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Donna Silva, Finance Director
San Juan Water District (SJWD)
9935 Auburn Folsom Road
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Subject: Cost Allocation Project Final Report

Dear Donna:

Per the project workplan this document serves as the final report for the cost allocation project. This document includes MGT's final recommendations. This report is organized into the following sections:

- Project Scope
- Materiality of Expense
- Summary of Currently Allocations and Direct Charges Methods
- Items of Cost – With Current Allocation and Direct Charge Methods
- Current Labor Allocations
- MGT Recommendations

MGT has defined several key terms that the San Juan Water District (the District) uses so that all parties are clear on what each item is. MGT relies on best practices among similar jurisdictions and federal guidance outlined in 2 CFR Part 200. Although SJWD is not currently required to produce a cost allocation plan in compliance with the federal guidance, that federal code is referred to when defining and consistently handling direct, indirect, or shared costs.

Central Services – A department, program, person, or task that cannot be easily assigned to a cost objective. Example: Human Resources or Finance Departments.

Cost Allocation – The practice of using reasonable statistics, metrics, or analysis to spread expenses to multiple cost objectives in a reasonable manner. When central services are not easily assigned to a specific cost objective, expenses are allocated based on a reasonable statistic that connects the services and support with the recipients or consumers of the supporting services.

Direct Charges – The practice of identifying the benefiting cost objective and charging the expenditure fully to that objective. Example: Purchase Treated Water is charged directly to the Retail Water Fund.

Allocation of Labor – Allocates the costs of employees and their benefits to the benefiting cost objective based on the employee's job activities and performance. In ideal circumstances, the employee's allocation is based on job performance, timekeeping, or work order metrics.



MGT Project Scope

To identify and analyze the District’s central support services. Provide allocation metrics that are reasonable and equitable to allocate central service costs between the Wholesale and Retail cost objectives. Also, examined all material cost items for reasonableness in methodology of direct charge or allocation of expenses.

Materiality of Expenses

MGT reviewed the FY 2021-22 actual expenses of the District and categorized them by item of cost and then sorted largest to smallest to see where the dollars were being spent and which items of cost were most material AND how those costs were handled/shared. Results of that analysis are as follows:

Item of Cost	FY 2021-22 Actual	% Of Total
Labor & Fringes	\$9,534,581	33.47%
Wholesale Capital Expenditures	\$5,028,752	17.65%
Purchase Treated Water	\$3,267,883	11.47%
Professional Services	\$1,594,914	5.60%
Retail Capital Expenditures	\$1,104,641	3.88%
Utilities	\$531,061	1.86%
Materials and Supplies	\$403,590	1.42%
Operating Chemicals	\$377,573	1.33%
PCWA Water	\$353,052	1.24%
PCWA & CHWD Wheeling Charges	\$327,872	1.15%
Facilities Maintenance	\$293,380	1.03%
Software	\$191,750	0.67%
Memberships	\$187,244	0.66%
Insurance	\$178,845	0.63%
Bank Fees	\$142,237	0.50%
Election Expense	\$132,707	0.47%
Bureau Pumping (WAPA Energy)	\$96,506	0.34%
Public Outreach – Services	\$81,977	0.29%
Reg Compliance	\$71,948	0.25%
Maintenance – Pump Stations, Reservoirs & Pressure Reducing Stations	\$66,559	0.23%
Telephone	\$63,485	0.22%
Fuel	\$52,959	0.19%
Postage and Supplies	\$51,253	0.18%
Depreciation	\$3,915,736	13.74%
Remaining Expenses	\$439,957	<2.00% of total



Summary of Current Allocations and Direct Charges

Item of Cost	Allocation or Direct Charge Method
Labor & Fringes	Allocated based on allocation of labor
Wholesale Capital Expenditures	Most are direct charged to Wholesale
Purchase Treated Water	Direct charged to Retail
Professional Services	Most are direct charged to either Wholesale or Retail
Retail Capital Expenditures	Most are direct charged to Retail
Utilities	Direct charged based on address
Materials and Supplies	Most are direct charged to Retail
Operating Chemicals	Direct charged to Wholesale
PCWA Water	Direct charged to Wholesale
PCWA & CHWD Wheeling Charges	Direct charged to Wholesale
Facilities Maintenance	Both, depending upon facility being maintained
Software	Mostly allocated based on use of software
Memberships	Both, depending upon nature of membership
Insurance	Allocated equally or based on NBV of assets
Bank Fees	Most direct charged to Retail
Election Expense	Allocated equally
Bureau Pumping (WAPA Energy)	Direct charged to Wholesale
Public Outreach – Services	Direct charged based on scope of work
Reg Compliance	Direct charged based on scope of work
Maintenance – Pump Stations, Reservoirs & Pressure Reducing Stations	Direct charged to Retail
Telephone	Most are allocated equally
Fuel	Unleaded is allocated based on mileage, diesel is direct charged
Postage and Supplies	Most are allocated equally

Items of Cost – With Current Allocation and Direct Charge Method

SALARIES AND BENEFITS (aka Labor & Fringes) – Salaries and benefits have been direct charged or allocated based on the labor allocations set by San Juan Water District, with one exception for “Director Stipends.” Director Stipends have been allocated using equal cost sharing. The labor allocation for the District is shown below. Expenses such as employee uniforms, medical, workers compensations, retirement, etc. are allocated based on the benefitting employee’s labor allocation.

CAPITAL ASSETS – Capital Assets are directly charged to the benefiting area, either Retail or Wholesale. Depending on the nature of the asset, some capital assets will be charged equally between Retail and Wholesale. These assets would benefit areas such as finance, human resources, etc.

DEPRECIATION – This is not included in the wholesale financial plan, which is used to develop the rates charged to wholesale customers. Therefore, depreciation of capital assets will not be considered in the SJWD Cost Allocation Plan.



TREATED WATER PURCHASES – This expense is direct charged to Retail.

PROFESSIONAL SERVICES

In general, professional services expenses are direct charged to the benefitting area. For services that benefit both Retail and Wholesale, those expenses are allocated using equal cost sharing. Exceptions to the general allocation for professional services would be for expenses related to GIS and CMMS, both of which are currently allocated 25% to 75%, Wholesale to Retail respectively.

Service Area Maintenance – These services are direct charged to Retail.

Legal – These services are generally allocated using equal cost sharing unless the legal service is directly benefitting either Retail or Wholesale in which case, they are direct charged to the benefitting area.

Temporary Personnel – These services are often for a specific project, purpose or activity and will follow the employee’s labor cost allocation that the temporary employee will be in place for or direct charged based on the nature of the project or specific activity.

UTILITIES

Energy costs – Direct charged based on service location’s address and its location within the District’s “Wholesale Service Area Map” which can be found in the annual budget. Service addresses that fall within the “San Juan Water District,” shown in blue, are direct charged to Retail while all other service addresses are direct charged to Wholesale.

Disposal costs – Allocated based on the service being provided. The District’s general trash service is allocated using equal cost sharing. Other services, such as solid waste removal are direct charged to the benefitting area.

SUPPLIES AND MATERIALS – Parts pulled from inventory for projects/maintenance for the field services department are charged directly to Retail. This makes up the majority of the costs related to supplies and material. Other supplies such as tools, office supplies, and furniture are charged to the department the supplies are for. Supplies for areas such as finance, admin, etc. are allocated using equal cost sharing.

OPERATING CHEMICALS – These expenses are charged directly to Wholesale.

PCWA WATER & CHWD WHEELING CHARGES – These expenses are charged directly to Wholesale.

MAINTENANCE – FACILITY – Expenses related to the field services are charged directly to Retail. Expenses related to administrative departments are allocated using equal cost sharing. Other expenses are charged directly to Wholesale.

SOFTWARE SUPPORT – These expenses are charged directly to Retail, Wholesale, or allocated based on the use of the software or the benefitting area.



MEMBERSHIP DUES AND CERTIFICATES – The District’s Memberships are direct charged to Retail, Wholesale, or a combination of the two based on the type of membership. Membership dues and certificates for individuals are allocated based on the employee’s labor allocation.

INSURANCE

Liability – These expenses are allocated using equal cost sharing.

Property – These expenses are allocated based on the percentage of the total net book value of the capital assets between Retail and Wholesale.

BANK FEES

Credit Card Charges – These expenses are charged directly to Retail.

Other bank charges – These expenses are allocated using equal cost sharing.

ELECTION EXPENSE – These expenses are allocated using equal cost sharing.

BUREAU PUMPING (WAPA ENERGY) – These expenses are charged directly to Wholesale.

REGULATION COMPLIANCE – These expenses are allocated based on the scope of work being performed.

MAINTENANCE – PUMP STATIONS, RESERVOIRS & PRESSURE REDUCING STATIONS – These expenses are charged directly to Retail.

TELEPHONE – Landlines and the answering service are allocated using equal cost sharing. Cell phone expenses are allocated based on the employee’s labor allocation.

FUEL – Unleaded is allocated based on the mileage of the vehicles that consume that fuel. Diesel, stored on site is direct charged to Retail as it is used exclusively by the Field Services Department. Diesel used by the Water Treatment Plant is purchased separately and direct charges to wholesale.

POSTAGE AND SHIPPING – The expenses related to the postage meter and the PO Box are allocated using equal cost sharing. Outgoing shipping costs are charged directly to the department shipping the package and incoming shipping costs are allocated using equal cost sharing.

Current Allocation of Labor Costs

Dept.	Position Title	Budgeted in FY20-21	Budgeted in FY21-22	# Budgeted	Budgeted in Fiscal Year 2022-2023			
					Wholesale Allocation	Retail Allocation	Wholesale FTE	Retail FTE
Executive	General Manager	1.00	1.00	1.00	90%	10%	0.90	0.10
	Water Resources Manager	1.00	1.00	1.00	90%	10%	0.90	0.10
	Information Technology Manager	1.00	1.00	1.00	50%	50%	0.50	0.50



Dept.	Position Title	Budgeted in FY20-21	Budgeted in FY21-22	# Budgeted	Wholesale Allocation	Retail Allocation	Wholesale FTE	Retail FTE
	Board Secretary/Administrative Assistant	1.00	1.00	1.00	50%	50%	0.50	0.50
	Total Executive	4.00	4.00	4.00			2.80	1.20
	Finance and Administrative Services							
	Director of Finance	1.00	1.00	1.00	50%	50%	0.50	0.50
	Senior Accountant 1	1.00	1.00	1.00	50%	50%	0.50	0.50
	Accountant	1.00	1.00	1.00	50%	50%	0.50	0.50
	Purchasing Agent Accounting Technician II	1.00	1.00	1.00	50%	50%	0.50	0.50
	Total Finance and Administrative Services	5.00	5.00	5.00			2.50	2.50
	Customer Service							
	Customer Service Manager	0.50	0.50	0.50	0%	100%	-	0.50
	Meter Technician	1.00	1.00	1.00	0%	100%	-	1.00
	Customer Service Technician I - III	3.00	3.00	3.00	0%	100%	-	3.00
	Total Customer Service	4.50	4.50	4.50			-	4.50
	Engineering Service							
	Engineering Services Manager	1.00	1.00	1.00	50%	50%	0.50	0.50
	Associate/Senior Engineer	1.00	1.00	1.00	50%	50%	0.50	0.50
	Engineering Technician III	1.00	1.00	1.00	40%	60%	0.40	0.60
	Construction Inspector III	1.00	1.00	1.00	50%	50%	0.50	0.50
	Total Engineering Service	4.00	4.00	4.00			1.90	2.10
	Field Services (Distribution System)							
	Field Services Manager	1.00	1.00	1.00	0%	100%	-	1.00
	Pump Station Lead	1.00	1.00	1.00	0%	100%	-	1.00
	Distribution Lead Worker	2.00	2.00	2.00	0%	100%	-	2.00
	Distribution Operator II - IV ²	7.00	6.00	6.00	0%	100%	-	6.00
	Pump Station Technician/Mechanic	1.00	1.00	1.00	0%	100%	-	1.00
	Pump Station Operator ²	-	1.00	1.00	0%	100%	-	1.00
	Utilities Coordinator	1.00	1.00	1.00	0%	100%	-	1.00
	Meter Maintenance Technician ³	-	1.00	1.00	0%	100%	-	1.00
	Distribution Maint. Helper - PT/Temporary ⁶	-	-	0.92	0%	100%	-	0.92
	Total Field Services	13.00	14.00	14.92			-	14.92



Dept.	Position Title	Budgeted in FY20-21	Budgeted in FY21-22	# Budgeted	Wholesale Allocation	Retail Allocation	Wholesale FTE	Retail FTE
Operations								
	Operations Manager	1.00	1.00	1.00	40%	60%	0.40	0.60
	Safety-Regulatory Compliance Coordinator	1.00	1.00	1.00	50%	50%	0.50	0.50
	CMMS/GIS Coordinator	1.00	1.00	1.00	25%	75%	0.25	0.75
	Total Operations	3.00	3.00	3.00			1.15	1.85
Water Efficiency								
	Customer Service Manager	0.50	0.50	0.50	0%	100%	-	0.50
	Water Efficiency Lead	1.00	1.00	1.00	25%	75%	0.25	0.75
	Water Efficiency Technician I - II	2.00	2.00	2.00	0%	100%	-	2.00
	Total Water Efficiency	3.50	3.50	3.50			0.25	3.25
Water Treatment Plant								
	Water Treatment Plant Manager	1.00	1.00	1.00	100%	0%	1.00	-
	Maintenance Chief	1.00	1.00	1.00	80%	20%	0.80	0.20
	Chief Operator	1.00	1.00	1.00	100%	0%	1.00	-
	Water Treatment Plant Operator IV	2.00	2.00	2.00	100%	0%	2.00	-
	Water Treatment Plant Operator III	2.00	2.00	2.00	100%	0%	2.00	-
	Water Treatment Plant Operator II	1.00	1.00	1.00	100%	0%	1.00	-
	Electrical & Instrumentation Technician	1.00	1.00	1.00	60%	40%	0.60	0.40
	Utilities Mechanic I - II ⁴	1.00	1.00	1.00	100%	0%	1.00	-
	Utilities Maintenance Worker I - II ⁵	1.00	1.00	1.00	80%	20%	0.80	0.20
	Total Water Treatment Plant	11.00	11.00	11.00			10.20	0.80
Total Funded Full Time Equivalent (FTE)		48.00	49.00	49.92			18.80	31.12

Summary of Current Labor Allocations

SJWD Total FTE*		Budgeted	Wholesale	Retail
FY 2020-21	FY 2021-22	FY 2022-23	FY 2022-23	FY 2022-23
48.00	49.00	49.92	18.80	31.12
			37.66%	62.34%

*Full Time Equivalent (FTE)



MGT RECOMMENDATIONS

MGT’s recommendations are based on the information and underlying data that is currently available to SJWD. Should SJWD’s systems or underlying data change in the future, MGT would recommend SJWD evaluate the new information and adjust its cost allocation procedures accordingly.

The advantages of this approach in cost allocation are that it reinforces the District’s priority of treating all customers fairly. It also underscores the importance of a more “District wide” perception of fairness and equity by formalizing its cost allocation procedures. Finally, it acknowledges the practical obstacles that prevent perfect equity. The District recognizes this approach ultimately does not clearly define the terms “fair and equitable” and will still require the District to apply its discretion and judgment (Recommendation 1).

Acceptable Allocation Bases & Methods

Allocation Bases	Explanation of Method	Applicable Cost Items	Currently Used by SJWD
Allocation of Employee Labor Costs	Allocates an employee’s labor costs and other benefits based on the employees’ actual working activity (derived from work order data and employee schedules), job responsibilities, and service provided.	Salaries and benefits and other personnel related expenditures such as medical, vision, uniforms, etc.	Yes
FTE Count	Expenses that have an employee facing function or benefit are commonly allocated based on the allocation between FTEs per the budget. (for reference: 37.66%/ 62.34%, Wholesale/Retail based on current FY 23 budgeted allocations)	Certain human resources expenses and certain professional fees	Not in FY 21-22 but has started in FY 22-23.

Allocation Bases	Explanation of Method	Applicable Costs Items	Currently Used by SJWD
Proportionate Share of Activity	Expenses that are based on usage, billings, workorders, and other statistical data are commonly allocated based on the proportionate share of the activity.	Software expenditures (such as GIS), legal and other professional services, energy costs, security, landscaping maintenance, custodial services, utilities expense, solar field, and other appropriate services and supplies.	Yes
Proportionate share of net book value (NBV) of capital assets	Expenses related to the capital asset maintenance or insurance are commonly allocated based on the proportionate share of NBV of capital assets.	Capital asset maintenance expense and property insurance	Yes
Proportionate share of total cash or investment balances	Expenses related to general banking and investing activities are commonly allocated based on the proportionate share of the total cash or investment balances.	Investment activity, general banking, and investment fees	Yes – District considers general banking and investment fees costs to be immaterial.
Equal Cost Sharing	There are cases in which the measure of how a service is provided or consumed is indistinguishable between Wholesale and Retail, in these cases an equal allocation to both beneficiaries are appropriate.	General expenses such as general trash service, miscellaneous supplies, non-specialized software expenses, postage, phone answering service, immaterial checking account fees, investment advisor and other appropriate services and supplies	Yes
Prior Year Expenditures Actuals	Expenses that are financial in nature are commonly allocated based on actual split of expenditures from the prior year.	Certain professional services	No



Allocation Bases	Explanation of Method	Applicable Costs Items	Currently Used by SJWD
Direct Charge to Wholesale or Retail	There are activities and costs that only benefit either wholesale or retail, exclusively. These activities and costs are fully direct charged to the program they benefit.	Credit card fees and lock box fees are direct charged to Retail as they relate to retail customers paying their bills. Wheeling charges are direct charged to Wholesale.	Yes

MGT's Recommended Use Cases of Allocation Bases (Recommendation 2)

Allocation Bases	Statistical Metric	MGT Recommendation
Allocation of Employee Labor	Recommended FY 2023 Budgeted Labor Allocations – Examples: <u>Finance Director</u> Wholesale: 50% Retail: 50% <u>Maintenance Chief</u> Wholesale: 87% Retail: 13%	MGT recommends the District continue to use the Allocation of Employee Labor based on the fiscal year budgeted labor allocation. This allocation should apply to employee salaries, benefits, uniforms, employee specific memberships and certifications, and other employee specific expenses.
Total FTEs	Recommended FY 2023 Budgeted Total FTEs: Wholesale: 18.67 or 37% Retail: 31.25 or 63%	MGT recommends the District utilize this allocation basis for expenses that benefit each employee equally. Examples of such expenses would be district wide trainings, hiring a consultant to perform employee related procedures, the purchase of a human resources system, and other employee centric expenses that is human resource related or dependent on staffing or full-time employees. Only to be utilized in select circumstances when expense benefits each employee equally.



Allocation Bases	Statistical Metric	MGT Recommendation
Prior Year Expenditures Actuals	Prior Year Actual Expenditures: Wholesale: \$13,065,307 or 45% Retail: \$15,856,640 or 55%	MGT does not recommend the District utilize this basis. Actual expenditures each year are inconsistent based on several reasons, such as special projects and timing of expenses. Also, due to the financial reporting cycle, actual expenditure data would lag and not allow for timely accounting entries. The other recommended allocation bases provide more appropriate methods of allocations for the District.
Proportionate Share of Activity	Example: <u>GIS and CMMS Expenses</u> Wholesale: 25% Retail: 75%	MGT recommends the District continue to utilize this allocation basis for when item of cost has an identifiable statistical metric or a reasonable allocation of use. Expenses that have specific billings, workorder data, or usage metrics are applicable to this allocation basis.
Net Book Value of Capital Assets	Fiscal Year 2022 Net Book Value of Capital Assets: Wholesale: \$56,950,202 or 65% Retail: \$30,996,418 or 35%	MGT recommends the District continue to utilize this allocation basis for expenses related to when item of cost is related to capital or equipment such as property insurance and maintenance expenses.
Equal Cost Sharing	Equal cost sharing between Wholesale and Retail	MGT recommends the District continue to utilize this allocation basis for services consumed that are indistinguishable between Wholesale and Retail and for expenses which benefit Wholesale and Retail equally.



Labor Allocations

Labor Allocations for the District vary from position to position, as well as the metrics and information available to support each individual allocation. While for some positions the District was able to provide work order data to support the allocation, in other cases that information was not available. Each position's allocation is unique based on the position's responsibilities, available metrics, and other available information and should be treated on a case-by-case basis.

SJWD does track time using timesheets for employees, but the practice does not allocate time between Retail or Wholesale activities. Timesheets are used to track worked time, paid time off, and overtime. Time is coded to projects when an external funding source is available. Total costs per pay period are allocated in the accounting system based upon the labor charges for each position. Given the size and the limited resources of the District, implementing a time tracking system to charge employee time between Wholesale and Retail activities would not be a cost-effective endeavor. The level of effort involved in tracking time in small increments between wholesale and retail would add unnecessary complexity and not provide SJWD with enough of a material change or improved accuracy of its labor allocation to justify the increase in effort and expenses that would be passed on to both Retail and Wholesale customers. These costs would be better used to enhance the services provided to Retail and Wholesale customers. Based on the supporting documents MGT received, SJWD current labor allocations are close to actual work loads. (Recommendation 3)

We received from the District time study information for the following positions: General Manager, Maintenance Chief, Electrical and Instrumentation Technician, Utilities Mechanic, and the Utilities Maintenance Worker. Our analysis for each position reviewed is documented below. Our recommendations listed below will only adjust the total FTEs allocated between Wholesale and Retail by one-twelfth of an FTE. MGT does not recommend performing a time study for each position yearly; however, should an employee's job description, responsibilities, or capabilities materially change from its current form, MGT would recommend SJWD perform a time study or other performance-based study to ensure the employee's labor allocation accurately reflects his or hers updated workload. (Recommendations 4 and 5)

Since beginning this project, SJWD has also reviewed its labor allocations of certain positions. After reviewing the new proposed 10-year CIP from the wholesale financial plan, it appears the Engineering Services Construction Inspector III's allocation of 50%/50% needs to be updated. SJWD has reasonably decided to change the labor allocation for this position to 75% Retail and 25% Wholesale due to the larger Wholesale projects being performed by consultants. The "Allocation of Labor Costs – After Recommendations" table below has been updated to reflect the change in this position.



Summary of Labor Cost Allocations Recommendations

Position	Current Labor Allocation	Recommended Labor Allocation
General Manager	90% Wholesale/ 10% Retail	85% Wholesale/ 15% Retail
Maintenance Chief	80% Wholesale/ 20% Retail	87% Wholesale/ 13% Retail
Electrical and Instrumentation Technician	60% Wholesale/ 40% Retail	60% Wholesale/ 40% Retail
Utilities Mechanic	100% Wholesale/ 0% Retail	95% Wholesale/ 5% Retail
Utilities Maintenance Worker	80% Wholesale/ 20% Retail	95% Wholesale/ 5% Retail

General Manager – We interviewed the General Manager and performed an analysis of his meetings and emails for a six-month period. The analysis of his meetings and emails was comprised of the number of hours and number of emails allocated between Wholesale, Retail, or both based on the topic of discussion for each meeting and email. After our review of the six months, we noted his time was allocated 85% Wholesale and 15% Retail. This allocation considers his direct reports’ labor allocations as well. Meetings and emails with the Water Resources Manager were weighted 90%/10%, Wholesale/Retail, while meetings and emails with the Operations Manager were weighted 40%/60%, Wholesale/Retail. The SJWD has staff to handle the day-to-day operations at the district. Though SJWD does not have a large staff, they are able to perform duties without micromanagement from the General Manager. As seen in the review of his meeting schedule and email log, the General Manager spends much of his time attending to the needs of the wholesale customers. While the previous labor allocation of 90%/10% for the General Manager is close to the analysis, we recommend changing the General Manager’s labor allocation to be in line with the time study analysis which is 85% Wholesale and 15% Retail.

General Manager Current		General Manager Recommended	
Wholesale	Retail	Wholesale	Retail
90%	10%	85%	15%
Basis	Board Budget, Estimated Relative Effort	Basis	An analysis of GM’s daily activities based on meeting and email data.

Maintenance Chief – We interviewed the Maintenance Chief and performed an analysis of the work orders he worked on for the fiscal year 2021-2022. We received workorder data from July 2021 through September 2022. After review of this data over the prior 14 months, the work orders were approximately 99% Wholesale. These work orders accounted for approximately 6% of his total working hours over the 14-month period. The Maintenance Chief also oversees the Electrical and Instrumentation Technician, Utilities Mechanic, and the Utilities Maintenance Worker. Using a weighted average, allocating 25% towards the analysis of work order data and 75% towards the average labor allocation for his direct reports, we calculated the labor allocation for the Maintenance Chief to be 87% Wholesale and 13% Retail. We recommend SJWD change the labor cost allocation for the Maintenance Chief position to 87% Whole and 13% Retail, as this allocation considers both his workorder analysis and the responsibilities of the employees his position oversees.

Maintenance Chief Current		Maintenance Chief Recommended	
Wholesale	Retail	Wholesale	Retail
80%	20%	87%	13%
Basis	Board Budget, Estimated Relative Effort	Basis	A weighted average of the MC's activities based on workorder data and the direct reports he oversees.

Electrical and Instrumentation Technician – We interviewed the Electrical and Instrumentation Technician and performed an analysis of the work orders he worked on for the fiscal year 2021-2022. We received workorder data from June 2020 through September 2022. After review of these 15 months, the workorders were allocated 61%/39%, Wholesale to Retail. These work orders accounted for approximately 51% of his total working hours over the 15-month period. The Electrical and Instrumentation Technician’s current labor cost allocation is 60%/40%, Wholesale to Retail. We recommend SJWD keep its current labor cost allocation as it matches our analysis performed over the period reviewed.

Electrical and Instrumentation Tech. Current		Electrical and Instrumentation Tech. Recommended	
Wholesale	Retail	Wholesale	Retail
60%	40%	60%	40%
Basis	Board Budget, Estimated Relative Effort	Basis	Work order data analysis revealed 61% Wholesale, 39% retail. Current labor allocation appears reasonable.

Utility Mechanic – We interviewed the Utility Mechanics and performed an analysis of the work orders he worked on for fiscal year 2021-2022. We received work order data for approximately 12 months. After review of these 12 months, the work orders were allocated 90%/10%, Wholesale to Retail. These work orders account for approximately 32% of his total working hours over the 12-month period. The Utility Mechanic’s current labor cost allocation is 100% to Wholesale. We recommend San Juan Water District change the Utility Mechanic’s labor cost allocation to 95%/5%. While the Utility Mechanic’s time is not 100% benefiting Wholesale, we believe only a 5% allocation to Retail would be reasonable given employee’s responsibilities.



Utility Mechanic Current		Utility Mechanic Recommended	
Wholesale	Retail	Wholesale	Retail
100%	0%	95%	5%
Basis	Board Budget, Estimated Relative Effort	Basis	Work order data analysis revealed 90% were benefiting Wholesale. However, based on the employees' responsibilities an allocation of 95%/5% is reasonable.

Utility Maintenance Worker – We interviewed the Utility Maintenance Worker and performed an analysis of the workorders he worked on for the fiscal year 2021-2022. We received work order data for approximately 17 months of work. After his review of these 17 months, the workorders were allocated 99%/1%, Wholesale to Retail. These work orders account for approximately 53% of his total working hours over the 17-month period. Based on the responsibilities of the Utility Maintenance Worker, an allocation of 99%/1% would not be reasonable; however, like the Utility Mechanic, an allocation of 95% Wholesale and 5% Retail would be reasonable. We recommend that San Juan Water District change the labor cost allocation for the Utility Maintenance Worker position to 95%/5%.

Utility Maint. Worker Current		Utility Maint. Worker Recommended	
Wholesale	Retail	Wholesale	Retail
80%	20%	95%	5%
Basis	Board Budget, Estimated Relative Effort	Basis	Work order data analysis revealed 99% Wholesale, 1% Retail. However, based on the employee's responsibilities an allocation of 95%/5% is reasonable.



Allocation of Labor Costs – After Recommendations

Dept.	Position Title	Budgeted in FY20-21	Budgeted in FY21-22	# Budgeted	Recommended for Fiscal Year 2022-2023			
					Wholesale Allocation	Retail Allocation	Wholesale FTE	Retail FTE
Executive								
	General Manager	1.00	1.00	1.00	85%	15%	0.85	0.15
	Water Resources Manager	1.00	1.00	1.00	90%	10%	0.90	0.10
	Information Technology Manager	1.00	1.00	1.00	50%	50%	0.50	0.50
	Board Secretary/Administrative Assistant	1.00	1.00	1.00	50%	50%	0.50	0.50
	Total Executive	4.00	4.00	4.00			2.75	1.25
Finance and Administrative Services								
	Director of Finance	1.00	1.00	1.00	50%	50%	0.50	0.50
	Senior Accountant ¹	1.00	1.00	1.00	50%	50%	0.50	0.50
	Accountant	1.00	1.00	1.00	50%	50%	0.50	0.50
	Purchasing Agent Accounting Technician II	1.00	1.00	1.00	50%	50%	0.50	0.50
	Total Finance and Administrative Services	5.00	5.00	5.00			2.50	2.50
Customer Service								
	Customer Service Manager	0.50	0.50	0.50	0%	100%	-	0.50
	Meter Technician Customer Service	1.00	1.00	1.00	0%	100%	-	1.00
	Technician I - III	3.00	3.00	3.00	0%	100%	-	3.00
	Total Customer Service	4.50	4.50	4.50			-	4.50
Engineering Service								
	Engineering Services Manager	1.00	1.00	1.00	50%	50%	0.50	0.50
	Associate/Senior Engineer	1.00	1.00	1.00	50%	50%	0.50	0.50
	Engineering Technician III	1.00	1.00	1.00	40%	60%	0.40	0.60
	Construction Inspector III	1.00	1.00	1.00	25%	75%	0.25	0.75
	Total Engineering Service	4.00	4.00	4.00			1.65	2.35
Field Services (Distribution System)								
	Field Services Manager	1.00	1.00	1.00	0%	100%	-	1.00
	Pump Station Lead	1.00	1.00	1.00	0%	100%	-	1.00
	Distribution Lead Worker	2.00	2.00	2.00	0%	100%	-	2.00
	Distribution Operator II - IV ²	7.00	6.00	6.00	0%	100%	-	6.00
	Pump Station Technician/Mechanic	1.00	1.00	1.00	0%	100%	-	1.00



Dept.	Position	Budgeted in FY20-21	Budgeted in FY21-22	# Budgeted	Wholesale Allocation	Retail Allocation	Wholesale FTE	Retail FTE
	Pump Station Operator ²	-	1.00	1.00	0%	100%	-	1.00
	Utilities Coordinator	1.00	1.00	1.00	0%	100%	-	1.00
	Meter Maintenance Technician ³	-	1.00	1.00	0%	100%	-	1.00
	Distribution Maint. Helper - PT/Temporary ⁶	-	-	0.92	0%	100%	-	0.92
	Total Field Services (Distribution System)	13.00	14.00	14.92			-	14.92
Operations								
	Operations Manager	1.00	1.00	1.00	40%	60%	0.40	0.60
	Safety-Regulatory Compliance Coordinator	1.00	1.00	1.00	50%	50%	0.50	0.50
	CMMS/GIS Coordinator	1.00	1.00	1.00	25%	75%	0.25	0.75
	Total Operations	3.00	3.00	3.00			1.15	1.85
Water Efficiency								
	Customer Service Manager	0.50	0.50	0.50	0%	100%	-	0.50
	Water Efficiency Lead	1.00	1.00	1.00	25%	75%	0.25	0.75
	Water Efficiency Technician I - II	2.00	2.00	2.00	0%	100%	-	2.00
	Total Water Efficiency	3.50	3.50	3.50			0.25	3.25
Water Treatment Plant								
	Water Treatment Plant Manager	1.00	1.00	1.00	100%	0%	1.00	-
	Maintenance Chief	1.00	1.00	1.00	87%	13%	0.87	0.13
	Chief Operator	1.00	1.00	1.00	100%	0%	1.00	-
	Water Treatment Plant Operator IV	2.00	2.00	2.00	100%	0%	2.00	-
	Water Treatment Plant Operator III	2.00	2.00	2.00	100%	0%	2.00	-
	Water Treatment Plant Operator II	1.00	1.00	1.00	100%	0%	1.00	-
	Electrical & Instrumentation Technician	1.00	1.00	1.00	60%	40%	0.60	0.40
	Utilities Mechanic I - II ⁴	1.00	1.00	1.00	95%	5%	0.95	0.05
	Utilities Maintenance Worker I - II ⁵	1.00	1.00	1.00	95%	5%	0.95	0.05
	Total Water Treatment Plant	11.00	11.00	11.00			10.37	0.63
Total Funded Full Time Equivalent (FTE)		48.00	49.00	49.92			18.67	31.25

Budgeted FTEs	Wholesale FTEs based on recommendations	Retail FTEs based on recommendations
2022-23	2022-23	2022-23
49.92	18.67	31.25
	37.40%	62.60%



Note on 50/50 and 60/40 Labor Allocations

Labor Allocations 50/50 - SJWD has two main programs/activities, Wholesale and Retail water delivery. In some instances, an employee’s responsibilities are to the benefit of both Wholesale and Retail equally, such as the IT Manager and the Engineering Manager, whose responsibilities ensure systems and operations are maintained to reliably serve Wholesale and Retail customers. In other instances, an employee’s responsibilities serve both Wholesale and Retail but a metric to allocate the employee’s time between Wholesale and Retail is unavailable, the metric available doesn’t reasonably measure the positions relative work effort, or it is unreasonable to calculate due to the time and costs of the endeavor. The time expended and costs incurred would not provide a material change and ultimately would waste the already limited resources of SJWD and increase the costs passed on to both Wholesale and Retail customers. Equal cost sharing or allocating the labor between Retail and Wholesale equally for these positions appear to be reasonable and the most cost effective for both Retail and Wholesale customers. However, should a metric become available that reasonably reflect an employee’s relative work effort, MGT would recommend the District document this and update its labor allocations accordingly. (Recommendation 5 continued)

Labor Allocations 60/40 – SJWD has three employees with a 60%/40% allocation between either Retail or Wholesale. The Electrical and Instrumentation Technician’s allocation was proven to be reasonable in our review of work order data, see analysis above. The Operations Manager oversees both the field services and water treatment plant employees. Given those responsibilities and the allocated FTEs are 10.35 and 15.57, Wholesale and Retail respectively, the 40%/60% allocation between Wholesale and Retail appears reasonable. The other position with a 40%/60% allocation is the Engineer Technician III. The other employees in the engineering department are equally allocated 50%/50%; however, the Engineer Technician III is responsible for running all GIS reports. Though the GIS system is used for both Wholesale and Retail, the use of the GIS tends to be more for the Retail area thus the Engineer Technician III labor allocation is shifted reasonably more towards Retail.

Summary of Recommendations

Recommendation	Topic	Summary
1	Cost Allocation Approach	While this cost allocation approach does not provide perfect allocations, this approach does provide SJWD and its customers a fair and equitable process to follow.
2	Recommended Allocation Methods	Allocation of employee labor, total FTEs, proportionate share of activity, net book value of capital assets, and equal cost sharing are all acceptable allocation methods that can be used by SJWD. The District should evaluate each expense and, using management’s best judgement, choose the allocation method that suits the expense.
3	Time Tracking	Time tracking for each position down to the minute, or 15 minutes, does not appear to be an appropriate method for everyday use for the District. The resources required to implement and maintain this practice would be better spent on areas that would improve the District’s services to its customers.



Recommendation	Topic	Summary
4	Labor Metrics Reviewed	After reviewing metrics provided by the District for the five positions, we recommend SJWD update four of the five labor cost allocations. However, our recommendations are not dramatic shifts from the District’s current allocations.
5	Updating Labor Allocations	The District already evaluates labor allocations each year through its budget process; however, SJWD should evaluate labor allocations as responsibilities, capabilities, and personnel change.

Note on Issues Outside the Scope of the Cost Allocation Project - Capital Assets and Ground Water Projects

MGT does not offer an opinion on any of the topics discussed below, nor do the items below have an impact on our recommendations and overall project objectives. However, over the course of this project, MGT was made aware of and asked to review or comment on other topics outside of the scope of the cost allocation project. These topics are discussed below:

Capital Assets - Currently, the District does not capitalize direct labor or indirect costs when constructing or preparing a new asset for its intended use. While this may not have a material effect on the District’s financial statements it does understate the value of the asset, the yearly depreciation expense, and the calculated future replacement costs. However, after reviewing the District’s accounting for capital assets that were constructed for the benefit Wholesale, Retail, or both, we confirmed that the District’s accounting practices are consistently applied across capital assets. No capital assets were being charged direct labor or indirect costs. The three projects MGT reviewed were:

- Admin Building Electrical Improvement;
- Bacon Pump Station Generator Replacements; and
- Hinkle Reservoir Cover.

Ground Water Projects - As MGT discussed and concluded its cost allocation project it became clear there was friction between the District and its wholesale stakeholders over groundwater projects. Comments were made and the focus drifted far away from cost allocation. It needs to be clear that this MGT project was not intended to determine the requirement of those projects and cost the corresponding cost sharing. MGT’s scope did not include approving any methodology for new or future capital projects nor determining project responsibility and funding source. MGT recommends that all parties coordinate discussions about those projects openly, agree to cost sharing as directed by past practices, existing written agreements, or newly formed agreements and do so before the projects are started.