



MEETING DATE: 12/19/2005
ITEM NO. 9

COUNCIL AGENDA REPORT

DATE: DECEMBER 19, 2005
TO: MAYOR AND TOWN COUNCIL
FROM: DEBRA J. FIGONE, TOWN MANAGER 
SUBJECT: ADOPT RESOLUTION TO REVISE THE CURRENT BILLING RATE FORMULA USED TO CALCULATE THE HOURLY COST OF TOWN STAFF, INCLUSIVE OF SALARY, BENEFITS, AND OVERHEAD.

RECOMMENDATION:

Adopt resolution to revise the current billing rate formula used to calculate the hourly cost of Town staff, inclusive of salary, benefits, and overhead.

BACKGROUND:

On an intermittent basis, Town staff provides public services necessitated by events or services sponsored by other organizations. This includes police officers, maintenance workers, and/or engineering staff used for set-up, clean-up, and traffic control of events such as the Cats Hill Race, Fiesta de Artes, Shakespeare in the Park, and Music in the Park; for services such as traffic control officers for development projects; and for engineering and road crew services for street resurfacing projects with other agencies, such as the Monte Sereno project completed in Summer, 2005. Staff time is also charged out to insurance firms and private parties to recover costs for time spent to repair damages caused by accidents or vandalism.

Subsequent to these events and services, the Town's Finance staff bills the organizations which utilize Town staff, with the intent to fully recoup Town costs for staff time.

To this end, a staff report was brought to Council in October, 2000 which requested amending the annual billing rate process to adopt a *billing rate formula* to set hourly billing rates. This adopted formula takes the top step of a position's pay range, adds a set percentage rate for benefits (which differs by pay group), and 17.3% for overhead. This formula process allows for billing rates to automatically increase concurrent with salary rate changes each year.

PREPARED BY:  STEPHEN CONWAY, Finance Director
N:\FINANCE\Council Staff Reports\Billing Rate Formula.wpd

Reviewed by: PS Assistant Town Manager OK Town Attorney _____ Clerk Administrator
_____ Finance _____ Community Development

Revised: 12/13/05 3:11 pm

The billing rate formula worked well for several years, until the rapidly increasing cost of benefits grew larger than the adopted benefit percentages. The increases in benefit costs means the Town now bills out staff time at less than full cost-recovery; therefore, loaning staff to other organizations or charging out for staff time now results in unreimbursed costs to the Town.

DISCUSSION:

Staff is requesting a revision to the current billing rate formula which will accommodate the fluctuations in benefit rates to provide for full cost recovery in the Town's billing rates. Staff suggests eliminating the set benefit percentages from the formula and using actual benefit costs, as updated by Finance staff each year. In addition, staff is requesting the formula be adopted to allow for fluctuations in the established overhead rate.

The current overhead rate of 17.3% has been the standard overhead rate used for approximately fifteen years to account for administrative and equipment costs associated with providing services. While this rate has adequately accounted for overhead costs in the past as an approximate rate, staff suggests validating the overhead rate calculation each year to ensure the billing rate formula can accurately adapt to economic changes to avoid unreimbursed costs or overcharges.

Staff recommends a policy which establishes an overhead rate formula, as determined annually by the Town's Finance Department, to be used in the calculation rather than a set percentage rate. The overhead calculation will be determined in January of each calendar year, using the prior fiscal year's final General Fund audited expenditures. The overhead calculation is to be based upon total administrative costs for the Town Offices, Town Manager's, and general town administration departments, expressed as a percentage of total general fund expenditures, excluding one-time expenditures (i.e. land purchases), debt service, and transfers from the calculation.

A staff position's hourly billing rate is therefore proposed to be a calculation of:

- 1) The annual cost at the top step of the pay range,
- 2) plus the annual cost of benefits,
- 3) the sum of the two divided by productive staff hours (1800 hours per year),
- 4) plus an overhead amount calculated at the established overhead rate.

Productive staff hours are utilized rather than annual staff hours in billing rate calculations to more accurately reflect the cost of service time. Productive hours are derived from annual staff hours (2080), less holiday, vacation, administrative, and training hours, to reflect an approximate amount of hours staff is available to provide services (1800 for full-time employees). Productive hours are to be pro-rated for staff working in less than full-time positions.

The billing rate formula established in this format is expected to adapt to all future economic fluctuations and ensure hourly billing rates are established at full cost-recovery.

While this formula establishes a methodology to fully recover the cost of staff time, it is recognized that billing rates may be discounted or forgiven when determined appropriate by the Town Manager,

PAGE 3
MAYOR AND TOWN COUNCIL
SUBJECT:
December 19, 2005

such as for non-profit functions which the Town wishes to promote or support.

CONCLUSION:

Staff recommends adopting the revised billing rate formula.

ENVIRONMENTAL ASSESSMENT:

Is not a project defined under CEQA, and no further action is required.

FISCAL IMPACT:

Staff billing rates will now have the authority to charge up to full cost recovery, allowing the Town to fully recover costs for provided services.

Attachments:

Resolution 2005-__ To revise the current billing rate formula used to calculate the hourly cost of Town staff, inclusive of salary, benefits, and overhead.

RESOLUTION 2005-

**RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS
TO REVISE THE CURRENT BILLING RATE FORMULA
USED TO CALCULATE THE HOURLY COST OF TOWN STAFF,
INCLUSIVE OF SALARY, BENEFITS, AND OVERHEAD**

WHEREAS, the Town Council previously adopted Resolution 2000-122 amending the billing rate formula for staff hours,

WHEREAS, staff recommends further revising the billing rate formula to accommodate fluctuations in the benefit and overhead factors of the formula

THEREFORE, BE IT RESOLVED: that the billing rate formula for staff hours will be a calculation of: the annual cost of the top step of the pay range, plus the annual cost of benefits, with the sum divided by productive staff hours per year (1800, or pro-rated for part-time), plus an amount calculated at the established overhead rate.

IT IS FURTHER RESOLVED: that Resolution 2000-122 is hereby repealed.

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the 19th day of December, 2005 by the following vote:

COUNCIL MEMBERS:

AYES:

NAYS:

ABSENT:

ABSTAIN:

SIGNED:

**MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA**

ATTEST:

**CLERK ADMINISTRATOR
LOS GATOS, CALIFORNIA**