Ellinger
Lane
Gorton
Kay
Farmer
Stinnett
Myers
Beard
Lawless
Blues

AGENDA
Budget & Finance Committee
January 31, 2012
1:00 P.M.

1. **BOAR & Historic District Fee Structure** (1-2)
2. **Activity Based Costing** – Lane (3-4)
3. **Other Business**
4. **Items Referred to Committee** (5)

"Budget & Finance Committee, to which shall be referred matters relating to the Department of Finance and Administration and its divisions, and any related partner agencies, the urban county courts and constitutional officers, fiscal operations of the government, revenues and expenditures of the government, and organization changers which affect the fiscal operations of the government. Additionally, this committee shall review the final audit report and management letter of the accounting firm recommended by the Mayor and selected by the Council to conduct the annual financial audit of the Urban County Government and shall report its findings concerning the same to the Mayor and Council for appropriate action." Council Rules & Procedures, Section 2.102 (1)
Effective January 1, 2011. Adopted by Urban County Council October 14, 2010

Committee Meeting Schedule
October 25
November 29

Lexington-Fayette Urban County Government
Division of Historic Preservation

Jim Gray
Mayor

MEMORANDUM

TO: Chuck Ellinger, Chair of Budget and Finance Committee
Members of Budget and Finance Committee

FROM: Bettie L. Kerr, Historic Preservation Director BLK

DATE: January 24, 2012

SUBJECT: Application fees for Certificate of Appropriateness (H-1 Local Historic Districts)

At the November 29, 2011 meeting of the Budget and Finance Committee, you will recall that the concept of the Division of Historic Preservation charging a permit fee for all Certificates of Appropriateness issued in the Local Historic Districts (H-1) was reviewed and discussed. As an outcome of that discussion, the Division of Historic Preservation was requested to provide additional information on potential APPLICATION fees rather than PERMIT fees.

In further study of this concept, it seems that establishing two levels of application fees most closely reflects the intent of the committee's request and would allow for the fees to be set in an equitable manner for the permit applicants in the Local Historic Districts (H-1). These could be established as follows:

A $20.00 application fee for permit applications that can be, (as mandated by the Board of Architectural Review), reviewed and issued by Staff, anticipated to reflect approximately 65% of applications. These would include review items such as the following:

- Landscaping
- Patios/terraces under 200 square feet
- Stepping Stones
- Fences, Gates
- Handrails
- Exterior Lighting
- Utilities
- Storm Windows & Doors
- Shutters
- Storefronts
- Awnings
- Security Grilles and Handrails
- General Renovation
- Porches and Deck Repair
- Satellite Dishes
- Roofs (including skylights, vents, downspouts, chimneys, chimney caps)
- Tuck-pointing
- Exterior Material
- Foundations
- Painting
- Cleaning Exterior Surfaces
- Historic Markers

A $50.00 application fee for permit applications that are reviewed by the Board of Architectural Review, anticipated to reflect approximately 35% of applications. These would include review items such as the following:

- Demolition
- New Construction- New Buildings, Additions, Garages, Storage Buildings, Pools, Masonry Walls
- Patio/terraces greater than 200 square feet
- Driveway/paving installation
- Refreshing Gravel
- Signs
- Change or Create Openings

As was discussed in the previous committee meeting, to date, there has been no fee associated with the design review process for Lexington/Fayette County's Local Historic districts and landmarks (H-1 Overlay), however, certainly with the challenging financial times it is important to consider the same. The H-1 process currently reviews and issues approximately 400 permits annually and, as previously discussed, many but not all of these projects are required to obtain a Building Permit, which also requires fees. It is anticipated that if application fees such as those outlined above for the Local Historic District process were initiated that it would result in approximately $12,000 per year to the LFUCG.

I hope this additional information will be of assistance and should you have questions, please contact me. Thank you.

Cc: Richard Moloney, CAO

Lexington-Fayette Urban County Council

TO: Ed Lane, Councilmember
12th District

FROM: Paul Schoninger
Research Analyst

DATE: January 23, 2011

SUBJECT: Activity Based Costing Background

This is pursuant to your recent request for information pertaining to the issue of activity based costing.

Activity based costing (ABC) is a costing model that identifies activities in an organization and assigns the cost of each of those activities with resources to all services according to the actual consumption/use. This model generally assigns more indirect costs into direct costs compared to more conventional costing models.

With ABC, an organization can soundly estimate the cost elements of entire services. That information can assist on decisions regarding expansion/reduction or elimination of services that are found to be inefficient, unproductive or ineffective. ABC has predominantly been used to support strategic decision regarding identification and measurement of process improvement initiatives.

ABC is based on George Staubus' Activity Costing and Input-Output Accounting. The concepts of ABC were developed in the manufacturing sector of the United States during the 1970s and 1980s. ABC was first clearly defined in 1987 by Robert Kaplan in his book *Accounting and Management: a Field Study Perspective.*

One of the principals of a performance oriented budgeting system is to link the results and the funding of program budgets. In order to make well-informed allocative choices in the budget process, it is important to obtain the best possible information on program costs.

Proponents argue that ABC provides for full cost information and also addresses the problem of allocating indirect costs of government programs.

Those who advocate use of ABC in the public sector see it as relevant to performance budgeting in two ways: first, as a tool for better expenditure prioritization; and second, as a means of developing tighter linkages between planned outputs and funding. Supporters of ABC can argue that it is essential for the success of performance-based budgeting. Clearly, more accurate program costing improves the quality of expenditure prioritization choices.

Instead of using broad arbitrary percentages to allocate costs, ABC seeks to identify cause and affect relationships to objectively assign costs. Once costs of the activities have been identified, the cost of each activity is attributed to each product to the extent that the product uses the activity. In this way ABC often identifies areas of high overhead costs per unit and so directs attention to finding ways to reduce the costs or to charge more for costly products.

However it has been recognized that ABC is difficult and costly to implement. Several local governments that experimented with ABC have not continued the practice, as it has been found to be a very high- cost accounting technology. Installing an ABC system is technically complex, required talented personnel and a considerable amount of time and money.

As you might remember LFUCG implemented a small pilot ABC project under the Miller Administration in 1998. The pilot was limited to the sanitary sewer system. After approximately 18 months of investigation that initiative was abandoned.

Should you need any further information please do not hesitate to contact via e mail at paulas@lexingtonky.gov, or at 258.3208.

Paul Schoninger
Research Analyst

c: Scott Seymour