



Agenda Item No. 2.b.

To: Finance-Auditing Committee/Committee of the Whole
Meeting of August 21, 2008

From: Jennifer Mennucci, Director of Budgets and Program Analysis
Joseph M. Wire, Auditor-Controller
Celia G. Kupersmith, General Manager

Subject: **AUTHORIZE BUDGET ADJUSTMENT(S) AND/OR TRANSFER(S)**
b) **BUDGET TRANSFER FROM THE FY 07/08 OPERATING BUDGET TO THE FY 07/08 CAPITAL BUDGET; AND, BUDGET ADJUSTMENTS TO THE FY 07/08 CAPITAL BUDGET FOR INDIRECT COST AND EXCESS DISTRICT PROJECT MANAGEMENT COSTS AND AMEND RESOLUTION NO. 2008-060**

Recommendation

The Finance-Auditing Committee recommends that the Board of Directors authorize a budget transfer in the amount of \$214,900 in budget authority from the FY 07/08 Operating Budget to the FY 07/08 Capital Budget, and authorize an increase the FY 07/08 Capital Budget in the amount of \$2,661,500, to recognize the indirect cost under the Indirect Cost Allocation Program (ICAP) and excess District Project Management costs, and amend Resolution 2008-060 passed on June 27, 2008, accordingly.

Summary

This item is to amend Resolution 2008-060 approved by the Board of Directors on June 27, 2008, to transfer funds to recognize the Indirect Cost and excess District Project Management costs in the FY 07/08 Capital Budget. This recommendation does not increase the District's expenses. This recommendation is a one-time fix that will set budget authority levels to match the level of actual expenses that have already occurred and to increase the Capital Budget for projects due to higher project management costs. This change is necessary to successfully implement the Indirect Cost Allocation Program which allows operating expenses to be transferred to Capital projects.

Background on Why The Budget Transfer and Adjustment is Necessary

With the enactment of Transportation Equity Act for the 21st Century (TEA-21) on June 9, 1998, indirect costs are eligible for federal reimbursement. Indirect costs are costs incurred for

common or joint objectives that cannot be readily and specifically identified with a particular project. Typically, indirect costs include the costs of operating and maintaining facilities, equipment and grounds, depreciation or use allowances, and administrative salaries and supplies. These costs are charged to the Operating Budget. These costs can be charged to the grants as a percentage of the direct labor and fringe cost of the capital project. This percentage is the indirect cost rate. In order to seek reimbursement of this cost, staff has submitted to Caltrans Audits and Investigations for approval (on behalf of the Federal Highway Administration) the District's Engineering Department Indirect Cost Rate Proposal and Central Service Cost Allocation Plan. The Approval Letter of Indirect Cost Rate for FY 06/07 was received in February 2008. The original budget for these projects did not include indirect costs; therefore, budget increases are necessary.

District staff has calculated and recorded indirect costs for the following projects using the approved rate of 119%:

Project	Indirect Cost	Additional Labor	TOTAL
Main Cable Restoration	\$600	\$0	\$600
Santa Rosa Fuel Tanks Replacement	10,900	0	10,900
Ferry Misc Facility Rehabilitation	82,100	0	82,100
Ferry Fuel Piping System Replacement	97,100	0	97,100
*Storage & Inspection Station	99,200	39,000	138,200
*Seismic Phase II	1,717,000	830,500	2,547,500
TOTAL	\$2,006,900	\$869,500	\$2,876,400

*In addition to the indirect cost rate increase, the Storage and Inspection Station and Seismic Retrofit Phase II projects exceeded their budget for District project management costs by \$39,000 and \$830,500, respectively. This item will also increase these project budgets to account for excess District project management costs.

To address the need for \$2,876,400 in budget authority, \$214,900 will be transferred from the FY 07/08 Operating Budget and an additional \$2,661,500 in budget authority will be added to the Capital Budget.

The size of the transfer of budget authority is limited due to the capability of the financial system to retroactively transfer budget authority. All actual expenses have been recorded by the accounting system in the Capital Budget. The result is that budget authority in the FY 07/08 Operating Budget will remain unspent.

Fiscal Impact

The recommendation covers increased project management costs of \$2,876,400 in the projects outlined in the report. The transfer and increase in budget authority, to allow the implementation of the ICAP program, does not increase the overall expenses of the District.