

# TRUE COST OF SERVICES

PRESENTED BY:

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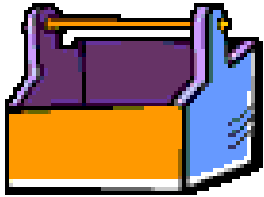
NYS COMPTROLLER  
**THOMAS P. DiNAPOLI**

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# Why is “TRUE COST” Important?

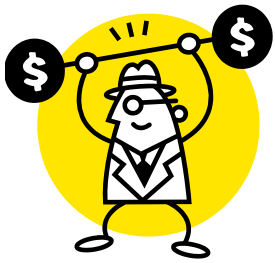
- ❑ **Enables “Informed Decisions”**
  - **Budget time**
  - **Establishing user fees**
  - **Service delivery options**
  - **Tax Cap Compliance**
- ❑ **Discourages the “Axe” approach to budget cuts**

# Tools Available to Local Officials



- ❑ **The Annual Budget**
- ❑ **Accounting & Recordkeeping System**





# The Line Item Budget

*Primarily an accounting and control document*

## Strengths

- Uniform coding structure
- Facilitates comparisons
- Controls expenditures





# The Line Item Budget

## Weaknesses

- Services are split among funds
- Attributed revenues not shown
- Indirect costs are not allocated
- Does not permit meaningful analysis



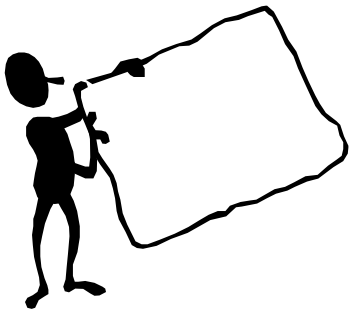
# What Changes Are Needed?

- **Supplemental Display to Address Weaknesses**
  - **Non-Accountant Friendly**
  - **Links Revenues and Expenditures to Service Areas**
  - **Identifies “True Cost” of Services**



# Characteristics of the Display

- ❑ Void of Fund designation
- ❑ Appropriations are aggregated
- ❑ Attributable revenues identified
- ❑ Indirect costs are allocated



# Necessary Components

- ❑ Major Service / Function Areas
- ❑ Direct & Indirect Costs
- ❑ Attributable Revenues
- ❑ Net Total Cost
- ❑ Sources of Local Effort Required





# Calculating TRUE COST

$$\begin{aligned} & \text{Direct Costs} \\ & + \text{Indirect Costs} \\ & \hline & \text{Total Cost} \\ & - \text{Attributed Revenue} \\ & \hline & = \text{True Net Cost} \end{aligned}$$



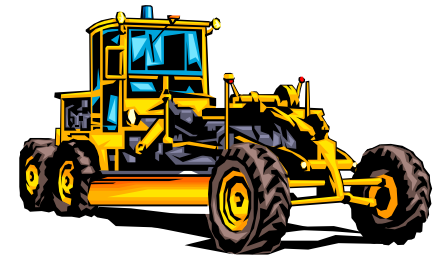
**Local Effort Required**





# Major Service Areas

- ❑ **Extracted from function areas in line item budget**
- ❑ **Limit of 10 to 20 (recommended)**
- ❑ **Departments can be divided**
  - **i.e., Highway**
    - **Snow Removal**
    - **Repairs & Improvements**



# MAJOR SERVICE AREAS

SERVICE AREA	ACCOUNT CODES
GENERAL GOVERNMENT	1000 - 1999
EDUCATION	2000 - 2999
PUBLIC SAFETY	3000 - 3999
HEALTH	4000 - 4999
TRANSPORTATION	5000 - 5999
ECONOMIC DEVELOPMENT & OPPORTUNITY	6000 - 6999
CULTURE & RECREATION	7000 - 7999
HOME & COMMUNITY SERVICE	8000 - 8999
EMPLOYEE BENEFITS	9000 - 9099
DEBT SERVICE	9700 - 9799
INTERFUND TRANSFER	9900 - 9999



# Direct Appropriations

*Costs readably identifiable with a service*

- Personal Service Costs (.1)**
- Capital Outlay (.2)**
- Contractual Expenditures (.4)**

Account	Description	Amount
DA5142.1	Snow Removal, Personal Services	\$ 146,750
DA5142.2	Snow Removal, Equipment & Capital Outlay	\$ 35,700
DA5142.4	Snow Removal, Contractual Expense	\$ 85,675
	<b>Total Snow Removal</b>	<b>\$ 268,125</b>





# Indirect Costs

- Allocate based on use or benefit**
  - **Employee benefits**
  - **Shared Services**
  - **Debt Service**
- Significant Impact on cost**
- Based on materiality and ability**



# Examples of Allocating Indirect Costs

<b>Employee Benefits</b>	<b>% of Payroll</b>
<b>Buildings</b>	<b>Sq. Ft. occupied</b>
<b>Central Communications</b>	<b>Number of phones</b>
<b>Central Data Processing</b>	<b>Number of hours required</b>
<b>Clerical / Administration</b>	<b>Number of hours required</b>
<b>Unallocated Insurance</b>	<b>Basis of Premium</b>
<b>Debt Service</b>	<b>% of Principal &amp; Interest</b>

# True Cost of Snow Removal

Account	Description	Amount
DA5142.1	Snow Removal, Personal Services	\$ 146,750
DA5142.2	Snow Removal, Equipment & Capital Outlay	\$ 35,700
DA5142.4	Snow Removal, Contractual Expense	\$ 85,675
<b>Total Direct Cost of Snow Removal</b>		<b>\$ 268,125</b>
	Employee Benefits (38% of salaries)	\$ 55,765
	Insurance (26% of premiums)	\$ 9,700
	Serial Bond, Principal	\$ 38,675
	Serial Bond, Interest	\$ 9,678
	} Salt Shed & Plow Truck	
<b>Total Direct &amp; Indirect Cost of Snow Removal</b>		<b>\$ 640,390</b>



# Attributed Revenues

*Those directly related to performance of a service*

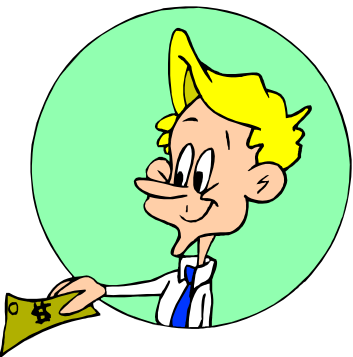
- ❑ Fees, user charges & state and federal reimbursements
- ❑ Parallel Revenue-Expenditure codes in USA





# Parallel Expenditure-Revenue Codes

		Revenue Codes			
<u>Major Function</u>	<u>Expend Code</u>	<u>Dept.</u>	<u>Inter Gov't</u>	<u>State Aid</u>	<u>Federal Aid</u>
General Gov't	1000.0	1200	2200	3000	4000
Education	2000.0	1300	2230	3100	4100
Public Safety	3000.0	1500	2260	3300	4300
Health	4000.0	1600	2280	3400	4400
Transportation	5000.0	1700	2300	3500	4500
Economic Assis	6000.0	1800	2310	3600	4600
Culture & Rec	7000.0	2000	2350	3800	4800
Home & Comm	8000.0	2100	2370	3900	4900
Undistributed	9000.0				



# Local Effort Required

- ❑ Not direct result of a service
- ❑ Not restricted as to use
  - State Aid
  - Sales Tax
  - Interest
  - Appropriated Fund Balance
  - Property Taxes



# Steps to Follow

**List Local Effort**

**Calculate Net Cost**

**Apply Attributed Revenues**

**Allocate Indirect Costs**

**Group Direct Cost Appropriations**

**Select MAJOR service areas**

# EXAMPLE

Service Area /Function Area	Appropriations (Direct Costs)	Allocated Costs (Indirect Costs)	Total Costs	Attributable Revenue	Net Service Costs
<b>General Government</b>	<b>\$1,044,976</b>	<b>\$271,158</b>	<b>\$1,316,134</b>	<b>\$117,717</b>	<b>\$1,198,417</b>
<b>Police</b>	<b>1,544,444</b>	<b>297,306</b>	<b>1,841,750</b>	<b>147,011</b>	<b>\$1,694,739</b>
<b>Fire &amp; Other Pub Safety</b>	<b>118,864</b>	<b>62,881</b>	<b>181,745</b>	<b>22,150</b>	<b>\$159,595</b>
<b>Health</b>	<b>43,330</b>	<b>8,341</b>	<b>51,671</b>	<b>5,150</b>	<b>\$46,521</b>
<b>Transportation</b>	<b>1,233,519</b>	<b>237,452</b>	<b>1,470,971</b>	<b>135,009</b>	<b>\$1,335,962</b>
<b>Economic Assistance</b>	<b>87,146</b>	<b>261</b>	<b>87,407</b>	<b>12,950</b>	<b>\$74,457</b>
<b>Parks &amp; Recreation</b>	<b>160,664</b>	<b>50,928</b>	<b>211,592</b>	<b>104,469</b>	<b>\$107,123</b>
<b>Community Service</b>	<b>39,437</b>	<b>7,592</b>	<b>47,029</b>	<b>2,600</b>	<b>\$44,429</b>
<b>Refuse &amp; Garbage</b>	<b>117,757</b>	<b>22,668</b>	<b>140,425</b>	<b>35,250</b>	<b>\$105,175</b>
<b>Sewer</b>	<b>152,377</b>	<b>46,897</b>	<b>199,274</b>	<b>47,350</b>	<b>\$151,924</b>
<b>Water</b>	<b>624,253</b>	<b>147,169</b>	<b>771,422</b>	<b>184,085</b>	<b>\$587,337</b>
<b>Other, Undistributed</b>	<b>26,897</b>	<b>-26,897</b>	<b>0</b>	<b>0</b>	<b>\$0</b>
<b>Employee Benefits</b>	<b>1,005,555</b>	<b>-1,005,555</b>	<b>0</b>	<b>0</b>	<b>\$0</b>
<b>Debt Service</b>	<b>120,201</b>	<b>-120,201</b>	<b>0</b>	<b>0</b>	<b>\$0</b>
<b>Total</b>	<b>\$6,319,420</b>	<b>\$0</b>	<b>\$6,319,420</b>	<b>\$813,741</b>	<b>\$5,505,679</b>

**Similar Example on Page 6 of Handout**

# EXAMPLE

## (Village DPW)

	<i>Approp (Direct)</i>	<i>Allocated (Indirect)</i>	<i>Total Cost</i>	<i>Attributed Revenue</i>	<i>Net Service Costs</i>
<b>Admin &amp; Garage</b>	<b>154,334</b>	<b>22,081</b>	<b>176,415</b>	<b>-0-</b>	<b>176,415</b>
<b>Repairs &amp; Improv</b>	<b>486,460</b>	<b>110,511</b>	<b>596,971</b>	<b>72,350</b>	<b>524,621</b>
<b>Machinery</b>	<b>62,438</b>	<b>9,106</b>	<b>71,544</b>	<b>-0-</b>	<b>71,544</b>
<b>Snow Removal</b>	<b>394,741</b>	<b>70,725</b>	<b>465,466</b>	<b>-0-</b>	<b>465,466</b>
<b>Snow Removal, Other Gov'ts</b>	<b>73,450</b>	<b>17,794</b>	<b>91,244</b>	<b>60,000</b>	<b>31,244</b>
<b>Brush &amp; Weeds</b>	<b>62,096</b>	<b>7,235</b>	<b>69,331</b>	<b>2,659</b>	<b>66,672</b>
<b>Totals</b>	<b>\$1,233,519</b>	<b>237,452</b>	<b>\$1,470,971</b>	<b>\$135,009</b>	<b>\$1,335,962</b>

### Allocated Indirect Costs

<b>Employee Benefits</b>	<b>\$217,063</b>
<b>Shared Services</b>	<b>\$ 12,786</b>
<b>Unallocated, Insurance</b>	<b>\$ 7,603</b>
<b>Debt Service</b>	<b>\$ 0</b>
<b>Total</b>	<b>\$237,452</b>

**Similar Example on Page 7 of Handout**

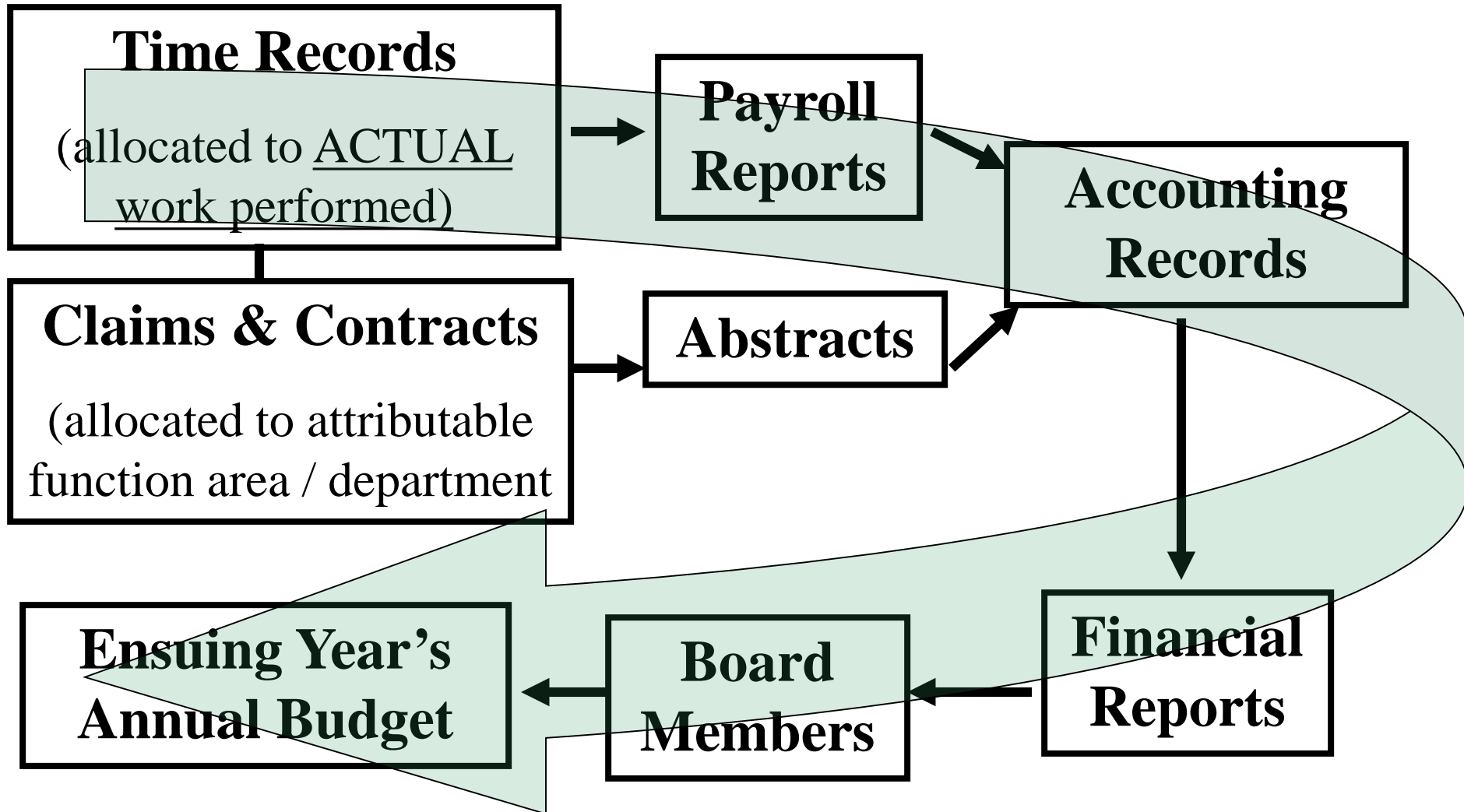


# Accounting & Recordkeeping

- ❑ **Bad decisions result from bad information**
  - **Cost of services**
  - **User Charges/fees**
  - **Budget estimates**
- ❑ **The correct flow of financial information is crucial to making good decisions.**



# The CORRECT Flow





# Payroll & Employee Benefits

- 41% of total village expenses**
- Requires detailed time records**
- Allocate payrolls to services**
- Allocate benefits to services**





# Common Method Used by Local Governments to Charge Payrolls

<u>Date</u>	<u>Service</u>	<u>Account</u>
June 1 – July 15	Street Improvement	A5112.1
July 16 – July 31	Sewer Line Maintenance	A8120.1
August 1 – August 15	Water Line Maintenance	A8340.1
August 16 - August 30	Park Maintenance	A7110.1
September 1 – September 15	Bridge Maintenance	A5120.1
September 16 – October 30	Brush & Leaf / Misc	A5140.1
November 1 – November 15	Machinery	A5130.1
November 16 – December 14	Garage	A5132.1
December 15 – March 15	Snow Removal	A5142.1
April 1 – April 15	Street Cleaning	A8170.1
April 16 – May 1	Storm Sewers	A8140.1
May 1 – May 31	Street Maintenance	A5110.1

# Common Time Record Used

<b><i>Employee: John Jones</i></b>								
	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Week Ended: 9/5/09	8	8	8	8	8	3		43
Week Ended: 9/12/09								
<b>Total For Pay Period</b>								
Week Ended: 9/19/09								
Week Ended: 9/26/09								
<b>Total For Pay Period</b>								

Week Ended 9/5/09	<b>Charge To: Bridge Maintenance (A5120.1)</b>							
	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
John Jones	8	8	8	8	8	3		43
Harry Smith	8	8	8	8	8			40
Josh Parker	8	8	8	8	8			40
William Baker	8	8	8	8	8	3		43

# A Better Method

<b>Employee: <i>John Jones</i></b>				<b>Week Ended: <i>9/5/17</i></b>				
	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Totals
<b><u>Work Performed</u></b>								
Brush & Leaf Pickup								
Street Repair		<b>4</b>			<b>3</b>			<b>7</b>
Street Improvement	<b>5</b>		<b>3</b>	<b>8</b>	<b>3</b>			<b>19</b>
Vehicle Repair	<b>2</b>				<b>2</b>			<b>4</b>
Snow Plowing								
Snow Removal								
Parks Maintenance		<b>2.5</b>						<b>2.5</b>
Cemetery Maintenance	<b>1</b>							<b>1</b>
Sewer Maintenance		<b>1.5</b>				<b>3</b>		<b>4.5</b>
Water Maintenance			<b>5</b>					<b>5</b>
Miscellaneous								
<b>Totals</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>3</b>		<b>43</b>

**Similar Example and Reconciliation Shown on Page 10 & 11 of Handout**

# Contractual Expenditures

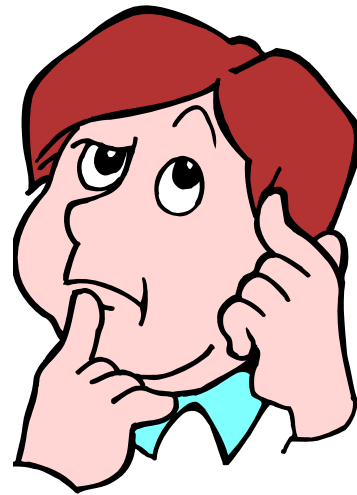
- ❑ **32% of total village expenditures**
- ❑ **Allocate to service areas**
- ❑ **Object of Expenditure Code**
  - **Budget at minimum level**
  - **Account for at higher level**



# Examples of Expanding the Contractual Code (.4)

<b>DA5142.41</b>	<b>Snow removal – Diesel Fuel</b>
<b>DA5142.42</b>	<b>Snow removal - Gasoline</b>
<b>DA5142.43</b>	<b>Snow removal - Salt</b>
<b>DA5142.44</b>	<b>Snow Removal - Sand</b>
<b>DA5142.45</b>	<b>Snow Removal – Equip Rental</b>
<b>DA5142.46</b>	<b>Snow Removal - Supplies</b>

# QUESTIONS



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# Thank You



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