

Cost Allocation Plan (CAP)
Guidance Document

What is a cost allocation?

- ▶ A cost allocation is the assigning of costs that jointly benefit two or more cost objectives (indirect costs). A cost objective is any activity or item for which you want to separately measure costs.
- ▶ Allocation implies that the assigning of the cost is somewhat arbitrary. You might say the allocation is the spreading of cost.
- ▶ The purpose of a cost allocation plan (CAP) is to distribute the costs to different cost objectives assuring that:
 - ▶ All activities of the transit agency (TA) have been considered.
 - ▶ The distribution of indirect costs is based on method(s) reasonably indicative of the amount of services provided.
 - ▶ The level of costs incurred is reasonable.
 - ▶ Costs of centralized government services are charged in conformance with government-wide cost.
 - ▶ Costs claimed are allowable in accordance with the Revenue and Expense Manual and 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87).
- ▶ A CAP must be formulated by the TA and the methodology submitted to their project manager for approval. The basis used to allocate costs must be measurable.
 - ▶ Direct Costs are measurable and identified to a specific job or contract and are NOT allocated. Direct costs must be identified.
 - ▶ For example: Wages and fringes: when a log or timecard indicating time spent on project is maintained. Fuel: when able to measure usage per job or contract.
 - ▶ Indirect costs need to be allocated.
 - ▶ For example: Operating and maintenance of buildings, Staff payroll when a time card is not feasible.

The CAP should clearly state which expenses will be allocated and which expenses will be direct expense.

Does your TA need a Cost Allocation Plan?

Use the following list to determine if you need a CAP or need to revise a CAP:

Please note that the following list is only illustrative and not all inclusive; other conditions may require a cost allocation plan.

| Part I: | Yes | No |
|---|--------------------------|--------------------------|
| Charter Rates: Does your TA provide incidental charter services? | <input type="checkbox"/> | <input type="checkbox"/> |
| Concessions: Does your transit agency rent space to a third party? (Newsstand, candy counters or vending machines) | <input type="checkbox"/> | <input type="checkbox"/> |
| Maintenance Services: Does your TA sell maintenance services to other public or private entities? | <input type="checkbox"/> | <input type="checkbox"/> |
| Rent: Does your TA rent building space, vehicles, and/or property to other TA's or organizations providing public transportation? | <input type="checkbox"/> | <input type="checkbox"/> |
| Joint Costs with Other Units of the Local Government: Goods and services received from another unit of government including Transit Employees Who Work for Other Agencies: Does your TA purchase or receive supplies or services from another unit of government? (Example: Building maintenance, bookkeeping services, computer time, copies, payroll service, fuel, insurance, etc.) and/or do any of your employees also work for other agencies or organizations and receive payment from these sources? (Example: A city employee acting as transit manager and building inspector.) Must be a part of the government, cannot be an authority or corporation. | <input type="checkbox"/> | <input type="checkbox"/> |
| Multiple Operating Funding Sources: Does your TA receive State or Federal funding for more than one grant program? (Example: A public agency that also participates in the Job Access Reverse Commute, or Specialized Service program) | <input type="checkbox"/> | <input type="checkbox"/> |
| Part II: | Yes | No |
| A. If yes was indicated on any of the items above, a cost allocation plan is required; continue to Part II B. If no, end of process. | <input type="checkbox"/> | <input type="checkbox"/> |
| B. Is the activity on the Cost Allocation Listing? If yes, continue; if no, go to Part II, D. | <input type="checkbox"/> | <input type="checkbox"/> |
| C. Has the methodology changed since the plan was approved? If yes, continue; if no, end of process. | <input type="checkbox"/> | <input type="checkbox"/> |

D. An approved CAP methodology is required. The TA needs to formulate the plan methodology and submit it to their project manager. (Examples of the plan in use are helpful.)

Cost Allocation Plan Examples:

Charter Service

If the TA provides charter service under a 49 CFR Part 694 exception a CAP is required to determine the expenses associated with charter service. The expenses are ineligible and must be subtracted out on the regular service OAR in code 55015 Ineligible Charter Expense. Total operating cost, not total eligible expenses must be used as the amount deemed ineligible. The TA must use charter hours as the basis of the CAP, charter hours and miles must be tracked (actual). Charter hours and miles must also be entered in the nonfinancial section of the OAR in codes 630 Charter Service Hours, and 631 Charter Service Miles.

Example:

Methodology Example:

Date

Michigan Department of Transportation
OPT - Attn: Project Manager
425 W. Ottawa St. PO Box 30050
Lansing, MI 48909

Re: GoBus TA – Charter Exceptions Transportation Cost Allocation Plan

Dear Project Manager,

GoBus Charter Service Exception Transportation (CSET) will be computed by total expenses divided by total hours. This equals CSET cost per vehicle hour (CPV). The CPV will be multiplied by the hours of CSET to equal the cost of the service provided. The cost of the service provided will be deducted as ineligible and will be reported on the quarterly operating assistance report (OAR), the reconciled OAR and in the audit.

Revenue (if applicable) will be reported on the OAR in code 40500 Charter Service, and expenses backed out as ineligible in code 55015 Ineligible Charter Expense. In addition, Charter hours and miles will be entered in the nonfinancial code 630 - Charter service hours and code 631 - Charter service miles.

Should you have any questions, please contact me at 517-555-xxxx.

Sincerely,

Manager
Manager
GOBus Director

Multiple Operating Funding Sources Full Allocation of Expenses:

The TA has more than one Michigan Department of Transportation or Federal Transit Administration operating funding source or project. For example: the TA receives Local Bus Operating Assistance and Job Access/Reverse Commute. A CAP is required and usually a separate OAR is also required. In cases where the service is ran as a part of regular service a cost rate (for example JARC vehicle hours/total system vehicle hours = cost rate) should be computed if a separate OAR is required the revenues and expenses should be deducted from total service per OAR code and entered on a separate OAR. The basis for the cost rate will need to be tracked or actually counted (i.e. hours, miles, and passengers (rarely)). The methodology (see below) is required; a spreadsheet detailing the methodology is helpful.

Example:

August 21, 20xx

To: Project Manager, Bureau of Passenger Transportation
Michigan Depart of Transportation

Re: Cost allocation plan (CAP) methodology for the JARC Program

GoBus County Transit submits for approval a JARC cost allocation plan methodology. The costs of the JARC program will be based on JARC vehicle hours divided by total system vehicle hours. All operating costs are considered indirect including the ineligible expenses and will be included in the JARC CAP calculation of costs. The vehicle hours for the JARC service will be tracked. Farebox revenue will also be allocated based on JARC vehicle hours.

Attached is a spreadsheet using the JARC CAP.

Sincerely,

Ima Manager
Transportation Director
GoBus County Transportation

Multiple Operating Funding Sources w/Direct Expenses:

The TA has more than one Michigan Department of Transportation or Federal Transit Administration operating funding source or project. For example: the TA receives Local Bus Operating Assistance and Job Access/Reverse Commute. A CAP is required and usually a separate OAR is also required. In cases where the service is ran as a part of regular service a cost rate (for example JARC vehicle hours/total system vehicle hours = cost rate) should be computed if a separate OAR is required the revenues and expenses should be deducted from total service per OAR code and entered on a separate OAR. The basis for the cost rate will need to be tracked or actually counted (i.e. hours, miles, and passengers (rarely)). The direct expenses are clearly identified and will not be included in the allocation of the costs. The methodology (see below) is required; a spreadsheet detailing the methodology is helpful.

Example:

Date

To: Project Manager, Bureau of Passenger Transportation
Michigan Depart of Transportation

Re: Cost allocation plan (CAP) methodology for the JARC grant

GoBus County Transit submits for approval a JARC cost allocation plan methodology. The JARC program will only use volunteer drives at this time. Therefore, direct costs will include the Volunteer Services rate per mile. All other expenses and ineligible expenses except for those listed below are indirect and will be allocated based on JARC vehicle miles divided by total system vehicle miles. The vehicle miles for the JARC service will be tracked.

Costs not allocated because they are not associated with the JARC program:

50101 Operators Salaries & Wages – operations function only

50200 Other Fringe Benefits - operations function only

50201 Pensions - operations function only

50401 Fuel & Lubricants

50402 Tires & Tubes

50603 Liability Insurance

50800 Purchased Trans Service (will be direct cost when used with any program)

51300 Depreciation

55007 Ineligible Depreciation

55010 Other Ineligible Expense Associated w/Auxiliary & Nontransportation Revenue

All other costs will be allocated. Attached is a spreadsheet using the JARC CAP.

Sincerely,

Ima Manager

Outside Maintenance Service

If the TA earns revenue from providing maintenance services on vehicles, equipment, and facilities not owned or used by the transit agency (school bus, sheriffs vehicles) an OPT approved CAP is required to determine the expenses associated with the service. All expenses associated with the service are ineligible and must be reported as ineligible in code 56001 Ineligible Expenses Associated with the Sale of Maintenance Service. The revenue must be reported in code 40710 Sale of Maintenance Service; the comment field must state "CAP applied".

Example:

Date

To: Project Manager

CC: Accountant MDOT

Re: Cost allocation plan (CAP) methodology for outside maintenance services.

The Transportation Authority submits for approval a cost allocation plan methodology for outside maintenance services:

Direct Costs:

The mechanics wages and fringe benefits will be direct cost. The mechanics will maintain a log of time spent on outside maintenance services performed.

All parts and major supplies specifically identified for the outside maintenance service will be directly billed to the customer. The Transportation Authority will not stock or parts or major supplies specific to outside maintenance services vehicles.

Indirect Costs:

Miscellaneous supplies as reported on the OAR under the Maintenance function will be allocated based on the mechanics hours spent on outside maintenance per the time log/total mechanics hours multiplied by the expenses.

Office Overhead charges including utilities, phone, building maintenance, uniforms, cleaning products, office supplies, waste, heat, etc. will be calculated using the square footage of the garage divided by the square footage of the building multiplied by the expenses identified above. This expense will then be divided by the total bus system hours to calculate the hourly rate. The hourly rate will be multiplied by the mechanics hours spent on outside maintenance services per the time log.

Administrative (Admin) expenses will include all supervisory and support staff that work for or with the mechanics (supervisor, bookkeeping). The Admin Staff annual wage plus annual fringes will be divided by the total transit employee hours worked to equal Admin wage per employee hour. The Admin wage per employee hour will be multiplied by the number of mechanics hours spent on outside maintenance services per the time log.

The expenses identified above are ineligible for formula and 5311 operating reimbursement and will be reported as ineligible on the regular service operating assistance reports.

Sincerely,

Ima Manager

Executive Director, Transportation Authority

Concessions

If the TA rents out space for customer and/or employee benefits, a cost allocation plan is required for any additional cost incurred. Additional costs examples: garbage service, additional utilities, additional insurance. Vending machines for employee usage do not require a cost allocation plan. The revenue earned from renting transit agency buildings and property should be recorded in code 40720. The expenses associated with the rental are not eligible and must be subtracted out under 56004 Ineligible Expenses Associated with Rentals.

Example:

Date

To: Project Manager

CC: Accountant MDOT

Re: Cost allocation plan (CAP) methodology for outside maintenance services.

The Transportation Authority submits for approval a cost allocation plan methodology for rental of the Transfer Center space to an outside vendor.

Allocable expenses included will be water/sewer, and property insurance. These expenses will be allocated based on the square footage usage per below:

| Transfer Center | Square Footage | Allocation Percent |
|-----------------|----------------|--------------------|
| Rentor | 448 | 2.18 |
| Total Building | 20,588 | |

The Rentor has a separate gas/electric meter. The gas/electric is therefore direct expense. These expenses will be deducted on the OAR per actual meter readings.

The expenses identified above are ineligible for formula and 5311 operating reimbursement and will be reported as ineligible on the regular service operating assistance reports in code 56004 Ineligible Expenses Associated with Rentals.

Joint Costs with Other Units of the Local Government

If the TA is part of a local (city or county) government and has joint costs with other units of the local government or the local government performs duties for the TA the joint costs may be eligible for formula and or special project reimbursement.

- The TA cannot be organized as an authority under Act 196 or 7 or any other legal authority.

Central Service CAPs: Local (City or County) Wide Central Service CAP (Central Service CAP) are formulated by the central government and not the transit agency.

Typically they are prepared by an outside service and are very complicated. These may include but are not limited to the following expenses: computer centers, purchasing, accounting, payroll, human resources. The centralized costs must be identified and assigned to benefitted activities on a reasonable and consistent basis throughout the city or county. These duties are performed by the central government and paid for with general fund money.

The expenses are reported in the appropriate expense code, and the same amount is recorded as Local Operating Assistance in code 40910 (no cash is exchanged).

Joint Service CAPs: If the TA receives or shares services and commodities, (employees, insurance, fuel, copier service, computer time, etc.) from another local unit of government, including another TA, the expense needs to be allocated between the units benefitting. For example: The county purchases insurance for county-wide vehicles including the transit vehicles. A CAP is required to determine each benefitted units costs. The basis must be measurable (i.e. total number of vehicles miles per unit of government). If the purchase is measured (hours, gallons, etc.) and charged per the measured amount, a CAP is NOT required (direct expense). For example: If the TA purchases fuel from the county and the fuel usage is tracked per user, a CAP is NOT required.

Example:

Joint Services CAP example:

Date

Michigan Department of Transportation
OPT - Attn: Project Manager
425 W. Ottawa St. PO Box 30050
Lansing, MI 48909

Re: GoBus TA – Administrative Costs Cost Allocation Plan

Dear Project Manager,

The GoBus Transportation executive director and the deputy director share their time between the City Housing Commission (GoBus governing board) and GoBus Transportation. We request that a percentage of the executive director and the deputy directors salary and fringe benefits be allocated based on the actual expenses of the Housing Commission and GoBus transportation.

GoBus Transportation total expenses

GoBus Transportation total expenses + Housing Commission total expenses = Cost Rate

The Cost Rate will be multiplied by the total expense of GoBus to determine the director's and deputy director's costs. These costs will be computed and added to the quarterly operating assistance reports (OAR) and on the reconciled OAR and reviewed by the auditor.

Should you have any questions, please contact me at 517-555-xxxx.

Sincerely,

Manager
Manager
GOBus Director