

Calculating the cost of providing an administrative service

Flat percentage of budget versus actual cost to provide a specific service

The following example from the water district's 2014 budget highlights the two methods for calculating the special district administrative fee.

Flat percentage of budget (the current method)

- The water district, as part of the Northern Westchester Joint Works, purchases its water from New York City.
- In the district's budget, the expense of the purchase is offset by the revenue the district receives from individual water customers who pay a user fee based on their metered usage.
- For 2014, NYC has raised its water rate by 16%.
- Because the NYC increase will be passed through to individual water customers, all customers will see an increase in their water bills in 2014, and the district, as a whole, will realize an additional \$900,000 in revenue.
- Because the district's administrative fee is based on 6% of its budget, the \$900,000 increase in revenue translates into a \$54,000 increase in the district's administrative fee.
- The staff in the Tax Receiver's Office (a general fund expense) collects the money for the individual water bills.

Questions:

- When a water bill goes up by 16% in 2014, will it take more time to process the bill?
- Does it cost more to process a \$116 water bill than a \$100 bill?
- Will it cost the Tax Receiver's Office \$54,000 more to collect the same number of water bills it collected the year before?

Actual cost to provide the service (as required by the state comptroller's office)

- Step #1: determine the hourly rate of each employee involved in collecting and processing water bill payments (already done)
- Step #2: determine how many minutes it take an employee to process a payment
- Step #3: determine the cost of processing a single water payment by multiplying step #1 by step #2.
- Step #4: determine the total yearly cost of processing a single customer's water bills by multiplying step #3 by three, the number of billing cycles per year.
- Step #5: determine the total yearly cost of processing water bills for all customers in the district by multiplying step #4 by the number of customers in the district.

Note. The same general methodology can be used to determine the cost to process payroll and purchase orders, the two main administrative services the Finance Department provides the special districts.