

City of Manzanita

Full-Cost Indirect Cost Allocation Plan

May 2020

FINAL REPORT

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TABLE OF CONTENTS

Indirect Cost Allocation	1
Introduction	1
Guiding Study Principles	1
Overview of Indirect Costs	1
Principles of Allocating Indirect Costs	2
Technical Steps	2
Indirect Cost Rates	8
Cost Pool Descriptions	10
Indirect Cost Pools	10

INDIRECT COST ALLOCATION

INTRODUCTION

In 2020, the City of Manzanita contracted with FCS GROUP to develop an Indirect Cost Allocation Plan for use in budgeting going forward. Indirect cost allocation is the process by which citywide support services, which are generally included in the General Fund, can be recovered.

Cities operate multiple departments with different purposes, such as the water utility, or the roads fund. These are direct service departments, which provide services directly to the public (ie, “outward facing departments”). These funds also benefit from Citywide administrative activities (indirect services, ie. “inward facing departments”). An Indirect Cost Allocation Plan serves to quantify the benefit received by direct service departments from indirect services.

This plan was prepared to calculate the full cost of providing support services to the City’s direct departments for internal budgeting and recovery purposes only, with supporting documentation and methodology that will allow the City to continuously update the plan going forward.

GUIDING STUDY PRINCIPLES

Federal cost allocation principles are promulgated in the *Code of Federal Regulation Title II, Part 200*, which provides for uniform administrative requirements, cost principles, and audits requirements for federal awards. While the indirect cost allocation plan calculated within this report does not have to do with federal awards, *2 CFR 200* establishes cost allocation guidelines that are generally seen as industry best practices.

The proposed cost allocation plan framework will follow the practices as promulgated by these regulations. Key cost principles among these regulations include:

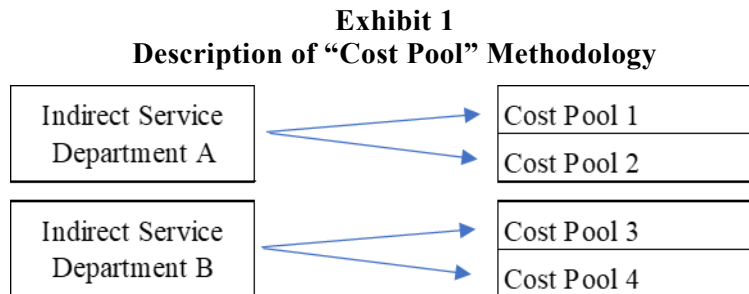
- Defining indirect costs as those costs that are incurred for a common purpose.
- Indirect costs should be allocated to cost centers on the basis of benefits received.
- Actual conditions should be used to base the cost allocation factors.
- If a cost can be directly assigned to a single cost pool, then that single assignment is acceptable.

OVERVIEW OF INDIRECT COSTS

The first step in this indirect cost allocation plan was to identify the departments that provide indirect or support services to other City departments. The expenditures for an indirect department were then grouped into various indirect cost pools based on program areas within that indirect department. Five

cost pools were identified: the City Manager’s Office, Finance, Assistant City Manager, Utility Clerk, and Licensing & Ordinances. See Cost Pool Description at the end of this report for a detailed description of each position.

These cost pools were ultimately allocated as indirect cost to the City’s direct service departments. **Exhibit 1** shows the development of program area cost pools from indirect departments.



Once cost pools were formed, the method by which these indirect cost pools were to be allocated to direct service departments was determined. For example, the costs of the City Manager’s Office were allocated to each department using an evenly weighted combination of each departments’ total actual expenditures and department’s number of FTEs. Allocation factors were selected based on their reasonableness, equity, and defensibility. Working with representatives from the City, these allocation factors, or workload measures, were identified and the relevant data was collected.

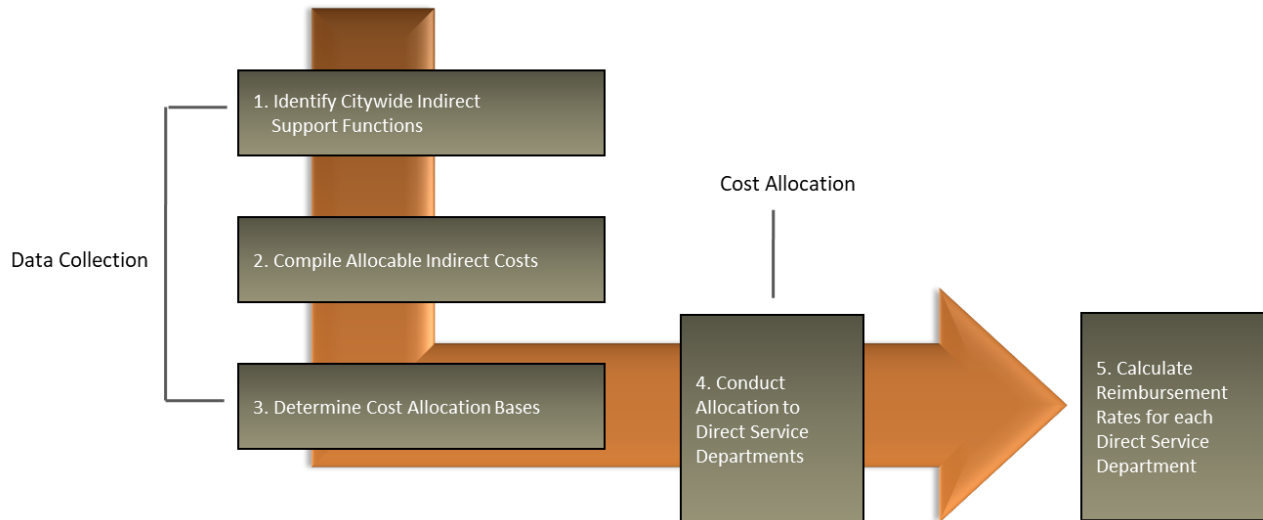
PRINCIPLES OF ALLOCATING INDIRECT COSTS

It is recommended that indirect cost pools be allocated to direct departments based on each direct department’s percentage share of each allocation factor. For example, the police department contained about 16 percent of the City’s non-administrative agenda items, so it received about 16 percent of costs that were allocated based on agenda items. Based on these principles, the Indirect Cost Allocation Plan identifies the annual share of the City’s indirect cost for each of the City’s direct service departments. The results of this plan can be used to budget indirect cost line items in department budgets, establish an indirect component for City rates and fees, and provide a Citywide indirect cost component for establishing hourly rates for city service charges (e.g. rates used to charge for police officer’s providing security at community events, etc.).

TECHNICAL STEPS

This Indirect Cost Allocation Plan follow a series of technical steps to identify the total costs and resources used to support direct services. **Exhibit 2** shows an illustration of the technical steps involved in this plan.

Exhibit 2 Indirect Cost Allocation Plan Steps



Step 1: Identify the City’s Indirect Support Functions: The first step in developing the Indirect Cost Allocation Plan was to determine which departments provided indirect services for the City and what type and level of support they provided. To determine this, we evaluated the City’s existing allocation by position (see **Exhibit 3**). Employees with some of their existing allocation to ‘Admin’ were identified as providing indirect services – these cost pools included: the City Manager’s Office, Finance, Assistant City Manager, Utility Clerk, and Licensing & Ordinances.

Exhibit 3 City’s Existing Staff Salary and Benefit Allocation

	PERCENTAGE BREAKDOWN BY POSITION								
	<u>Admin</u>	<u>Building</u>	<u>Court</u>	<u>Police</u>	<u>Parks</u>	<u>Water Dist</u>	<u>Water Treat</u>	<u>Roads</u>	<u>TOTAL</u>
City Manager	50%					50%			100%
Assistant City Manager	50%					50%			100%
Finance & Admin Specialist	55%	30%				15%			100%
Muni Court & Water Utility Clerk	10%		45%			45%			100%
Licensing & Ordinance Specialist	55%	10%		25%		10%			100%
Police Chief				100%					100%
Police Officer (3)				100%					100%
Public Works Director					1%	45%	45%	9%	100%
Senior Utility Worker					10%	70%		20%	100%
Utility Worker					15%	60%		25%	100%
Utility Worker		20%			15%	40%		25%	100%
PT Utility Worker					40%	20%		40%	100%

This plan was prepared using the City’s FY 2019 actual expenditures for the FY 2021 budget year. Based on the City’s organizational and fund structure in FY 2019, indirect services, such as City Manager, Finance Specialist, Licensing & Ordinance Specialist etc., were identified and organized into cost pools as shown in **Exhibit 4**.

**Exhibit 4
 Indirect Cost Framework**

Indirect Cost Pool
City Manager's Office
Assistant City Manager
Finance Specialist
Court & Utility Clerk
Licensing & Ordinance Specialist

The Court & Utility Clerk position is directly split between supporting water operations and serving as a clerk for the municipal court. Per input from City staff, 65% of this indirect cost pool was allocated to the water utility, and 35% to supporting the municipal court.

The City's operating departments and funds that are supported by the functions listed above are shown in **Exhibit 5**.

**Exhibit 5
 Direct Service Departments and Funds**

Direct Services Cost Pools	
General Fund	Building Department (GF)
	Court Department (GF)
	Police Department (GF)
	Parks Department (GF)
	Civic Improvement Department (GF)
Other Funds	Roads Fund (#15)
	Water Operating Fund (#40)
	Water Construction Fund (#41)
	City Hall Expansion Fund (#51)
	Park Facilities Fund (#52)
	Storm Drain Facilities Fund (#53)
	Public Works Equipment Reserve Fund (#54)
	Timber Management Fund (#57)
	Trust Fund (#59)
	Public Safety Equipment & Facilities Reserve Fund (#60)
	Housing Rehab Loan Fund (#61)
	Puffin Lane LID Fund (#65)
	Tourism Promotion and Facilities Fund (#70)

Step 2: Compile Allocable Indirect Costs: Each administrative employee was 100 percent allocated to a cost pool. Non-labor administrative costs were allocated to cost pools based on personnel costs.

The results of the combined personnel allocations and line item allocations to cost pools are summarized in **Exhibit 6**.

**Exhibit 6
 Citywide Allocable Costs**

Indirect Cost Pools	Indirect Service FTEs	2019 Actual Salaries and Benefits	2019 Actual Operating Expenses	FYE2019 Actual Total Expenses
City Manager's Office	1.0	\$ 109,471	\$ 20,161	\$ 129,632
Assistant City Manager	1.0	88,275	16,258	104,533
Finance Specialist	1.0	71,540	13,176	84,716
Court & Utility Clerk	1.0	74,729	13,763	88,492
Licensing & Ordinance Specialist	1.0	76,088	14,013	90,101
Indirect Services Cost Pools Subtotal	5.0	420,102	\$ 77,371	\$ 497,473

Step 3: Determine Cost Allocation Factors: To allocate indirect costs, specific workload measures or allocation factors were identified in collaboration with City staff that represent the level of support services received by a department. Where appropriate, a weighted combination of allocation factors was used. One example of this was the City Manager's Office cost pool, which was allocated 50% based on Citywide FTEs and 50% on Total Actual Expenditures. **Exhibit 7** shows the allocation factors assigned to each cost pool.

**Exhibit 7
 Allocation Factors**

Indirect Cost Pool	Allocation Factor
City Manager's Office	50 / 50 Split Between FTEs and Expenditures
Assistant City Manager	50 / 50 Split Between FTEs and Expenditures
Finance Specialist	Total Actual Expenditures
Court & Utility Clerk	Direct Assign to Court & Water Operations
Licensing & Ordinance Specialist	Agenda Items

Step 4: Apply Allocation to Direct Departments: The allocation distributes the total allocable indirect costs to direct departments based on the percentage share of allocation factors described in Step 3. The actual allocation factor data is shown in **Exhibit 8**.

**Exhibit 8
Allocation Factor Data**

Direct Services Cost Pools		Total 2019 Actual Expenditures			Direct Assign to Court & Water Operations
		Direct Service FTEs	(Non-Personnel only)	Agenda Items	
General Fund	Building Department (GF)	-	\$ 44,354	2	0.0%
	Court Department (GF)	-	16,808	2	35.0%
	Police Department (GF)	4.0	25,609	6	0.0%
	Parks Department (GF)	0.7	59,069	1	0.0%
	Civic Improvement Department (GF)	-	60,000	0	0.0%
Other Funds	Roads Fund (#15)	0.7	252,792	7	0.0%
	Water Operating Fund (#40)	3.1	417,028	4	65.0%
	Water Construction Fund (#41)	-	404,120	0	0.0%
	City Hall Expansion Fund (#51)	-	177,825	11	0.0%
	Park Facilities Fund (#52)	-	-	0	0.0%
	Storm Drain Facilities Fund (#53)	-	149,627	1	0.0%
	Public Works Equipment Reserve Fund (#54)	-	13,899	0	0.0%
	Timber Management Fund (#57)	-	14,483	1	0.0%
	Trust Fund (#59)	-	636	0	0.0%
	Public Safety Equipment & Facilities Reserve Fund (#60)	-	10,000	0	0.0%
	Housing Rehab Loan Fund (#61)	-	-	0	0.0%
	Puffin Lane LID Fund (#65)	-	-	0	0.0%
	Tourism Promotion and Facilities Fund (#70)	-	120,111	3	0.0%
	Direct Services Cost Pools Subtotal		8.5	\$ 1,766,361	38
Grand Total (Indirect + Direct)		13.5	\$ 2,263,834	38	100%

These allocation factors are then converted into a percentage basis, as shown in **Exhibit 9**.

**Exhibit 9
Allocation Factor Percentages**

Direct Services Cost Pools		FTEs	50 / 50 Split		Direct Assign to Court & Water Operations	
			Total Actual Expenditures	Between FTEs and Expenditures		Agenda Items
General Fund	Building Department (GF)	0.0%	2.5%	1.3%	5.3%	0.0%
	Court Department (GF)	0.0%	1.0%	0.5%	5.3%	35.0%
	Police Department (GF)	47.1%	1.4%	24.3%	15.8%	0.0%
	Parks Department (GF)	8.2%	3.3%	5.8%	2.6%	0.0%
	Civic Improvement Department (GF)	0.0%	3.4%	1.7%	0.0%	0.0%
Other Funds	Roads Fund (#15)	8.2%	14.3%	11.3%	18.4%	0.0%
	Water Operating Fund (#40)	36.5%	23.6%	30.0%	10.5%	65.0%
	Water Construction Fund (#41)	0.0%	22.9%	11.4%	0.0%	0.0%
	City Hall Expansion Fund (#51)	0.0%	10.1%	5.0%	28.9%	0.0%
	Park Facilities Fund (#52)	0.0%	0.0%	0.0%	0.0%	0.0%
	Storm Drain Facilities Fund (#53)	0.0%	8.5%	4.2%	2.6%	0.0%
	Public Works Equipment Reserve Fund (#54)	0.0%	0.8%	0.4%	0.0%	0.0%
	Timber Management Fund (#57)	0.0%	0.8%	0.4%	2.6%	0.0%
	Trust Fund (#59)	0.0%	0.0%	0.0%	0.0%	0.0%
	Public Safety Equipment & Facilities Reserve Fund (#60)	0.0%	0.6%	0.3%	0.0%	0.0%
	Housing Rehab Loan Fund (#61)	0.0%	0.0%	0.0%	0.0%	0.0%
	Puffin Lane LID Fund (#65)	0.0%	0.0%	0.0%	0.0%	0.0%
	Tourism Promotion and Facilities Fund (#70)	0.0%	6.8%	3.4%	7.9%	0.0%
	Direct Subtotal (should always total 100%)		100.0%	100.0%	100.0%	100.0%

Step 5: Calculate Direct Service Departments' Reimbursement Rates: By adding the allocations from each indirect cost pool to each direct service department, the total indirect cost allocation can be identified. By dividing each department's allocation by its total actual expenditures, a reimbursement rate can be calculated. **Exhibit 10** shows the fully allocated costs to each direct service department.

**Exhibit 10
Fully Allocated Indirect Costs by Department**

Results: Allocated Indirect Cost Pools to Direct Cost Pools		City Manager's Office	Assistant City Manager	Finance Specialist	Court & Utility Clerk	Licensing & Ordinance Specialist	Total
		\$	\$	\$	\$	\$	\$
		129,632	104,533	84,716	88,492	90,101	497,473
General Fund	Building Department (GF)	1,628	1,312	2,127	-	4,742	9,809
	Court Department (GF)	617	497	806	30,972	4,742	37,634
	Police Department (GF)	31,441	25,354	1,228	-	14,226	72,250
	Parks Department (GF)	7,505	6,052	2,833	-	2,371	18,761
	Civic Improvement Department (GF)	2,202	1,775	2,878	-	-	6,855
Other Funds	Roads Fund (#15)	14,614	11,784	12,124	-	16,597	55,120
	Water Operating Fund (#40)	38,941	31,402	20,001	57,520	9,484	157,348
	Water Construction Fund (#41)	14,829	11,958	19,382	-	-	46,169
	City Hall Expansion Fund (#51)	6,525	5,262	8,529	-	26,082	46,397
	Park Facilities Fund (#52)	-	-	-	-	-	-
	Storm Drain Facilities Fund (#53)	5,491	4,427	7,176	-	2,371	19,465
	Public Works Equipment Reserve Fund (#54)	510	411	667	-	-	1,588
	Timber Management Fund (#57)	531	429	695	-	2,371	4,026
	Trust Fund (#59)	23	19	31	-	-	73
	Public Safety Equipment & Facilities Reserve Fund (#60)	367	296	480	-	-	1,142
	Housing Rehab Loan Fund (#61)	-	-	-	-	-	-
	Puffin Lane LID Fund (#65)	-	-	-	-	-	-
	Tourism Promotion and Facilities Fund (#70)	4,407	3,554	5,761	-	7,113	20,835
Direct Subtotal		\$ 129,632	\$ 104,533	\$ 84,716	\$ 88,492	\$ 90,101	\$ 497,473

INDIRECT COST RATES

While the City’s primary purpose for formulating this Indirect Cost Allocation Plan is to determine the budgeted indirect cost reimbursement from departments, an indirect cost recovery rate can be applied to projects, activities, or external agency charges as a basis for indirect cost reimbursement, or to recognize the fully-loaded cost of service. By dividing the allocated costs by the total actual costs for each department, an indirect cost reimbursement rate can be calculated. The Citywide rate using total actual expenditures as the base is about 13%, meaning about \$13 of indirect cost would be added for every \$100 expense. **Exhibit 11** shows the rate that each department could apply to target full cost recovery.

Exhibit 11
Citywide Indirect Cost Rates by Department

		FYE2019 Budget			Indirect Cost
Results: Allocated Indirect Cost Pools to Direct Cost Pools for Budgeting Purposes		Direct Service Cost Pools (all expenses)	Allocated Indirect Service Cost Pools	Total: Fully-Loaded Direct Cost Pools	Pool Allocation as % of Direct Service
General Fund	Building Department (GF)	\$ 58,921	\$ 9,809	\$ 68,731	16.6%
	Court Department (GF)	20,912	37,634	58,547	180.0%
	Police Department (GF)	591,519	72,250	663,769	12.2%
	Parks Department (GF)	67,646	18,761	86,407	27.7%
	Civic Improvement Department (GF)	80,000	6,855	86,855	8.6%
Other Funds	Roads Fund (#15)	658,025	55,120	713,145	8.4%
	Water Operating Fund (#40)	996,749	157,348	1,154,096	15.8%
	Water Construction Fund (#41)	584,000	46,169	630,169	7.9%
	City Hall Expansion Fund (#51)	202,150	46,397	248,547	23.0%
	Park Facilities Fund (#52)	15,000	-	15,000	0.0%
	Storm Drain Facilities Fund (#53)	183,000	19,465	202,465	10.6%
	Public Works Equipment Reserve Fund (#54)	15,000	1,588	16,588	10.6%
	Timber Management Fund (#57)	70,000	4,026	74,026	5.8%
	Trust Fund (#59)	6,989	73	7,062	1.0%
	Public Safety Equipment & Facilities Reserve Fund (#60)	10,000	1,142	11,142	11.4%
	Housing Rehab Loan Fund (#61)	80,200	-	80,200	0.0%
	Puffin Lane LID Fund (#65)	68,000	-	68,000	0.0%
	Tourism Promotion and Facilities Fund (#70)	179,200	20,835	200,035	11.6%
Total	\$ 3,887,311	\$ 497,473	\$ 4,384,784	12.8%	
<i>memo: GF Subtotal</i>		<i>818,998</i>	<i>145,310</i>	<i>964,308</i>	<i>17.7%</i>
<i>memo: Other Funds Subtotal</i>		<i>3,068,313</i>	<i>352,163</i>	<i>3,420,476</i>	<i>11.5%</i>

The cost allocations calculated above represent the current maximum defensible recoverable amount of administrative activities for each department or fund. However, there is no statutory requirement that the City must recover these amounts from each department or fund. For example, charging the police department indirect costs would not make sense, as it is part of the General Fund. The City also maintains several reserve funds (such as the City Hall Expansion Fund, Public Works Equipment Reserve Fund, or the Public Safety Equipment and Facilities Reserve Fund). Many of these funds receive the bulk of its funding from the General Fund and therefore charging these funds for recoverable administrative activities would also not make sense.

SUMMARY

This plan presents a framework for the recovery of city-wide administrative costs based upon available metrics that portray organizational workload. This plan also represents a snapshot in time and captures the activities, programs, and priorities of the City of Manzanita as it stands today. Industry best practice recommends updating this plan with each budget cycle to reflect actual activities and to capture the effects of organizational changes, such as from reorganizations or the addition or elimination of new or existing programs, and how these changes may alter indirect cost allocations.

We appreciate the contributions from City staff to the development of this plan. It has been a pleasure working with the City staff, local officials and community involved in the planning process. We look forward to the opportunity to work with you again in the future.

COST POOL DESCRIPTIONS

The following section provides a description of the services provided by each indirect program area as well as an explanation of the basis for choosing each program area's allocation factor.

INDIRECT COST POOLS

A description of the services provided by each of the indirect cost pools is summarized as follows. All responsibilities are indirect, unless otherwise stated.

City Manager's Office

The City Manager's Office consists of the City Manager and associated administrative costs. It is responsible for overall management of City funds and employees, including departments with their own supervisory staff, such as Police and Public Works. This cost pool is allocated on an evenly weighted combination of total actual expenditures and FTEs, to reflect the Citywide nature and responsibilities associated with managing the daily citywide operations.

Assistant City Manager

The Assistant City Manager supports the City Manager in managing City funds. This cost pool is allocated on an evenly weighted combination of total actual expenditures and FTEs, the same as the City Manager's Office, as their areas of responsibility largely overlap.

Finance

The Finance cost pool consists of the City's Finance Specialist and associated administrative costs. It is responsible for managing the City's finances in accordance with state and federal law. This cost pool is allocated on the basis of total actual expenditures.

Court and Utility Clerk

The Court and Utility Clerk cost pool is responsible for two separate functions—supporting the City's municipal court and performing utility billing functions for the City's water utility. This cost pool is allocated 65% to the water utility and 35% to the municipal court. This allocation was based on staff estimates of time spent performing each activity.

Licensing & Ordinances

The Licensing & Ordinances cost pool is responsible for preparing City ordinances, managing licenses, and shares many functional similarities with a City Clerk. Costs associated with this cost pool are allocated based on the number of City Council agenda items in the 2019 calendar year, as representative of the overall distribution of work.