



Date: September 10, 2018  
To: Oregon Zoo Bond Citizens' Oversight Committee  
From: Caleb Ford, Assistant Director, Finance and Regulatory Services, Metro  
Heidi Rahn, Asset Management and Capital Planning Program Director, Metro  
Subject: **Oregon Zoo Bond Administrative Overhead**

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This memo serves as a response to the Oregon Zoo Bond Citizens' Oversight Committee's request for annual reporting regarding the administration and bond-issuance costs incurred by the Zoo Bond Program. The last update provided to the Oversight Committee occurred in January 2017.

#### **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 program administrative staff expenditures, Metro central service costs, expenses from bond issuance, and incidental costs related to the Oversight Committee such as audit fees and meeting management. This budget was first set in August 2011 at \$3.91 million and amended to \$7.20 million in March 2017.

#### **Forecasted Expenditures**

Program Administration is currently forecasted to cost \$8.85 million through the duration of the zoo bond program schedule, approximately 6 percent of the current program resources of \$152.06 million. The current budget is less than the forecasted expenditure, but total expenditures for the bond program are still well within available resources. Staff feels that the administrative 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 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 \$8.85 million projected for direct zoo bond administrative costs, \$2.40 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 FY 2019-20. The total level of staffing will gradually decline as we near the completion of bond-funded activity. The administrative workload is anticipated to increase towards the end of the program, as well as the proportion of staff allocated to this area, as the focus will shift from direct project work to close-out activities.

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 \$8.85 million forecasted for zoo bond administrative costs, the central services transfer is projected at \$5.85 million. In preparation for the end of the program, an agreement has been reached to cap any cost allocation plan transfers at this level. This will allow program staff to assign unallocated resources with a high level of confidence. If actual central services costs are determined to be at a lower level, those resources will remain with the zoo bond program.

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 to ensure there are no subsidies built into the cost plan. 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."<sup>1</sup> **Cost allocation for central service support is proportional to program activity and expenditure levels.** As the program budget has increased due to bond issuance premiums and generous support from the Oregon Zoo Foundation and other partners, the proportional cost of Metro Central Services allocated to the Zoo Bond Program is also anticipated to increase.

#### **Administrative Costs to Date**

Program administration and bond issuance costs total \$5.83 million of the zoo bond program's total expenditures through June 30, 2018.

#### **Comparison with other Bond Programs**

An analysis of the Oregon Zoo, Beaverton School District, Portland Public School District, and Portland Community College bond programs in January 2015 resulted in a range of administrative costs between 3.6 percent and 7.2 percent of the total program budget. The Oregon Zoo Bond Program administrative costs are estimated at 6.3 percent of the total program budget. **The Oregon Zoo's administrative costs are comparable to other local public bond-funded projects.**

Should you have any questions, please contact Heidi Rahn at 503-797-1535.

cc: Don Moore, Director, Oregon Zoo  
Andrew Scott, Deputy Chief Operating Officer, Metro

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<sup>1</sup> 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/](http://www.whitehouse.gov/omb/circulars_a087_2004/)

## Attachment A

### Metro Central Service Cost Allocation Methodology

Sept. 10, 2018

#### Background

The Metro cost allocation plan is based on the principle of allocating central service costs such as accounting, information services, human resources and general administration to “benefitted activities on a reasonable and consistent basis.”<sup>1</sup> 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. Metro’s cost allocation plan is reviewed annually by the Federal Transit Administration on behalf of the US Department of Transportation, as required by federal law for recipients of federal funds.

The cost allocation plan is developed during the annual budget process, and the estimated central services costs are included in the proposed budget for the following fiscal year. Metro uses a “Fixed with Carryforward” methodology that allows the cost allocation plan to be developed to allocate budget estimates for central service costs on a fixed basis throughout the fiscal year (July 1 – June 30), but **adjusted annually to recognize actual central service costs above or below estimates through carryforwards to the following fiscal year cost allocation plan.**

#### Metro’s Cost Allocation Plan

Metro’s plan allocates cost from multiple central service functions including:

- Finance and Accounting (budget, CFO, accounting, procurement)
- Information Services
- Human Resources
- Communications
- Insurance and Risk Management
- General Administration
- Records Information Management
- Office of Metro Attorney
- Office of the Auditor

Costs from those central service functions are allocated to benefitting departments/programs using a variety of bases. Total full-time-equivalent (FTE) of staff, expenditure amounts (personal services, materials and services, and capital outlays), and tracked time are all examples of allocations bases used. All allocation plan basis data are reviewed and updated annually by Financial Planning staff to ensure that they remain reasonable for determining the share of costs to the benefitting departments.

All calculations are based on data from two years prior. For example, the amounts charged to the zoo bond in fiscal year 2018-19 are based on the actual expenditure data from FY 2016-17. This is due to federal government requirements that “actual conditions” be used in determining allocation bases.

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<sup>1</sup> OMB Circular A-87 Revised, [http://www.whitehouse.gov/omb/circulars\\_a087\\_2004/](http://www.whitehouse.gov/omb/circulars_a087_2004/)

Central Service	Metro	Zoo Bond Program			% of Metro Total
	FY 19 Total	FY19 Amount	FY18 Amount	Y-O-Y Change	
Finance and Accounting	\$ 4,976,337	\$ 131,502	\$ 166,268	\$ (34,766)	3%
Information Services	4,437,977	107,409	126,919	(19,510)	2%
Human Resources	2,702,959	23,281	22,754	527	1%
Communications	2,042,195	599	508	91	0%
Insurance and Risk Management	2,416,376	188	1,301	(1,113)	0%
General Administration	1,478,848	40,568	59,859	(19,291)	3%
Records Information Management	376,052	3,239	3,337	(98)	1%
Office of the Metro Attorney	2,469,590	135,752	131,031	4,721	5%
Office of the Auditor	660,967	4,109	3,370	739	1%
Property Services	1,761,254	0	-	-	0%
	<b>\$ 23,322,555</b>	<b>\$ 446,647</b>	<b>\$ 515,347</b>	<b>\$ (68,700)</b>	<b>2%</b>

As activity increases in the bond program, a greater share of the pooled support services will be allocated to the bond program. Conversely, fewer expenditures equates to a lower share of the total cost of central services. Total spending in FY2016-17 was substantially lower than in FY2015-16, as construction activities related to Elephant Lands diminished. A corresponding drop in the central services charge is represented in the table above.

**Exclusions from Cost Allocation**

It is important to note that the cost allocation plan excludes a significant portion of the effort put into the bond program. A material amount of zoo staff time is dedicated to the design, coordination and oversight required to successfully execute on the promise to the voters. By not allocating bond funds to supporting or backfilling zoo operations, more funds can be directed to capital construction. However, this comes at the cost of other zoo priorities and increased workload on zoo staff. Future bond programs should take this into consideration.