



The State Bar of California

COST ALLOCATION PLAN REVIEW

January 2016



William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review



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COST ALLOCATION PLAN REVIEW

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The State Bar of California COST ALLOCATION PLAN REVIEW

REPORT PURPOSE

The purpose of this report is to review the State Bar's current Cost Allocation Plan, which includes the following tasks:

- Assessing the reasonableness of the existing cost allocation methodology in spreading "overhead" administrative costs among the programs that benefit from such costs.
- Analyzing cost and allocation base data sources.
- Reviewing the current model for allocation methodology.
- Recommending changes as appropriate.

As reflected above, the workscope for this review includes an assessment of the current methodology and recommended changes, if any. It does not include actually making revisions to the Cost Allocation Plan or otherwise implementing any of the recommended changes: that would be a separate step following decisions to adopt some or all of the report's recommendations.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Short Story. As detailed later in this report, there are ten key findings and recommendations:

- **Technically Sound Methodology.** The methodology for preparing the State Bar indirect cost allocations is technically sound and documented via an extensive Excel spreadsheet. It is based on a model initially developed in 1999 by Deloitte & Touche (now Deloitte, currently one of the "Big Four" accounting firms) and updated in 2001. The State Bar has made some changes to the model since then. As discussed below, in some cases those changes should remain in place; and in others, the State Bar should go "back to the future" and reinstate the 2001 approach.

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- **Not All Indirect Costs Allocated.** The current model does not allocate all indirect costs. While this is consistent with the 2001 methodology, all indirect costs should be allocated in achieving the goal of cost allocation plans of identifying the total cost of delivering services. However, as discussed in a separate finding regarding cost recovery policies, after determining total program costs, the State Bar has the discretionary option (subject to statutory limitations) of not requiring full cost recovery.
- **Limited Allocation Bases.** As described later in this report, the State Bar currently uses a limited number of allocation bases. While this could be expanded, it would require additional work in developing the costs and data bases, for which there may not be commensurate value in significantly improving indirect cost allocations. Accordingly, no additional allocation bases are recommended.
- **Allocation Level: Too Many Cost Centers.** The model allocates indirect cost to 118 cost centers. This is a change from the 2001 update, which recommended allocating indirect costs to nineteen major programs (primarily based on departments/funds). In discussions with State Bar staff, there are no readily identifiable benefits to allocating indirect costs to such a detailed level. On the other hand, doing so makes the results more complicated and less intuitively understandable. Accordingly, the State Bar should return to allocating indirect costs to major programs areas based on departments/funds.
- **One-Step versus Sequential Allocation Process.** In performing the indirect cost allocations, the current approach only allocates indirect costs to direct cost programs rather than using a more complex sequential allocation system. Although there are some conceptual difficulties with this “one-step” process, the difference in the end result is insignificant, but the cost of preparation and review is significantly reduced.

For example, the cost of the Finance program is allocated solely to direct cost programs based on their operating costs. However, as the Finance program also benefits other indirect cost programs such as the Executive Director’s office, General Counsel and Human Resources (and in fact Finance itself: they all receive payroll checks), the cost allocations could appear to be distorted since no allocations are made to them.

Under a more sophisticated sequential system, the cost of the Finance program would be allocated to the other indirect costs programs (as well as the direct cost ones) and iterative allocations then made to direct cost programs until all indirect costs are distributed. However, this process is extremely time consuming (and places far more reliance on the underlying significance of the allocation bases than may be appropriate) and results in the same basic cost allocations as the simpler method since all indirect costs are allocated in the final product.

Accordingly, while the 2001 Deloitte report recommends the more complex, sequential approach, the State Bar should continue using the simpler, “one-step” approach. It is a more transparent methodology and easier to prepare; and as

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discussed below, the cost allocation plan's goal is a reasonable allocation of costs, not a "perfect" one.

- **Timing: Monthly Preparation and Posting Unusual.** The State Bar prepares and posts indirect allocations monthly. This is unusual. Most public agencies prepare an annual cost allocation plan as a freestanding policy document based on the adopted budget. As discussed later in this report, this serves three purposes: treats the allocation of resources as a policy matter; provides transparency in how allocations are determined; and improves predictability. Where significant variances between budget and actual are likely, this can be accounted for via annual true-ups that are reflected in the following year's cost allocation plan.

Annual preparation and true-up is the recommended approach in the 2001 Deloitte report. The State Bar should return to annual preparation of the Cost Allocation Plan; and it should be published as a separate policy document that describes its purpose, methodology, key assumptions, any significant changes in methodology from the prior year and results at a summary and detailed level.

- **Technical Versus Policy Document.** The current Cost Allocation Plan is a large spreadsheet that requires 11x17 paper to print-out (in very small print); has no narrative regarding assumptions; and has deeply imbedded formulas that make following the allocations difficult. While this works as a technical document that only has to be understandable to the staff preparers, it does not work well as a policy document.

The Cost Allocation Plan makes significant resource allocations whose purpose and methodology should be clear and understandable to governing bodies, senior managers, program managers and others affected by the allocations ("stakeholders") as well as Finance staff. Accordingly, as noted above, the State Bar should prepare the Cost Allocation Plan as a separate policy document.

- **Capital Projects and Debt Service.** As discussed below, cost allocation plans typically focus on direct and indirect operating costs; and exclude from the direct cost base capital project and debt service expenditures. Accordingly, decisions regarding funding capital projects and indirect cost debt service obligations should be made on a case-by-case basis depending on circumstances at the time when capital projects and debt service are approved. This has generally been the State Bar's past practice and no changes are recommended.
- **Plan Approval.** As a "technical document" that closely follows the 2001 Deloitte report recommendations (albeit with modifications since then), the Cost Allocation Plan is currently approved and implemented by Finance staff. However, assuming it is prepared annually as a freestanding policy document, it should be formally approved by the Board of Trustees.

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- **Cost Recovery Policy.** While the Cost Allocation Plan identifies total program costs, setting rates and fees at levels that fully recover these costs is a policy decision. Full cost recovery where possible may be implicit. However, in accordance with “best practices” (and subject to any statutory limitations), the Board should formally adopt a cost recovery policy that sets forth programs where it expects full cost recovery; and for any programs where full cost recovery is not expected, the reason for this and the cost recovery goal.

COST ALLOCATION PLAN CONCEPTS AND PRINCIPLES

The following provides background information on cost allocation plan concepts and principles along with an overview of the State Bar’s practices regarding them.

Purpose of Cost Allocation Plans

The purpose of cost allocation plans is to identify the total costs of providing specific services. Why is a separate cost accounting analysis required to do this? Because in almost all organizations—whether in the private or the public sector—the cost of producing goods or delivering services can be classified into two basic categories: direct and indirect costs. “Direct costs” by their nature are usually easy to identify and relate to a specific service. However, this is not the case for “indirect costs.” As such, if we want to know the “total cost” of providing a specific service, then we need to develop an approach—a plan—for reasonably allocating indirect costs to direct cost programs.

What Are Direct and Indirect Costs? Direct costs are those that can be specifically identified with a particular cost objective. For the State Bar, this includes services such as Admissions, Client Security, Education, Lawyer Assistance and Legal Services.

On the other hand, indirect costs are not readily identifiable with a specific direct operating program, but rather, are incurred for a joint purpose that benefits more than one cost objective. Common examples of indirect costs include finance, human resources, information technology, insurance and building maintenance. Although indirect costs are generally not readily identifiable with direct cost programs, their cost should be included if we want to know the total cost of delivering specific services.

Budgeting and Accounting for Indirect Costs. Theoretically, all indirect costs could be directly charged to specific cost objectives; however, practical difficulties generally preclude such an approach for organizational and accounting reasons. As such, almost all organizations, whether in the private or public sector, separately budget and account for direct and indirect costs at some level depending on their financial reporting needs and the complexity of their operations.

Distributing Indirect Costs. However, in order to determine the total cost of delivering specific services, some methodology for determining and distributing indirect costs must be developed, and that is the purpose of cost allocation plans: to identify indirect costs and to allocate them to benefiting direct cost programs in a logical, consistent and reasonable manner.

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Plan Goal: Reasonable Allocation of Costs

It is important to stress that the goal of cost allocation plans is a reasonable allocation of indirect costs, not a “perfect” one. By their very nature, indirect costs are difficult to link with direct costs. As such, in developing an allocation approach, it is important to keep this goal in mind balancing the cost and effort of complicated allocation methods with the likely benefits from the end results.

Essential Features. Effective cost allocation plans have two key components: technical and policy.

- Technical: Indirect cost allocations should be logical, reasonable and consistent.
- Policy: Indirect cost allocations should be clear, transparent, understandable and reasonably predictable.

As discussed below, the State Bar’s current Cost Allocation Plan meets the “technical” criteria; however, this report recommends improvements in meeting the “policy” criteria.

Determining Direct and Indirect Costs

The first step in preparing cost allocation plans is determining direct and indirect costs. For the State Bar, program costs that primarily provide services to members or the public should be identified as direct costs, whereas the cost of programs that primarily provide services to the organization should be identified as indirect costs. Typically, only operating costs are considered in preparing cost allocation plans. As such, capital outlay, debt service costs related to direct cost programs, interfund transfers, offsetting rental income related to space costs and “pass-through” costs should be excluded from the calculations.

Allocating Indirect Costs

Organization-Wide Indirect Cost Rate. For general purposes (and smaller agencies in both the private and public sectors), the organization-wide indirect cost rate can be used as the basis for allocating indirect costs. The indirect cost rate is simply the ratio between indirect and direct costs, which can be easily computed for the organization as a whole once the direct and indirect cost base has been determined. Provided in Table 1 below is a sample of direct and indirect costs for the State Bar based on the 2016 Budget along with the resulting organization-wide indirect cost rate.

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Table 1. State Bar Direct and Indirect Cost Sample

| DIRECT COSTS * | | INDIRECT COSTS * | |
|-----------------------------|------------------|-------------------------------|-----------------|
| Admissions | 19,504 | Executive Director | 3,419 |
| Chief Trial Counsel | 32,081 | Finance | 5,213 |
| Probation | 985 | Budget & Performance Analysis | 856 |
| Client Security Fund | 7,262 | General Counsel | 5,107 |
| Mandatory Fee Arbitration | 782 | Human Resources | 2,237 |
| State Bar Court | 7,858 | Information Technology | 6,518 |
| Member Records & Compliance | 2,642 | General Services | 7,342 |
| Professional Competence | 1,936 | Communications | 1,746 |
| Education | 9,766 | Non-Departmental | 5,930 |
| Diversity & Bar Relations | 744 | | |
| Lawyer Assistance Program | 1,410 | | |
| Legal Services | 28,084 | | |
| TOTAL DIRECT COSTS | \$113,054 | TOTAL INDIRECT COSTS | \$38,368 |

* In Thousands

| | |
|--------------------|-----------|
| Total Costs | \$151,422 |
| Indirect Cost Rate | 33.9% |

By applying the overall indirect cost rate to any specific direct cost program, the total cost of the program can be determined. For example, with a sample overall indirect cost rate of 33.9%, the total cost for a direct program cost of \$100,000 in the State Bar would be \$133,900.

Bases of Allocation. Using the “organization-wide” rate for indirect cost allocations assumes that all indirect costs are incurred proportionately to the direct cost of the program. However, this may not be a reasonable assumption in all cases, as the benefit received from certain types of support service programs may be more closely related to another indicator of activity than cost.

For example, if a program service is primarily delivered through contract and does not have any staffing directly associated with it, distributing human resources costs to it may result in an inequitable allocation of costs. Because of this, separate bases for allocating major indirect cost areas are used by many agencies. Common allocation bases include:

- Full-time equivalent employees for human resources and payroll
- Assigned space for building maintenance and utilities
- Assigned computers for information technology
- Operating costs for accounting

In accordance with “best practices,” the State Bar’s Cost Allocation Plan establishes separate *bases of allocation* for each major indirect cost category. With this approach, indirect costs can be allocated to each direct cost program in a fair, convenient, logical and consistent manner. The State Bar’s bases of allocation are discussed in more detail later in this report.

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One-Step vs Sequential Allocation of Indirect Costs

There are two approaches in allocating indirect costs when using allocation bases:

- “One-step” allocation under which indirect costs are allocated solely to direct cost programs.
- More complex sequential allocation system under which indirect costs are first allocated to both indirect and direct costs programs; and then iterative allocations are made to direct cost programs until all indirect costs are distributed.

Although there are some conceptual difficulties with the “one-step” approach, the difference in the end result is insignificant, but the cost of preparation, review and audit is significantly reduced. As discussed below, the State Bar uses a “one-step” approach in preparing its Cost Allocation Plan and should continue using this approach.

Cost Allocation Plan Uses

By identifying total program costs, cost allocation plans can be used as an analytical tool in many financial decision-making situations, including:

- **Reimbursement Transfers.** Cost allocation plans identify the costs incurred by the General Fund in providing administrative support services to the agency’s other funds. For example, although administrative, legal services, accounting, human resources and building maintenance programs are commonly budgeted and accounted for in the General Fund, these programs provide support services to other funds. Cost allocation plans provide a clear methodology for determining this level of support to the various funds. Allocating indirect costs between funds is a major use of the State Bar’s Cost Allocation Plan.
- **User Charges and Labor Rates.** Cost allocation plans can also be used in setting service charges (such as disciplinary proceeding cost recovery) and other “time materials” cost recovery by ensuring that the full cost of services – direct and indirect – are considered in setting rates.
- **Contracting-Out for Services.** By identifying total costs, cost allocation plans can also be helpful in analyzing the costs of contracting for services versus performing services in-house.
- **Grant Administration.** Under federal cost accounting policies (Circular A-87), it is permissible to include indirect costs in accounting for grant programs. By establishing indirect cost rates, cost allocation plans can be used in recovering the total costs (direct and indirect) associated with implementing grant programs. While this may not be a significant use by many agencies, the indirect cost allocation principles set forth by the federal government have become the standard for preparing state and local government cost allocation plans.

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Plan Preparation

For virtually all government agencies, frequent updating (such as monthly or quarterly) of their cost allocation plans would not serve any specific purpose—such as unit price control in a manufacturing company. However, it would consume significant accounting resources. As such, most local agencies prepared their cost allocation plans on annual basis based on the adopted budget (or biennially if they prepare two-year budgets). This approach works well when significant variances are not expected between budget and actual. However, where large variances are possible, then at the end of the fiscal year, many agencies prepare a “true-up” based on actual costs. Any variances (either over or under cost allocation plan amounts) are applied to the following year’s cost allocation plan.

As discussed below, the State Bar currently prepares and posts indirect cost allocations monthly. Instead, the State Bar should prepare the Cost Allocation Plan annually as a freestanding policy document, with an annual true-up in the following year.

Summary

Cost allocation plans make determining total program costs possible by establishing a reasonable methodology for identifying and allocating indirect costs to direct cost programs. Because of this, cost allocation plans can be a valuable analytical tool in a number of situations, including establishing fees designed for full cost recovery, allocating support service costs to all funds and recovering indirect costs associated with grant programs.

FINDINGS AND RECOMMENDATIONS

The following findings and recommendations are based on:

- Detailed reviews of the current Cost Allocation Methodology and spreadsheet calculations.
- 2001 report prepared by Deloitte & Touche.
- Reviews of other policy documents, including the 2016 Budget.
- “Kick-off briefings” with Section representatives, senior managers, other stakeholders and Finance staff.
- Follow-up interviews and discussions with State Bar staff.

① Technically Sound Methodology. The methodology for preparing the State Bar indirect cost allocations is technically sound and documented via an extensive Excel spreadsheet. It is based on a model initially developed in 1999 by Deloitte & Touche (now Deloitte, currently one of the “Big Four” accounting firms) and updated in 2001. (This report, which was prepared in November 2001 and presented to the Board and Planning, Program Development and Budget Committee in January 2002, is provided in Appendix A).

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Since then, the State Bar has made some changes to the 2001 model. While several of these are discussed in greater detail below with individual findings and recommendations, Table 2 below summarizes key assumptions where the State Bar's current practices are different than those recommended in 2001, along with my recommendations as to whether the State Bar should continue with its current practice, return to the recommendations in the 2001 report or do something else.

Table 2. Summary of Assumptions: 2001 Deloitte Report, Current Practice and Recommendation

| 2001 Deloitte Report | Current State Bar Practice | Recommendation |
|--|--|--|
| Allocate only portions of some indirect costs | Allocate only portions of some indirect costs | Allocate all indirect costs |
| Treat some Communications costs as indirect costs, allocated based on time records | Treat some Communications costs as indirect costs (currently 7%), allocated based on operating costs | Consider all Communications costs as <i>direct costs</i> |
| Separately allocate Board and Appointment indirect costs | Separately allocate Board, Appointment and Elections indirect costs | Do not separately allocate these costs (very small component of indirect costs does not warrant added work) |
| Allocate Executive Director and General Counsel based on time records | Allocate Executive Director and General Counsel based on operating costs | Continue current practice |
| Allocate Finance payroll costs based on full-time equivalent employees | Allocate all Finance costs based on operating costs | Continue current practice (Finance payroll costs are minor part of total Finance costs and do not warrant added work) |
| Allocate indirect costs via sequential process | Allocate indirect costs via one-step process | Continue current practice (One-step allocation provides similar results with greater transparency and reduced effort) |
| Allocate indirect costs to major program areas (19 proposed in 2001 report), not to cost centers | Allocate indirect costs to 118 cost centers | Return to 2001 Report recommended approach: allocate indirect costs to major program areas (fund level, perhaps at the Department level in the General Fund) |

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| 2001 Deloitte Report | Current State Bar Practice | Recommendation |
|---|---|---|
| Prepare Cost Allocation Plan annually, with true-up in the following year | No formal plan preparation; allocate indirect costs monthly | Return to 2001 Report recommended approach: prepare formal cost allocation plan annually, with Board approval and true-up in the following year |

❷ Not All Indirect Costs Allocated. The current model does not allocate all indirect costs. In three cases – allocating only 50% of Executive Director, 25% of Board and a portion of Communication costs – this is consistent with the recommendations of the 2001 Deloitte report.

However, the 2001 Deloitte report provides very lean justification for allocating only a portion of these costs. For example, in the case of the Executive Director, the report says that: “Considering only a portion of the Executive Director as an Administrative Cost Pool is consistent with the federal and state guidelines for Cost Allocation Plans.” While this may be the case as a discretionary reduction in indirect costs that will be recovered by from federal or state grant programs, it is not required under federal or state grant guidelines. Moreover, there is no justification for excluding 50% of the cost, versus 25%, 33% or 75%.

Setting aside this methodological issue, as reflected below in Table 3, the current practice is to exclude significant portions of other indirect costs as well:

Table 3: Indirect Cost Allocation Portions

| Indirect Cost Program | Percent |
|-----------------------|---------|
| Executive Director | 50% |
| Appointments | 50% |
| Board of Directors | 25% |
| Deputy Director (COO) | 25% |
| Elections | 25% |
| Communications | 7% |

Recommendation. Unless there is a compelling methodological reason for doing otherwise, all indirect costs should be allocated in the Cost Allocation Plan in achieving the goal of identifying the total cost of delivering services. An example of where exclusion might make sense is where the Executive Director’s office provides direct oversight and supervision to direct programs. In that case, this cost should be allocated directly to the direct cost program, not excluded from the indirect cost allocations. However, as discussed in a separate finding regarding cost recovery policies, after determining total program costs, the State Bar has the discretionary option (subject to any statutory limitations) of not requiring full cost recovery.

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❸ **Limited Allocation Bases.** As summarized below, the State Bar currently uses a limited number (six) of allocation bases.

Table 4. Current Indirect Cost Allocation Bases

| Allocation Bases | Indirect Cost Program |
|---------------------------------------|---|
| Revenues | Member Fee Billings |
| Full-Time Equivalent Staffing (FTE's) | Human Resources General Counsel Information Technology |
| Attorney FTE's | Library |
| Assigned Space | Building Maintenance Utilities LA Facility Debt Service |
| Number of Appointments | Appointments |
| Operating Costs | Board Elections Communications Executive Director Finance |

Some of these indirect cost allocation bases lend themselves to an easily justified, rational approach of distribution. For example, human resources are related to the number of employees serviced; and building maintenance and utility costs are related to the amount of space occupied. Other costs may not be as intuitive; however, the allocation bases are consistent with industry “best practices” and recognize the concept that the cost of developing the information necessary to perform the cost allocations should not exceed the benefits likely to be gained.

Where there is not a clear relationship to an allocation base (like staffing or assigned space), allocating indirect costs based on direct program operating costs is the common industry practice, and as such, this approach is used by the State Bar.

Sections Indirect Cost Allocations

As recommended in the 2001 Deloitte report, indirect costs are allocated to the Sections Fund as a major cost center. The resulting indirect cost allocations are then allocated between Sections based on the number of members in each Section.

These allocation bases could be expanded. For example:

Table 5. Possible Allocation Bases

| Indirect Cost Programs | Possible Allocation Bases |
|------------------------|---------------------------|
| Board/Committees | Agenda Items |
| Payroll | FTE's |
| Purchasing | Purchase Orders |
| Telecommunications | Assigned Telephones |
| Information Technology | Assigned Computers |

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However, this would require additional work in developing the costs and data bases, for which it is unlikely that there will be commensurate value in significantly improving indirect cost allocations.

Moreover, in a predominately office environment like the State Bar, there is likely to be a very close relationship between services like telecommunications and information technology with FTE's. On the other hand, there may not be commensurate value in separately allocating Board, Appointment and Election Costs.

Recommendations. As noted above, the goal in allocating indirect costs is "reasonable," not perfect. This means balancing added work effort and understandability with more detail and complexity in trying to achieve a "better" allocation of indirect costs. Based on this, it is recommended that the State Bar retain its current bases of allocation, with two exceptions where the bases should be reduced:

- Board, Appointment and Election costs should no longer be broken out as separate indirect cost areas from the Executive Director's office. This will improve transparency and reduce preparation costs with no significant impact on results. For example, in the case of Board and Election costs, these are already allocated on the same basis as the Executive Director's office (operating costs); and Appointment costs are very minor, representing only 0.5% of all indirect costs allocated in 2014.
- All Communications costs should be considered as direct costs. This follows the concept discussed above that program costs that primarily provide services to members or the public should be identified as direct costs. This appears to be the case for all Communications costs.

The 2001 Deloitte report recommended considering some Communications costs as indirect since they "support various program activities, specifically the management of the State Bar Web page on the Internet." Since the purpose of the State Bar's web site is to provide information to members and the public, it is not clear why the report viewed this function as different from other Communications functions.

The 2001 Deloitte report also recommended that this cost be identified and "allocated based on time records." However, the current practice is to consider 7% of Communications costs as indirect and to allocate them based on operating costs (other than history, there is no documentation for the percentage or the allocation basis). In short, making this change will result in a closer alignment with the underlying foundation for determining direct versus indirect costs, greater consistency in allocating costs and improved understandability and transparency.

This will result in the following ten indirect cost program areas and related bases of allocation:

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Table 6. Recommended Indirect Cost Programs and Allocation Bases

| Allocation Bases | Indirect Cost Program |
|---------------------------------------|---|
| Revenues | Member Fee Billings |
| Full-Time Equivalent Staffing (FTE's) | Human Resources General Counsel Information Technology |
| Attorney FTE's | Library |
| Assigned Space | Building Maintenance Utilities LA Facility Debt Service |
| Operating Costs | Executive Director Finance |

④ Allocation Level: Too Many Cost Centers. The current model allocates indirect costs to 118 cost centers. This is a change from the 2001 Deloitte report, which recommended allocating indirect costs to nineteen major programs (primarily based on departments/funds). In discussions with State Bar staff, there are no readily identifiable benefits to allocating indirect costs to such a detailed level. On the other hand, doing so makes the results more complicated and less intuitively understandable.

Recommendation. The State Bar should return to allocating indirect costs to major programs areas based on departments/funds. This will reduce preparation efforts while improving understandability and transparency. Similar to those in the 2001 Deloitte report, suggested “major program areas” are:

General Fund (See Discussion Below)

- Chief Trial Counsel
- State Bar Court
- Member Records & Compliance
- Other General Fund Programs

Restricted Funds

- Client Security Fund
- Elimination of Bias and Bar Relations Fund
- Equal Access Fund
- Justice Gap Fund
- Lawyer’s Assistance Fund
- Legislative Activities Fund
- Legal Services Trust Fund
- Legal Specialization Fund

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Special Revenue Funds

- Admissions Fund
- Annual Meeting Fund
- Grants Fund
- Sections Fund

Breaking-out major cost areas within the General Fund is solely for the purpose of establishing indirect cost rates for special cost recovery purposes, such as setting disciplinary proceedings fees. After further review by State Bar staff, this may not be needed and setting indirect cost rates at the General Fund level may be sufficient.

However, even if indirect costs are allocated to major program areas within the General Fund, I do not recommend actually posting indirect cost allocations to them within the General Fund, since the total allocated to the General Fund remains the same.

On the other hand, reimbursements from the other funds for indirect costs initially accounted for in the General Fund should be posted as expenditures in the other funds, and recorded as a reduction to expenditures in the General Fund. Examples of how to record and display these reimbursements are available upon request.

⑤ One-Step versus Sequential Allocation Process. In performing the indirect cost allocations, the current “one-step” process only allocates indirect costs to direct cost programs rather than using a more complex sequential allocation system. As discussed above, there are some conceptual difficulties with this approach. However, the difference in the end result is insignificant, but the cost of preparation, review and audit is significantly reduced.

For example, the cost of the Finance program is allocated solely to direct cost programs based on their operating costs. However, as the Finance program also benefits other indirect cost programs such as the Executive Director’s office, General Counsel and Human Resources (they all receive paychecks), the cost allocations could appear to be distorted since no allocations are made to them.

Under a more sophisticated sequential system, the cost of the Finance program would be allocated to the other indirect costs programs (as well as the direct cost ones) and iterative allocations then made to direct cost programs until all indirect costs are distributed. However, this process is extremely time consuming (and places far more reliance on the underlying significance of the allocation bases than may be appropriate) and results in the same basic cost allocations as the simpler method since all indirect costs are allocated in the final product.

The 2001 Deloitte report recommends the more complex, sequential approach. Table 7 below is an example from the report illustrating the sequential model.

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Table 7. Sample Sequential Allocation Process: 2001 Deloitte Report

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----------------------------------|-------------------|---------------------------|---------|---------|---------------|-----------|-----------|-----------|-------------------|
| | Allocation Method | Administrative Cost Pools | | | Program Areas | | | | Allocation Totals |
| | | Area 1 | Area 2 | Area 3 | Program 1 | Program 2 | Program 3 | Program 4 | |
| Administrative Cost Pools | | | | | | | | | |
| Area 1 | | \$5,000 | | | | | | | \$5,000 |
| | FTEs | (5,000) | \$500 | \$250 | \$1,000 | \$250 | \$2,000 | \$1,000 | (5,000) |
| Area 2 | | | 6,000 | | | | | | 6,000 |
| | Square Feet | | (6,500) | 525 | 525 | 550 | 3,300 | 1,600 | (6,000) |
| Area 3 | | | | 5,000 | | | | | 5,000 |
| | Hours | | | (5,775) | 1,750 | 1,225 | 1,950 | 850 | (5,000) |
| Program Areas | | | | | | | | | |
| Program Area 1 | | | | | 5,000 | | | | 5,000 |
| Program Area 2 | | | | | | 4,000 | | | 4,000 |
| Program Area 3 | | | | | | | 10,000 | | 10,000 |
| Program Area 4 | | | | | | | | 20,000 | 20,000 |
| Total Budget | | \$0 | \$0 | \$0 | \$8,275 | \$6,025 | \$17,250 | \$23,450 | \$39,000 |

Even for someone familiar with cost allocation models, this can be difficult to follow – and this example is based on just three indirect cost programs and four direct cost program areas (and without showing the allocation calculations). For the State Bar, this becomes even more difficult to display and understand when there are likely to be ten indirect cost programs and sixteen direct cost programs.

Recommendation. The State Bar should continue with the simpler, “one-step” approach. It is a more transparent methodology and easier to prepare; and as discussed previously, the Cost Allocation Plan goal is a reasonable allocation of costs, not a “perfect” one. That said, a possible refinement is to allocate the costs of space used by direct programs based on assigned space; and the cost of space used by indirect cost programs based on operating costs. (An example of this is provided in Appendix B).

Ⓢ **Timing: Monthly Preparation and Posting Unusual.** The State Bar prepares and posts indirect allocations monthly. This is unusual. Most public agencies prepare an annual cost allocation plan as a freestanding policy document based on the adopted budget. This serves three purposes:

- Treats the allocation of resources as a policy matter.
- Provides transparency in how allocations are determined.
- Improves predictability.

Where significant variances between budget and actual are likely, this can be accounted for via annual true-ups that are reflected in the following year’s cost allocation plan. (“True-up” examples are available upon request.)

Recommendation. Annual preparation and true-up is the recommended approach in the 2001 Deloitte report. Consistent with industry practice, the State Bar should return to annual preparation of the Cost Allocation Plan; and it should be published as a separate

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policy document that describes its purpose, methodology, key assumptions any significant changes in methodology from the prior year and results at a summary and detailed level. Along with reducing preparation efforts and improving transparency and predictability, it will also strengthen the Cost Allocation Plan as a policy document (which is discussed next).

Technical Versus Policy Document. The current Cost Allocation Plan is a large spreadsheet that requires 11x17 paper to print-out (in very small print: see Table 8 below); has no narrative regarding assumptions, and has deeply imbedded formulas that make following the allocations difficult.

Table 8. Current Cost Allocation Plan Model (Page 1 of 2)

| State of California | | Fiscal Year 2018-19 | | Fiscal Year 2019-20 | | Fiscal Year 2020-21 | | Fiscal Year 2021-22 | | Fiscal Year 2022-23 | | Fiscal Year 2023-24 | | Fiscal Year 2024-25 | | Fiscal Year 2025-26 | | Fiscal Year 2026-27 | | Fiscal Year 2027-28 | | Fiscal Year 2028-29 | | Fiscal Year 2029-30 | | Fiscal Year 2030-31 | | Fiscal Year 2031-32 | | Fiscal Year 2032-33 | | Fiscal Year 2033-34 | | Fiscal Year 2034-35 | | Fiscal Year 2035-36 | | Fiscal Year 2036-37 | | Fiscal Year 2037-38 | | Fiscal Year 2038-39 | | Fiscal Year 2039-40 | | Fiscal Year 2040-41 | | Fiscal Year 2041-42 | | Fiscal Year 2042-43 | | Fiscal Year 2043-44 | | Fiscal Year 2044-45 | | Fiscal Year 2045-46 | | Fiscal Year 2046-47 | | Fiscal Year 2047-48 | | Fiscal Year 2048-49 | | Fiscal Year 2049-50 | | Fiscal Year 2050-51 | | Fiscal Year 2051-52 | | Fiscal Year 2052-53 | | Fiscal Year 2053-54 | | Fiscal Year 2054-55 | | Fiscal Year 2055-56 | | Fiscal Year 2056-57 | | Fiscal Year 2057-58 | | Fiscal Year 2058-59 | | Fiscal Year 2059-60 | | Fiscal Year 2060-61 | | Fiscal Year 2061-62 | | Fiscal Year 2062-63 | | Fiscal Year 2063-64 | | Fiscal Year 2064-65 | | Fiscal Year 2065-66 | | Fiscal Year 2066-67 | | Fiscal Year 2067-68 | | Fiscal Year 2068-69 | | Fiscal Year 2069-70 | | Fiscal Year 2070-71 | | Fiscal Year 2071-72 | | Fiscal Year 2072-73 | | Fiscal Year 2073-74 | | Fiscal Year 2074-75 | | Fiscal Year 2075-76 | | Fiscal Year 2076-77 | | Fiscal Year 2077-78 | | Fiscal Year 2078-79 | | Fiscal Year 2079-80 | | Fiscal Year 2080-81 | | Fiscal Year 2081-82 | | Fiscal Year 2082-83 | | Fiscal Year 2083-84 | | Fiscal Year 2084-85 | | Fiscal Year 2085-86 | | Fiscal Year 2086-87 | | Fiscal Year 2087-88 | | Fiscal Year 2088-89 | | Fiscal Year 2089-90 | | Fiscal Year 2090-91 | | Fiscal Year 2091-92 | | Fiscal Year 2092-93 | | Fiscal Year 2093-94 | | Fiscal Year 2094-95 | | Fiscal Year 2095-96 | | Fiscal Year 2096-97 | | Fiscal Year 2097-98 | | Fiscal Year 2098-99 | | Fiscal Year 2099-00 | | Fiscal Year 2100-01 | | Fiscal Year 2101-02 | | Fiscal Year 2102-03 | | Fiscal Year 2103-04 | | Fiscal Year 2104-05 | | Fiscal Year 2105-06 | | Fiscal Year 2106-07 | | Fiscal Year 2107-08 | | Fiscal Year 2108-09 | | Fiscal Year 2109-10 | | Fiscal Year 2110-11 | | Fiscal Year 2111-12 | | Fiscal Year 2112-13 | | Fiscal Year 2113-14 | | Fiscal Year 2114-15 | | Fiscal Year 2115-16 | | Fiscal Year 2116-17 | | Fiscal Year 2117-18 | | Fiscal Year 2118-19 | | Fiscal Year 2119-20 | | Fiscal Year 2120-21 | | Fiscal Year 2121-22 | | Fiscal Year 2122-23 | | Fiscal Year 2123-24 | | Fiscal Year 2124-25 | | Fiscal Year 2125-26 | | Fiscal Year 2126-27 | | Fiscal Year 2127-28 | | Fiscal Year 2128-29 | | Fiscal Year 2129-30 | | Fiscal Year 2130-31 | | Fiscal Year 2131-32 | | Fiscal Year 2132-33 | | Fiscal Year 2133-34 | | Fiscal Year 2134-35 | | Fiscal Year 2135-36 | | Fiscal Year 2136-37 | | Fiscal Year 2137-38 | | Fiscal Year 2138-39 | | Fiscal Year 2139-40 | | Fiscal Year 2140-41 | | Fiscal Year 2141-42 | | Fiscal Year 2142-43 | | Fiscal Year 2143-44 | | Fiscal Year 2144-45 | | Fiscal Year 2145-46 | | Fiscal Year 2146-47 | | Fiscal Year 2147-48 | | Fiscal Year 2148-49 | | Fiscal Year 2149-50 | | Fiscal Year 2150-51 | | Fiscal Year 2151-52 | | Fiscal Year 2152-53 | | Fiscal Year 2153-54 | | Fiscal Year 2154-55 | | Fiscal Year 2155-56 | | Fiscal Year 2156-57 | | Fiscal Year 2157-58 | | Fiscal Year 2158-59 | | Fiscal Year 2159-60 | | Fiscal Year 2160-61 | | Fiscal Year 2161-62 | | Fiscal Year 2162-63 | | Fiscal Year 2163-64 | | Fiscal Year 2164-65 | | Fiscal Year 2165-66 | | Fiscal Year 2166-67 | | Fiscal Year 2167-68 | | Fiscal Year 2168-69 | | Fiscal Year 2169-70 | | Fiscal Year 2170-71 | | Fiscal Year 2171-72 | | Fiscal Year 2172-73 | | Fiscal Year 2173-74 | | Fiscal Year 2174-75 | | Fiscal Year 2175-76 | | Fiscal Year 2176-77 | | Fiscal Year 2177-78 | | Fiscal Year 2178-79 | | Fiscal Year 2179-80 | | Fiscal Year 2180-81 | | Fiscal Year 2181-82 | | Fiscal Year 2182-83 | | Fiscal Year 2183-84 | | Fiscal Year 2184-85 | | Fiscal Year 2185-86 | | Fiscal Year 2186-87 | | Fiscal Year 2187-88 | | Fiscal Year 2188-89 | | Fiscal Year 2189-90 | | Fiscal Year 2190-91 | | Fiscal Year 2191-92 | | Fiscal Year 2192-93 | | Fiscal Year 2193-94 | | Fiscal Year 2194-95 | | Fiscal Year 2195-96 | | Fiscal Year 2196-97 | | Fiscal Year 2197-98 | | Fiscal Year 2198-99 | | Fiscal Year 2199-00 | | Fiscal Year 2200-01 | | Fiscal Year 2201-02 | | Fiscal Year 2202-03 | | Fiscal Year 2203-04 | | Fiscal Year 2204-05 | | Fiscal Year 2205-06 | | Fiscal Year 2206-07 | | Fiscal Year 2207-08 | | Fiscal Year 2208-09 | | Fiscal Year 2209-10 | | Fiscal Year 2210-11 | | Fiscal Year 2211-12 | | Fiscal Year 2212-13 | | Fiscal Year 2213-14 | | Fiscal Year 2214-15 | | Fiscal Year 2215-16 | | Fiscal Year 2216-17 | | Fiscal Year 2217-18 | | Fiscal Year 2218-19 | | Fiscal Year 2219-20 | | Fiscal Year 2220-21 | | Fiscal Year 2221-22 | | Fiscal Year 2222-23 | | Fiscal Year 2223-24 | | Fiscal Year 2224-25 | | Fiscal Year 2225-26 | | Fiscal Year 2226-27 | | Fiscal Year 2227-28 | | Fiscal Year 2228-29 | | Fiscal Year 2229-30 | | Fiscal Year 2230-31 | | Fiscal Year 2231-32 | | Fiscal Year 2232-33 | | Fiscal Year 2233-34 | | Fiscal Year 2234-35 | | Fiscal Year 2235-36 | | Fiscal Year 2236-37 | | Fiscal Year 2237-38 | | Fiscal Year 2238-39 | | Fiscal Year 2239-40 | | Fiscal Year 2240-41 | | Fiscal Year 2241-42 | | Fiscal Year 2242-43 | | Fiscal Year 2243-44 | | Fiscal Year 2244-45 | | Fiscal Year 2245-46 | | Fiscal Year 2246-47 | | Fiscal Year 2247-48 | | Fiscal Year 2248-49 | | Fiscal Year 2249-50 | | Fiscal Year 2250-51 | | Fiscal Year 2251-52 | | Fiscal Year 2252-53 | | Fiscal Year 2253-54 | | Fiscal Year 2254-55 | | Fiscal Year 2255-56 | | Fiscal Year 2256-57 | | Fiscal Year 2257-58 | | Fiscal Year 2258-59 | | Fiscal Year 2259-60 | | Fiscal Year 2260-61 | | Fiscal Year 2261-62 | | Fiscal Year 2262-63 | | Fiscal Year 2263-64 | | Fiscal Year 2264-65 | | Fiscal Year 2265-66 | | Fiscal Year 2266-67 | | Fiscal Year 2267-68 | | Fiscal Year 2268-69 | | Fiscal Year 2269-70 | | Fiscal Year 2270-71 | | Fiscal Year 2271-72 | | Fiscal Year 2272-73 | | Fiscal Year 2273-74 | | Fiscal Year 2274-75 | | Fiscal Year 2275-76 | | Fiscal Year 2276-77 | | Fiscal Year 2277-78 | | Fiscal Year 2278-79 | | Fiscal Year 2279-80 | | Fiscal Year 2280-81 | | Fiscal Year 2281-82 | | Fiscal Year 2282-83 | | Fiscal Year 2283-84 | | Fiscal Year 2284-85 | | Fiscal Year 2285-86 | | Fiscal Year 2286-87 | | Fiscal Year 2287-88 | | Fiscal Year 2288-89 | | Fiscal Year 2289-90 | | Fiscal Year 2290-91 | | Fiscal Year 2291-92 | | Fiscal Year 2292-93 | | Fiscal Year 2293-94 | | Fiscal Year 2294-95 | | Fiscal Year 2295-96 | | Fiscal Year 2296-97 | | Fiscal Year 2297-98 | | Fiscal Year 2298-99 | | Fiscal Year 2299-00 | | Fiscal Year 2300-01 | | Fiscal Year 2301-02 | | Fiscal Year 2302-03 | | Fiscal Year 2303-04 | | Fiscal Year 2304-05 | | Fiscal Year 2305-06 | | Fiscal Year 2306-07 | | Fiscal Year 2307-08 | | Fiscal Year 2308-09 | | Fiscal Year 2309-10 | | Fiscal Year 2310-11 | | Fiscal Year 2311-12 | | Fiscal Year 2312-13 | | Fiscal Year 2313-14 | | Fiscal Year 2314-15 | | Fiscal Year 2315-16 | | Fiscal Year 2316-17 | | Fiscal Year 2317-18 | | Fiscal Year 2318-19 | | Fiscal Year 2319-20 | | Fiscal Year 2320-21 | | Fiscal Year 2321-22 | | Fiscal Year 2322-23 | | Fiscal Year 2323-24 | | Fiscal Year 2324-25 | | Fiscal Year 2325-26 | | Fiscal Year 2326-27 | | Fiscal Year 2327-28 | | Fiscal Year 2328-29 | | Fiscal Year 2329-30 | | Fiscal Year 2330-31 | | Fiscal Year 2331-32 | | Fiscal Year 2332-33 | | Fiscal Year 2333-34 | | Fiscal Year 2334-35 | | Fiscal Year 2335-36 | | Fiscal Year 2336-37 | | Fiscal Year 2337-38 | | Fiscal Year 2338-39 | | Fiscal Year 2339-40 | | Fiscal Year 2340-41 | | Fiscal Year 2341-42 | | Fiscal Year 2342-43 | | Fiscal Year 2343-44 | | Fiscal Year 2344-45 | | Fiscal Year 2345-46 | | Fiscal Year 2346-47 | | Fiscal Year 2347-48 | | Fiscal Year 2348-49 | | Fiscal Year 2349-50 | | Fiscal Year 2350-51 | | Fiscal Year 2351-52 | | Fiscal Year 2352-53 | | Fiscal Year 2353-54 | | Fiscal Year 2354-55 | | Fiscal Year 2355-56 | | Fiscal Year 2356-57 | | Fiscal Year 2357-58 | | Fiscal Year 2358-59 | | Fiscal Year 2359-60 | | Fiscal Year 2360-61 | | Fiscal Year 2361-62 | | Fiscal Year 2362-63 | | Fiscal Year 2363-64 | | Fiscal Year 2364-65 | | Fiscal Year 2365-66 | | Fiscal Year 2366-67 | | Fiscal Year 2367-68 | | Fiscal Year 2368-69 | | Fiscal Year 2369-70 | | Fiscal Year 2370-71 | | Fiscal Year 2371-72 | |
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| Agency | Account | Category | Subcategory | Activity | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | Amount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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Appendix B provides examples of a Cost Allocation Plan as a policy document that reflects these features:

- Introduction describing the Plan's purpose, methodology, key assumptions and any significant changes in methodology from the prior year (Appendix B.1).
- Summary of direct and indirect costs (Appendix B.2)
- Summary of excluded costs and reconciliation to the Budget (Appendix B.3)
- Indirect cost allocation bases (Appendix B.4)
- Indirect cost summary by fund type (Appendix B.5)
- Indirect cost summary by fund (Appendix B.6: totals roll-up to Appendix B.5)
- Individual indirect cost allocations (Appendix B.7: totals roll-up to Appendix B.6)
 - General administration costs allocated based on operating costs (Appendix B.7a)
 - Human resources costs allocated based on FTE's (Appendix B.7b)
 - Utilities allocated based on assigned space and operating costs (Appendix B.7c)
- Fund indirect cost allocations: budget versus actual (Appendix B.8).
- Allocation base data (sample): Full-Time Equivalent Employees (Appendix B.9).
- Labor rates for billing and cost recovery purposes including salary, benefits and indirect costs (Appendix B.10: sample for Police labor rates)

⑧ Capital Projects and Debt Service. As discussed above, cost allocation plans typically focus on direct and indirect operating costs; and exclude from the direct cost base capital project and debt service expenditures. Accordingly, decisions regarding funding capital projects and indirect cost debt service obligations should be made on a case-by-case basis depending on circumstances at the time when capital projects and debt service obligations are approved. This has been the State Bar's past practice.

Capital projects. In the case of major capital projects, such as building and technology improvements, special fee assessments were put in place that largely funded these improvements. Where direct supplemental funding is not available, or will not fully fund project costs, project costs should be allocated on a case-by case basis, taking into account the circumstances at the time, using a methodology based on benefit similar to that used in the Cost Allocation Plan.

Debt service. Where debt service is an indirect cost, it should also be allocated based on benefit. In the current case of debt service related to the Los Angeles facility, there two equally appropriate approaches:

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- Debt service costs could be allocated based on all space used by the State Bar, on the assumption that the use of space between the San Francisco and Los Angeles offices is not largely driven by unique program needs that could not be conceptually accommodated at either location. With this assumption, all programs benefit from the availability of space, and as such, facility debt service costs could be allocated based on all assigned space and related total costs.
- On the other hand, in the interest of transparency and understandability, it may be more intuitive to allocate the debt service costs for the Los Angeles facility only to the programs that are located there. This is the State Bar's current approach.

Recommendation. No changes are recommended to the current case-by-case approach. However, in the case of capital projects, the basis for allocating project costs between funds should be clearly articulated when the Board approves the project budget (or makes subsequent amendments to it). Similarly, in the case of debt service for facilities, either of the options discussed above can be appropriate. However, the assumption and its basis should be clearly stated. Preparing the Cost Allocation Plan on an annual basis as a freestanding policy document (as recommended above) will provide the opportunity to do so.

⑨ **Plan Approval.** As a “technical document” that closely follows the 2001 Deloitte report recommendations (albeit with modifications since then), the Cost Allocation Plan is currently approved and implemented by Finance staff. However, as noted above, the Cost Allocation Plan allocates significant resources between funds. As such, either implicitly or explicitly, it is a major policy document, similar to the Budget, which are typically approved by the Board.

Recommendation. Assuming it is prepared annually as a freestanding policy document, the Cost Allocation Plan should be formally approved by the Board. (If the Cost Application Plan is prepared concurrently with the Budget, formal Board approval of the Plan may not be required if the budgeted allocations are based on the Plan. However, in this case the Plan should be provided to the Board for its review).

⑩ **Cost Recovery Policy.** While the Cost Allocation Plan identifies total program costs, setting rates and fees at levels that fully recover these costs is a policy decision (although there may be statutory requirements for full indirect cost recovery or limits on full cost recovery).

Recommendation. Full cost recovery where possible may be an implicit understanding (and as noted above, there may be statutory provisions regarding indirect cost recovery). However, in accordance with “best practices” (and following a review for possible statutory limitations), the Board should formally adopt a cost recovery policy that sets forth programs where it expects full cost recovery; and for any programs where full cost recovery is not expected, the reason for this and the cost recovery goal.

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FISCAL IMPACT ON INDIRECT COST ALLOCATIONS

Without actually performing the calculations and updating the model, it is not possible to fully assess the fiscal impact of implementing the recommended changes. That said, most the proposed changes are modest and as such should have modest impacts.

However, there are two areas where there are likely to be reductions and increases in allocated indirect costs in the restricted and special revenue funds:

- Identifying all Communications costs as direct costs will reduce indirect cost allocations. Since only 7% of Communications costs are currently being allocated as indirect costs, this impact should be modest.
- Allocating all indirect costs (and not just portions of Executive Director, Board, Appointment and Elections costs) will increase indirect cost allocations. This impact is likely to be significant.

“FAIRNESS” OF CURRENT ALLOCATIONS AND PROPOSED CHANGES

Are the current allocations and proposed changes “fair?”

As some pundit once noted: fairness is in the eye of the beholder. In the case of cost allocations, fairness can best be determined by the key technical and policy criteria discussed above:

- Are the allocations logical, consistent and reasonable (albeit not perfect)?
- Are the allocation assumptions and calculations clear, transparent and understandable?

If the answer to these questions is “yes,” the resulting allocations most likely will be “fair,” recognizing that regardless of methodology, allocating indirect costs is a “zero sum game.” At the end of the day, all indirect costs have to be allocated to direct cost programs. Accordingly, a basis of allocation that lowers indirect costs for one program will result in higher costs for another (and thus why “fairness” in the context of cost allocation plan is likely to be in the eye of the stakeholder).

That said, there are three “acid tests” for fairness based on the overall indirect cost rate:

Is the overall indirect cost rate significantly higher than 35%?

All organizations account for direct and indirect costs differently, and as such, there can be significant variances in overall indirect cost ratios. However, if this ratio is significantly higher than 35%, there should clear, compelling and reasonable basis for this. In the State Bar’s case, the overall ratio of indirect to direct costs for 2014 was 28.0%, based on allocated indirect costs of \$21.6 million and direct costs of \$77.1 million.

COST ALLOCATION PLAN REVIEW

How does the overall indirect cost rate change over time?

If it changes significantly, there should be a clear, compelling and reasonable basis for this. For example:

- The 2001 Deloitte report shows an overall indirect cost rate for 2002 of 29.3% (Table 9) based on direct program costs of \$58.3 million and indirect costs of \$17.1 million.

Table 9. 2001 Deloitte Report Indirect Cost Allocations

| <u>Program Area</u> | <u>Direct Costs (\$000)</u> | <u>Allocated Costs (\$000)</u> | <u>Total Costs (\$000)</u> | <u>Allocated as Percent of Direct</u> |
|---|-----------------------------|--------------------------------|----------------------------|---------------------------------------|
| Discipline | \$31,986 | \$9,354 | \$41,340 | 22.6% |
| Administration of Justice | 747 | 202 | 949 | 21.3% |
| Governance | 1,322 | 2,276 | 3,598 | 63.3% |
| Legal Services Access | 1,240 | 290 | 1,530 | 19.0% |
| Admin. of the Profession | 682 | 281 | 963 | 29.2% |
| Communications | 2,517 | 327 | 2,844 | 11.5% |
| Admissions | 8,702 | 2,002 | 10,705 | 18.7% |
| Client Security Fund | 962 | 515 | 1,477 | 34.8% |
| Legal Services Trust | 827 | 208 | 1,035 | 20.1% |
| Equal Access Fund | 330 | 10 | 340 | 3.0% |
| Certifications Fund | 1,341 | 317 | 1,659 | 19.1% |
| Legal Specialization | 1,178 | 198 | 1,376 | 14.4% |
| Sections | 3,544 | 549 | 4,093 | 13.4% |
| Annual Meeting | 555 | 84 | 639 | 13.1% |
| Conference of Delegates | 118 | 14 | 132 | 10.5% |
| Legislative Activities | 603 | 124 | 727 | 17.0% |
| Elimination of Bias | 385 | 74 | 459 | 16.1% |
| Attorney Diversion | 750 | 65 | 815 | 7.9% |
| Legal Education | 586 | 196 | 782 | 25.1% |
| Program Area Total | \$58,375 | \$17,087 | \$75,462 | 22.6% |
| Exempt Costs | 1,943 | 22,631 | 24,574 | |
| Total Budget | \$60,318 | \$39,718 | \$100,036 | |
| Note: Totals may not sum do to rounding | | | | |

- This compares favorably with the 2014 ratio of 28.0% for 2014.

- It also compares favorably with the with the very “high level” sample estimate for 2016 presented earlier in Table 1 of 33.9%, which is based on allocating all indirect costs and doesn’t make adjustments for excluded costs.

How do major program indirect cost rates compare with the overall indirect cost rate?

There should be variances, since indirect costs are allocated to each major cost area under separate allocation bases. That said, where there are significant variances, again there should be a clear, compelling and reasonable basis for this.

For example, the Sections have expressed concern in the past that the indirect cost allocations to them are “too high.” To place this in context, indirect cost allocations to the Sections Fund in 2014 were \$1.365 million compared with direct costs of \$6.739 million. The resulting indirect cost rate of 20.2% compares very favorably with the organization-wide cost rate of 28.0%.

COST ALLOCATION PLAN REVIEW

CONCLUSION

The State Bar's current Cost Allocation Plan is technically sound and largely follows the methodology set forth in the 2001 Deloitte report. However, there are recommended changes that will reduce preparation efforts while improving transparency and understandability. In many cases, this is done by following Albert Einstein's advice:

"Make everything as simple as possible, but not simpler. Any idiot can make things more complicated."



APPENDIX

Appendix A: 2001 Deloitte Report

- Board and Committee Agenda Report
- Deloitte & Touche Report

Appendix B: Examples of Cost Allocation Plan as Policy Document

- Introduction describing the Plan's purpose, methodology, key assumptions and any significant changes in methodology from the prior year (Appendix B.1).
- Summary of direct and indirect costs (Appendix B.2)
- Summary of excluded costs and reconciliation to the Budget (Appendix B.3)
- Indirect cost allocation bases (Appendix B.4)
- Indirect cost summary by fund type (Appendix B.5)
- Indirect cost summary by fund (Appendix B.6)
- Individual indirect cost allocations (Appendix B.7)
 - General administration costs allocated based on operating costs (Appendix B.7a)
 - Human resources costs allocated based on FTE's (Appendix B.7b)
 - Utilities allocated based on assigned space and operating costs (Appendix B.7c)
- Fund indirect cost allocations: budget versus actual (Appendix B.8).
- Allocation base data (sample): Full-Time Equivalent Employees (Appendix B.9).
- Labor rates for billing and cost recovery purposes including salary, benefits and indirect costs (Appendix B.10: sample for Police labor rates)

AGENDA ITEM

Appendix A

JANUARY 54-141

Update to Indirect Cost
Allocation Methodology

DATE: January 10, 2002

TO: Members, Board Planning, Program Development and Budget Committee
Members, Board of Governors

FROM: David Jensen, Manager of Budget and Planning

SUBJECT: Update to Indirect Cost Allocation Methodology

Executive Summary

In 1999, the State Bar engaged the consulting firm of Deloitte and Touche, LLP, to study and recommend an appropriate methodology for allocating Administration and Support costs to the various State Bar program areas. The consultants recommended a step-down methodology originally developed by the federal government to allow state and local governments to recover the costs of administering federal grants without placing an undue burden on the grant recipient to track all related administrative costs. This is also the same methodology used by the State of California. In August of 1999, the Board of Governors adopted the step-down methodology recommended by Deloitte and Touche and the utilization of their model to calculate allocations. Subsequently the State Bar has incurred organizational changes that needed to be incorporated into the model. Following the adoption of the 2002 State Bar Budget, Deloitte and Touche reviewed the methodology as applied to the State Bar and updated the model accordingly. As the methodology remains the same, the Board needs to take no action. The model results for 2002 are presented for the Board's information.

When the Board of Governors adopted the 2002 State Bar budget in October 2001, they also adopted some changes in the State Bar organizational structure. The most notable of these changes are the creation of the Attorney Diversion and Assistance Fund and the transfer of Certification activities from the General Fund to the newly created Certification Fund. These organizational changes necessitated an update to the State Bar's Indirect Cost Allocation Model as the new programs needed to be assessed their share of Administration and Support costs (i.e., indirect costs) for 2002.

The State Bar engaged the consulting firm of Deloitte and Touche, LLP, to review the State Bar's organizational structure and update the model for 2002. Attached is the Draft Final Report reflecting the Revised Indirect Cost Allocation Methodology for 2002 as prepared by Deloitte and Touche, November 2001. The model results are presented on page 3 of this report.

The report is being presented as an information item to the Board Committee on Planning, Development and Budget.

State Bar of California

Revised Indirect Cost Allocation Methodology



**Draft Final Report
November, 2001**

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I - Executive Summary

Background

The State Bar of California engaged Deloitte & Touche to update the Indirect Cost Allocation Plan originally developed in 1999. This update involved interviews with administrative management personnel, document reviews and presentations to the Council of Section Chairs and the Executive Committee of the Conference of Delegates at the 2001 Annual Meeting.

Goal and Assumptions

The goal of an Administrative Cost Allocation Plan is a system that is:

- Fair (based on usage)
- Simple (easy to understand)
- Predictable (consistent over time)

To meet this goal requires a balance between the three.

Assumptions of the plan include:

- Allocation of 100% of administrative costs
- Allocation of costs to major areas, not cost centers
- Allotment for annual adjustments to reflect actual patterns
- Updates with the FY2002 budget

I - Executive Summary (Continued)

Methodology Description

The methodology used in the model was originally developed by the federal government to allow state and local governments to recover the costs of administering federal grants without placing an undue burden on the grant recipient to track all administrative related costs. This same process is used by the State of California.

The plan identifies twelve (12) Administrative Cost Pools and defines the method of allocation for each of these pools. There were a total of nineteen (19) Program Areas defined. The actual allocation process is a “step-down” process where the first Administrative Cost Pool is allocated to the other Administrative Cost Pools and the Program Areas. The second Administrative Cost Pool’s direct costs plus the amount allocated from the first pool are then allocated to the remaining Administrative and Program Areas. This continues until all Administrative Cost Pools are allocated. *Section V* discusses the Administrative Cost Pools and allocation methods, while *Appendix A* provides a list of all Administrative Cost Pools and Program Areas.

I - Executive Summary (Continued)

Model Results

The table shows the impact of applying this methodology to the FY2002 State Bar proposed budget. This table shows the direct and indirect costs for each of the Program Areas. The details of these calculations are shown in *Appendix B*.

Summary of Administrative Cost Allocations
Fiscal Year 2002

| <u>Program Area</u> | <u>Direct Costs (\$000)</u> | <u>Allocated Costs (\$000)</u> | <u>Total Costs (\$000)</u> | <u>Allocated as Percent of Direct</u> |
|---|-------------------------------------|--|------------------------------------|---|
| Discipline | \$31,986 | \$9,354 | \$41,340 | 22.6% |
| Administration of Justice | 747 | 202 | 949 | 21.3% |
| Governance | 1,322 | 2,276 | 3,598 | 63.3% |
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| Admissions | 8,702 | 2,002 | 10,705 | 18.7% |
| Client Security Fund | 962 | 515 | 1,477 | 34.8% |
| Legal Services Trust | 827 | 208 | 1,035 | 20.1% |
| Equal Access Fund | 330 | 10 | 340 | 3.0% |
| Certifications Fund | 1,341 | 317 | 1,659 | 19.1% |
| Legal Specialization | 1,178 | 198 | 1,376 | 14.4% |
| Sections | 3,544 | 549 | 4,093 | 13.4% |
| Annual Meeting | 555 | 84 | 639 | 13.1% |
| Conference of Delegates | 118 | 14 | 132 | 10.5% |
| Legislative Activities | 603 | 124 | 727 | 17.0% |
| Elimination of Bias | 385 | 74 | 459 | 16.1% |
| Attorney Diversion | 750 | 65 | 815 | 7.9% |
| Legal Education | 586 | 196 | 782 | 25.1% |
| Program Area Total | \$58,375 | \$17,087 | \$75,462 | 22.6% |
| Exempt Costs | 1,943 | 22,631 | 24,574 | |
| Total Budget | \$60,318 | \$39,718 | \$100,036 | |
| Note: Totals may not sum do to rounding | | | | |

I - Executive Summary (Continued)

Changes from the Prior Year

There were a number of changes from the initial (FY2000) plan based on the current understanding of the fee bill and the current organization of the Bar. For 2002, there are new Administrative Cost Pools for this plan:

- Board of Governors

- Appointments

- Membership Billing

- Communications

There are also new Program Areas that receive costs, based on the current organization. All Administrative Cost Pools and Program Areas are listed in *Appendix A*.

Support by State Bar Staff

This update for 2002 could not have been completed without the support of the staff of the Finance Department and the General Counsel. Also, members of the Council of Section Chairs and the Executive Committee of the Conference of Delegates provided relevant comments.

II - Background and Process

Background

The State Bar of California (State Bar) is funded through a number of sources, including the membership fee bill, voluntary fees and charges. The Cost Allocation Plan was developed in 1999 prior to the reinstatement of the fee bill. The fee bill, and reorganization within the State Bar in response to legitimate legislative concerns, requires that the Allocation Plan be updated for 2002.

Process

The update of the Cost Allocation Plan was focused internally. The project team met with representatives from the Finance Department and the General Counsel's Office to review the changes in the State Bar organization and interpretations of the fee bill requirements since the 1999 study. A presentation was also made to the Council of Section Chairs and the Executive Committee of the Conference of Delegates at the 2001 Annual Meeting.

The updated cost allocation model uses FY2002 budget and allocation metrics provided by staff. This is a spreadsheet based model used by the Manager of Budget and Planning to recalculate the cost allocations for FY2002 and will be used to update the plan on an annual basis.

The following sections of this document discuss the model assumptions, the cost allocation methodology, individual Administrative Cost Pools, the proposed allocation method for each cost pool, and the results and future implementation issues.

III - Model Goals and Assumptions

Goal

The original focus groups agreed that the goal of a Cost Allocation Plan is a system that is:

- Fair (based on usage)

- Simple (easy to understand)

- Predictable (consistent over time)

The goal that the plan be “fair”, “simple” and “predictable” requires balancing. A plan that is completely “fair” would be based totally on usage, would require the tracking of numerous measures not currently captured by State Bar staff and would entail a detailed time tracking system. A plan that is completely “simple” would ignore real differences in usage of the different administrative services. A plan that is “predictable” would allow Program Areas to plan for cost allocation charges and not be surprised because of unforeseen circumstances, but would not reflect changes immediately, but rather over a period of time these changes would be captured.

Assumptions

There are three key assumptions that a Cost Allocation Plan must include to meet the overall goal:

- 100% of administrative costs will be allocated

- Allocations will be to major areas, not each cost center

- Allocations will be adjusted annually

IV - Methodology Description

The Indirect Cost Allocation Methodology is designed to meet the goals and assumptions discussed above. The methodology also makes two additional assumptions, (1) that the State Bar will continue to pass through costs directly to users through billings for such quantifiable items as postage, printing, copying, telephone, etc; and (2) that no additional staff will be needed to maintain the cost allocation system.

The methodology used in the model was originally developed by the federal government to allow state and local governments to recover the costs of administering federal grants without placing an undue burden on the grant recipient to track all administrative related costs. This same process is used by the State of California.

The methodology requires that all costs be categorized into two areas: (1) administrative costs and (2) Program Areas. Certain administrative costs may be excluded from the allocation where these costs are directly passed through to the actual users (e.g. postage fees) or used to offset overall costs (e.g. non-Bar tenant rentals).

The remaining administrative costs are then grouped into Administrative Cost Pools. These groupings are driven in part by the management and organization structure and a common method of allocating costs. For the State Bar, there are a total of twelve Administrative Cost Pools. (See *Section V* for descriptions.)

The Program Areas are also determined in part by the management and organization structure. For the State Bar, a total of nineteen (19) Program Areas were defined. These Program Areas are logical combinations of cost centers, e.g. all 16 Sections are grouped into the Sections Fund Program Area. (See *Appendix A*).

IV - Methodology Description (Continued)

The methodology used in this model is called a “step-down” allocation. The costs associated with the first Administrative Cost Pool are allocated to all other areas, both the remaining Administrative Cost Pools and Program Areas in proportion to an agreed upon quantifiable category, such as number of Full Time Equivalents (FTEs). The costs of the next Administrative Cost Pool (which now includes the amount allocated from the first pool) are then allocated to all remaining Administrative Cost Pools and Program Areas. At the end of the allocation process, all Administrative Cost Pools will be allocated and sum to zero, and the total cost of the State Bar will be reflected in the various Program Areas. An example of a step-down allocation model is shown below. Note that the Administrative Cost Pools (columns three through five) sum to zero and these costs are added to the Program Areas (columns six through nine).

Example of a Step-Down Allocation Model

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----------------------------------|-------------------|---------------------------|------------------|------------------|---------------|-----------|-----------|-----------|--------------------|
| | Allocation Method | Administrative Cost Pools | | | Program Areas | | | | Allocation Totals |
| | | Area 1 | Area 2 | Area 3 | Program 1 | Program 2 | Program 3 | Program 4 | |
| Administrative Cost Pools | | | | | | | | | |
| Area 1 | FTEs | \$5,000 (5,000) | \$500 | \$250 | \$1,000 | \$250 | \$2,000 | \$1,000 | \$5,000 (5,000) |
| Area 2 | Square Feet | | 6,000 (6,500) | 525 | 525 | 550 | 3,300 | 1,600 | 6,000 (6,000) |
| Area 3 | Hours | | | 5,000 (5,775) | 1,750 | 1,225 | 1,950 | 850 | 5,000 (5,000) |
| Program Areas | | | | | | | | | |
| Program Area 1 | | | | | 5,000 | | | | 5,000 |
| Program Area 2 | | | | | | 4,000 | | | 4,000 |
| Program Area 3 | | | | | | | 10,000 | | 10,000 |
| Program Area 4 | | | | | | | | 20,000 | 20,000 |
| Total Budget | | \$0 | \$0 | \$0 | \$8,275 | \$6,025 | \$17,250 | \$23,450 | \$39,000 |

IV - Methodology Description (Continued)

For this model, the estimated budget for FY2002 was used. The allocation factors are based on either the estimated budget or metrics gathered explicitly for this model. Some of these estimates will remain constant over time (e.g. space usage) while others will change (e.g. FTEs) on an annual basis.

To ensure that costs are predictable for the year, the allocations will be set at the beginning of the fiscal year. The actual numbers at the end of the year will vary and the model will adjust for these changes in subsequent years. For example, the plan adopted for FY2001 was used for FY2001. For FY 2002, the budget for FY2002 will be used and the plan allocations adopted. In FY2003, the actual information for FY2001 will be used to recalculate the amounts which should have been allocated to programs in FY2001. The FY2004 allocations will then be adjusted by these amounts. Thus, over time each area will pay its fair share, while having a known allocation at the start of the year.

V - Administrative Cost Pools

The definition of Administrative Cost Pools and method of allocating each of these cost centers is the key component of the cost allocation model. A total of twelve (12) distinct cost pools have been identified as Administrative Cost Pools. Each of these will be discussed in turn.

Executive Director

The Executive Director Cost Pool includes half of the Office of the Executive Director. Considering only a portion of the Executive Director as an Administrative Cost Pool is consistent with the federal and state guidelines for Cost Allocation Plans. The costs for the Executive Director will be allocated based on the Executive Director's time records.

General Counsel

The Office of General Counsel provides legal services to staff and programs of the State Bar and represents the State Bar in any court of law. The costs of the General Counsel will be allocated to programs based on the time records of the attorneys.

Board of Governors

This is a new Administrative Cost Pool. The Board of Governors is included as both an Administrative Cost Pool and as a program. Under federal guidelines, the Board of Governors would not be considered an allocable Administrative Cost Pool, but under state guidelines it is. There is also a belief that the existing state legislation requires some of the Board of Governor's expenses be allocated to the Program Areas funded by voluntary contributions. (Voluntary contributions support the Elimination of Bias Fund, the Conference of Delegates Fund, the Legislative Activities Fund and the Sections Fund.) Twenty-five percent of the Board of Governors will be allocated based on the net budget.

V – Administrative Cost Pools (continued)

Appointments

This is also a new Administrative Cost Pool. The Appointments function provides assistance to all the volunteer organizations by recommending personnel for the various boards and committees. This area will be allocated based on the number of appointments in the prior year.

Communications

This is also a new Administrative Cost Pool. The Communications function includes some services that support various program activities, specifically the management of the State Bar Web page on the Internet. The relevant portion of Communications will be allocated based on time records.

Administration and Support Management

The management of Administration and Support and the Financial Planning and Analysis staff provide management to the various areas within Administration and Support. These costs are allocated to the other Administration and Support functions based on the FTEs within each area.

Finance

The Finance Department maintains the financial records, manages cash and investments, and manages the payroll processing. Payroll processing costs will be excluded from Finance and allocated with the Human Resources cost pool. The Finance activities are best measured by the number of financial transactions, however this information is not currently available from the data processing system. Until this transaction information is available, the Finance Department costs will be allocated based on the adjusted budget for each area. (Note, adjusted budget is the total budget less specific large dollar items that have minimal financial transactions, e.g. the cost of scoring the multistate bar exam.)

V – Administrative Cost Pools (continued)

Membership Billing

This is the final new Administrative Cost Center. Membership billing collects the dues and voluntary fees from all attorneys who wish to practice within the State of California. Allocation of membership billing will be based on the revenues collected.

Property Related Services

There are a number of services provided to programs and administrative areas that are related to the facilities. These include the costs of space, reception, switchboard and security in both San Francisco and Los Angeles. There are some additional functions included in Support Services, Administrative Services and Staff and Building Services cost centers. These other costs include purchasing, mailroom and printing services. The mailroom currently charges each user for outgoing mail and the print shop charges for printing and copier services. These costs will continue to be charged directly and are included in the individual program or administrative budgets. The remaining costs within the Property Related Services cost pool will be allocated based on the square footage occupied by each area.

Library

The law libraries in both San Francisco and Los Angeles are the next Administrative Cost Pool. The primary users of these libraries are judges, attorneys and paralegals. Thus, the law library costs will be allocated based on the number of judges, attorneys, and paralegals in each area.

V - Administrative Cost Pools (Continued)

Human Resources

This cost center is responsible for all personnel related activities of the State Bar, including recruiting, promotions, benefits management, COBRA and training. Services are provided in both San Francisco and Los Angeles. As noted above, the costs of the payroll function of Finance will be included within the Human Resources cost pool. These costs will be allocated based on the number of FTEs in each area.

Information Technology

Information Technology provides various services to users, including programming, application support, personal computer support and telecommunications. Telecommunications charges are currently directly billed to the users, both the cost of the telephone and long distance charges. The major cost component within Information Technology is the maintenance of the computing capacity at the user workstation, the PC. The remaining costs (after telecommunications is removed) for Information Technology will be allocated based on FTEs, a proxy for PC use.

VI - Model Results

The State Bar's estimated FY2002 Budget is \$100,036,277.* Of these costs, a total of \$24,574,294 is exempted from the allocation calculations for various reasons. A total of \$17,087,142 are designated as part of the Administrative Cost Pools, leaving \$58,374,841 as Program Area costs. Administrative Costs add 22.6% to the total direct costs of the Program Areas.

The following table shows the direct, allocated and total costs for each of the Program Areas. The details of the allocation are shown in the model, *Appendix B*.

Summary of Administrative Cost Allocations
Fiscal Year 2002

| Program Area | Direct Costs (\$000) | Allocated Costs (\$000) | Total Costs (\$000) | Allocated as Percent of Direct |
|---|-------------------------|----------------------------|------------------------|-----------------------------------|
| Discipline | \$31,986 | \$9,354 | \$41,340 | 22.6% |
| Administration of Justice | 747 | 202 | 949 | 21.3% |
| Governance | 1,322 | 2,276 | 3,598 | 63.3% |
| Legal Services Access | 1,240 | 290 | 1,530 | 19.0% |
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| Admissions | 8,702 | 2,002 | 10,705 | 18.7% |
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| Legal Specialization | 1,178 | 198 | 1,376 | 14.4% |
| Sections | 3,544 | 549 | 4,093 | 13.4% |
| Annual Meeting | 555 | 84 | 639 | 13.1% |
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| Exempt Costs | 1,943 | 22,631 | 24,574 | |
| Total Budget | \$60,318 | \$39,718 | \$100,036 | |
| Note: Totals may not sum do to rounding | | | | |

* Source: State Bar draft 2002 budget. Total may not sum due to rounding.

VII - Implementation Issues

There are a few issues which the State Bar should address over time that will have an impact on the allocation model.

Direct Charges

Costs for which direct “clients” can be identified should be directly charged rather than allocated. This would include, for example, costs of client-requested computer programming hours or outside counsel. This has been done at times in the past, but not on a consistent basis.

Currently, there are some costs that are directly charged. However, some costs, such as the cost per telephone line, have not been calculated for some time and the charge may not reflect the current costs. All direct costs should be reviewed and, if necessary, recalculated on a periodic basis (every two to three years).

To direct bill additional areas beyond the ones described in this report would require staff to collect additional information and might result in an increase in administrative costs.

Exemptions

There are certain costs that have been removed from the Administrative Cost Pools prior to allocation. These are the costs of outside counsel in General Counsel and the revenue from non-Bar tenants in the Property Related Services. Periodically, the State Bar should revisit the idea of exemptions to ensure that these are still valid.

Appendix A - Cost Pools and Program Areas

Administrative Cost Pools

- Executive Director
- General Counsel
- Board of Governors
- Appointments
- Communications
- Administration and Support Management
- Finance
- Membership Billing
- Property Related Services
- Library
- Human Resources and Payroll
- Information Technology

Program Areas

- Discipline
- Administration of Justice
- Governance
- Legal Services Access
- Administration of the Profession
- Communications
- Admissions
- Client Security Fund
- Legal Services Trust Fund
- Equal Access Fund
- Certifications Fund
- Legal Specialization Fund
- Sections Fund
- Annual Meeting Fund
- Conference of Delegates
- Legislative Activities
- Elimination of Bias Fund
- Attorney Diversion and Assistance
- Legal Education

Appendix B - Model Spreadsheet

- Spreadsheet submitted electronically.

INTRODUCTION

OVERVIEW

Purpose of the Cost Allocation Plan

The purpose of the City's Cost Allocation Plan is to identify the total costs of providing specific City services. Why is a separate cost accounting analysis required to do this? Because in almost all organizations—whether in the private or the public sector—the cost of producing goods or delivering services can be classified into two basic categories: direct and indirect costs.

“Direct costs” by their nature are usually easy to identify and relate to a specific service. However, this is not the case for “indirect costs.” As such, if we want to know the “total cost” of providing a specific service, then we need to develop an approach—a plan—for reasonably allocating indirect costs to direct cost programs.

What Are Direct and Indirect Costs? Direct costs are those that can be specifically identified with a particular cost objective, such as street maintenance, police protection and water service. Indirect costs are not readily identifiable with a direct operating program, but rather, are incurred for a joint purpose that benefits more than one cost objective.

Common examples of indirect costs include accounting, purchasing, legal services, personnel administration, insurance and building maintenance. Although indirect costs are generally not readily identifiable with direct cost programs, their cost should be included if we want to know the total cost of delivering specific services.

Budgeting and Accounting for Indirect Costs. Theoretically, all indirect costs could be directly charged to specific cost objectives; however, practical difficulties generally preclude such an approach for organizational and accounting reasons. As such, almost all organizations separately budget and account for direct and indirect costs at some level depending on their financial reporting needs and the complexity of their operations.

Distributing Indirect Costs. However, in order to determine the total cost of delivering specific services, some methodology for determining and distributing indirect costs must be developed, and that is the purpose of cost

allocation plans: to identify indirect costs and to allocate them to benefiting direct cost programs in a logical, consistent and reasonable manner.

Plan Goal: Reasonable Allocation of Costs

It is important to stress that the goal of the Cost Allocation Plan is a reasonable allocation of indirect costs, not a “perfect” one. By their very nature, indirect costs are difficult to link with direct costs. As such, in developing an allocation approach, it is important to keep this goal in mind balancing the cost and of effort of complicated allocation methods with the likely benefits from the end results.

Determining Direct and Indirect Costs

The first step in preparing the City's Cost Allocation Plan is determining direct and indirect costs. Program costs that primarily provide service to the public are identified as direct costs, whereas the cost of programs that primarily provide services to the organization are identified as indirect costs.

Additionally, use allowance costs for facilities and equipment have also been developed. In accordance with generally accepted accounting principles, only operating costs are considered in preparing the Cost Allocation Plan. As such, capital outlay, debt service, interfund transfers and “pass-through” costs are excluded from the calculations.

ALLOCATING INDIRECT COSTS

For general purposes, the City-wide indirect cost rate can be used as the basis for allocating indirect costs. The indirect cost rate is simply the ratio between indirect and direct costs, which can be easily computed for the City as a whole once the direct and indirect cost base has been determined.

Citywide Indirect Cost Rate

Provided in Table 1 (page 4) is a summary of direct and indirect costs for the City of Greenfield based on the approved 2015-16 Budget along with the resulting citywide indirect cost rate. By applying the overall indirect cost rate to any specific direct cost program, the total cost of the program can be determined. For example, with an overall indirect cost rate of 28.1%, the total cost for a direct program of \$100,000 in Greenfield would be \$128,100

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with this approach. (Table 2 on page 5 reconciles direct and indirect costs to the Budget after adjusting for capital outlay, debt service, interfund transfers and pass-through costs).

Bases of Allocation

This method of cost allocation assumes that all indirect costs are incurred proportionately to the direct cost of the program. However, this may not be a reasonable assumption in all cases, as the benefit received from certain types of support service programs may be more closely related to another indicator of activity than cost.

For example, if a program service is primarily delivered through contract and does not have any City staffing directly associated with it, distributing personnel administration and payroll preparation costs to it may result in an inequitable allocation of costs. Because of this, the City's Cost Allocation Plan establishes separate *bases of allocation* for each major indirect cost category. With this approach, indirect costs can be allocated to each direct cost program in a fair, convenient, and most importantly, consistent manner. Provided in Table 3 on page 6 is a summary of the primary methods of allocation used in distributing indirect costs to direct cost programs.

Some of these costs lend themselves to an easily justified, rational approach of distribution. For example, human resources and payroll costs are related to the number of employees serviced. Other costs may not be as intuitive; however, the allocation bases are consistent with generally accepted accounting principles and recognize the concept that the cost of developing the information necessary to perform the cost allocations should not exceed the benefits likely to be gained.

Where there is not a clear relationship to an allocation base (like staffing, assigned space or Council agenda items), allocating costs based on operating budget is the common industry practice, and as such, this approach is used by the City.

Indirect Cost Allocations

A summary of the indirect cost allocations is provided in Tables 5.1 through 5.4 (pages 9 through 12), followed by the detailed allocations for each

specific indirect cost program on Tables 6.1 through 6.14 (pages 13 to 30). This leads to a summary of reimbursement transfers to the General Fund in Table 7 (page 31).

Simple Method of Allocating Costs

In performing the cost allocations, all indirect costs have been allocated only to direct cost programs rather than using a more complex sequential allocation system. Although there are some conceptual difficulties with this approach, the difference in the end result is insignificant, but the cost of preparation, review and audit is significantly reduced.

For example, the cost of the City Manager program is allocated solely to direct cost programs based on their operating budget. However, as the City Manager program also benefits other indirect cost programs such as City Attorney and Finance, the cost allocations could appear to be distorted since no allocations are made to them.

Under a more sophisticated system, the cost of the City Manager program would be allocated to the other indirect costs programs and iterative allocations then made to direct cost programs until all indirect costs are distributed. However, this process is extremely time consuming (and places far more reliance on the underlying significance of the allocation bases than may be appropriate) and results in the same basic cost allocations as the simpler method since all indirect costs are allocated in the final product. Again, as noted above, the plan's goal is a reasonable allocation of costs, not a "perfect" one.

USES OF THE COST ALLOCATION PLAN

By identifying total program costs, the Cost Allocation Plan can be used as an analytical tool in many financial decision-making situations, including:

- **Reimbursement Transfers.** The Cost Allocation Plan identifies the costs incurred by the General Fund in providing administrative support services to the City's other funds such as water and wastewater. For example, although the City's administrative, legal services, accounting, human resources and building maintenance programs are budgeted and accounted for in the General Fund, these programs provide support

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services to other City funds. The Cost Allocation Plan provides a clear methodology for determining this level of support in for the reimbursement of these costs. As noted above, recommended reimbursement transfers based on the Cost Allocation Plan are presented in Table 7 (page 31) compared with budget estimates.

- **General Fund User Charges.** Similar to ensuring that enterprise fund revenues fully recover their costs, the Cost Allocation Plan can also be used in determining appropriate user fees for General Fund services, such as planning applications, building permits and recreation activities, in ensuring that the full cost of services are considered in setting rates.
- **Labor Rates.** The City has developed hourly labor rate schedules that identify the total hourly cost of all regular positions (pages 39 to 44). Key components of the “full-cost” rate include indirect costs, both organization-wide (which the Cost Allocation Plan identifies) and for program administration. Additionally, these hourly rates include paid and leave benefits.
- **Contracting-Out for Services.** By identifying total costs, the cost allocation plan can also be helpful in analyzing the costs of contracting for services versus performing services in-house.
- **Grant Administration.** Under federal cost accounting policies (Circular A-87), it is permissible to include indirect costs in accounting for grant programs. By establishing indirect cost rates, the cost allocation plan can be used in recovering the total costs (direct and indirect) associated with implementing grant programs.

PLAN PREPARATION

In a true cost accounting system, indirect costs would be computed and allocated on an ongoing basis throughout the fiscal year based on actual costs. However, frequent updating in municipal finance would not serve any specific purpose—such as unit price control in a manufacturing company—but it would consume significant accounting resources.

As such, the City’s Cost Allocation Plan is prepared biennially based on the two-year Budget adopted by the Council. (While the Cost Allocation Plan itself is updated biennially, labor rates are revised at least annually to stay current with salary and benefit changes.)

This approach works well when significant variances are not expected between budget and actual. However, where large variances are possible, then at the end of the fiscal year, a “true-up” should be calculated based on actual costs. Any variances (either over or under the Cost Allocation Plan amounts) can then be applied to the following year’s Cost Allocation Plan.

After two years, the City will assess whether there were any significant variances between budget and actual, and move to a “true-up” approach if that proves to be the case.

SUMMARY

The Cost Allocation Plan makes determining total program costs possible by establishing a reasonable methodology for identifying and allocating indirect costs to direct cost programs. Because of this, the Cost Allocation Plan can be a valuable analytical tool in a number of situations, including establishing fees designed for full cost recovery, reimbursing support service costs provided by the General Fund to other funds and special purpose agencies and recovering indirect costs associated with grant programs.

DIRECT AND INDIRECT COST SUMMARY

| DIRECT COSTS | |
|----------------------------------|--------------------|
| General Fund | |
| Parks & Recreation | 249,600 |
| Community Development | 528,200 |
| Police Services | 2,268,000 |
| Enterprise Funds | |
| Sewer Utility Fund | 749,700 |
| Water Utility Fund | 721,700 |
| Special Revenue Funds | |
| Police Grants | 313,100 |
| Measure X | 1,143,000 |
| Gas Tax Fund | 459,700 |
| Landscape and Lighting Districts | 505,300 |
| Street and Drainage Districts | 158,500 |
| Science Workshop Fund | 129,100 |
| Other Special Revenue Funds | 399,000 |
| TOTAL DIRECT COSTS | \$7,624,900 |

| INDIRECT COSTS | |
|----------------------------------|------------------|
| City Council | 66,700 |
| Administration | |
| City Manager | |
| General Administration | 211,100 |
| Human Resources | 121,400 |
| City Clerk | 140,300 |
| City Attorney | 100,000 |
| Financial Services | |
| General Finance and Accounting | 224,600 |
| Payroll | 57,300 |
| Utility Billing | 243,300 |
| Business Tax & TOT Collections | 13,100 |
| General Services | |
| Civic Center | |
| Facility Maintenance | 25,700 |
| Utilities | 39,100 |
| Communications | 39,000 |
| Other Civic Center Costs | 36,800 |
| Property and Liability Insurance | 135,300 |
| Information Technology | 110,400 |
| Public Works Support Services | |
| Public Works Administration | 63,300 |
| Fleet Maintenance | 103,600 |
| Buildings and Equipment | |
| Facility Use | 299,500 |
| Fleet Use | 201,900 |
| TOTAL INDIRECT COSTS | 2,232,400 |

OVERALL INDIRECT COST RATE

| | |
|--|-------|
| Indirect Costs Divided by Direct Costs | 29.3% |
|--|-------|

Under generally accepted accounting principles, capital outlay, debt service, interfund transfers, trust and agency funds and pass-through payments are usually excluded in calculating indirect cost rates; accordingly, only operating costs (less transfers) are considered in the City's cost allocation plan.

SUMMARY OF EXCLUDED COSTS AND OTHER ADJUSTMENTS

RECONCILIATION TO 2015-16 BUDGET

| Excluded Costs and Other Reconciling Adjustments | |
|---|-------------------|
| Less Non-Budget Costs | |
| Facility Use | (299,500) |
| Fleet Use | (201,900) |
| Plus Excluded Costs | |
| General Fund Reimbursement Transfers | |
| from Sewer Utility Fund | 152,800 |
| from Water Utility Fund | 277,100 |
| from Landscape and Lighting Districts | 40,000 |
| from Street and Drainage Districts | 38,000 |
| from Gas Tax Fund | 25,000 |
| Other Transfers | |
| General Fund to: | |
| Civic Center Debt Service Fund | 200,900 |
| Police NGEN Debt Service | 26,200 |
| Science Workshop Fund | 20,000 |
| Parks & Recreation: Equipment Debt Service Fund | 16,800 |
| Sewer Utility Fund to Equipment Debt Service and CDBG | 36,800 |
| Water Utility Fund to Equipment Debt Service and CDBG | 37,800 |
| Capital Outlay | |
| General Fund: Fleet Maintenance | 14,000 |
| Enterprise Funds | |
| Sewer Utility Fund: Public Works | 327,000 |
| Water Utility Fund: Public Works | 388,800 |
| Sewer and Water Utility Billing | 65,000 |
| Special Revenue Funds | |
| Police Grants | 37,000 |
| Proposition 84 Park Fund | 2,326,200 |
| Community Development Block Grant (CDBG) Fund | 1,256,300 |
| Park Impact Fund | 390,000 |
| Police Impact Fund | 20,000 |
| Gas Tax Fund | 165,000 |
| Local Transportation Fund | 1,305,700 |
| ATP Grant Fund | 622,000 |
| Debt Service Funds | 268,100 |
| Trust Funds: Successor Agency | 4,807,600 |
| Pass-Throughs | |
| General Fund Solid Waste Utility Billing | 1,427,100 |
| CDBG Housing Rehabilitation | 221,600 |
| CDBG Ownership Assistance | 224,600 |
| Home Grant Fund | 4,600,000 |
| Total | 18,836,000 |

| Cost Allocation Plan | |
|----------------------|------------------|
| Indirect Costs | 2,232,400 |
| Direct Costs | 7,624,900 |
| Total | 9,857,300 |

Under generally accepted accounting principles, capital outlay, debt service, interfund transfers, trust and agency funds and pass-through payments are typically excluded in calculating indirect cost rates; accordingly, only operating costs (less transfers, trust funds and pass-throughs) are considered in the City's Cost Allocation Plan.

This schedule identifies these excluded costs, and along with other adjustments ("such as non-budgeted" use allowance costs), reconciles the direct and indirect costs used in the Cost Allocation Plan with the adopted budget.

Special Note on Successor Agency Exclusion

While the Successor Agency to the City's Redevelopment Agency would typically be excluded from the City's cost allocation plan as a Trust Fund, there are other compelling reasons for doing so:

1. The cost allocation plan is for the City: the Successor Agency is a separate unit of government, independent from the City. While the City appoints some members of the governing body, it does not appoint a majority of them. Along with other responsibilities, the governing body, via its approval of the Recognized Obligation Payments Schedule (ROPS), independently plays a critical fiscal role in determining the amount of revenue available to the Successor Agency.

2. Even if this were not the case, virtually all the Successor Agency's direct expenditures would be excluded from the Cost Allocation Plan as they for debt service and capital outlay.

| 2015-16 | |
|-------------------------|-------------------|
| Total: All Funds | 28,693,300 |

BASIS OF INDIRECT COST ALLOCATIONS

| INDIRECT COST PROGRAM | BASIS OF ALLOCATION |
|--|--|
| City Council Administration City Manager General Administration Human Resources City Clerk City Attorney Financial Services General Finance and Accounting Payroll Business Tax & TOT Collections Utility Billing General Services Civic Center Facility Maintenance Utilities Communications Other Civic Center Costs Property and Liability Insurance Information Technology Public Works Support Services Public Works Administration Fleet Maintenance Buildings and Equipment Facility Use Fleet Use | Council Agenda Items Operating Budget Full-Time Equivalent Staffing Council Agenda Items Operating Budget Operating Budget Full-Time Equivalent Staffing General Fund Operating Budget Water and Sewer Funds Assigned Space/Operating Budget Assigned Space/Operating Budget Assigned Telephones Operating Budget Full-Time Equivalent Staffing Assigned Computers Assigned Programs Operating Budget Value of Assigned Vehicles Assigned Space/Operating Budget Assigned Vehicles |

SUMMARY OF INDIRECT COST ALLOCATIONS

| | INDIRECT COST ALLOCATION SUMMARY | | | |
|----------------------------------|----------------------------------|------------------|-----------------------|------------------|
| | General Fund | Enterprise Funds | Special Revenue Funds | Total |
| City Council | 30,400 | 8,600 | 27,700 | 66,700 |
| Administration | | | | |
| City Manager | | | | |
| General Administration | 84,300 | 40,800 | 86,000 | 211,100 |
| Human Resources | 46,300 | 25,400 | 49,700 | 121,400 |
| City Clerk | 64,200 | 18,000 | 58,100 | 140,300 |
| City Attorney | 40,000 | 19,300 | 40,700 | 100,000 |
| Financial Services | | | | |
| General Finance and Accounting | 89,600 | 43,400 | 91,600 | 224,600 |
| Payroll | 21,900 | 12,000 | 23,400 | 57,300 |
| Utility Billing | - | 243,300 | - | 243,300 |
| Business Tax & TOT Collections | 13,100 | - | - | 13,100 |
| General Services | | | | |
| Civic Center | | | | |
| Facility Maintenance | 19,800 | 2,000 | 3,900 | 25,700 |
| Utilities | 30,400 | 3,100 | 5,600 | 39,100 |
| Communications | 35,300 | 3,000 | 700 | 39,000 |
| Other Civic Center Costs | 14,800 | 7,100 | 14,900 | 36,800 |
| Property and Liability Insurance | 51,800 | 28,300 | 55,200 | 135,300 |
| Information Technology | 102,600 | 6,200 | 1,600 | 110,400 |
| Public Works Support Services | | | | |
| Public Works Administration | 5,300 | 31,300 | 26,700 | 63,300 |
| Fleet Maintenance | 38,200 | 32,600 | 32,800 | 103,600 |
| Buildings and Equipment | | | | |
| Facility Use | 232,900 | 23,000 | 43,600 | 299,500 |
| Fleet Use | 56,500 | 99,500 | 45,900 | 201,900 |
| TOTAL INDIRECT COSTS | 977,400 | 646,900 | 608,100 | 2,232,400 |

| | | | | |
|--------------------|-----------|-------------|-------------|-------------|
| Total Direct Costs | 3,045,800 | 1,471,400 | 3,107,700 | 7,624,900 |
| Total Costs | 4,023,200 | \$2,118,300 | \$3,715,800 | \$9,857,300 |
| Indirect Cost Rate | 32.1% | 44.0% | 19.6% | 29.3% |

SUMMARY OF INDIRECT COST ALLOCATIONS

| | ENTERPRISE FUNDS | | |
|----------------------------------|------------------|----------------|----------------|
| | Sewer | Water | Total |
| City Council | 1,000 | 7,600 | 8,600 |
| Administration | | | |
| City Manager | | | |
| General Administration | 20,800 | 20,000 | 40,800 |
| Human Resources | 17,000 | 8,400 | 25,400 |
| City Clerk | 2,000 | 16,000 | 18,000 |
| City Attorney | 9,800 | 9,500 | 19,300 |
| Financial Services | | | |
| General Finance and Accounting | 22,100 | 21,300 | 43,400 |
| Payroll | 8,000 | 4,000 | 12,000 |
| Utility Billing | 121,650 | 121,650 | 243,300 |
| Business Tax & TOT Collections | | | |
| General Services | | | |
| Civic Center | | | |
| Facility Maintenance | 1,000 | 1,000 | 2,000 |
| Utilities | 1,600 | 1,500 | 3,100 |
| Communications | 1,500 | 1,500 | 3,000 |
| Other Civic Center Costs | 3,600 | 3,500 | 7,100 |
| Property and Liability Insurance | 18,900 | 9,400 | 28,300 |
| Information Technology | 3,100 | 3,100 | 6,200 |
| Public Works Support Services | | | |
| Public Works Administration | 15,900 | 15,400 | 31,300 |
| Fleet Maintenance | 15,100 | 17,500 | 32,600 |
| Buildings and Equipment | | | |
| Facility Use | 11,700 | 11,300 | 23,000 |
| Fleet Use | 55,400 | 44,100 | 99,500 |
| TOTAL INDIRECT COSTS | 330,150 | 316,750 | 646,900 |
| | | | |
| Total Direct Costs | 749,700 | 721,700 | 1,471,400 |
| Total Costs | 1,079,850 | 1,038,450 | 2,118,300 |
| Indirect Cost Rate | 44.0% | 43.9% | 44.0% |

INDIRECT PROGRAM COST ALLOCATION

Indirect Cost Program
Budget
Base of Allocation

| |
|---|
| City Manager: General Administration \$211,100 Operating Budget |
|---|

| Direct Cost Program | Base of Allocation | Percent of Total | Cost Allocation |
|-----------------------------------|---------------------------|-------------------------|------------------------|
| General Fund | | | |
| Parks & Recreation | 249,600 | 3.3% | 6,900 |
| Community Development | 528,200 | 6.9% | 14,600 |
| Police Services | 2,268,000 | 29.7% | 62,800 |
| Enterprise Funds | | | |
| Sewer Utility Fund | 749,700 | 9.8% | 20,800 |
| Water Utility Fund | 721,700 | 9.5% | 20,000 |
| Special Revenue Funds | | | |
| Police Grants | 313,100 | 4.1% | 8,700 |
| Measure X | 1,143,000 | 15.0% | 31,600 |
| Gas Tax Fund | 459,700 | 6.0% | 12,700 |
| Landscape and Lighting Districts | 505,300 | 6.6% | 14,000 |
| Street and Drainage Districts | 158,500 | 2.1% | 4,400 |
| Science Workshop Fund | 129,100 | 1.7% | 3,600 |
| Other Special Revenue Funds | 399,000 | 5.2% | 11,000 |
| Total Direct Cost Programs | 7,624,900 | 100.0% | \$211,100 |

INDIRECT PROGRAM COST ALLOCATION

Indirect Cost Program
Budget
Base of Allocation

City Manager: Human Resources
\$121,400
Full-Time Equivalent Staffing

| Direct Cost Program | Base of Allocation | Percent of Total | Cost Allocation |
|-----------------------------------|---------------------------|-------------------------|------------------------|
| General Fund | | | |
| Parks & Recreation | 0.7 | 1.6% | 2,000 |
| Community Development | 1.4 | 3.1% | 3,800 |
| Police Services | 14.4 | 33.5% | 40,500 |
| Enterprise Funds | | | |
| Sewer Utility Fund | 6.0 | 14.0% | 17,000 |
| Water Utility Fund | 3.0 | 7.0% | 8,400 |
| Special Revenue Funds | | | |
| Police Grants | 2.0 | 4.7% | 5,700 |
| Measure X | 10.0 | 23.3% | 28,300 |
| Gas Tax Fund | 3.1 | 7.2% | 8,700 |
| Landscape and Lighting Districts | 0.1 | 0.3% | 400 |
| Street and Drainage Districts | 0.3 | 0.7% | 900 |
| Science Workshop Fund | 2.0 | 4.7% | 5,700 |
| Other Special Revenue Funds | | | |
| Total Direct Cost Programs | 42.9 | 100.0% | \$121,400 |

INDIRECT PROGRAM COST ALLOCATION

| | | | | |
|-----------------------|---------------------------------|---------------|-----------------|--------------|
| Indirect Cost Program | Utilities | <i>Direct</i> | <i>Indirect</i> | <i>Total</i> |
| Budget | \$39,100 | \$25,100 | \$14,000 | \$39,100 |
| Base of Allocation | Assigned Space/Operating Budget | 11,300 | 6,280 | 17,580 |

| Direct Cost Program | Direct Cost Programs | | | Indirect Cost Programs | | | Total Cost Allocation |
|-----------------------------------|----------------------|------------------|-----------------|------------------------|------------------|----------------------|-----------------------|
| | Base of Allocation | Percent of Total | Cost Allocation | Base of Allocation | Percent of Total | Operating Allocation | |
| General Fund | | | | | | | |
| Parks & Recreation | - | | | 249,600 | 3.3% | 500 | 500 |
| Community Development | 454 | 4.0% | 1,000 | 528,200 | 6.9% | 1,000 | 2,000 |
| Police Services | 10,702 | 94.7% | 23,900 | 2,268,000 | 29.7% | 4,000 | 27,900 |
| Enterprise Funds | - | | | - | | | |
| Sewer Utility Fund | 72 | 0.6% | 200 | 749,700 | 9.8% | 1,400 | 1,600 |
| Water Utility Fund | 72 | 0.6% | 200 | 721,700 | 9.5% | 1,300 | 1,500 |
| Special Revenue Funds | - | | | - | | | |
| Police Grants | - | | | 313,100 | 4.1% | 600 | 600 |
| Measure X | - | | | 1,143,000 | 15.0% | 2,100 | 2,100 |
| Gas Tax Fund | - | | | 459,700 | 6.0% | 800 | 800 |
| Landscape and Lighting Districts | - | | | 505,300 | 6.6% | 900 | 900 |
| Street and Drainage Districts | - | | | 158,500 | 2.1% | 300 | 300 |
| Science Workshop Fund | - | | | 129,100 | 1.7% | 200 | 200 |
| Other Special Revenue Funds | - | | | 399,000 | 5.2% | 700 | 700 |
| Total Direct Cost Programs | 11,300 | 100.0% | \$25,300 | 7,624,900 | 100.0% | \$13,800 | \$39,100 |

GENERAL FUND REIMBURSEMENT TRANSFERS: BUDGET VERSUS ACTUAL

| | 2015-16 Budget | Cost Allocation Plan | Costs Directly Allocated | Variance |
|----------------------------------|---------------------------|-------------------------------------|---|-------------------|
| Enterprise Funds | | | | |
| Sewer Utility Fund | 152,800 | 330,150 | 153,900 | 23,450 |
| Water Utility Fund | 277,100 | 316,750 | 142,600 | (102,950) |
| Special Revenue Funds | | | | - |
| Landscape and Lighting Districts | 40,000 | 111,600 | | 71,600 |
| Street and Drainage Districts | 38,000 | 20,400 | | (17,600) |
| Total | \$507,900 | \$778,900 | \$296,500 | (\$25,500) |

| Costs Directly Allocated | | | |
|----------------------------------|--------------------|-----------------|------------------|
| | Utility Billing | Fleet Use | Total |
| Enterprise Funds | | | |
| Sewer Utility Fund | 98,500 | 55,400 | 153,900 |
| Water Utility Fund | 98,500 | 44,100 | 142,600 |
| Special Revenue Funds | | | |
| Landscape and Lighting Districts | | - | - |
| Street and Drainage Districts | | - | - |
| Total | \$197,000 | \$99,500 | \$296,500 |

ALLOCATION BASES: FULL-TIME EQUIVALENT STAFFING

| DIRECT COSTS | |
|----------------------------------|--------------|
| General Fund | |
| Parks & Recreation | 0.70 |
| Community Development | 1.35 |
| Police Services | 14.36 |
| Enterprise Funds | |
| Sewer Utility Fund | 6.01 |
| Water Utility Fund | 2.99 |
| Special Revenue Funds | |
| Police Grants | 2.00 |
| Measure X | 10.00 |
| Gas Tax Fund | 3.09 |
| Landscape and Lighting Districts | 0.13 |
| Street and Drainage Districts | 0.31 |
| Science Workshop Fund | 2.00 |
| Other Special Revenue Funds | |
| TOTAL DIRECT COSTS | 42.93 |

| INDIRECT COSTS | |
|----------------------------------|--------------|
| City Council | 5.00 |
| Administration | |
| City Manager | 2.00 |
| General Administration | |
| Human Resources | |
| City Clerk | 1.00 |
| City Attorney | |
| Financial Services | 3.00 |
| General Finance and Accounting | |
| Payroll | |
| Utility Billing | |
| Business Tax & TOT Collections | |
| General Services | |
| Civic Center | |
| Facility Maintenance | |
| Utilities | |
| Communications | |
| Other Costs | |
| Property and Liability Insurance | |
| Information Technology | |
| Public Works Support Services | |
| Public Works Administration | 0.43 |
| Fleet Maintenance | 1.00 |
| Buildings and Equipment | |
| Facility Use | |
| Fleet Use | |
| TOTAL INDIRECT COSTS | 12.43 |

TOTAL **55.36**

HOURLY LABOR RATES

OVERVIEW

The following schedules identify hourly labor rates for all regular City positions based on five key factors:

- **Annual Salary.** Based on the top of the salary range in accordance with the prevailing practice of California cities and to ensure reasonable cost recovery.
- **Benefits.** FICA, Medicare, retirement, group insurance, life insurance and other paid benefits.
- **Productive Hours.** Annual regular hours—generally 2,080 less vacation, sick leave, holidays and break hours.
- **Citywide Indirect Costs.** Services such as legal services, accounting, personnel and facility maintenance.
- **Departmental and Program Administration Costs.** Support costs internal to the operating departments that are not allocated as part of the Cost Allocation Plan.

Each schedule summarizes the specific factors in calculating hourly labor rates. The following summarizes how these five cost components are used in arriving at a full-cost hourly labor rate, using a Police Officer position as an example (page 40 under “Police”).

Hourly Compensation. The first step is to arrive at an hourly compensation cost (exclusive of organization-wide and departmental indirect costs) as follows:

- **Annual Salary.** This is based on the top of the salary range for Police Officer of \$64,140.
- **Benefits.** The benefits costs such as FICA Medicare, CalPERS retirement, group insurance, life insurance and other paid benefits are added to the base salary. In this case, the total cost of benefits for a

Police Officer is 78.9% of salary, for total annual compensation of \$114,718.

- **Productive Hours.** To determine the hourly cost of services, we need to divide the total annual cost of salaries and benefits by the number of hours actually worked during the year. This is determined by taking the annual base of 2,080 hours (52 weeks per year times 40 hours per week) and reducing it by paid time-off such as vacation, sick and holidays. For this position, total productive hours annually are 1,788, resulting in an hourly cost of \$64.16 (\$114,718 divided by 1,788).

Indirect Costs. Once the direct hourly compensation has been determined, we need to add the support costs incurred by the organization and the department. In the case of the Police Department, the Cost Allocation Plan has identified an organization-wide indirect cost of 33.5% (Table 5.2 on page 10). In addition, we need to identify support costs internal to the department, such as dispatch, records and department administration. This ratio of department support costs (\$739,600) to direct costs (\$3,694,600) is 20.0%. To avoid “double counting” for the same costs, the departmental indirect cost rate is only applied to “direct” positions; it is not allocated to “support” positions.

Total Costs. The full-cost hourly rate is then determined by adjusting the hourly total compensation cost (in this case, \$64.16) by the organization-wide indirect cost rate (33.5%) and the departmental indirect cost rate (20.0%), for a total hourly cost of \$102.81.

ORGANIZATION

Positions are organized into the same basic groupings as the Budget and Cost Allocation Plan:

- Police
- Community Development
- Community Services
- Public Works Maintenance
- Wastewater and Water Enterprise Operations
- General Government

POLICE LABOR RATES

| | Annual Salary | Paid Benefits Rate | Total Compensation | Productive Hours | Hourly Rate | Indirect Cost Rate | | Hourly Billing Rate |
|----------------------------|------------------|-----------------------|-----------------------|---------------------|----------------|--------------------|-----------|------------------------|
| | | | | | | Citywide | * Program | |
| Patrol Services | | | | | | | | |
| Police Officer | \$64,140 | 78.9% | \$114,718 | 1,788.0 | \$64.16 | 33.5% | 20.0% | \$102.81 |
| Police Sergeant | 77,304 | 78.9% | 138,263 | 1,788.0 | 77.33 | 33.5% | 20.0% | 123.92 |
| Police Admin | | | | | | | | |
| Police Chief | 135,200 | 35.7% | 183,439 | 1,788.0 | 102.59 | 33.5% | 0.0% | 136.98 |
| Police Commander | 110,000 | 35.7% | 149,248 | 1,676.3 | 89.04 | 33.5% | 0.0% | 118.88 |
| Records Supervisor | 57,624 | 52.1% | 87,632 | 1,676.3 | 52.28 | 33.5% | 0.0% | 69.80 |
| Police Services Technician | 44,640 | 52.1% | 67,886 | 1,676.3 | 40.50 | 33.5% | 0.0% | 54.07 |

Paid Benefits and Productive Hours

| | Sworn | | Non-Sworn |
|---------------------------------|----------------|----------------|----------------|
| | Management | Other | Office |
| Total Paid Benefits Rate | 35.7% | 78.9% | 52.1% |
| Fica and Medicare | 7.65% | 7.65% | 7.65% |
| Health Insurance | 8.48% | 13.52% | 23.89% |
| Life/LTD Insurance | 0.28% | 0.40% | 0.39% |
| Retirement | 11.15% | 32.59% | 12.62% |
| Workers Compensation | 8.11% | 10.98% | 6.78% |
| POST Incentive | 0.00% | 5.00% | 0.00% |
| Uniform | 0.00% | 1.22% | 0.75% |
| Special Assignment Pay | 0.00% | 7.50% | 0.00% |
| Total Productive Hours | 1,788.0 | 1,788.0 | 1,676.3 |
| Total Days (2080 hours) | 260.0 | 260.0 | 260.0 |
| Vacation Leave * | (15.0) | (15.0) | (15.0) |
| Sick Leave ** | (7.5) | (7.5) | (7.5) |
| Holidays | (14.0) | (14.0) | (14.0) |
| Productive Days | 223.5 | 223.5 | 223.5 |
| Productive Hours | 1,788.0 | 1,788.0 | 1,788.0 |
| Breaks (30 minutes daily) | | | (111.8) |

* Based on five years of service

** Based on 50% use of accrual

Program Indirect Cost Rate

| | |
|-----------------------------------|--------------------|
| Police Administration | 524,600 |
| Dispatch | 215,000 |
| Program Indirect Costs | 739,600 |
| Other Police Costs | 3,694,600 |
| Police Direct Costs | \$4,434,200 |
| Program Indirect Cost Rate | 20.0% |

* Program indirect costs are not allocated to support positions.

**Indirect Cost Allocation Plan Review –
Summary of Recommendations and Implementation Status**

| Recommendations | Status |
|---|------------------------|
| 1. Allocate out 100% of indirect costs | Implemented |
| 2. Communication costs should be considered as direct costs instead of indirect costs | Implemented |
| 3. Allocate indirect costs at fund level/major program areas | Implemented |
| 4. One-step versus sequential allocation process | No Changes |
| 5. Monthly cost allocation based on budget and annual true-up | Will implement in 2016 |
| 6. Allocation of capital improvement cost and debt service | Pending Board decision |
| 7. Board adoption of Indirect Cost Plan | Presented |
| 8. Set cost recovery policy | Will implement in 2016 |

Indirect Cost Allocation Plan Review –

Highlight of Major Differences Between Old and New Methodologies

| Old Methodology – Practiced in 2002 - 2015 | New Methodology – Implemented in 2016-18 Budget |
|---|---|
| <ol style="list-style-type: none"> 1. Allocate only portions of some indirect costs (50% Executive Director, Appointment, 25% Board of Trustees, Deputy Executive Director, Elections, 7% Communications) 2. Treated 7% of Communication direct costs as indirect costs 3. Separately allocate Board, Appointment and Elections direct costs 4. Allocated Executive Director and General Counsel based on operating costs 5. Allocated all Finance direct costs based on operating costs 6. Allocated indirect costs via one-step process 7. Allocated indirect at cost center level 8. Allocated indirect costs on monthly basis 9. No formal documentation of cost recovery plan | <p>Allocate 100% of all indirect costs</p> <p>Treat 100% of Communications costs as direct costs</p> <p>No Separation</p> <p>No Changes</p> <p>No Changes</p> <p>No Changes</p> <p>Allocate indirect costs at fund level/major program areas</p> <p>Allocate indirect costs based on budget with annual true-up</p> <p>Recommend formal documentation of cost recovery plan</p> |

Revised Cost Allocation Plan

Cost Allocation Plan - 2016 Budget

Attachment C-1

| | | 2016 Indirect Costs Allocated | | | | | | | | | | | | | |
|-----------------------------|--|-------------------------------|----------------------|----------------------------------|---|------------------------------|----------------------|-------------------------------------|----------------------|---------------------------|-------------------------------|------------------------|-----------------------|------------------------|--------------------------|
| | | General Fund (10) | Annual Mtg Fund (14) | Legislative Activities Fund (16) | Elimination of Bias / Bar Relations Fund (17) | Legal Educ and Dev Fund (18) | Admissions Fund (20) | Lawyer Assistance Program Fund (21) | Legal Spec Fund (24) | Client Security Fund (27) | Legal Service Trust Fund (28) | Equal Access Fund (29) | Justice Gap Fund (32) | Sections Funds (70-89) | Total Indirect Cost Pool |
| Administrative Area | Allocation Basis | | | | | | | | | | | | | | |
| Membership Billing | Revenues | 1,488,065 | - | 16,959 | 17,418 | - | - | 45,138 | - | 171,662 | 141,467 | - | 22,783 | 131,308 | 2,034,800 |
| Board of Trustees/ Election | Actual Direct Costs as % of Total State Bar Direct Costs | 148,014 | 1,667 | 1,281 | 2,474 | 876 | 49,360 | 3,345 | 3,028 | 4,622 | 4,208 | 562 | - | 18,964 | 238,400 |
| Appointments | Actual Direct Costs as % of Total State Bar Direct Costs | 62,645 | 706 | 542 | 1,047 | 371 | 20,891 | 1,416 | 1,281 | 1,956 | 1,781 | 238 | - | 8,026 | 100,900 |
| Property Related-SF | Square Footage | 3,097,242 | - | 43,319 | 86,638 | 35,380 | 984,986 | 22,008 | 169,794 | - | 180,520 | - | - | 393,214 | 5,013,100 |
| Property Related-LA | Square Footage | 3,685,083 | - | - | 26,546 | - | 661,404 | 106,186 | - | 132,281 | - | - | - | - | 4,611,500 |
| General Counsel | FTE | 3,544,375 | 16,189 | 20,236 | 40,472 | 8,094 | 647,559 | 70,827 | 80,945 | 111,299 | 111,299 | - | - | 197,303 | 4,848,600 |
| Executive Director | Actual Direct Costs as % of Total State Bar Direct Costs | 1,381,613 | 15,563 | 11,955 | 23,092 | 8,176 | 460,739 | 31,227 | 28,263 | 43,140 | 39,275 | 5,246 | - | 177,012 | 2,225,300 |
| Library | # of Attorneys | 673,079 | - | - | - | - | - | - | - | 26,421 | - | - | - | - | 699,500 |
| Human Resources | FTE | 1,121,077 | 5,121 | 6,401 | 12,801 | 2,560 | 204,821 | 22,402 | 25,603 | 35,204 | 35,204 | - | - | 62,407 | 1,533,600 |
| Information Technology | FTE | 4,717,792 | 21,549 | 26,936 | 53,871 | 10,774 | 861,943 | 94,275 | 107,743 | 148,146 | 148,146 | - | - | 262,623 | 6,453,800 |
| Finance | Actual Direct Costs as % of Total State Bar Direct Costs | 1,950,575 | 21,972 | 16,879 | 32,601 | 11,543 | 650,475 | 44,086 | 39,902 | 60,906 | 55,449 | 7,406 | - | 249,907 | 3,141,700 |
| Non-Departmental | | 276,099 | 3,110 | 2,389 | 4,615 | 1,634 | 92,073 | 6,240 | 5,648 | 8,621 | 7,849 | 1,048 | - | 35,374 | 444,700 |
| Total Cost Allocated | | 22,145,660 | 85,876 | 146,897 | 301,576 | 79,408 | 4,634,251 | 447,150 | 462,206 | 744,258 | 725,197 | 14,500 | 22,783 | 1,536,136 | 31,345,900 |

Total Direct Costs: 80,768,659

% of Total Direct Costs: 27.4% 0.1% 0.2% 0.4% 0.1% 5.7% 0.6% 0.6% 0.9% 0.9% 0.0% 0.0% 1.9%

Allocation bases

Membership Billing – Fund Membership Dues received as a percentage of total State Bar Membership Dues.
 Actual Direct Costs as % of Total State Bar Direct Costs – Fund Direct Costs as a percentage of total State Bar Direct Costs
 Square Footage – Fund Square Footage Occupancy as a percentage of total building square footage.
 FTEs – Fund FTEs as a percentage of total direct cost center FTEs

Cost Allocation Plan - 2015 Actual

Attachment C-2

| | | 2015 Indirect Costs Allocated | | | | | | | | | | | | | |
|-----------------------------|--|-------------------------------|----------------------|----------------------------------|---|------------------------------|----------------------|-------------------------------------|----------------------|---------------------------|-------------------------------|------------------------|-----------------------|------------------------|--------------------------|
| | | General Fund (10) | Annual Mtg Fund (14) | Legislative Activities Fund (16) | Elimination of Bias / Bar Relations Fund (17) | Legal Educ and Dev Fund (18) | Admissions Fund (20) | Lawyer Assistance Program Fund (21) | Legal Spec Fund (24) | Client Security Fund (27) | Legal Service Trust Fund (28) | Equal Access Fund (29) | Justice Gap Fund (32) | Sections Funds (70-89) | Total Indirect Cost Pool |
| Administrative Area | Allocation Basis | | | | | | | | | | | | | | |
| Membership Billing | Revenues | 1,300,562 | - | 14,822 | 15,224 | - | - | 39,450 | - | 150,032 | 123,642 | - | 19,912 | 114,763 | 1,778,406 |
| Board of Trustees/ Election | Actual Direct Costs as % of Total State Bar Direct Costs | 142,552 | 2,416 | 1,217 | 2,414 | 1,599 | 48,405 | 3,620 | 3,459 | 5,085 | 2,940 | 1,232 | - | 21,149 | 236,088 |
| Appointments | Number | 12,887 | - | 4,250 | 1,371 | 1,782 | 548 | 137 | 8,637 | 548 | 1,234 | - | - | 18,782 | 50,177 |
| Property Related-SF | Square Footage | 2,897,815 | - | 40,519 | 81,038 | 33,110 | 921,549 | 20,591 | 158,888 | - | 168,898 | - | - | 367,892 | 4,690,300 |
| Property Related-LA | Square Footage | 4,869,835 | - | - | 35,081 | - | 874,045 | 140,325 | - | 174,809 | - | - | - | - | 6,094,095 |
| General Counsel | FTE | 2,774,948 | 23,995 | 16,838 | 33,677 | 6,735 | 471,472 | 58,934 | 67,353 | 92,611 | 67,353 | - | - | 135,969 | 3,749,884 |
| Executive Director | Actual Direct Costs as % of Total State Bar Direct Costs | 220,662 | 3,739 | 1,883 | 3,736 | 2,475 | 74,928 | 5,604 | 5,354 | 7,872 | 4,550 | 1,907 | - | 32,737 | 365,450 |
| Library | # of Attorneys | 528,155 | - | - | - | - | - | - | - | 20,732 | - | - | - | - | 548,887 |
| Human Resources | FTE | 1,115,604 | 9,646 | 6,769 | 13,539 | 2,708 | 189,544 | 23,693 | 27,078 | 37,232 | 27,078 | - | - | 54,663 | 1,507,555 |
| Information Technology | FTE | 3,849,744 | 33,288 | 23,360 | 46,720 | 9,344 | 654,083 | 81,760 | 93,440 | 128,481 | 93,440 | - | - | 188,633 | 5,202,294 |
| Finance | Actual Direct Costs as % of Total State Bar Direct Costs | 2,331,543 | 39,512 | 19,899 | 39,479 | 26,156 | 791,697 | 59,215 | 56,571 | 83,176 | 48,079 | 20,154 | - | 345,905 | 3,861,386 |
| Communications | Actual Direct Costs as % of Total Direct Bar Program Costs | 55,294 | 937 | 472 | 936 | 620 | 18,776 | 1,404 | 1,342 | 1,973 | 1,140 | 478 | - | 8,203 | 91,575 |
| Total Cost Allocated | | 20,099,601 | 113,533 | 130,029 | 273,215 | 84,530 | 4,045,047 | 434,735 | 422,122 | 702,550 | 538,354 | 23,772 | 19,912 | 1,288,697 | 28,176,097 |

Total Direct Costs: 77,940,457

% of Total Direct Costs: 25.8% 0.1% 0.2% 0.4% 0.1% 5.2% 0.6% 0.5% 0.9% 0.7% 0.0% 0.0% 1.7%

Allocation bases

Membership Billing – Fund Membership Dues received as a percentage of total State Bar Membership Dues.

Actual Direct Costs as % of Total State Bar Direct Costs – Fund Direct Costs as a percentage of total State Bar Direct Costs

Square Footage – Fund Square Footage Occupancy as a percentage of total building square footage.

FTEs – Fund FTEs as a percentage of total direct cost center FTEs

Cost Allocation Plan - 2014 Actual

Attachment C-3

| | | 2014 Indirect Cost Allocated | | | | | | | | | | | | | Total Indirect Cost Pool |
|-----------------------------|--|------------------------------|----------------------|----------------------------------|---|------------------------------|----------------------|-------------------------------------|----------------------|---------------------------|-------------------------------|------------------------|-----------------------|------------------------|--------------------------|
| | | General Fund (10) | Annual Mtg Fund (14) | Legislative Activities Fund (16) | Elimination of Bias / Bar Relations Fund (17) | Legal Educ and Dev Fund (18) | Admissions Fund (20) | Lawyer Assistance Program Fund (21) | Legal Spec Fund (24) | Client Security Fund (27) | Legal Service Trust Fund (28) | Equal Access Fund (29) | Justice Gap Fund (32) | Sections Funds (70-89) | |
| Administrative Area | Allocation Basis | | | | | | | | | | | | | | |
| Membership Billing | Revenues | 1,202,525 | - | 14,333 | 14,652 | - | - | 36,540 | - | 138,910 | 88,740 | - | 17,764 | 99,445 | 1,612,908 |
| Board of Trustees/Election | Actual Direct Costs as % of Total State Bar Direct Costs | 121,127 | 2,297 | 1,465 | 2,020 | 1,146 | 40,581 | 3,033 | 2,438 | 4,507 | 3,147 | 424 | 0 | 17,441 | 199,626 |
| Appointments | Number | 28,275 | - | 10,367 | 3,142 | - | 1,571 | 1,257 | 18,536 | 1,257 | 1,885 | - | - | 42,726 | 109,014 |
| Property Related-SF | Square Footage | 2,904,165 | - | 40,608 | 81,215 | 33,184 | 923,569 | 20,636 | 159,236 | - | 169,264 | - | - | 368,697 | 4,700,574 |
| Property Related-LA | Square Footage | 4,640,997 | - | - | 33,433 | - | 832,973 | 133,731 | - | 166,595 | - | - | - | - | 5,807,729 |
| General Counsel | FTE | 3,063,393 | - | 19,033 | 38,066 | 17,130 | 532,929 | 66,616 | 47,583 | 104,683 | 85,649 | - | - | 190,332 | 4,165,415 |
| Executive Director | Actual Direct Costs as % of Total State Bar Direct Costs | 329,947 | 6,258 | 3,991 | 5,502 | 3,121 | 110,543 | 8,262 | 6,642 | 12,276 | 8,572 | 1,154 | 0 | 47,510 | 543,777 |
| Library | # of Attorneys | 483,919 | - | - | - | - | - | - | - | 20,269 | - | - | - | - | 504,188 |
| Human Resources | FTE | 1,000,646 | - | 6,217 | 12,434 | 5,595 | 174,080 | 21,760 | 15,543 | 34,194 | 27,977 | - | - | 62,171 | 1,360,618 |
| Information Technology | FTE | 3,698,024 | - | 22,976 | 45,952 | 20,679 | 643,334 | 80,417 | 57,441 | 126,369 | 103,393 | - | - | 229,762 | 5,028,347 |
| Finance | Actual Direct Costs as % of Total State Bar Direct Costs | 1,984,035 | 37,631 | 23,999 | 33,085 | 18,767 | 664,716 | 49,678 | 39,939 | 73,821 | 51,543 | 6,937 | 0 | 285,687 | 3,269,839 |
| Communications | Actual Direct Costs as % of Total Direct Bar Program Costs | 54,911 | 1,041 | 664 | 916 | 519 | 18,397 | 1,375 | 1,105 | 2,043 | 1,427 | 192 | 0 | 7,907 | 90,498 |
| Total Cost Allocated | | 19,511,963 | 47,228 | 143,654 | 270,417 | 100,141 | 3,942,694 | 423,304 | 348,463 | 684,923 | 541,597 | 8,707 | 17,764 | 1,351,679 | 27,392,533 |

Total Direct Costs: 77,117,550

% of Total Direct Costs: 25.3% 0.1% 0.2% 0.4% 0.1% 5.1% 0.5% 0.5% 0.9% 0.7% 0.0% 0.0% 1.8%

Allocation bases

Membership Billing – Fund Membership Dues received as a percentage of total State Bar Membership Dues.

Actual Direct Costs as % of Total State Bar Direct Costs – Fund Direct Costs as a percentage of total State Bar Direct Costs

Square Footage – Fund Square Footage Occupancy as a percentage of total building square footage.

FTEs – Fund FTEs as a percentage of total direct cost center FTEs

Overhead Indirect Cost Allocation Analysis from 2014 to 2016

Attachment C-4

| Administrative Area | Allocation Basis | 2016 Budget | 2015 Actual | 2014 Actual |
|--------------------------------|---|-------------------|-------------------|-------------------|
| Membership Billing | Revenues | 2,034,800 | 1,778,406 | 1,612,908 |
| Board of Trustees/ Election | Actual Direct Costs as % of Total State Bar Direct Costs | 238,400 | 236,088 | 199,626 |
| Appointments | Number | 100,900 | 50,177 | 109,014 |
| Property Related-SF | Square Footage | 5,013,100 | 4,690,300 | 4,700,574 |
| Property Related-LA | Square Footage | 4,611,500 | 6,094,095 | 5,807,729 |
| General Counsel | FTE | 4,848,600 | 3,749,884 | 4,165,415 |
| Executive Director | Actual Direct Costs as % of Total State Bar Direct Costs | 2,225,300 | 365,450 | 543,777 |
| Library | # of Attorneys | 699,500 | 548,887 | 504,188 |
| Human Resources | FTE | 1,533,600 | 1,507,555 | 1,360,618 |
| Information Technology | FTE | 6,453,800 | 5,202,294 | 5,028,347 |
| Finance | Actual Direct Costs as % of Total State Bar Direct Costs | 3,141,700 | 3,861,386 | 3,269,839 |
| Communications | Actual Direct Costs as % of Total Direct Bar Program Costs | | 91,575 | 90,498 |
| Non-Departmental | | 444,700 | | |
| Total Cost Allocated | | 31,345,900 | 28,176,097 | 27,392,533 |

Allocation bases

Membership Billing – Fund Membership Dues received as a percentage of total State Bar Membership Dues.

Actual Direct Costs as % of Total State Bar Direct Costs – Fund Direct Costs as a percentage of total State Bar Direct Costs

Square Footage – Fund Square Footage Occupancy as a percentage of total building square footage.

FTEs – Fund FTEs as a percentage of total direct cost center FTEs

Attachment D

2016 Revised Indirect Cost Allocation Budget - Fiscal Impact Allocate Out \$2.67M Capital Improvement Costs

| Fund Description | Allocation Before \$2.67M Capital Improvement Costs | Fiscal Impact - Allocate Out \$2.67M Capital Improvement Costs** | Allocation After \$2.67M Capital Improvement Costs |
|--|--|---|---|
| <u>Indirect Cost Pool from Administrative Areas:</u> | (\$) | (\$) | (\$) |
| - Membership Billing | 2,034,800 | | 2,034,800 |
| - BOT, Election, Appt, Executive Director | 3,009,300 | | 3,009,300 |
| - General Services - SF | 5,013,100 | 2,670,000 | 7,683,100 |
| - General Services - LA | 4,611,500 | | 4,611,500 |
| - General Counsel | 4,848,600 | | 4,848,600 |
| - Library | 699,500 | | 699,500 |
| - Human Resources | 1,533,600 | | 1,533,600 |
| - Information Technology | 6,453,800 | | 6,453,800 |
| - Finance | 3,141,700 | | 3,141,700 |
| | 31,345,900 | 2,670,000 | 34,015,900 |
| <u>Indirect Costs Allocated Out to Individual Fund:</u> | | | |
| Consolidated General Fund: | | | |
| General Fund (10) | 22,145,600 | 1,638,000 | 23,783,600 |
| Legal Educ. And Dev. Fund (18) | 79,400 | 18,700 | 98,100 |
| Total Consolidated General Fund: | 22,225,000 | 1,656,700 | 23,881,700 |
| Special Revenue Fund Group: | | | |
| Admissions Fund (20) | 4,634,300 | 520,900 | 5,155,200 |
| Annual Mtg Fund (14) | 85,900 | - | 85,900 |
| Grant Fund (12) | - | - | - |
| Sections (70-89) | 1,536,100 | 208,000 | 1,744,100 |
| Total Special Revenue Fund Group: | 6,256,300 | 728,900 | 6,985,200 |
| Restricted Fund Group: | | | |
| Legislative Activities Fund (16) | 146,900 | 23,000 | 169,900 |
| Elimination of Bias & Bar Relations Fund (17) | 301,600 | 46,000 | 347,600 |
| Lawyer Assistance Program (21) | 447,100 | 12,000 | 459,100 |
| Legal Specialization Fund (24) | 462,200 | 89,700 | 551,900 |
| Client Security Fund (27) | 744,300 | - | 744,300 |
| IT Spec Assessment Fund (31) | - | - | - |
| Legal Service Trust Fund (28) | 725,200 | 114,300 | 839,500 |
| Equal Access Fund (29) | 14,500 | - | 14,500 |
| Justice Gap Fund (32) | 22,800 | - | 22,800 |
| Total Restricted Fund Group: | 2,864,600 | 285,000 | 3,149,600 |
| Grand Total: | 31,345,900 | 2,670,600 | 34,016,500 |

** Based on 58% of \$4.6 million capital improvement cost. The 58% represents the State Bar proportion of square footage.

6031.5 Conference of Delegates, State Bar Sections – Restriction on Funding, Voluntary Fees

(a) State Bar sections, as established under and pursuant to Article 13 of the Rules and Regulations of the State Bar, and their activities shall not be funded with mandatory fees collected pursuant to subdivision (a) of Section 6140.

The State Bar may provide an individual section, or two or more sections collectively, with administrative and support services, provided the State Bar shall be reimbursed for the full cost of those services out of funds collected pursuant to subdivision (b), funds raised by or through the activities of the sections, or other funds collected from voluntary sources. The financial audit specified in Section 6145 shall confirm that the amount assessed by the State Bar for providing the services reimburses the costs of providing them, and shall verify that mandatory dues are not used to fund the sections.

(b) Notwithstanding the other provisions of this section, the State Bar is expressly authorized to collect voluntary fees to fund the State Bar sections on behalf of those organizations in conjunction with the State Bar's collection of its annual membership dues. Funds collected pursuant to this subdivision, and other funds raised by or through the activities of the sections, or collected from voluntary sources, for their support or operation, shall not be subject to the expenditure limitations of subdivision (b) of Section 6140.05.

(c) Notwithstanding any other provision of law, the State Bar is expressly authorized to collect, in conjunction with the State Bar's collection of its annual membership dues, voluntary fees or donations on behalf of the Conference of Delegates of California Bar Associations, the independent nonprofit successor entity to the former Conference of Delegates of the State Bar which has been incorporated for the purposes of aiding in matters pertaining to the advancement of the science of jurisprudence or to the improvement of the administration of justice, and to convey any unexpended voluntary fees or donations previously made to the Conference of Delegates of the State Bar pursuant to this section to the Conference of Delegates of California Bar Associations. The Conference of Delegates of California Bar Associations shall pay for the cost of the collection. The State Bar and the Conference of Delegates of California Bar Associations may also contract for other services. The financial audit specified in Section 6145 shall confirm that the amount of any contract shall fully cover the costs of providing the services, and shall verify that mandatory dues are not used to fund any successor entity.

(d) The Conference of Delegates of California Bar Associations, which is the independent nonprofit successor entity to the former Conference of Delegates of the State Bar as referenced in subdivision (c), is a voluntary association, is not a part of the State Bar of California, and shall not be funded in any way through mandatory dues collected by the State Bar of California. Any contribution or membership option included with a State Bar of California mandatory dues billing statement shall include a statement that the Conference of Delegates of California Bar Associations is not a part of the State Bar of California and that membership in that organization is voluntary. (Added by Stats. 1999, ch. 342. Amended by Stats. 2002, ch.415, effective September 9, 2002; Stats. 2003, ch. 334.)

Sections - Overhead Indirect Cost Allocation Analysis from 2013 to 2016

Attachment F

| Administrative Area | Allocation Basis | Notes | 2013 Actual Total Indirect Cost Pool | 2013 Allocated % | 2013 Indirect Cost Allocated to Sections | 2014 Actual Total Indirect Cost Pool | 2014 Allocated % | 2014 Indirect Cost Allocated to Sections | 2015 Actual Total Indirect Cost Pool | 2015 Allocated % | 2015 Indirect Cost Allocated to Sections | 2016 Budget Total Indirect Cost Pool | 2016 Allocated % | 2016 Indirect Cost Allocated to Sections |
|--|---|-------|---|---------------------|---|---|---------------------|---|---|---------------------|---|---|---------------------|---|
| Membership Billing | Revenues | | 1,531,501 | 5.87% | 89,899 | 1,613,098 | 6.16% | 99,445 | 1,778,406 | 6.45% | 114,763 | (A) 2,034,800 | 6.45% | 131,308 |
| Board of Trustees/ Election | Actual Direct Costs as % of Total State Bar Direct Costs | (B) | 185,267 | 8.42% | 15,599 | 199,632 | 8.74% | 17,441 | 236,088 | 8.96% | 21,149 | 238,400 | 7.95% | 18,964 |
| Appointments | Number | | 111,798 | 40.62% | 45,412 | 109,014 | 39.19% | 42,726 | 50,177 | 37.43% | 18,782 | 100,900 | 7.95% | 8,026 |
| Property Related-SF Property Related-LA | Square Footage Square Footage | (C) | 9,714,062 | 1.68% | 163,196 | 4,700,574 5,807,729 | 7.79% - | 368,697 - | 4,690,300 6,094,095 | 7.79% - | 367,892 - | 5,013,100 4,611,500 | 7.79% - | 393,214 - |
| General Counsel | FTE | | 4,030,251 | 4.31% | 173,704 | 4,165,415 | 4.57% | 190,332 | 3,749,884 | 3.63% | 135,969 | 4,848,600 | 4.07% | 197,303 |
| Executive Director | Actual Direct Costs as % of Total State Bar Direct Costs | (D) | 505,701 | 8.42% | 42,580 | 543,792 | 8.74% | 47,510 | 365,450 | 8.96% | 32,737 | 2,225,300 | 7.95% | 177,012 |
| Library | # of Attorneys | | 502,591 | - | - | 504,188 | - | - | 548,887 | - | - | 699,500 | - | - |
| Human Resources | FTE | | 1,379,067 | 4.31% | 59,438 | 1,360,618 | 4.57% | 62,171 | 1,507,555 | 3.63% | 54,663 | 1,533,600 | 4.07% | 62,407 |
| Information Technology | FTE | | 4,983,130 | 4.31% | 214,773 | 5,028,347 | 4.57% | 229,762 | 5,202,294 | 3.63% | 188,633 | 6,453,800 | 4.07% | 262,623 |
| Finance | Actual Direct Costs as % of Total State Bar Direct Costs | | 3,369,992 | 8.42% | 283,753 | 3,269,929 | 8.74% | 285,687 | 3,861,386 | 8.96% | 345,905 | 3,141,700 | 7.95% | 249,907 |
| Communications | Actual Direct Costs as % of Total Direct Bar Program Costs | | 60,525 | 8.42% | 5,096 | 90,500 | 8.74% | 7,907 | 91,575 | 8.96% | 8,203 | - | - | - |
| Non-Departmental | | | - | - | - | - | - | - | - | - | - | 444,700 | 7.95% | 35,354 |
| Total | | | 26,373,885 | | 1,093,451 | 27,392,836 | | 1,351,678 | 28,176,097 | | 1,288,696 | 31,345,900 | | 1,536,118 |
| Changes from year to year: | | | | | | 3.86% | | 23.62% | 2.86% | | (4.66%) | 11.25% | | 19.20% |
| Overall Allocation Percentage to total indirect cost pool: | | | | | 4.15% | | | 4.93% | | | 4.57% | | | 4.90% |
| | | | | | | | | | | | | Budget | | 1,458,700 |
| | | | | | | | | | | | | (E) Variance | | 77,418 |

Notes

(A) 2016 Budget Allocation methodology has been modified from 2015 to incorporate Bill Statler's recommendations.

(B) Prior to 2016, only 25% of BOT/COO/Elections direct costs were allocated out. Beginning in 2016, 100% of these direct costs are allocated out as indirect costs.

(C) The 2013 \$9.7M represents direct costs for San Francisco and LA Facilities combined.

In 2014 the square footage was adjusted from 1.68 % to 8.14% to reflect the correct occupancy percentage within 180 Howard Street.

(D) Beginning in 2016, the Office of the Chief Operating Officer is combined with the Office of Executive Director.

(E) The 2016 indirect cost allocated to Sections was budgeted at \$1,458,700. Actual calculation is \$1,536,118, with a variance of \$77,418. This variance will be adjusted during the budget amendment.

| <u>Sections Bases</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016 Budget</u> | <u>Notes</u> |
|------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------------------|---------------------|
| FTE | 3.60% | 3.90% | 3.81% | 4.69% | 4.52% | 4.31% | 4.57% | 3.63% | 4.07% | (A) |
| Direct Costs | 7.70% | 8.20% | 8.35% | 8.09% | 9.32% | 8.42% | 8.74% | 8.96% | 7.95% | (B) |
| Square footage | 1.90% | 1.90% | 1.68% | 1.68% | 1.68% | 1.68% | 7.79% | 7.79% | 7.79% | (C) |
| Appointments | 36.60% | 40.50% | 38.74% | 38.69% | 38.83% | 40.62% | 39.19% | 37.43% | 7.95% | (D) |
| OGC Hours | 3.90% | 8.60% | NA | N/A | NA | NA | NA | NA | NA | (E) |
| Membership Billing/Revenue | | | 6.24% | 6.16% | 5.91% | 5.87% | 6.16% | 6.45% | 6.45% | (F) |

Notes

(A) FTE allocation base is derived by dividing Sections FTE over total State Bar FTE for non-cost-allocated cost centers.

(B) The Direct Cost allocation base is derived by dividing Sections direct costs by total Barwide direct costs for non-cost-allocated cost centers.

(C) Square footage allocation base is derived by dividing Sections occupied space by the total occupied space for non-cost-allocated cost centers.

In 2014 the square footage was adjusted from 1.68 % to 8.14% to reflect the correct occupancy percentage within 180 Howard Street.

(D) Until 2015, Appointments base was the percentage of appointments going to sections. Beginning in 2016, the methodology changed to Direct Cost base.

(E) OGC Hours has not been used in the allocation methodology since 2010.

(F) Membership billing /revenue allocation base is derived by the Section Membership Dues divided by total Barwide Membership Dues for non-cost-allocated cost centers.

Support Costs for State Bar Sections

| Sections Fund 70 | Actual 2007 | Actual 2008 | Actual 2009 | Actual 2010 | Actual 2011 | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Budget 2016 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Direct Support Costs | 1,626,587 | 1,657,400 | 1,686,485 | 1,665,846 | 1,883,929 | 1,840,364 | 1,922,007 | 2,028,638 | 2,037,397 | 2,331,600 |
| Council of State Bar Sections | 41,200 | 41,200 | 41,200 | 41,200 | 41,500 | 50,000 | 55,000 | 55,000 | 55,000 | 55,000 |
| Legislative Support | 95,789 | 68,249 | 155,672 | 154,430 | 159,732 | 172,327 | 177,850 | 207,752 | 224,823 | 188,600 |
| Indirect Costs (General Administrative Support) | 679,834 | 725,364 | 975,961 | 857,348 | 1,074,945 | 1,065,582 | 1,093,451 | 1,351,679 | 1,288,697 | 1,536,118 |
| Total | 2,443,410 | 2,492,213 | 2,859,318 | 2,718,824 | 3,160,106 | 3,128,273 | 3,248,308 | 3,643,069 | 3,605,917 | 4,111,318 |
| Section Membership Count | 65,494 | 66,961 | 65,513 | 63,214 | 63,734 | 64,262 | 65,030 | 64,890 | 64,340 | 64,340 |
| Estimated Cost per Member - (total overhead) | \$ 37.31 | \$ 37.22 | \$ 43.65 | \$ 43.01 | \$ 49.58 | \$ 48.68 | \$ 49.95 | \$ 56.14 | \$ 56.04 | \$ 63.90 |

Discretionary (Funds 71 to 89):

| | | | |
|-----------------------------------|------------------|------------------|------------------|
| - Travel | 1,172,585 | 1,186,723 | 836,300 |
| - Catering | 1,400,035 | 1,667,884 | 1,152,200 |
| - Meeting Room Rental | 46,070 | 45,164 | 45,300 |
| Total Discretionary Costs: | 2,618,690 | 2,899,772 | 2,033,800 |

| | | | |
|--|----------|----------|----------|
| Cost Per Member - Direct Support Costs | \$ 31.26 | \$ 31.67 | \$ 36.24 |
| Cost Per Member - Indirect Costs | \$ 20.83 | \$ 20.03 | \$ 23.88 |
| Cost Per Member - Discretionary Costs | \$ 40.36 | \$ 45.07 | \$ 31.61 |

Support Costs for State Bar Sections - Fund 70

| | 2014 Actual | 2015 Actual | 2016 Budget |
|--|------------------|------------------|------------------|
| Direct Support Costs | | | |
| Salaries - Regular | 1,246,923 | 1,231,372 | 1,509,200 |
| Salaries - Overtime | 27,880 | 35,535 | 36,700 |
| Payroll Tax Allocation | 94,024 | 92,978 | 113,200 |
| Fringe Allocation | 345,714 | 348,269 | 392,400 |
| Misc Benefits | 32,589 | | 16,800 |
| Temporary Outside Help | 124,492 | 112,874 | 85,000 |
| Dues & Membership | 791 | | |
| Recruiting Expenses | 75 | 525 | |
| Rideshare Program Reimbursemen | 26,104 | 27,734 | 27,700 |
| OPEB/ARC Expenses | 58,621 | 74,510 | 42,000 |
| Travel - Staff | 1,661 | 51 | 100 |
| Business Expenses | | 384 | |
| Catering | 16,213 | 50,057 | 46,600 |
| Postage | 218 | 1,643 | 1,000 |
| Stationery and Office Supplies | 9,987 | 15,041 | 16,400 |
| Telephone | 34,707 | 35,829 | 34,900 |
| Computer Software Purchase | 585 | | |
| Computer Supplies | | 27 | |
| In House Copier Usages Alloc. | 3,229 | 2,221 | 2,100 |
| Equipment Purchase-Non-Capital | 167 | 44 | 100 |
| Equipment Rental | 1,308 | 4,762 | 5,700 |
| Repairs and Maintenance - Equi | 115 | | |
| Ergonomic Expenses | 165 | | |
| Outside Services-Printing-Desi | | 865 | 1,000 |
| Outside services-others | 129 | 401 | 500 |
| Delivery Services | 328 | 128 | 100 |
| File Retention | 2,491 | 2,087 | |
| In House Printing Service | 122 | 60 | 100 |
| Total Direct Support Costs: | 2,028,638 | 2,037,397 | 2,331,600 |
| Council of State Bar Sections | | | |
| Section Council Expenses | 55,000 | 55,000 | 55,000 |
| Total Council of State Bar Sections: | 55,000 | 55,000 | 55,000 |
| Legislative Support | | | |
| Professional Services | 97,143 | 100,844 | 98,600 |
| Legislative Advocacy | 110,609 | 123,979 | 90,000 |
| Total Legislative Support: | 207,752 | 224,823 | 188,600 |
| Indirect Costs (General Administrative Support) | | | |
| Interfund Allocation | 1,351,679 | 1,288,697 | 1,536,118 |
| Total Indirect Costs: | 1,351,679 | 1,288,697 | 1,536,118 |
| Total Support Costs: | 3,643,069 | 3,605,917 | 4,111,318 |

Discretionary Costs by Section Program vs. BOT and JNE

| Fund | Section Program | 2014 Actuals | | | | 2015 Actuals | | | | 2016 Budget | | | |
|-------------|-----------------------|------------------|------------------|---------------|------------------|------------------|------------------|---------------|------------------|----------------|------------------|---------------|------------------|
| | | Travel | Catering | Meetings | Total | Travel | Catering | Meetings | Total | Travel | Catering | Meetings | Total |
| 71 | Antitrust | 39,117 | 53,249 | 0 | 92,366 | 42,387 | 112,196 | 0 | 154,583 | 27,500 | 20,900 | 0 | 48,400 |
| 72 | Business Law | 69,206 | 87,008 | 1,600 | 157,814 | 63,492 | 113,009 | 6,270 | 182,771 | 39,500 | 87,700 | 7,600 | 134,800 |
| 73 | Criminal Law | 40,996 | 11,378 | 0 | 52,374 | 38,414 | 10,984 | 975 | 50,372 | 16,800 | 5,500 | 800 | 23,100 |
| 74 | Environmental Law | 83,384 | 187,898 | 745 | 272,027 | 98,788 | 215,469 | 2,825 | 317,081 | 41,200 | 31,900 | 3,400 | 76,500 |
| 75 | Trusts & Estates | 112,490 | 84,212 | 5,360 | 202,061 | 102,240 | 96,996 | 5,750 | 204,985 | 89,400 | 83,400 | 2,700 | 175,500 |
| 76 | Family Law | 75,889 | 55,584 | 0 | 131,472 | 99,510 | 48,505 | 215 | 148,230 | 91,200 | 49,400 | 300 | 140,900 |
| 77 | Intellectual Property | 94,467 | 88,337 | 0 | 182,804 | 127,511 | 113,067 | 554 | 241,132 | 80,400 | 155,500 | 700 | 236,600 |
| 78 | International Law | 32,631 | 38,396 | 0 | 71,027 | 18,654 | 26,766 | 0 | 45,420 | 9,800 | 23,400 | 0 | 33,200 |
| 79 | Labor Law | 95,020 | 158,025 | 14,465 | 267,511 | 88,995 | 244,495 | 13,612 | 347,103 | 63,600 | 166,100 | 14,100 | 243,800 |
| 80 | Law Practice Mgt | 26,762 | 11,544 | 0 | 38,306 | 20,886 | 7,416 | 0 | 28,302 | 18,500 | 7,600 | 0 | 26,100 |
| 81 | Litigation | 98,122 | 87,581 | 400 | 186,103 | 76,038 | 58,199 | 0 | 134,238 | 65,700 | 58,600 | 0 | 124,300 |
| 82 | Public Law | 31,886 | 21,566 | 0 | 53,452 | 41,017 | 39,240 | 0 | 80,257 | 30,300 | 31,600 | 0 | 61,900 |
| 83 | Real Property Law | 117,580 | 150,845 | 1,800 | 270,225 | 126,750 | 167,520 | 200 | 294,470 | 95,600 | 154,400 | 200 | 250,200 |
| 84 | Solo & Small Firm | 36,502 | 17,435 | 0 | 53,936 | 27,210 | 12,392 | 0 | 39,602 | 24,800 | 12,600 | 0 | 37,400 |
| 85 | Taxation | 111,331 | 165,390 | 18,700 | 295,420 | 112,288 | 190,612 | 7,959 | 310,860 | 69,600 | 80,100 | 7,300 | 157,000 |
| 86 | Worker's Comp | 69,982 | 93,110 | 3,000 | 166,093 | 66,295 | 122,055 | 6,805 | 195,154 | 36,800 | 94,400 | 8,200 | 139,400 |
| 87 | Sections Council Fund | 18,133 | 21,646 | 0 | 39,779 | 14,434 | 20,054 | 0 | 34,487 | 13,900 | 19,100 | 0 | 33,000 |
| 88 | Spring SEI Fund | 19,088 | 66,831 | 0 | 85,919 | 6,788 | 285 | 0 | 7,073 | 6,400 | 0 | 0 | 6,400 |
| 89 | Winter SEI Fund | 0 | 0 | 0 | 0 | 15,026 | 68,625 | 0 | 83,652 | 15,300 | 70,000 | 0 | 85,300 |
| | Total: | 1,172,585 | 1,400,035 | 46,070 | 2,618,690 | 1,186,723 | 1,667,884 | 45,164 | 2,899,772 | 836,300 | 1,152,200 | 45,300 | 2,033,800 |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| Cost Center | | 2014 Actuals | | | | 2015 Actuals | | | | 2016 Budget | | | |
| | | Travel | Catering | Meetings | Total | Travel | Catering | Meetings | Total | Travel | Catering | Meetings | Total |
| 10003 | Board of Trustees | 148,531 | 43,250 | 1,004 | 192,785 | 232,560 | 47,851 | 1,200 | 281,610 | 118,500 | 44,500 | 1,500 | 164,500 |
| 10101 | Judicial Evaluation | 202,798 | 14,355 | 0 | 217,153 | 166,930 | 26,697 | 0 | 193,627 | 126,700 | 14,000 | 0 | 140,700 |

Sections Assessment

| Fund | Section Program | 2014 Actuals | 2015 Actual | 2016 Budget |
|-------------|------------------------|---------------------|--------------------|--------------------|
| 71 | Antitrust | 69,373 | 66,238 | 75,737 |
| 72 | Business Law | 471,714 | 460,474 | 526,507 |
| 73 | Criminal Law | 92,472 | 93,114 | 106,467 |
| 74 | Environmental Law | 147,020 | 145,354 | 166,198 |
| 75 | Trusts & Estates | 348,080 | 347,931 | 397,825 |
| 76 | Family Law | 213,118 | 214,055 | 244,752 |
| 77 | Intellectual Property | 381,270 | 373,295 | 426,827 |
| 78 | International Law | 65,987 | 64,670 | 73,944 |
| 79 | Labor Law | 409,051 | 417,136 | 476,955 |
| 80 | Law Practice Mgt | 60,465 | 57,391 | 65,621 |
| 81 | Litigation | 518,936 | 498,940 | 570,490 |
| 82 | Public Law | 88,471 | 91,322 | 104,418 |
| 83 | Real Property Law | 360,646 | 348,491 | 398,466 |
| 84 | Solo & Small Firm | 84,526 | 80,796 | 92,382 |
| 85 | Taxation | 184,662 | 178,893 | 204,547 |
| 86 | Worker's Comp | 161,051 | 164,391 | 187,965 |
| | Total: | 3,656,841 | 3,602,489 | 4,119,100 |

Attachment G

2016 Revised Indirect Cost Allocation Budget - Fiscal Impact with Modifications on Sections Allocation

| Fund Description | Allocation Before CAP Modifications | Fiscal Impact due to CAP Modifications on Sections | Allocation After CAP Modifications |
|--|--|---|---|
| <u>Indirect Cost Pool from Administrative Areas:</u> | (\$) | (\$) | (\$) |
| - Membership Billing | 2,034,800 | | 2,034,800 |
| - BOT, Election, Appt, Executive Director | 3,009,300 | | 3,009,300 |
| - General Services - SF | 5,013,100 | | 5,013,100 |
| - General Services - LA | 4,611,500 | | 4,611,500 |
| - General Counsel | 4,848,600 | | 4,848,600 |
| - Library | 699,500 | | 699,500 |
| - Human Resources | 1,533,600 | | 1,533,600 |
| - Information Technology | 6,453,800 | | 6,453,800 |
| - Finance | 3,141,700 | | 3,141,700 |
| | 31,345,900 | - | 31,345,900 |
| <u>Indirect Costs Allocated Out to Individual Fund:</u> | | | |
| Consolidated General Fund: | | | |
| General Fund (10) | 22,145,600 | 263,500 | 22,409,100 |
| Legal Educ. And Dev. Fund (18) | 79,400 | 1,600 | 81,000 |
| Total Consolidated General Fund: | 22,225,000 | 265,100 | 22,490,100 |
| Special Revenue Fund Group: | | | |
| Admissions Fund (20) | 4,634,300 | 60,000 | 4,694,300 |
| Annual Mtg Fund (14) | 85,900 | 1,300 | 87,200 |
| Grant Fund (12) | - | - | - |
| Sections (70-89) | 1,536,100 | (355,000) | 1,181,100 |
| Total Special Revenue Fund Group: | 6,256,300 | (293,700) | 5,962,600 |
| Restricted Fund Group: | | | |
| Legislative Activities Fund (16) | 146,900 | 1,000 | 147,900 |
| Elimination of Bias & Bar Relations Fund (17) | 301,600 | 5,000 | 306,600 |
| Lawyer Assistance Program (21) | 447,100 | 4,000 | 451,100 |
| Legal Specialization Fund (24) | 462,200 | 9,600 | 471,800 |
| Client Security Fund (27) | 744,300 | 5,200 | 749,500 |
| IT Spec Assessment Fund (31) | - | - | - |
| Legal Service Trust Fund (28) | 725,200 | 3,800 | 729,000 |
| Equal Access Fund (29) | 14,500 | - | 14,500 |
| Justice Gap Fund (32) | 22,800 | - | 22,800 |
| Total Restricted Fund Group: | 2,864,600 | 28,600 | 2,893,200 |
| Grand Total: | 31,345,900 | - | 31,345,900 |