

# Memorandum

**To:** COBI City Council  
**CC:** Barry Loveless, Dir. Of Public Works  
**From:** Utility Advisory Committee  
**Date:** 7/19/2017  
**Re:** SSWM Utility Operating Expense Study Recommendation

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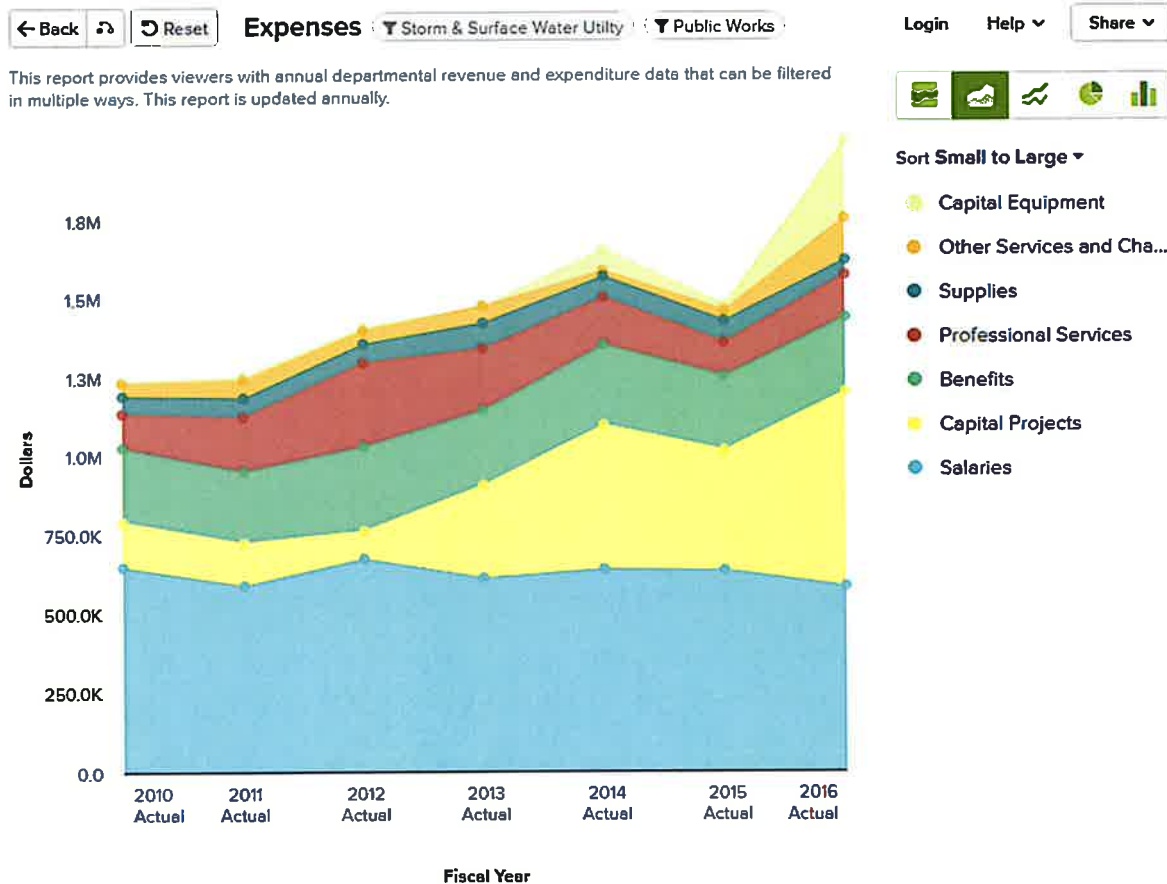
The UAC was tasked with advising City Council on the usefulness of a consultant study on the operating expense efficiency of the City SSWM utility. This study is already a \$50K line item in the current budget for next year.

The subcommittee charged with investigating this issue conducted a preliminary overview of the utility's operating expenses utilizing spreadsheets prepared by the Public Works Dept. and the OpenGov financial resources tools on the COBI website.

## OVERVIEW OF SSWM OPERATING EXPENSES

As can be seen in the chart below, SSWM Utility operating expenses have increased noticeably in the past year, mostly due to an increase in CIP spending. It is worth noting that the small size of the SSWM utility means that any fluctuations in expense (an employee retiring, for example) causes a bump in overall spending not seen in larger budgets.

The Utility currently has a backlog of CIP projects that need to be undertaken in order to bring its infrastructure into satisfactory long-term operational condition. Because the utility has been operating at a loss for the past few years, CIP projects have been delayed. This has inevitably put upward pressure on spending.



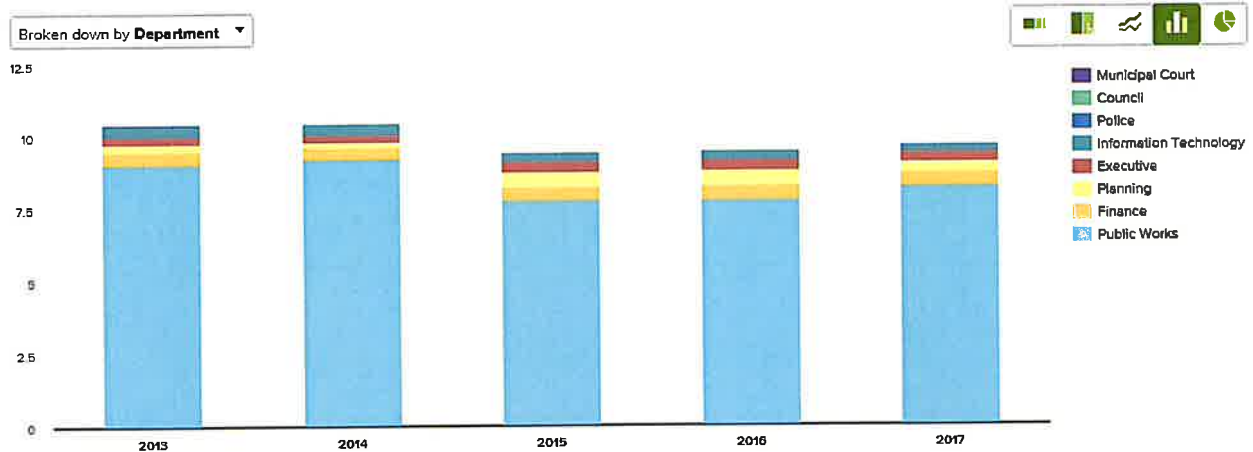
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#### ALLOCATED OVERHEAD FTEs

One of the main issues raised by public comment at committee meetings was the cost allocation of employees not directly involved in the day-to-day operation of the utility itself. There has been some outcry that these costs unreasonably spread City overhead more to City-owned utilities that should be properly costed to the General Fund.

As can be seen in the graphs below, City overhead as a percentage of operating expenses has not been increasing over time. Currently, 2017 budgeted overhead FTEs totaled 1.41 FTEs (IT: .23 FTEs,

Executive: .33 FTEs, Planning: .36 FTEs, and Finance: .49 FTEs). This is a slight increase from 2014 budgeted overhead FTEs (1.22 FTEs), but a decrease from 2015 (1.65 FTEs).



<https://bainbridgeislandwa.opengov.com/data#/4418/query=3B4F99519A91985667CEEAD0B787FEB1>

Budgeted FTEs for SSWM in the Public Works Department increased slightly this year from 7.81 FTEs in 2015 & 2016 to 8.28 FTEs for 2017. While other cities use other methods to bill the costs of administrative overhead to their various departments and utilities, we did not believe that the City's current structure showed any clear markers for a need for further investigation. Should Council want to review its current scheme of overhead cost allocation, we feel that it would be more efficient to do so in conjunction with the biennial cost structure review done as part of the development of the 2019-2020 budget, as it would be more efficient to address the issue across all cost accounts, rather than one utility at a time.

#### EMPLOYEE COSTS: Building Examiners

The one thing that caught our attention was the allocation of building employee FTEs to the utility. Even though the inspectors are tasked with controlling stormwater runoff at construction sites, we feel this task might be more fairly characterized as a building function, rather than a utility function. Development on the island engages a cross-section of City departments, but we believe they might better be expensed to Planning.

Currently there are two Building Inspectors and one Building Official each allocated to the SSWM at 0.07 FTE each. There is also a Construction Inspector billed to SSWM in the Public Works Dept. as 0.1 FTE. Altogether, this is a total of .29 FTE that probably should be allocated elsewhere.

## CONCLUSION

The UAC did not identify a basis for a full-scale consultant study at this time. We believe that the best use of a consultant study would be as a comparative tool, to see how our operating expenses compare as a city against other comparable cities. A cursory examination of Mercer Island's operating expenses did not reveal major discrepancies between the two cities, although COBI does have slightly higher labor costs. We suggest that council members interested in examining the operating expense further take a look at the OpenGov information before hiring a consultant.

One of the difficulties of an across-the-board comparison is that every city's financial structure varies somewhat. Mercer Island outsources much of its SSWM utility work, for example. One should also consider that SSWM standards are changing, with standards becoming increasingly stringent, so the backdrop against which expenses are evaluated is also fluid.

Review of the overhead allocation of City costs is probably better addressed during the biennial review that is part of the 2019-2020 budget process.



Andrew Maron, Chair

Jeff Kanter, Vice Chair

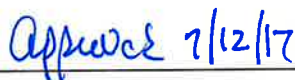
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Date