

# 10 Steps TO PROGRAM OR SERVICE COSTING

Understanding the cost of the programs and services your government provides is vital, particularly when budget decisions are being made—but calculating those costs is a daunting task. Where will you get the data? How will you allocate personnel costs? How will you treat one-time capital investments? To help demystify the costing process, GFOA has broken it down into ten steps.

**1 Determine how your organization is going to use the results of the costing analysis.** How the costing info is used will affect what is included in the analysis. Will you include unavoidable costs (the costs that wouldn't decrease if a service or program were eliminated or outsourced)? If the cost data will be used to decide whether to increase a user fee, include the unavoidable costs. If the data will be used to make decisions about what level of service the organization should provide, how much to cut the budget for a given program or service, or whether a program or service should be outsourced, including unavoidable costs probably isn't necessary.

**2 Develop a program or service inventory.** The results of step one should also inform the specificity of your inventory, which helps ensure that all stakeholders are on the same page about a particular program or service and what it entails.

**3 Figure out what data you have available.** The goal should be to get actual spending at the department line-item level for the most current complete fiscal year, but don't let perfect be the enemy of the good. Work with the data you can most easily obtain.

**4 Gather the line-item actual spending data and store it in a spreadsheet.** Now, the fun part—the actual cost analysis—begins!

**5 Categorize your line-item data into recurring and non-recurring groups.** Examples of recurring costs are salaries, benefits, insurance, and office supplies. Non-recurring (or one-time) costs might include capital improvements and special projects. Differentiating between these two categories allows you to calculate a reliable baseline cost for a program or service using the recurring costs. Including one-time costs could inflate the annual cost of a program or service. If recent historical spending data is available, review it to determine if there are semi-frequent or significant non-recurring costs that should be included in the baseline program cost.

**6 Further break down the line items into personnel and non-personnel cost categories.** Any cost that is directly associated with an employee (such as salaries, healthcare benefits, and pensions) is a personnel cost. Because personnel comprise the vast majority of the cost for most local government programs and services, even estimating the full cost of the personnel that provide the service will go a long way toward accurately estimating program costs.

**7 Associate personnel with the program or service they provide.**

Link each person (or position) with the program or service they support. An individual might support multiple programs throughout the year, so positions could be divided across more than one program. Most organizations do not have records describing how employees allocate their time to different programs, so a simple survey can be sufficient to determine a serviceable estimate.

**8 Allocate non-personnel costs to programs or services.**

Non-personnel costs are usually a relatively minor component of total program costs, so you don't need to use overly elaborate methods of allocating non-personnel costs. In some cases, allocating costs by the number of employees who work on a program might be good enough.

**9 Associate revenues with programs or services.**

An optional (and potentially powerful) step is to make the connection between the program and revenues generated directly by its activities, such as charges for services and grants.

**10 Document the methodology you used to conduct your program or service cost analysis.**

You may want to update your analysis next year or conduct a cost analysis for other programs or services, and having a written record of your assumptions, the data you used, and who you collaborated with will be helpful. ■