

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: February 27, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-24
Adoption of Cost Recovery Policy for Intergovernmental Agreements

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6560

ACTION SUMMARY

The purpose of this item is for the Board to adopt an administrative policy ("Administrative Policy") to achieve full cost recovery on Intergovernmental Agreements pursuant to which the Portland Development Commission ("PDC") agrees to provide contracted services to another governmental entity. The Administrative Policy shall apply to (i) all Intergovernmental Agreements which are executed subsequent to the date of adoption of such Administrative Policy by the Board and (ii) all amendments to existing Intergovernmental Agreements, including without limitation, amendments to renew or extend the term of existing Intergovernmental Agreements, which are executed subsequent to the date of adoption of such Administrative Policy. Intergovernmental Agreements that have been executed prior to the date of adoption of such Administrative Policy shall not be subject to such Administrative Policy until such date as such intergovernmental agreement is amended or renewed.

PUBLIC BENEFIT

Full cost recovery for services provided is a fundamental principle of good fiscal stewardship. The proposed Administrative Policy is intended to provide guidelines by which PDC will seek full reimbursement for costs of services provided by PDC to other governmental entities under an Intergovernmental Agreement.

This action will support the following PDC goals:

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

N/A

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

N/A

FINANCIAL IMPACT

Adoption of the proposed Administrative Policy for full cost recovery on Intergovernmental Agreements will ensure that PDC consistently invoices other governmental entities for the full costs of providing contracted intergovernmental services. Full costs are defined as those costs that can reasonably be associated with and allocated to a particular project. They include costs that are generally treated as direct (costs that can be readily and specifically identified with a particular project with relative ease and a high degree of accuracy) and indirect (costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular project). The adoption of the proposed Administrative Policy will also benefit PDC since internal controls created to implement such cost recovery policy will likely minimize the incidences of oversubscription of PDC resources by PDC staff.

RISK ASSESSMENT

There is a potential risk that the implementation by PDC of a full cost recovery policy will result in a reduction in the request for PDC services by other governmental entities. Staff does not believe that a reduction in the demand for PDC services will occur as a result of the adoption of the proposed Administrative Policy because of the unique nature of the services provided by PDC staff.

WORK LOAD IMPACT

Additional PDC staff time will be spent on the following related tasks:

- Developing a cost allocation methodology and/or rates based on the cost-of-services data. Central Services budget staff is currently working on a Cost of Service Manual that describes cost allocation and/or rate setting methodologies and procedures. The anticipated distribution date is April 15, 2008;
- Implementing the proposed Administrative Policy on an agency-wide basis; and
- Accounting Section will implement any new billing procedures necessary to implement the proposed Administrative Policy.

ALTERNATIVE ACTIONS

The Board could decide not to adopt the proposed Administrative Policy to achieve full cost recovery on Intergovernmental Agreements. Such action will result in a continued loss of opportunity to generate revenue which may be used to offset the costs of PDC staff and other operational costs.

CONCURRENCE

Concurrence with other entities with regard to the implementation of a full cost recovery policy has not been sought on the premise that PDC should determine such a policy internally based on best business practices.

BACKGROUND

An Intergovernmental Agreement is a contractual agreement between two governmental entities typically in the form of a service contract. In the past, such agreements have taken the form of contracts, agreements, and memorandums of understanding. Under this arrangement, one unit of government contracts with another to provide one or more services for a stated amount. One entity is the supplier of the service and the other pays for the service. The terms of the contract are negotiated and formalized in a written agreement. Portland Development Commission may enter such agreements with a City of Portland Bureau or another governmental entity. Due to the frequent usage of these Agreements under which PDC is contracted to provide a service and the cost of providing these services, it has become necessary to establish a formal policy to provide more efficient and effective guidelines for achieving full cost recovery related to contracted services provided through Intergovernmental Agreements.

Cost allocation methodology and/or rates will be developed by the Finance and Accounting Division based on cost-of-services data and will be reviewed, initially and annually, with the Operations Steering Committee. Each service category must be identified at a level which can be measured (in terms of cost and quantity) and, when possible, comparable to similar externally-provided services. The computation will also include direct and indirect administrative costs which are part of the cost allocation methodology and/or rates. Direct costs cover the supervisory functions (i.e., personnel and related materials and supplies) directly associated with managing work production and external costs (i.e., costs associated with engaging external contractors to perform work). Indirect costs include administrative support functions like accounting, legal review, budgeting, payroll, billing, rental space, personnel and the like which are performed by central administrative services staff on behalf of the PDC department providing the agreed-upon intergovernmental services. Central Services budget staff is currently working on a Cost of Service Manual that describes cost allocation and/or rate setting methodologies and procedures.

The basic premise of the cost allocation and/or rate development philosophy is that the charges for intergovernmental service providers will reflect the true cost of operations.

ATTACHMENTS:

- A. Draft – Administrative Policy

Administrative Policy	
Subject: Intergovernmental Agreements – Full Cost Recovery	Number:
Effective Date: DRAFT – February 27, 2008	Page: 1 of #
Approved By: Bruce A. Warner, Executive Director	Supersedes: NEW

On February 27, 2008, the PDC Board of Commissioners adopted Resolution ##### establishing the following Policy:

- ***To seek recovery of the full costs of goods and services provided by PDC to, or on behalf of, City of Portland Bureaus or other governmental entities; and***
- ***Incur costs for another governmental entity only if an agreement is executed with that entity which includes a description of the contracted services being provided by PDC, and the cost basis upon which PDC will be fully paid for all associated costs and services, including direct and indirect administrative costs.***

This Administrative Policy establishes additional guidance necessary to implement this Board Policy.

- A. **Intergovernmental Agreement.** An Intergovernmental Agreement is a contractual agreement between two governmental entities. Any agreement between PDC and another governmental entity under which PDC will provide services must be formalized in a written agreement.
1. **Format.** The PDC General Counsel or designee shall approve the format of any such Intergovernmental Agreement. An Intergovernmental Agreement must contain at minimum the following information.
 - a) **Scope of Work.** A detailed description of the work to be performed including quantitative terms and whenever possible, qualitative terms.
 - b) **Schedule of Work and Budget.** An outline of when key deliverables are due, and specific dates for when the agreement will begin and end.
 - c) **Funding/Compensation/Allowable Costs.** An itemization of billable items and the amount of money to be paid for each item, and as appropriate, the basis for determining the billable amount for variable quantities of items. Costs should be inclusive of all goods, services, and direct and indirect costs associated with performing the Scope of Work.
 - d) **Billing and Payment Procedures.** A description of the process for submitting progress and final payment requests, and the timeline for receiving payment.
 - e) **Contract Management.** A designation of individuals who possess the authority to represent each of the parties with respect to the terms of the

agreement, and the process and expectations regarding communications and reporting.

- f) **Amendment Process.** A description of the process for proposing and approving amendments or changes to the agreement.

2. **Internal Review.**

- a) Legal.
- b) Budget.
- c) Accounting.

B. The Administrative Policy shall apply to (i) all Intergovernmental Agreements which are executed subsequent to the date of adoption of such Administrative Policy by the Board and (ii) all amendments to existing Intergovernmental Agreements, including without limitation, amendments to renew or extend the term of existing Intergovernmental Agreements, which are executed subsequent to the date of adoption of such Administrative Policy. Intergovernmental Agreements that have been executed prior to the date of adoption of such Administrative Policy shall not be subject to such Administrative Policy until such date as such intergovernmental agreement is amended or renewed.

Certain IGAs are by their nature exempt from this policy. Examples of exempt IGAs include those governed by the terms of an existing Development Agreement or other legally binding document, those IGAs under which PDC is the entity contracting for services from the other entity but during which it may provide incidental services related to its project support and contract management, and those IGAs for which PDC is the sole the Funding Agency and does not provide a service to another entity.

C. **Cost Determination.** An Intergovernmental Agreement should contain terms for repayment to PDC for the full costs of providing contracted services. Special arrangements or any sort of exception from standard cost determination will not be made unless approved by the Executive Director or his/her designee. Each service category must be identified at a level which can be measured (in terms of cost and quantity). Estimated costs will include both direct and indirect cost components and will be included in the PDC Budget along with the total amount of other funding sources, if applicable.

1. **Direct Costs.**

- a) Personal Services
- b) Materials and Services
- c) Outside Contracts

2. **Indirect Costs.** Organizational and administrative costs to support the general business operations and functions of PDC (for example, accounting, budgeting, payroll, billing, office space, etc.). Use appropriate rate as determined by the Finance and Accounting Division.

D. **Billing Procedures.** In order to prepare accurate and timely invoices, project managers need to submit supporting data and documentation to the Accounting Section in a timely manner and in conformance with established processing schedules.