ADMINISTRATIVE BULLETIN NO. 2

Revised: April 20, 2003

SUBJECT: CALCULATION OF SERVICE/USER FEES AND COUNTY CHARGES TO OTHER GOVERNMENT AGENCIES

PURPOSE

The purpose of establishing fees and charges is to recover the County's cost incurred in providing specific services to the public and other government agencies. This is to provide departments with general guidance on calculating fees that are charged to the public and charges to other government agencies. Some grant and reimbursement programs may require other methodologies than those described. Refer to the State Controller's Mandated Cost Manual for Local Agencies and the Federal Office of Management and Budget Circular A-87 for additional guidance.

EXEMPTIONS

Departments that have an established methodology for calculating fees that has been accepted by the industry to be charged (e.g. building inspection fees) are to use the established methodology that has been jointly accepted by the particular industry and the County, provided that the fee does not exceed actual expenses and prudent reserve amounts. Also exempted are fees established for unique services with a Board approved methodology, such as landfill fees charged on the property tax bills. Questions regarding application of this policy should be directed to the County Administrative Office.

METHODOLOGY

Both direct and indirect costs are to be used when establishing fees and when charging other government agencies for services provided. Direct costs are generally comprised of labor, materials, supplies, equipment, and travel expenses costs used for the project or to provide the service. Indirect costs are those that are not directly assignable to a particular program or service and include overhead costs and costs of central government services distributed through the cost allocation plan (COWCAP). Departments are to consult with the Auditor-Controller-County Clerk's office when determining the indirect cost rate to be applied.

<u>Direct Labor</u>

Annual Productive Hours: To calculate the direct labor cost, determine the annual productive hours for each position providing the service using any of the following:

a. The actual annual productive hours for each position

b. The department's average annual productive hours
c. The annual average of 1,800 hours (includes paid holidays, vacation earned, sick leave, jury duty, and military leave)

If either “a” or “b” or used, show the factors affecting total hours worked.

To convert a biweekly salary to an equivalent productive hourly rate for a 40-hour week, use the following calculation:

(Biweekly Salary x 26.089) / 1,800 = Equivalent Productive Hourly Rate

For example, if the salary for a position is $935.00 biweekly, the equivalent productive hourly rate would be:

($935 x 26.089) / 1,800 = $13.55 Equivalent Productive Hourly Rate

Calculating an Average Productive Hourly Rate: If multiple positions perform tasks related to a particular function, the direct labor component may be expressed as an average productive hourly rate and can be determined as follows:

	Average Time	Productive Hourly Rate	Total Cost by Employee
Employee A	1.25 hrs	$16.00	$20.00
Employee B	0.75 hrs	14.50	10.88
Employee C	3.5 hrs	10.00	35.00
Total	5.50 hrs		$65.88

Average Productive Hourly Rate is $65.88/5.50 hrs. = $11.97

Fringe Benefits

When calculating fringe benefit costs, either the actual employer's fringe benefit contribution or an average fringe benefit cost for the employee's job classification as a percentage of direct labor may be used. After the percentage of salary for each fringe benefit is computed, total them. For example:

Employer's Contribution	% of Salary
Retirement	15.00%
Social Security	7.65%
Health and Dental Insurance	5.25%
Worker's Compensation	0.75%
Total	28.65%

Note: Retirement costs are not calculated for direct labor that is charged at an overtime rate.)

Materials and Supplies

Only expenses for materials and supplies that were acquired and consumed specifically for the service provided are to be included. Materials and supplies purchased to perform a particular activity are expected to be reasonable in quality, quantity, and cost. Materials and supplies withdrawn from inventory and charged to the activity must be based on a recognized method of pricing, consistently applied. The department must list the materials and supplies that were used to perform the activity, the number of units consumed, the cost per unit and the total cost, using either of the methods shown below.

Table 1

Supplies	Cost Per Unit	Average Amount of Supplies Used Per Activity	Unit Cost of Supplies Per Activity
Paper	0.02	4	$0.08
Files	0.10	1	0.10
Envelopes	0.03	2	0.06
Photocopies	0.10	4	0.40
			$0.64

Table 2

Supplies	Supplies Used	Unit Cost of Supplies Per Activity
Paper ($10.00 for 500 sheet ream)	250 Sheets	$5.00
Files ($2.50 for box of 25)	10 Folders	1.00
Envelopes ($3.00 box of 100)	50 Envelopes	1.50
Photocopies ($0.05 per copy)	40 Copies	2.00
		$9.50

Contract Services

The cost of contract services is allowable if the department lacks the staff resources or necessary expertise, or it is more economically feasible to hire a contractor to perform the activity.

Equipment Rental Costs

Equipment purchases and leases (with an option to purchase) are not to be included as a direct cost. Equipment rentals used solely for the activity may be included to the extent such costs do not exceed the retail purchase price of the equipment plus a finance charge.

Capital Outlay

Capital outlay for land, building, equipment, furniture, and fixtures may be included if the claiming instructions specify them as allowable when charging other governmental entities. If they are allowable, the claiming instructions will specify a basis for the reimbursement.

Travel Expenses

Travel expenses are calculated in accordance with the County's travel and expense reimbursement policies. Department's are to document the purpose of the travel, the time required for the trip, the cost of transportation, number of private auto mileage traveled. Government entities will require receipts for tolls and parking expenses over $10.00.

Indirect Costs

Government Code § 17564(b) provides that indirect costs must be calculated in the manner prescribed by the State Controller's Office. Indirect costs (or overhead) are those costs incurred for a common or joint purpose, benefiting more than one program and are not directly assignable to a particular program without efforts disproportionate to the result achieved. Indirect costs may include both (1) the overhead costs for the unit performing the service and (2) the costs of central government services distributed through the central service cost allocation plan and not otherwise treated as a direct cost.

Departments must consult with the Auditor-Controller-County Clerk when determining indirect cost rates to be applied to fees charged to the public.

Contracts with Other Government Entities

Some State and federal contracts have terms requiring cost accounting data or are restricted to the terms specified by law. If so, the above provisions may not apply. If the charges are directed to a federal or State agency or to a County department receiving State for federal reimbursement, contact the Auditor-Controller-County Clerk's Office for assistance. Contracts should contain a clause allowing for yearly review of these costs.

Documentation

It is the responsibility of the department to make available the documentation used to determine the service cost, such as purchase orders, invoices, contracts, canceled warrants, equipment usage records, land deeds, receipts, employee time sheets, inventory records, or other relevant documents to support the cost of providing a service costs.