



Memo

Date: November 11, 2014
To: Oregon Zoo Bond Citizens' Oversight Committee
From: Caleb Ford, Zoo Finance Manager *W. C. Ford*
Heidi Rahn, Zoo Bond Program Director *Heidi Rahn*
Subject: Oregon Zoo Bond Administrative Overhead Cost Update

This memo serves as a response to the Oregon Zoo Bond Citizens' Oversight Committee's request for an explanation of the administrative costs associated with implementing the bond projects.

Background

The Oregon Zoo Bond Program provides a project status and financial report to the Oversight Committee detailing project budgets, expenditures, and forecasts on a monthly basis. One of the items reported is Program Administration, which consists of administrative staff expenditures, Metro central service costs including bond issuance, and incidental costs related to the Oversight Committee such as audit fees and meeting management.

Forecasted Expenditures

Program Administration is currently estimated to cost \$4.95 million through the duration of the zoo bond program schedule, less than 4 percent of the current program budget of \$138 million. Total expenditures for the bond program are still well within budget. Staff feels that the costs are reasonable and necessary for the continued successful execution of the bond promise.

Current estimates are based on the best set of assumptions available and will be assessed periodically as more and better information becomes available. While individual project budgets are generally static, we expect that the administrative program costs will continue to fluctuate slightly due to adjustments in payroll, benefits, and Metro central service transfers. Administrative costs for the program are currently forecasted as follows:

- Program Staffing – Of the \$4.95 million projected for direct zoo bond administrative costs, \$1.16 million will go toward program administration.

Appropriate staffing is critical for the success of the bond program. Administrative staffing levels increased slightly since the original forecast to ensure the appropriate level of oversight and project management and to adjust to the schedule extension through FY2019-20. Level of staffing will gradually decline as we near the completion of bond-funded activity.

All position-related costs are updated during Metro's annual budget process using five-year organization-wide assumptions. This includes best estimates for fringe costs such as health insurance and Public Employee Retirement System (PERS) rates. In revising the bond projections, new fringe rates have had a net increase on Program Administration expenses.

- Central Services – Of the \$4.95 million forecasted for zoo bond administrative costs, the central services transfer is projected at \$3.67 million.

Metro's cost allocation plan is reviewed and approved annually by the Oregon Department of Transportation on behalf of the Federal Highway Administration, as required by law for entities receiving federal funding. The plan is based on the principle of equitably allocating central service costs, such as accounting, information services, human resources, and general administration to "benefitted activities on a reasonable and consistent basis."¹ Metro uses an "allocated central services" approach where costs are allocated on a reasonable basis, rather than a "billed central services" model where central services are charged on an individual fee for service basis.

Originally, the central services transfer for the zoo bond program was projected using a simple inflationary factor. The Metro cost allocation plan uses actual expenditure data from two years prior. For example, actual expenditure data from FY2012-13 is used when calculating rates for FY2014-15. Cost allocation for central service support is proportional to program activity and expenditure levels. The zoo bond program allocation for central services has been updated to reflect the nature of the program expenditure and will be updated annually.

Program Impact

Based on the current staffing and central service cost assumptions, program administrative costs are estimated to total \$4.95 million, less than 4% of program budget. The original budget is less than the forecasted expenditure, but total expenditures for the bond program are still well within budget. Savings from completed projects have covered the difference. Staff feels that the costs are reasonable and necessary for the continued successful execution of the bond promise.

cc: Teri Dresler, Interim Director, Oregon Zoo
Scott Robinson, Deputy Chief Operating Officer, Metro

¹ Executive Office of the President of the United States, Office of Management and Budget Circular A-87 Revised, http://www.whitehouse.gov/omb/circulars_a087_2004/