

## **Accounting-Financial**

**Subject:** Cost Allocation Plans

### **Information:**

A cost allocation plan (CAP) may be required if a Transit Agency (TA) participates in activities that benefit both public transportation and some other entity, governmental unit or the Office of Passenger Transportation (OPT) program and/or activities that are not considered public transportation. The indirect costs need to be allocated to separate the cost (and sometimes revenues) to the activity and/or determine if the cost is ineligible. A CAP must be formulated by the TA in methodology form and submitted to their project manager for OPT approval. The Local Public Transit Revenue and Expense Manual codes detail the revenues and expenses that may require a CAP.

The TA must consider the following when developing a CAP:

- All activities of the TA.
- Level of costs incurred are reasonable.
- Costs of centralized government services are charged in conformance with government-wide cost. (Central Service Cost Allocation Plans (CSCAP) are prepared by the Central Government.)
- Costs claimed are allowable in accordance with the Revenue and Expense Manual.
- If the CAP is for a program or contract, the allocated costs should not exceed the program or contract amount. Any cost overruns are considered part of regular service.

The CAP should contain, but not necessarily be limited to, the following:

- Identification of indirect costs incurred for a common or joint purpose which are not attributable to one specific program or activity. Examples include utilities, building maintenance, and management salaries.
- An indirect cost distribution method which is measurable (e.g. hours, miles, passengers, square footage, number of checks written, employee wages, etc.) and trackable. The total costs allocated must be reasonably indicative of the amount of the service or activity provided.
- A *description* of the methodology. Simply showing the cost allocation calculation using actual/current data will not be accepted – the methodology must be described/explained.

Direct costs that are measurable and can be attributed to a specific program or activity are not allocable. Some examples of direct costs include drivers' salaries and wages (when tracked) and purchased transportation services. TAs who are direct grantees of Federal Transit Administration (FTA) funding and/or have a CSCAP must submit their plans directly to their cognizant agency for approval. If the plan which has been approved by the cognizant agency will also be used to allocate expenses reported in the Public Transportation Management System (PTMS) it must also be submitted to OPT for approval.

The approved CAP should be kept on file at the TA's office. Approved CAPs are utilized by the TA's Certified Public Accountant (CPA) and/or Commission Audit to determine allowable costs. The CPA must also determine if the TA has been properly utilizing their CAP(s); noncompliance must be noted in the CPA audit. An approved CAP is in effect until:


- It is revised by the TA and approved by OPT;

- The TA informs OPT that the CAP is no longer applicable; or
- The CAP is not listed as current in the TA's CPA audit.

**Actions Needed:**

- Determine if a new or revised plan is needed. Complete the CAP Checklist for guidance (Attachment A - Cost Allocation Plan (CAP) Checklist).
- If a new or revised CAP is needed, prepare in narrative form and submit to your project manager (Attachment B - Cost Allocation Plan Examples).
  - A list of OPT approved CAPs can be found here:  
[https://www.michigan.gov/documents/costallocation\\_61937\\_7.pdf](https://www.michigan.gov/documents/costallocation_61937_7.pdf) .
- If the TA has a CSCAP, annual submission to OPT is required.

The letter of approval received from OPT should be filed with the CAP upon receipt. Questions or requests for additional information can be directed to the TA's assigned OPT Project Manager.

Approved:	 <hr/> Administrator	Jean Ruestman Nov 12 2020 2:52 PM <hr/> Date
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Attachments: Attachment A - Cost Allocation Plan (CAP) Checklist  
 Attachment B - Cost Allocation Plan Examples

## Attachment A Cost Allocation Plan (CAP) Checklist

Transit Agency (TA) Name: \_\_\_\_\_

Project Manager: \_\_\_\_\_

**Part I**

List all current CAPs:

\_\_\_\_\_

\_\_\_\_\_

**Part II**

Please mark “yes” or “no” for each item and add any CAP not listed.

*Please note: the following list is only illustrative and not all inclusive; other conditions may require a CAP.*

Activities that may require a CAP	Yes	No
<b>Package Delivery/Meal Delivery Programs:</b> Does your TA provide any package delivery or meals on wheels service? (Cannot conflict with public transit services, nor result in a reduction of service to transit passengers.)		
<b>Charter:</b> Does your TA provide incidental charter service?		
<b>Multiple Operating Funding Sources:</b> Does your TA receive State or Federal operating funds for more than one program? (Example: TA that participates in the Job Access Reverse Commute program and provides Regular Service)		
<b>Rental/Other Income:</b> Does your TA rent space, vehicles, or parking lots to others? (Examples: Concession stand, candy counters, restaurants, garage space)		
<b>Maintenance Services:</b> Does your TA sell maintenance services to others?		
<b>Contributed Service:</b> Does your TA receive donated services that benefit transit operations and would need to be purchased if the services were not donated?		
<b>Joint Costs with Others:</b> Is your TA a department, office, etc. of a local government (city, county, or township) and has joint cost with other units of the local government? (Examples: Building maintenance, bookkeeping services, information technology, payroll service, insurance, joint job responsibilities between departments). This does not apply to transit authorities.		
<b>Other:</b>		

Part III continued on page 2

**Part III**

- A. If “yes” was indicated in Part II, a CAP is required; continue to B. If only “no” was indicated in Part II, and you are unsure if a CAP is required contact your Project Manager.
  
- B. Is a corresponding CAP listed in Part I? If yes, has the CAP been approved by MDOT? If yes, continue to C, if no, continue to D. If your CAP is a CSCAP it will need to be submitted to the Office of Passenger Transportation annually along with the approval and/or submittal to the federal cognizant agency.
  
- C. Has the methodology changed since the plan was approved? If yes, continue to D, if no, end of process.
  
- D. An approved CAP methodology or updated methodology is required. Your TA needs to formulate the plan methodology and submit it to your project manager. Contact your project manager if you have questions.

I certify that the above information is true and correct to the best of my knowledge.

**Signature:** \_\_\_\_\_  
**Transit Agency Representative**

**Date:** \_\_\_\_\_

## **Attachment B**

### **Cost Allocation Plan Examples**

#### Charter Service

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

Example:

Re: GoBus TA – Charter Service Exception Transportation Cost Allocation Plan

To: Project Manager, Office of Passenger Transportation

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 reported on the quarterly 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 will be entered under nonfinancial code 630 - Charter service hours and miles under code 631 - Charter service miles.

## Joint Costs with Other Units of the Local Government

If the TA is part of a local government (city or county) 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 7 of 1967, Act 196 of 1986 or any other legal authority.

**Central Service CAP (CSCAP):** Identifies, accumulates, and develops billing rates based on the allowable costs of services provided by the City or County Central Governmental Unit to its departments and agencies. CSCAPs are prepared by the central government and not the transit agency.

Typically, a CSCAP is prepared by an outside service and are very complicated with many pages. The centralized costs must be identified and assigned to benefitted activities on a reasonable and consistent basis. 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. CSCAP's must submitted to OPT annually along with proof that the plan was approved by and/or submitted to the local government federal cognizant agency.

**Joint Service CAPs:** May be required if the TA receives or shares services and/or commodities, (usually employees services) from another local unit of government, including another TA.

If the expense is measured (hours, gallons, etc.) and charged per the measured amount, a CAP is NOT required. (For example: If the TA purchases fuel from the county and the fuel usage is tracked per user, a CAP is NOT required as this is a direct expense.)

However, if there is no direct tracking, the expense needs to be allocated between the units benefitting. For example: The Transit Manger is also the Director of another department and there is no time tracking. The basis must be tracked and measurable (i.e. total expenses of each unit).

Example:

Re: GoBus TA - Administrative Costs Cost Allocation Plan

To: Project Manager, Office of Passenger Transportation

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

$$\frac{\text{GoBus TA total expenses}}{\text{GoBus TA total expenses} + \text{Housing Commission total expenses}} = \text{Cost Rate}$$

The Cost Rate will be multiplied by the total expense of GoBus TA to determine eligible cost amounts. These costs will be added to the quarterly operating assistance reports (OAR), the reconciled OAR and reviewed by the auditor.

Job Access/Reverse Commute (JARC)

If the TA has more than one Michigan Department of Transportation or FTA operating funding source or project, and costs are not direct, a cost allocation plan is required. For this example: the TA receives Local Bus Operating Assistance and Job Access/Reverse Commute. In cases where the service is a part of regular service or extended hours etc., a cost rate (for example JARC vehicle hours/total system vehicle hours = cost rate) should be computed. If a separate OAR is required, the cost rate should be multiplied by each total service OAR code, deducted from the total service OAR code, and entered on a separate OAR. Once the contract amount is reached, no further service should be tracked as additional service is considered regular service. The basis for the cost rate will need to be tracked or counted (i.e. hours, miles, and passengers). The CAP methodology (see below) is required; a spreadsheet detailing the methodology (see next page) is helpful.

Example:

Re: GoBus TA - Cost Allocation Plan (CAP) methodology for the JARC Program

To: Project Manager, Office of Passenger Transportation

GoBus TA submits for approval a JARC cost allocation plan methodology 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.

Hours

Regular Service	17,000	85%
JARC	3,000	15%
Total	20,000	100%

Code	Description	Total System Expense		JARC Allocated Expenses	Regular Service Expense
50101	Oper Sal & Wage	90,000	.15	13,500	76,500
50102	Other Sal & Wage	60,000	.15	9,000	51,000
50103	Dispatch Sal & Wage	50,000	.15	7,500	42,500
50200	Fringe Benefits	62,700	.15	9,405	53,295
50305	Audit Cost	4,000	.15	600	3,400
50399	Other Services	11,000	.15	1,650	9,350
50401	Fuel & Lubricants	25,000	.15	3,750	21,250
50402	Tires & Tubes	8,000	.15	1,200	6,800
50499	Other Matl & Supp	15,000	.15	2,250	12,750
50500	Utilities	8,000	.15	1,200	6,800
50603	Liability Insurance	20,000	.15	3,000	17,000
51300	Depreciation	20,000	.15	3,000	17,000
	Total Expense	373,700	.15	56,055	317,645
55000	Inelig JARC and NF Fares	-5,000		-5,000	0
55007	Ineligible Depreciation	-18,000	.15	-2,700	-15,300
	Total Eligible Expense	\$350,700	.15	\$48,355*	\$302,345

\*Contract amount should not exceed allocated expense amount

## Outside Maintenance Service

If the TA earns revenue from providing maintenance services on vehicles 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:

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

To: Project Manager, Office of Passenger Transportation

The Transportation Authority submits for approval the following CAP methodology for outside maintenance services:

### **Direct Costs:**

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

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

### **Indirect Costs:**

Miscellaneous supplies as reported on the Operating Assistance Report (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 OARs.



### Facility Rent

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 include garbage service, increased utilities, and increased insurance for the rented-out space. Costs related to vending machines for employee usage do not have to be backed out as ineligible expenses. The revenue earned from renting transit agency buildings and property should be recorded in code 40720 Rental of Buildings or Other Property. The expenses associated with the rental are not eligible and must be reported as ineligible in code 56004 Ineligible Expenses Associated with Rentals.

Example:

Re: Transportation Authority - Cost Allocation Plan (CAP) for facility space.

To: Project Manager, Office of Passenger Transportation

The Transportation Authority submits for approval a CAP methodology for rental of facility space to an outside vendor.

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

<u>Transfer Center</u>	<u>Square Footage</u>	<u>Allocation Percent</u>
Renter	448	2.18
Total Building	20,588	

The renter has a separate gas/electric meter; therefore, gas/electric are direct expenses paid by the renter. These expenses are not paid by the TA and are not reported on the OAR.