



TOWN OF APPLE VALLEY

TOWN COUNCIL STAFF REPORT

To: Honorable Mayor and Town Council Date: October 08, 2013

From: Marc Puckett, Assistant Town Manager Item No: 18
Finance & Administration

Subject: COUNTYWIDE COST ALLOCATION PLAN (COWCAP)

T.M. Approval: _____

Budgeted Item: Yes No N/A

RECOMMENDED ACTION:

- 1) That the Town Council receive and file the report.
- 2) Provide direction to staff regarding any further action.

SUMMARY:

The County of San Bernardino's COWCAP costs charged to the Town of Apple Valley for police services contracted for with the County Sheriff's department have increased by 81.9% in total over the last four fiscal years. This increased cost for COWCAP amounts to over \$219,000 on an annual basis. Cost increases of this magnitude may disrupt the provision of other Town services since fewer resources are available to fund other service priorities.

BACKGROUND:

Council had requested an informational report regarding the County of San Bernardino's countywide cost allocation plan (COWCAP).

Most public agencies have some form of a cost allocation plan. In fact, the federal government requires a public agency to formally adopt a cost allocation plan in order for a public agency to be eligible to receive federal funding. The concept of a cost allocation plan is to recognize that operating programs should pay for general services support received typically from administrative activities funded from the public agency's general fund. The cost allocation plan identifies and distributes indirect (administrative, support, overhead) costs to benefiting departments/divisions/programs. Some of the benefits of having a cost allocation plan include the ability to recover allowable indirect costs from federal and state programs. The cost allocation plan also provides a basis of allocating appropriate indirect costs to other funds, programs or activities.

The County of San Bernardino must adhere to these same federal standards. The County must maintain a cost allocation plan to receive reimbursement for general fund allowable indirect costs associated with federal and state mandated activities.

The COWCAP proposal is prepared annually by the Office of the County Auditor-Controller/Treasurer/Tax Collector in accordance with the accounting standards outlined in Office of Management and Budget (OMB) Circular A-87. The COWCAP is reviewed, negotiated and approved by the cognizant Federal agency. In California, the State Controller's Office acts on behalf of the Federal Government in this review capacity.

The COWCAP includes several cost components that are then allocated across the County's nine service units or County departments. The cost components included in COWCAP are outlined as follows:

- Space Use; 2% annual depreciation
- Equipment Use; 6.67% annual depreciation
- Computer Software Use; 33.34% annual depreciation
- Utilities & Rent; full direct cost

These cost bases are then applied to the total direct and indirect costs that are allocated amongst the County's nine service units. Once the cost allocation plan is complete, the resulting allocation rate is expressed as a percentage of the total allocable costs. Electronic copies of the COWCAP document for Fiscal Year 2009-10 through Fiscal Year 2013-14 are available for review on the County ATC's website at <http://www.sbcounty.gov/atc/Documents.aspx>.

Per County representatives, in 1995, a COWCAP audit was performed by the County ATC's Office. The result of this review was that the County ATC suggested that the COWCAP rate should be 7.2%. During this same time frame, the County CEO's Office separately reviewed the COWCAP rate and proposed that the rate should be 6.0%. Due to the outcry from County departments and contract agencies, a compromise was agreed to of 3%. The COWCAP rate then remained at 3% through 2012.

In 2012, the new County CEO suggested that the COWCAP rate did not provide full cost recovery to the County's general fund for services provided to County departments and contract agencies. The new CEO suggested that the rate should be 5%. As a result, these increased COWCAP costs were passed on to contract agencies, which again, resulted in an outcry of opposition to the COWCAP increases. Currently, the

COWCAP rate stands at 4.76%. However, the rate will increase to 5% for the next fiscal year.

The information listed below is a brief summary of COWCAP costs allocated in recent years by the County to the Town of Apple Valley's contracted police services through the County Sheriff's department;

- FY 2010-11, \$267,579.
- FY 2011-12, \$279,455, 4.4% increase from prior fiscal year.
- FY 2012-13, \$384,638*, 37.6% increase from prior fiscal year.
- FY 2013-14, \$486,826, 26.6% increase from prior fiscal year.

*In FY 2012-13, the COWCAP allocation was initially proposed at \$480,798. After local officials objected to the proposed increase, a temporary reduction of \$96,160 was credited against the proposed allocation for that fiscal year only.

On a separate note, Council had also requested information regarding the taxes paid to the County by Apple Valley residents. Primarily, Apple Valley residents pay sales tax and property tax to the County.

For **sales tax**, the County collects **1.25%** for every dollar of retail sales in Apple Valley. Based upon the most recent sales tax information available, this amounts to approximately **\$5,145,000 each year** in sales tax revenue transmitted to the County for sales occurring in Apple Valley.

For **property tax**, the County collects **14.778%** of each property tax dollar generated in Apple Valley. Based upon the most recent assessed value information available, this amounts to approximately **\$4,296,000 each year** in property tax revenues transmitted to the County from property owners in Apple Valley.

In sum, the County receives more than **\$9,441,000 in property and sales tax revenues each year** from Apple Valley residents and shoppers.

CONCLUSION:

The County of San Bernardino's COWCAP costs charged to the Town of Apple Valley for police services contracted for with the County Sheriff's department have increased by 81.9% in total over the last four fiscal years. This increased cost for COWCAP amounts to over \$219,000 on an annual basis. Cost increases of this magnitude may disrupt the provision of other Town services since fewer resources are available to fund other service priorities.