



Cost Allocation

Budget Note Report on Cost Allocation Methodology

February 2026

David Gerstenfeld, Director

Agenda

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Background & Budget Notes

- 2018 independent audit of DOR financial management
- 2023 & 2025 Legislative direction to review and update DOR cost allocation methodology
- Methodology last reviewed more than 10 years ago
- 17 revenue streams have been added to DORs portfolio in the last 10 years

Budget Note Directives

2023 – House Bill 5034

- Urged to hire outside consultant with expertise in cost allocation
- Consult with other agencies who have cost allocation models
- Consult with internal and external stakeholders
- Report to Emergency Board in September 2024

2025 – Senate Bill 5536

- Report consultant findings in February 2026
- Report on workshops with state agencies, local governments and transit districts who will be impacted by changes
- Summarize changes of proposed methodology by division and fund type



What is Cost Allocation?

Accounting term that describes how actual costs are charged to administer revenue streams.

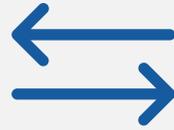
- Direct costs (ex. Program staff)
- Indirect costs (ex. IT and HR)



Understanding Cost Allocation

- Standard practice for revenue streams to be self-supporting, including costs of administration
- Some streams are subsidized by others
- May need legislative changes to implement new methodology
- No new staff requested – allocate costs more accurately
- Ongoing periodic review in future

Current State & Methodology



DOR administers 64 streams –
12 General Fund, 52 Other Fund



Four Divisions provide
direct administration



Two Divisions provide
indirect administration

Current State & Methodology



Methodology not updated for 10 years - 17 streams added



Statute may limit or not allow cost recovery



Costs for some streams are more than revenue collected

Proposed Methodology: Direct Costs

Four Divisions directly administer revenue streams: Business Division, Personal Tax and Compliance (PTAC) Division, Property Tax Division, and Collection Division.

Examples of allocation methods or basis

- Time spent by staff
- FTE
- Percentage of services
- Weighted averages

Proposed Methodology: Indirect Costs

Two divisions provide indirect support functions:
Administration and IT Divisions.

Examples of allocation methods or basis

- Human Resources (HR) is spread by full-time equivalent (FTE).
- Portion of Finance Accounting Services is spread by number of revenue transfers.
- Mail processing is spread by number of mail pieces received by revenue stream.

Proposed Methodology: Impacts

Any changes made to the cost allocation methodology should accurately reflect the actual costs of administering each revenue stream.

- For some streams, this could increase costs.
(Likely decreasing revenue distribution)
- For other streams, this could decrease costs.
(Likely increasing revenue distribution)

For Other Agency Accounts (OAA) collections work, costs are typically passed on to the debtors, but changes could impact the net revenue received.

Possible Impacts



CAT Old	\$23,656,300
CAT New	\$26,849,900
Difference	\$3,193,600



Tri-Met Old	\$11,553,200
Tri-Met New	\$5,044,500
Difference	(\$6,508,700)



Property Tax	\$17,172,500
<i>(Industrial Valuation)</i>	

Outreach & Engagement



October 2024 – Virtual Kickoff and website launch



November 2025 – Hybrid workshops with local govts, state agencies, and transit



Fall 2025 – Partner Survey



Ongoing – Soliciting feedback from partners

2027-29 Budget Development Options

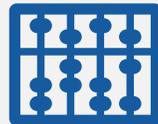
Administrative Changes



Shift allocation of costs within statutory constraints



Update projections for future biennial budgets



True-up actual costs quarterly

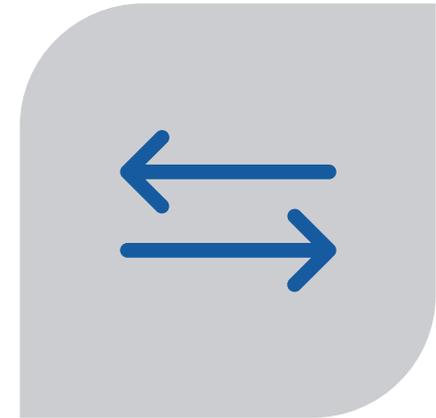
Future Updates to Methodology



Reassess allocation factors
biennially



Periodic reconciliation (i.e.
true-up)



Incorporate any statutory
changes that shift allocations



Questions?

David Gerstenfeld, Director

503-945-8214

david.gerstenfeld@dor.oregon.gov