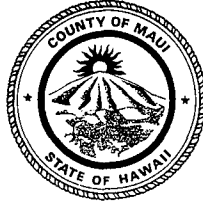


ALAN M. ARAKAWA
MAYOR



KEITH A. REGAN
MANAGING DIRECTOR

OFFICE OF THE MAYOR


Ke'ena O Ka Meia
COUNTY OF MAUI - Kalana O Maui

July 21, 2017

RECEIVED
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COUNTY COUNCIL

Honorable Alan Arakawa
Mayor, County of Maui
200 South High Street
Wailuku, Hawaii 96793

APPROVED FOR TRANSMITTAL



Mayor Date 7/21/17

For Transmittal to:

Honorable Don Guzman, Chair
Parks, Recreation, Energy, and Legal
Affairs Committee
200 South High Street
Wailuku, Hawaii 96793

Dear Chair Guzman:

**SUBJECT: WAIEHU MUNICIPAL GOLF COURSE OPERATIONS
AND IMPROVEMENTS (PRL-30)**

Pursuant to your letter dated July 3, 2017, regarding the allocation of overhead to the Waiehu Municipal Golf Course, please see responses below.

1. When contacting representatives on Oahu and Kauai, could you please inquire: (a) if they performed a cost allocation study, and if so, when the study was last updated and by whom; (b) what components are included in their administrative cost overhead; and (c) any other information you feel would be germane to your evaluation of how the municipalities calculate administrative cost overhead for their golf courses and a comparison to the County of Maui's calculation.

Response:

(a) The City and County of Honolulu did not have a cost allocation study performed; however, the County of Kauai engages MGT Consulting Group on an annual basis to perform its 2 CFR PART 200 (OMB) Cost Allocation Plan.

(b) Please refer to Exhibit A for the central service components that are included in the respective County's administrative cost overhead.

(c) Please refer to the Exhibit A and the Notes at the bottom of each jurisdiction.

2. Provide an analysis of how the administrative overhead costs and components compare between these municipalities.

Response:

The City and County of Honolulu - \$152,000 per golf course

- *Utilizes a 5% allocation for all Special Fund departments based on their actual budgeted expenditures. This was based on a now repealed HRS 70 which allowed the City and County to charge a 5% service fee. The City and County of Honolulu periodically performs its own internal analysis for reasonableness. (Please see Exhibit A for the reasonableness calculation.) This method is least complex and is not as comprehensive as a cost allocation study performed by a third-party consultant as it does not allocate central service costs to other central service departments.*

The County of Kauai - \$130,000

- *Utilizes a third-party consultant to determine how much overhead is allocated to the Special Funds using a four-year weighted average, however, the County of Kauai utilizes the 2 CFR Part 200 cost allocation plan that is used primarily by jurisdictions for overhead reimbursements of Federal grants and does not allow certain costs to be allocated as central service overhead. This typically results in lower overhead rates than a full cost allocation plan which is what the County of Maui's rates were based on. In addition, the County of Kauai's total FY 2018 operating expenditures amounts to \$188,702,432 as compared to the County of Maui's FY 2018 operating budget of \$562,675,670.*

Please refer to Exhibit A for additional information.

3. Provide an analysis of the escalation in 2014 of the administrative overhead costs.

Response:

It appears that the last full cost allocation plan that was performed prior to the 2014 Matrix full cost allocation plan was one that was completed in 1999 by

DMG-Maximus, Inc. At that time, the indirect cost rate for the Golf Fund was 19.48%. Subsequently, by analyzing prior budgets and in the absence of the actual overhead calculation, it appears that the rate used in the three years prior to 2014 was approximately 26.0%. The main reasons for the escalation in the 2014 administrative overheads can be attributed to an increase in central service department expenditures of \$38,878,498 from \$92,644,204 used in the 1999 plan to \$131,522,702 used in the 2014 plan. Additionally, it does not appear that the Parks – Administration costs were allocated to the remaining Department of Parks and Recreation programs as in the 2014 study.

4. Provide your recommendation, in consultation with the Department of Finance, for adjustments to the administrative overhead cost calculation for FY 2019, along with an explanation.

Response:

Based on the analysis of the City and County of Honolulu, the County of Kauai and the County of Maui's cost allocation plans/methods, it appears that the County of Maui's full cost allocation as performed by the Matrix Consulting Group provides the most comprehensive basis for allocating overhead and provides a true representation of each Special Fund's actual costs. The 2017 updated Matrix full cost allocation plan provides for an updated rate for the Golf Fund of 87.64% versus 132.51%. This rate, if applied to the FY 2018 council adopted payroll costs, would result in a \$398,228 decrease of the golf fund overhead allocation from \$1,176,047 to \$777,819. However, because of the impact of these expenditures on the general fund, more comprehensive analyses and comparisons will be performed prior to a final determination of whether or not the updated rates will be utilized for FY 2019 or if another method would be more suitable for the County.

Should you have any questions, please feel free to contact me at Ext. 7212.

Sincerely,



LYNN A.S. ARAKI-REGAN
Budget Director

Attachment (1)

cc: Mayor Alan M. Arakawa
Danilo Agsalog, Director of Finance
Steve Tesoro, Accounts System Administrator, Department of Finance

City and County of Honolulu

Overhead cost basis: 5% of the budgeted golf fund expenditures

A)

FY 18 Adopted

Total Golf Fund Expenditures (Net of interfund transfer)	14,871,388	
Add: To General Fund for Debt Services	<u>1,848,132</u>	
Total Expenditures before Overhead calculation	16,719,520	
Per repealed HRS 70 (5% of Budgeted expenditures)	<u>0.05</u>	
Golf Fund Central Administrative Services Expense	<u><u>836,000</u></u>	**Rounded up
Total Overhead per golf course	<u><u>152,000</u></u>	** Used 5.5 since Kahuku is a 9-hole course

NOTES:

- 1) This overhead allocation method does not include fixed assets costs.
- 2) This method is least complex and does not allocate costs that the central service departments would receive from other central service departments which is what the cost allocation plan does. (Double step-down allocation method.)
- 3) The City and County of Honolulu allocates the same percentage of overhead to all special funds.
- 4) Fringe benefits are included in this overhead amount.

B) Central Service Departments/Divisions used in Reasonableness test

- Mayor
- Managing Director
- Budget & Fiscal Services
- Customer Services (50%)
- Information Technology
- Corporation Counsel
- Legal Services
- Ethics
- Human Resources
- Planning & Permitting
 - Administration (25%)
 - Planning (50%)
- Facility Maintenance
 - Building & Electrical
 - Automotive Services
- Design & Construction
- Legislative
- Provisionals
 - Salary adjustments
 - Judgement & Losses
 - Risk Management
 - Lease of Equipment

City and County of Honolulu

Sample Calculation of Reasonableness Test

Department	FY2018	% Estimated	Subtotal	General Fund	Fringe	Fringe	Totals
Mayor	694,722	100%	694,722	621,060	30.34%	188,430	883,152
Managing Director	4,083,274	100%	4,083,274	3,070,508	30.34%	931,592	5,014,866
Budget & Fiscal Services	22,934,417	100%	22,934,417	19,467,069	30.34%	5,906,309	28,840,726
Customer Services (50%)	24,038,169	50%	12,019,085	6,212,656	30.34%	1,884,920	13,904,004
Information Technology	19,876,217	100%	19,876,217	9,062,509	30.34%	2,749,565	22,625,782
Corporation Counsel							
Legal Services	8,929,230	100%	8,929,230	6,532,925	30.34%	1,982,089	10,911,319
Ethics	411,953	100%	411,953	350,016	30.34%	106,195	518,148
Human Resources	6,579,115	100%	6,579,115	5,947,885	30.34%	1,804,588	8,383,703
Planning & Permitting							
Administration (25%)	4,845,266	25%	1,211,317	439,847	30.34%	133,450	1,344,766
Planning (50%)	2,781,774	50%	1,390,887	989,545	30.34%	300,228	1,691,115
Facility Maintenance							
Building & Electrical	33,715,788	100%	33,715,788	7,226,638	30.34%	2,192,562	35,908,350
Automotive Services							
Design & Construction	17,989,415	100%	17,989,415	11,465,885	30.34%	3,478,750	21,468,165
Legislative ¹	19,200,000	100%	19,200,000	9,780,733	30.34%	2,967,474	22,167,474
Provisionals							
Salary adjustments	12,890,920	100%	12,890,920	12,890,920	30.34%	3,911,105	16,802,025
Judgement & Losses	14,200,000	100%	14,200,000				14,200,000
Risk Management	1,000,000	100%	1,000,000				1,000,000
Lease of Equipment	N/A						

Total CASE costs	<u>205,663,595</u>
Total Exec/Legist Budget	<u>2,998,055,406</u>
Overhead %a	6.86%

¹ Based on FY2017 Adopted numbers

County of Kauai

Overhead cost basis: 2 CFR Part 200 cost allocation plan

A) outcome

In the absence of the actual cost allocation plan and based on the central service departments below, it appears that the County of Kauai utilizes the expenditures allocated as derived from the 2 CFR Part 200 cost allocation plan as their amount of how much to allocate to the golf fund. The CAP determined that \$130,000 out of all of the central service department expenditures should be allocated to the golf fund.

Highway Fund	1,000,000	37%
Liquor Fund	125,000	5%
Solid Waste Fund	900,000	34%
Sewer Fund	500,000	19%
Golf Fund	130,000	5%
Housing	25,000	1%
Total OH reimbursement	2,680,000	

NOTES:

- 1) The County of Kauai's operating budget is 33% of the County of Maui's budget.
- 2) The County of Kauai does not allocate their Parks Administration to the Golf Course.
- 3) The County of Kauai uses the 2 CFR 200 cost allocation plan that does not allow certain costs to be included (Grant purposes). They did have a full cost allocation plan performed one year but decided not to use those rates. It is not known what those rates were.

B) Central Service Departments/Divisions

- Building Depreciation
- Equipment Depreciation
- County Attorney
- Finance Administration
 - Includes Countywide costs such as Insurance and Claims
- Mayor's Office
 - Excludes General Government (Not allowable under this plan)
- Accounting & Budget
 - Financial Services
 - Payroll
 - Accts Payable
 - Grants
- Purchasing
 - Purchasing
 - Postage
- Information Technology
- Human Resources
 - Personnel Admin
 - Payroll Administration
- Public Works Administration
- Public Works Fiscal
- Public Works Maintenance
- Public Works Janitorial
- Treasury
 - Excludes Treasurer salary (Not allowable under this plan)