



City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, www.miamibeachfl.gov

COMMISSION MEMORANDUM

TO: Honorable Mayor Dan Gelber and Members of the City Commission

FROM: Alina T. Hudak, City Manager

DATE: March 27, 2023

SUBJECT: **A RESOLUTION OF THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, ACCEPTING THE RECOMMENDATION OF THE FINANCE AND ECONOMIC RESILIENCY COMMITTEE, AT ITS FEBRUARY 17, 2023 MEETING, TO APPLY A TIERED ALLOCATION METHODOLOGY FOR CAPITAL IMPROVEMENT PROJECTS, AS WELL AS CHARGING FOR PROJECTS IN DEVELOPMENT, BUT NOT YET BUDGETED, TO APPROPRIATE FUNDS INSTEAD OF TREATING AS OVERHEAD COSTS.**

ADMINISTRATION RECOMMENDATION

Adopt the Resolution.

STRATEGIC PLAN SUPPORTED

Organizational Innovation – Ensure strong fiscal stewardship

BACKGROUND

On June 22, 2022, a discussion on cost allocations or percentages charged to capital projects to fund the operations of the Office of Capital Improvement Projects (CIP) was referred to the Finance and Economic Resiliency Committee (FERC).

On October 31, 2022, the item was presented at the FERC meeting to advise that the Office of Management and Budget retained Matrix Consulting Group (Matrix) to conduct an analysis of the current methodology being utilized to allocate the annual costs of the CIP Department and discuss options for recovering costs from capital projects based upon best practices, industry standards, and defensibility.

At the February 17, 2023 Finance and Economic Resiliency Committee meeting, the Committee discussed this item and passed a motion recommending the City Commission adopt a resolution to apply a tiered allocation methodology for CIP projects, as well as charging for projects in development, but not yet budgeted, to the appropriate funds, instead of treating these as overhead costs.

OVERVIEW

CIP provides project development and construction program management services for major capital projects in the City of Miami Beach. The CIP department has 33 full time employees composed of senior management, architects, engineers, construction managers (in different

categories of experience and responsibility), financial managers, field inspectors, and administrative personnel.

The adopted FY 2023 Operating Budget for the department is \$5,838,000. The budget includes salaries and benefits in the amount of \$4,950,000 (85% of the total budget), operating expenditures in the amount of \$233,000 (4% of the total budget) and other departmental internal charges in the amount of 655,000 (11% of the total budget). The full FY 2023 CIP operating budget is funded by chargebacks to capital projects managed by the department.

The departmental functions are divided into Project Development and Project Administration. The Project Development function includes staff directly managing the capital projects and represents 65% of the operating budget. The Project Administration function includes staff providing indirect support to the project managers including financial and administrative functions and represents 35% of the operating budget. CIP is currently managing approximately 50 active projects in the planning, design, permitting and construction phases. Departmental functions include the selection and management of contractors and consultants using a variety of project delivery methods including job order contracting, design-build, construction management at risk, and design-bid-build.

It is important to note that CIP often also works on evaluation and development of projects that are not yet defined capital projects. In FY 2022, these tasks represented 25% of Development staff time (expenses related to these projects should be charged to the respective operating funds: General Fund, Enterprise Funds and Special Revenue Funds). In the past, this effort has been treated as overhead, and therefore charged to budgeted capital projects.

ANALYSIS

Matrix performed an analysis of the current CIP allocation methodology, alternative options explored, and recommendations on the most practical and equitable methodologies to allocate these costs, in alignment with best practices (Exhibit A).

The City's current methodology includes direct and indirect support for management of a Capital project based on a project management fee of 6.5% of the total project budget. The fee is charged on a yearly basis based on the percentage of completion of the projects during each fiscal year. Fifty percent of the fee is charged during the design phase and 50% during the construction phase. This chargeback to projects fully funds the costs of the CIP Department each year.

Five alternative methodologies were explored to calculate the program management fee to determine the most appropriate, justifiable and defensible and in use by other agencies. These options included direct level of effort in the management and support spent by CIP staff on Capital projects, projects expenditures, total projects budget for all capital projects managed by the CIP department, and a combination of labor hours and project expenses and total budgets. Below is a recap of the other alternatives considered:

Labor Hours - In 2022, CIP staff tracked labor hours spent on individual projects. This methodology calculates the CIP project management fee based on total hours spent per project and presumes that the more hours spent managing a project, the more direct and indirect cost the project should bear.

Project Expenses – This methodology calculates the CIP program management fee based on the total expenditures incurred in each active capital project being managed in CIP. This option assumes that the project with larger expenditures required more staff oversight and support

compared to those with minimal expenditures.

Project Budget – This methodology calculates the CIP program management fee based on the total project budget to approximate the proportion of direct and indirect costs that should be borne by each project.

The other two alternatives explored include a combination of Labor Hours, Project Expenses and Project Budget.

The methodology recommended by Matrix on recovering the annual CIP project management fee is based on actual labor hours spent by CIP staff managing the projects. Matrix has recommended the utilization of the same fiscal year's actual hours spent per project to allocate the fiscal year-end costs of the CIP Department. The charges to each project will be calculated based on the percentage of labor hours associated to each project and applied to the full CIP Department Budget.

Matrix has also provided recommendations for budgetary purposes of future CIP program management fee.

Option 1 – Update the indirect estimated percentage to federal de-minimis rate of 10%. This is only for budgetary purposes to ensure that the City has sufficient funding set aside to cover the CIP Department Budget. The actual charges will be based on Labor Hours described above.

Option 2 – Develop a tiered administrative percentage structure

For existing and new potential projects, a tiered administrative percentage structure that scales down as the project budget increases has been recommended to estimate the administrative fee associated to managing the project. This tiered structure should address the inequity issue of utilizing a singular percentage and also demonstrates how the current 6.5% was insufficient to capture project support for projects valued at less than \$10 million. The actual charges will be based on Labor Hours described above.

Tier 1: Up to \$1M = 15% of project cost
Tier 2: \$1M - \$10M = 10% of project cost
Tier 3: \$10M - \$25M = 5% of project cost
Tier 4: \$25M+ = 2% of project cost

In addition, the Administration recommends that the efforts spent on evaluation and development of projects that are not yet defined capital projects, be budgeted as chargebacks to the appropriate Fund based on the historical percentages above. The actual charges will be posted to the related operating budget at year-end, based on Labor Hours described above.

Finally, it is recommended that CIP continue to monitor actual Labor Hours related to these efforts to review and update these percentages in the next 3 years.

CONCLUSION

The Administration recommends that this tiered administrative structure be used for budgetary purposes and that the methodology to recover costs be used based on the labor hours spent on an annual basis and updated as necessary. In addition, for projects that are in development, but not yet budgeted, CIP should charge the appropriate fund, instead of treating these expenditures as overhead costs.

Attachment:

Exhibit A – Matrix Consulting Group CIP Allocation Memo

ATH/JG/TOS