

DIRECT TESTIMONY
OF
LAURA SITRIN
CITY OF NEWPORT FINANCE DIRECTOR
ON BEHALF OF THE CITY OF NEWPORT, UTILITIES DEPARTMENT,
WATER DIVISION

In re: City of Newport Utilities Department, Water Division

Docket No.

December 2008

1 **Q: Please state your name and your place of employment.**

2 A: Laura Sitrin. I am the Finance Director for the City of Newport.

3

4 **Q: How long have you held this position?**

5 A: I began work as the City's Finance Director on August 26, 2002.

6

7 **Q: Please state your duties as Finance Director.**

8 A: I oversee finance, budget, treasury functions, accounting, payroll, billing and
9 collections, assessment and information technology for all funds for the City of
10 Newport.

11

12 **Q: Please describe your qualifications and experience.**

13 A: I have a Bachelor of Science in Accounting from Russell Sage College and am
14 licensed as a Certified Public Accountant in the State of Rhode Island.
15 I worked in public accounting for approximately 10 years, with a focus on
16 governmental auditing and consulting. I left public accounting to become the
17 Director of Finance for the City of Schenectady, New York where I remained for four
18 years. I left to move to the D.C. area and became Director of Finance for the City of
19 Fairfax, Virginia for two years. I became Director of Finance for the City of Newport
20 in August 2002. I am a member of the American Institute of Certified Public
21 Accountants, the Rhode Island Society of Certified Public Accountants, the Rhode
22 Island, northeast and national chapters of the Government Finance Officer's
23 Association.

24

25 **Q: Have you previously testified before the Rhode Island Public Utilities
26 Commission and/or Division of Public utilities on rate related matters?**

27 A: Yes, I testified before the Commission at the Settlement Hearing in Docket 3578. In
28 addition, I have provided responses to Data Requests in Commission Docket 3578. I
29 also testified in Newport Division Docket D-05-07.

30

31 **Q: Please describe your role in this proceeding.**

1 A: I am providing information with respect to the Cost Allocation Manual submitted by
2 the City of Newport to the Rhode Island Public Utilities Commission (“PUC”/
3 “Commission”) on October 28, 2008. This Allocation Manual sets forth the manner in
4 which the costs for services that the City of Newport provides to its Enterprise Funds
5 are allocated.
6

7 **Q: Did you prepare the Cost Allocation Manual?**

8 A: Yes I did.
9

10 **Q: Can you explain why this Cost Allocation Manual was created?**

11 A The City of Newport has five Enterprise Funds:

- 12 1. The Water Fund
- 13 2. The Water Pollution Control Fund
- 14 3. The Maritime Fund
- 15 4. The Easton’s Beach Fund
- 16 5. The Parking Fund
17

18 Each of these Funds provides goods or services to the general public and their
19 expenses are recovered primarily through user charges. The City of Newport provides
20 a number of services to these Funds that enable them to operate and collect revenue.
21 Thus, like an outside vendor that would charge for services, the City is entitled to be
22 repaid for the service provided. If the City did not provide these services, the
23 Enterprise Funds would have to obtain the services from an outside vendor, or each of
24 the Enterprise Funds would have to hire additional staff to provide the services.
25

26 Historically, the City of Newport has provided a number of valuable services to the
27 Water Fund. As such, the City has sought reimbursement from the Water Fund to
28 offset the cost of providing these services. The reimbursements to the City come from
29 the Water Fund’s revenues, which in turn are established by the PUC. As a result,
30 when the Water Fund files a rate application with the PUC, it seeks to recover a
31 certain amount in revenues to reimburse the City for the services provided.
32

1 In past rate filings, the Water Fund’s requests for rates to reimburse the City were
2 largely based on the percentage of the Water Fund’s budget as compared to the
3 combined total budgets of all the City’s enterprise funds and the General Fund. In
4 Docket 3818, the PUC allowed \$219,177 for City Services. In addition, the PUC
5 ordered Newport Water to develop a Cost Accounting Manual that would set forth a
6 more detailed methodology for reimbursing the City as opposed to an allocation
7 based solely on budget percentages.

8
9 Therefore, the Finance Department developed a Cost Allocation Manual, which
10 details the allocation of costs to the Enterprise Funds and the rationale behind the
11 allocations.

12
13 **Q. Please explain how you prepared this study?**

14 A: I began by looking at all the services provided by various City Departments to the
15 Enterprise Funds. In some case, it was feasible to come up with an actual calculation
16 for the amount of time, money or number of tasks to be used in the calculation. In
17 other instances, I continued to use the percentage of each enterprise fund’s budget to
18 the combined total budgets of all the enterprise funds and the General Fund. In other
19 instances I used different calculations. In each analysis, I tried to explain the exact
20 methodology behind the allocation.

21
22 **Q. The Cost Allocation Study sets forth how each allocation was determined. So,
23 without repeating the entire Cost Allocation Manual, can you provide an
24 overview of the different allocations identified in your previous answer?**

25 A Yes, the first category of allocations were calculations where I could actually
26 determine the estimated amount of time, money or number of tasks that should be
27 allocated. These categories and the calculations are as follows:

28
29 **Audit** – As set forth in the Manual, every three years the auditors will quantify the
30 percentage of time spent on each enterprise fund and that percentage will be billed
31 back to each fund. The percentages will be carried forward in the two in-between

1 years unless significant issues arise in a particular fund. Costs related to any such
2 issues will be requested from the auditor and the percentages will be adjusted
3 accordingly.

4
5 **Other Post-Employment Benefits (OPEB)** - Pursuant to the GASB 43 and 45 on
6 Other Post Employment Benefits (OPEB), the City has established an OPEB Trust
7 and is making an Annual Required Contribution (ARC) as determined by the City's
8 actuaries. The actuarial report includes a schedule that shows the total liability by
9 fund and/or department. Each fund, including the School Department and Library,
10 will be responsible for its share of the ARC. This rate filing does not include a request
11 for the Water Fund's share of the ARC. The City has not yet authorized retiree
12 insurance payments from the Trust and does not expect to start Trust payments for
13 another year or two. All payments are currently funded from operations (pay-go).
14 The Water Fund currently pays retiree health insurance from its revenues. We
15 decided not to include the Water Fund's share of the ARC until such time as the
16 retiree benefits are paid out of the Trust.

17
18 **City Council and City Clerk** – Costs for the City Council's and City Clerk's
19 salaries, benefits, dues and subscriptions and office supplies will be allocated to all
20 funds on the basis of the fund's share of items addressed at Council meetings for a
21 fiscal year. An additional cost allocation may be made for a Fund's number of hours
22 spent in workshops as compared to the total number of hours in workshops. This
23 additional allocation will not include budget and CIP workshops, as discussions
24 relating to those two items affect all Funds. Therefore, workshops relating to these
25 two items will be eliminated from the total workshop hours for purposes of
26 calculating the percentage. It should also be noted that items applying to all Funds
27 such as budget public hearings or discussions of labor contracts for AFSCME or NEA
28 will be counted as one item in each Fund.

29
30 The City Council has also budgeted funds for Citizen Surveys, which assess citizen
31 satisfaction with the delivery of city services. If there is a specific question related to

1 an Enterprise Fund, the costs will be allocated based on the number of Fund-specific
2 questions to total questions.

3
4 **Finance (Purchasing and Collections)** – the Finance Purchasing Agent’s salary and
5 benefits will be allocated based on each Fund’s share of purchase orders. All costs in
6 the Collector’s Division will be allocated based on the number of payments processed
7 as compared to combined tax, water, sewer and tickets payments processed.

8
9 **Finance (MIS - Communication Costs)** – These costs will be allocated based on
10 each Fund’s number of phones as a percentage of total phones. Phone system
11 infrastructure, to the extent that it can be separated from computer infrastructure, will
12 also be allocated in this manner.

13
14 **Q: You indicated that some costs will continue to be allocated based on the**
15 **percentage of each Enterprise Fund’s budget to the combined total budgets of all**
16 **the Enterprise Funds and the General Fund. Can you explain this?**

17 A: Yes. For some costs, it would be extremely difficult to breakdown the exact amount of
18 time, money or number of tasks to be used in the calculation. Therefore, we are still
19 using budget comparisons. For example, the City Manager is the Chief Administrative
20 Officer of the City of Newport, and carries out the City Council’s policies and goals
21 and performs the administrative functions of City government. The City Manager is
22 responsible for hiring, firing and evaluating all City staff. All Department Directors
23 report directly to the City Manager. It would be almost impossible to track the exact
24 amount of time the City Manager spends on issues related to the Enterprise Funds in a
25 given year. Therefore, we believe it is equitable to assign salaries, benefits and
26 operating costs from the City Manager’s Office based on budgets. In addition, we have
27 tried to take steps to carefully identify the specific costs in each department that will be
28 allocated on this basis.

29
30 **Q: Can you provide some examples?**

31 A: Yes. Below are some examples by department.

1 **City Manager** – although certain costs for the City Manager’s Department are
2 allocated based on budget, not all of them are. As set forth in the Cost Allocation
3 Manual, costs for Human Resources will be allocated based on the percentage of full-
4 time or permanent part-time employees in the Fund to total full-time and permanent
5 part-time employees in the City. A periodic count of annual personnel action forms
6 will be undertaken to confirm the numbers. The City Manager’s costs associated with
7 Special Events will not be allocated at all.

8
9 **City Solicitor** – although the costs for this Department are allocated based on budget,
10 only three of the six positions in this department have work related to enterprise
11 funds. Thus, the cost for these positions are the only ones that are allocated, the other
12 three positions are not included in the allocation.

13
14 **Finance** – When the Finance Department costs were reviewed, we examined each
15 Division within the Department to determine how costs should be allocated. Some
16 costs were allocated based on specific counts as set forth above (i.e. Purchasing,
17 Collections, MIS – Communications). Even where other costs were assigned based on
18 budget, we examined the amount of costs that would be allocated (i.e. 80% of
19 Finance Administration to all enterprise funds). In some instances, a specific
20 percentage of costs were allocated directly to the Water Fund (10% of the Assessor’s
21 salary and benefits, 5% of the Controller’s and Accounting Supervisor’s salaries and
22 benefits).

23
24 **Q: Have you included the School Department and Library budgets where costs are**
25 **allocated based on the percentage of each Enterprise Fund’s budget to the**
26 **combined total budgets of all the enterprise funds and the General Fund?**

27 **A:** No. The Newport School Department and the Newport Public Library, while combined
28 with the City for financial reporting, are separate and distinct organizations with their
29 own elected or appointed boards, administration and staffs. However, there are some
30 instances in which allocations include the School (i.e. Audit, ERP system). These
31 allocations are specifically noted in the Cost Allocation Manual.

1

2 **Q: You also indicated that you used other methods for some departments?**

3 A: Yes. Facilities and Maintenance Costs will be allocated based on the square footage of
4 each funds' buildings as a percentage of the total square footage of buildings served,
5 and Public Safety Costs will be allocated based on each fund's percentage of assessed
6 value to total assessed value less the value of Navy and federal property.

7

8 **Q: Does this complete your direct testimony?**

9 A: Yes, it does