

PRESENTATION TO CITY OF MANZANITA CITY COUNCIL APRIL 22, 2020 PREPARED REMARKS

Good afternoon Councilmembers and Mayor. Cynthia thank you for the introduction. My name is Martin Chaw, Project Manager with FCS GROUP. With me today is Todd Chase, Principal in Charge for this study and Luke Slaughterbeck, Senior Analyst.

SLIDE #2:

The purpose of today's presentation is to share with you the results and recommendations of our Indirect Cost Allocation study and to answer any questions you may have. Feel free to ask questions during the presentation as well.

SLIDE #3:

As you recall from my previous presentation, our work on preparing indirect cost allocation plans follows a structured approach guided by a set of foundational principles. These principles include:

- Indirect costs are incurred for a common purpose
- The allocation of indirect costs is based upon identified workload measures. These measures are selected for:
 - o Reasonableness, equity and defensibility
 - o Proportionate to the level of effort to collect
 - o Result in allocations that are fair and relatively stable
 - o Understandability
- It is important to remember that allocated costs are an estimate of the levels of services provided
- Lastly, while we have identified a set of workload measures for the City to use, over time the City can modify or add to these measures to better reflect the changes in overhead services provided as a result of such things as additions or reductions in staff, city reorganization, or changes in programs and services.

SLIDE #4:

As a recap, our cost allocation process follows a structured methodology. This slide was reviewed with you in detail during my previous presentation, and in the interest of time, I won't repeat the details here.

Over the next several slides I will present a series of tables that outline the results of our study.

SLIDE #5:

Our first step includes identifying the total cost of your indirect services. Your indirect services include your City Administrator, Assistant City Administrator, Finance Specialist, Court and Utility Clerk, and Licensing and Ordinance Specialist. The total administrative cost for these five employees plus operating expenses is just under \$500,000 annually.

SLIDE #6:

Your Public Works Department is a direct cost center and provides maintenance and repair services to your water utility, parks and roads systems. Using employee time sheet information, we identify the equivalent number of FTEs that is allocable to each area – water, parks and roads.

SLIDE #7:

We next identify the cost allocation factors that will be used to allocate the indirect costs. As we can see on this slide, we are proposing several cost allocation factors to use as a representation of the level of service workload of each area of the City. We derived these factors in conjunction with the City's administrative staff. Consistent with the guiding principles we discussed on slide #3, we chose workload factors that are readily available, stable from one year to the next, and easily understandable.

Let me explain each factor:

- FTEs represent administrative workload that may be associated with human resource management. This might include processing payroll, hiring and disciplinary decisions, labor negotiations, salary studies, etc.
- Actual expenses may be associated with the level of service that is needed to operate the City on a daily basis. In general, the more complex issues become the larger their budget.
- Agenda items to Council is a measure of the workload associated with your Licensing and Ordinance Specialist. This position basically serves as your city clerk and maintains the calendaring of items that come before Council.
- The final item is the direct assignment of your Court and Utility Clerk. This position is responsible for supporting your Court and Water utility operations. Based upon our discussion with city administration, the workload for this position is split approximately two-thirds to the Water utility and one-third to the Court.

SLIDE #8:

With the cost allocation factors identified, the next step is to convert these factors to percentages which will be used for the actual allocation of costs. As I mentioned on the previous slide, FTEs and Actual Expenses can be used as a measure of the level of administrative workload for the organization. To that end, a cost allocation factor is introduced that equally weights these two allocation factors.

SLIDE #9:

Using these percentages, we apply them against the indirect cost pools to determine the allocated administrative costs to each direct service cost pool. For example, the Water Fund's allocated overhead costs total \$157,348 and consist of allocated costs for the City Manager's Office, the Assistant City Manager, the Finance Specialist, the Court and Utility Clerk, and the Licensing and Ordinance Specialist. We ensure the analysis is reconciled by comparing the total indirect costs (which were originally identified on slide #3) to the total allocated costs.

SLIDE #10:

The final step in our analysis determines the overhead rate for each direct service cost pool. As shown on this table, for each direct service cost pool, the allocated indirect costs is added to the budget for FY2019 to determine the fully loaded direct cost pool. An overhead rate is calculated by dividing the amount of the allocated indirect service to the budget.

For example, the City's Water operating fund had a budget of \$996,749. The allocated indirect cost totaled \$157,348, or 15.8% of the Water operating fund budget.

SLIDE #11:

Based upon the study's results, we recommend that the City Council approve and adopt the cost allocation methodology that we have presented. We believe that this study establishes an indirect cost allocation process that is equitable, fair, and defensible; is easy to understand; is updatable by City staff; and is adaptable as the City changes over time.

In terms of next steps, the study results can be incorporated into the City's 2020-21 budgeting process. Transfers between departments within the General Fund is not necessary. Transfers from funds outside of the General Fund to the General Fund may be budgeted.

Our final step will be to prepare a written report summarizing the study's methodology. In addition, we will stand ready to assist the City as needed to incorporate the results of this study into your 2020-21 budgeting process.

SLIDE #12:

This concludes my presentation. I would like to open it up to questions. If during this call you are not able to ask your question, please feel free to email your questions to cityhall@ci.manzanita.or.us. Your question will be collated by Cynthia or Kristin and then forwarded to me for a reply.

SLIDE #13:

It has been my pleasure meeting with you today. This slide includes our contact information. Thank you very much for the opportunity to make this presentation to you.

Respectfully submitted,



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