

Results of FY26 Full Cost Allocation Plan

The City of Poway contracted with Matrix Consulting Group to prepare a Full Cost Allocation Plan (Plan)¹, which documents the current indirect costs associated with Citywide services. This plan helps ensure that transfers into the general fund from non-general fund sources are fair and accurate, and ensures that indirect costs are appropriately captured in the User Fee Study. The City currently has an internal cost allocation plan process that has never been externally evaluated. The following subsections provide a summary overview of the Plan developed for the City, along with implementation recommendations.

PURPOSE AND BENEFITS OF A COST ALLOCATION PLAN

The primary purpose of a Cost Allocation Plan is to fairly and defensibly distribute the costs of internal support services—such as Human Resources, Finance, and the City Manager’s Office—to the departments and programs that benefit from them. The Plan provides a transparent, data-driven basis for determining transfers from non-general fund sources and identifying indirect costs that may be recovered through cost-of-service or development impact fee studies.

The plan evaluates the annual support provided by each central service department using measurable factors such as staffing levels, budget size, or number of agenda items. These metrics ensure costs are allocated fairly and consistently across all departments, regardless of their ability to reimburse for services. The cost allocation methodology adheres to Office of Management and Budget (OMB) and Generally Accepted Accounting Principles (GAAP) guidelines. A detailed description of the methods used to develop the City’s Plan is provided in the full report.

OVERVIEW OF CENTRAL SERVICES

A **Central Service** is a department or function that supports the operations of other departments by providing administrative, financial, or management services necessary for the organization to function effectively. Matrix Consulting Group worked with the City’s staff to identify its central services, which are as follows:

- ❖ **City Council:** represents the City’s governing body, which is responsible for enacting policy and legislation.
- ❖ **City Clerk:** manages, maintains, and archives City records and contracts; provides support to the City Council; routes calls; and administers Citywide elections.
- ❖ **City Attorney:** provides the City and its staff with legal advice and counsel, and represents the City in all legal proceedings.

¹ The City currently, similar, to many other jurisdictions has other allocation methodologies and practices that are considered outside of the traditional cost allocation methodology. Those methodologies were not evaluated under this study.

- ❖ **City Manager:** acts as the City’s chief administrative officer, responsible for general managerial and programmatic support Citywide.
- ❖ **Director of Finance:** provides management and oversight for the City’s Finance Department.
- ❖ **Finance:** provides general fiscal management, including budgeting, investment and debt management, processing of accounts payable and payroll, accounting, and developing financial reports.
- ❖ **Customer Services** acts as the City’s centralized cashier, managing accounts receivable, receiving payments from the public, billing for utility services, and overseeing licensing and permitting receipts.
- ❖ **Information Technology:** oversees all City activities related to technology, including hardware and software support, GIS management, and data center services.
- ❖ **Human Resources Director:** provides management and oversight of the City’s HR-related divisions and functions.
- ❖ **Human Resources:** supports the City through the development of strategic and operational programs that attract, develop, and retain its workforce.
- ❖ **Risk Management:** oversees the City’s risk mitigation activities, including both property insurance and general liability insurance.
- ❖ **Facilities Maintenance:** performs routine and emergency maintenance for City buildings and manages custodial contracts.
- ❖ **Support Services:** serves as a charge center for costs related to all divisions, including City Hall utilities, radio repair, phone systems, copiers, and maintenance.
- ❖ **Public Works Director:** manages and oversees all Public Works funds and divisions.

Fourteen central service departments were identified as providing various services that directly support other City departments. The project team collaborated with City staff to determine fair and meaningful allocation bases for each central service function. Each central service department’s expenditures, including any costs received from other central service departments, were then distributed to the departments that benefit from their services. In total, 27 unique allocation metrics were used—ranging from the number of agenda items processed to a two-year average of invoices issued—to ensure costs were assigned in a fair and data-driven manner.

COSTS ALLOCATED

The Plan developed for the City began with total central service expenditures of \$15.03 million, based on the FY26 budget. From this amount, **disallowed costs**—expenses that cannot be allocated under applicable guidelines, such as fines, entertainment, or lobbying—were removed. The Plan then excluded **unallocated costs**, which are allowable expenses that could not be fairly assigned to other departments. Ultimately, \$14.55 million was allocated to receiving departments and programs through this Plan.

The following table identifies the FY26 budgeted expenditures associated with each central service, the disallowed costs, and the total initial costs for allocation.

TABLE 1: COSTS ALLOCATED THROUGH THE PLAN

Central Service	FY26 Budgeted Expenditures	Disallowed Costs	Total Costs
City Council	\$314,306		\$314,306
City Clerk	\$629,155		\$629,155
City Attorney	\$273,504		\$273,504
City Manager	\$1,212,064		\$1,212,064
Director of Finance	\$733,848		\$733,848
Finance	\$1,024,374		\$1,024,374
Customer Services	\$1,534,755		\$1,534,755
Information Technology Service	\$2,062,821		\$2,062,821
Human Resources Director	\$436,407		\$436,407
Human Resources	\$760,555		\$760,555
Risk Management	\$2,060,798		\$2,060,798
Facilities Maintenance	\$2,239,987		\$2,239,987
Support Services-GF	\$841,122	(\$52,055)	\$789,067
Public Works Director	\$959,083		\$959,083
Total	\$15,082,779	(\$52,055)	\$15,030,723

While FY26 budgeted expenditures for central service departments totaled approximately \$15.08 million, roughly \$52,000 was **disallowed**, resulting in a total of \$15.03 million. The disallowed costs related to intergovernmental fees that do not represent support provided to any City department and, therefore, were not allocated.

Not all activities performed by central service departments benefit other City departments or funds. To ensure costs were fairly assigned, the project team worked with City staff to identify expenditures and service areas that should remain **unallocated**, preventing receiving departments from being charged for services unrelated to general operations. Services that were not allocated to departments and funds include:

- ❖ **City Council:** services and costs related to legislative support provided to constituents and the community, not linked to other City departments' operations.
- ❖ **City Clerk:** services and costs related to local and state elections.
- ❖ **City Attorney:** services and costs associated with litigation.
- ❖ **Customer Services:** services and costs associated with licensing and permitting.

To accurately reflect the actual indirect costs associated with departments and funds, roughly \$480,000 of the \$15.03 million was not allocated, as it related to costs associated with services not performed in support of other departments and funds. The remaining \$14.55 million was then allocated to receiving departments and funds.

IMPLEMENTATION RECOMMENDATIONS

A Cost Allocation Plan allocates central service costs to all funds and departments, regardless of their ability to "pay." However, this does not mean that all departments or funds are expected to cover these costs directly. The following recommendations outline best practices for using the Plan to ensure transparency, fairness, and defensibility in budgeting and cost recovery. They focus on practical ways to

apply the Plan's results—through user fees, non-general fund transfers, and proper budgeting practices—so costs are assigned appropriately while maintaining compliance with industry standards and OMB guidelines.

- 1 Transfers from Non-General Fund Sources:** Assigning overhead costs to non-general funds is the most common purpose of a Cost Allocation Plan. The City can use its Plan results to directly budget costs as an “overhead transfer” line item for each applicable fund. For example, suppose the Plan shows that the Water Fund's share is \$4,496,517. In that case, the FY27 Water Fund budget should include a line item labeled “General Fund Overhead” for this exact amount, rather than using percentages or other calculations. This approach is the most defensible and auditable, as it ties the transfer directly to the Plan. The transfer can be applied as a one-time annual payment or spread evenly over 12 months.
- 2 Removal from the City's Budget Presentation:** Currently, the City's budget book reflects Cost Plan allocations across all funds and departments. However, this practice can obscure the true operating budget of each department. Therefore, the project team recommends removing Cost Plan allocations from the budget book and only reflecting them as direct line-item transfers, as described above. This approach aligns with best practices and industry standards for budget presentation.
- 3 Charging Funds:** While the Cost Plan allocates costs to all funds and departments for fairness and defensibility, the City may continue only to charge specific funds for overhead. The Plan is required to allocate to all funds and departments to ensure compliance with OMB guidelines; however, the actual charges assigned to funds and departments are at the discretion of the City and can be limited to funds and departments that can bear the costs.
- 4 Non-General Fund and Internal Service Fund Charges:** The Cost Plan should focus on general fund allocations. In contrast, internal service fund allocations (e.g., Fleet) should be handled separately as individual line items. Additionally, any non-general fund chargebacks (i.e., Water to Sewer and Drainage should just be split-funded) rather than spread through an allocation methodology. This ensures transparency and maintains each Plan's role as a defensible methodology for general fund overhead allocation.
- 5 Periodic Comprehensive Update:** A full review of the Cost Allocation Plan would revisit assumptions, service-level estimates, and cost structures to account for organizational and budgetary changes. While annual updates would be time-consuming, GFOA best practices recommend a periodic comprehensive update – typically every five to seven years – to ensure service and cost allocations remain accurate and adequate.

Overall, the City of Poway should consider revising its current cost allocation practices to align with industry standards, streamline its existing practices by tying them back to an externally developed, more defensible, and auditable plan, and determine an appropriate timeframe for comprehensive updates.

SUMMARY

To create a fair and equitable Cost Allocation Plan, the project team collaborated with City staff to identify various service areas and related metrics that represent the level of support utilized by receiving funds and departments. By doing so, a defensible document was created, which allocates funds to all

City departments, regardless of the City's ability to recover administrative costs from those funds and departments.

The detailed Full Cost Plan report has been provided separately to City staff. This report is comprehensive and includes detailed information on how indirect costs were allocated to various funds and departments, meeting the criteria of fairness, equity, and defensibility outlined in OMB guidelines for a successful cost allocation plan.