to end the year with fund balance deficit. A financing source was not identified at the time this Board Report was prepared. The departments were informed are working with the County Administrative Office (CAO) Budget Division for financing sources associated with these funds, and will be coming back for budget modifications separately.

This Board report excludes the any budget adjustments for proprietary funds: Enterprise Funds (Natividad Medical Center, Lakes & Resorts), and internal service funds (ISFs) (General Liability, Workers Compensation, Benefits, and Resource Planning ISFs). The proprietary funds need to incorporate their cost plan allocations when developing their billing rates.

Building Replacement Reserves:

The action recommends the support for the creation of a building replacement reserve with the building depreciation charges collected from the departments. The building depreciation is allocated to the County departments based on the square footage occupied. Total allocations associated with Building Depreciation in FY2017-18 is \$5,668,441.

It is recommended that the funds collected for the building depreciation is used to create a reserve for the future building replacement and repairs costs. This reserve will provide funding to address replacement costs to all County-owned buildings.

OTHER AGENCY INVOLVEMENT:

Auditor-Controller's Office took the lead in this Budget Report. However, ACO worked with various County Departments to prepare the analysis and recommended actions for the COWCAP related budget modifications. County-Administrative Office concurs with these recommendations and were kept informed of the

recommended modifications.

FINANCING:

Recommended modifications reduce the general fund appropriations by \$10 million after mitigating departmental impacts resulting from the COWCAP.

The recommended action will increase the FY 2017-18 adopted budget appropriations in Fund 003, Appropriations Unit LIB001 by \$179,333 financed fund balance. The estimated year end fund balance is \$180,157, and the increase in appropriation will decrease the current estimated year end fund balance to \$824.

The recommended action will increase the FY 2017-18 adopted budget appropriations in Fund 024, Appropriations Unit CAO023 by \$2,753 financed fund balance. The beginning fund balance is \$202,140.

The recommended action will create a reserve for future Building Replacements & Repairs. The reserve balance as of FY2017-18 end would be \$5,668,441.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The COWCAP supports accuracy and transparency and provides the public with true costs of the services provided for each function/program.

- Economic Development
- Administration
- Health and Human Services
- Infrastructure
- Public Safety

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Attachments:

- A - FY2017-18 COWCAP as approved by SCO
- B - FY2017-18 COWCAP Allocations Detail
- C - FY2017-18 COWCAP Budget vs. Actual Analysis General Fund
- D - FY2017-18 COWCAP Budget vs. Actual - Non-General Gov. Funds