

City of Manzanita

Full-Cost Indirect Cost Allocation Plan

April 18, 2022
Final Report

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April 18, 2022

City of Manzanita

c/o Leila Aman, City Manager
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REFERENCE: MANZANITA INDIRECT COST ALLOCATION PLAN

It is our pleasure to transmit to you the City of Manzanita's Indirect Cost Allocation Plan for 2022. We wish to extend our appreciation to you and Nina Aiello for providing the detailed information necessary.

If you have any questions, please call me at (425) 274 - 2853.

Sincerely,



Martin Chaw
Project Manager & Management Consulting Practice Lead
Enclosure

CC: Todd Chase, Principal

INDIRECT COST ALLOCATION

INTRODUCTION

In 2021, the City of Manzanita contracted with FCS GROUP to update its 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. FCS GROUP previously prepared the City's current Indirect Cost Allocation Plan in 2019. This update generally follows the same methodology as the previous study.

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 (i.e., "outward facing departments"). These funds also benefit from Citywide administrative activities (indirect services, i.e., "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 address any federal awards, *2 CFR 200* establishes cost allocation guidelines that are generally seen as industry best practices.

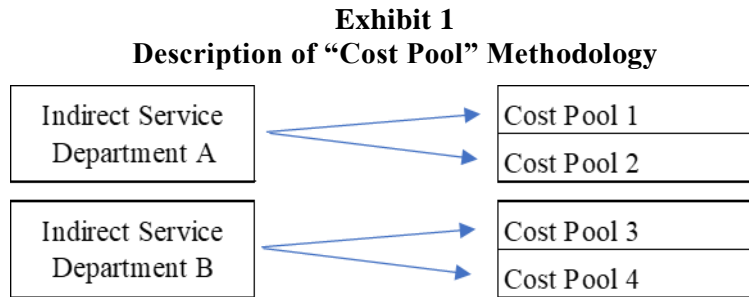
The proposed cost allocation plan framework will follow the practices as promulgated by the aforementioned federal regulations. Key cost principles among these regulations include:

- 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 functions that provide indirect or support services to other City departments. The expenditures for an indirect support function were then grouped into various indirect cost pools based on program areas. Four cost pools were identified: the City Manager's Office, Finance, Assistant City Recorder, 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 an 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 full time equivalent employees (FTEs). Allocation factors were selected based their past precedence, 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

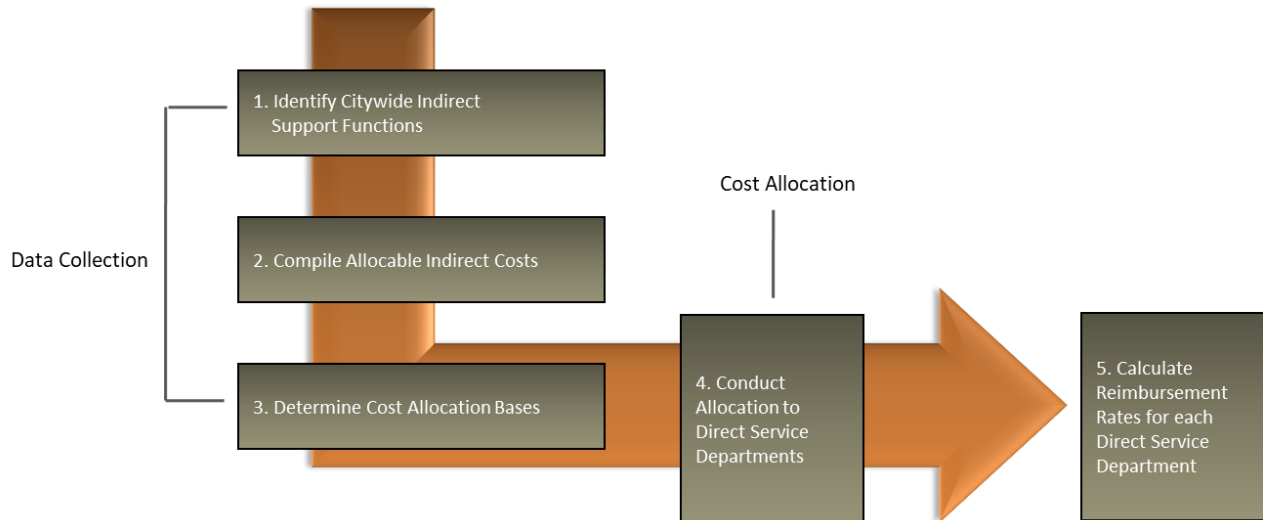
It is recommended that indirect cost pools be allocated to direct departments based on each direct department’s percentage share of each allocation factor. For example, the police department contained about 16 percent of the City’s non-administrative agenda items (6 agenda items out of 38 department-specific agenda items in total), 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 of 5: Identify the Citywide 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. The City’s Administration Department (4.0FTEs and total budget of \$666,732 FY 2021/2022) provides support services to other City departments.

Since the previous ICAP update, the City reorganized and established the Building Department as a separate department within the General Fund. In the Administration department the City has eliminated the Assistant City Manager position, and replaced it with an Assistant City Recorder position that incorporates the responsibilities of the part time Court Clerk. The former Finance Specialist is now an Accounting Manager. A new full time Utility Billing Clerk position was also created within the Water Operating Fund. The part time Court Clerk position is now an Administrative Assistant, position of which is vacant and unfunded, and therefore not shown as an indirect staff support cost.

**Exhibit 3
 City’s Indirect Staff Support Functions and Budget**

Position Title	FTE	Budget
City Manager	1.0	\$185,220
Assistant City Recorder	1.0	\$101,378
Accounting Manager	1.0	\$112,521
Licensing and Ordinance Specialist	1.0	\$104,469
Total Personnel	4.0	\$503,588
Non-Personnel		\$163,144
Total	4.0	\$666,732

The City’s operating departments and funds that are supported by the functions listed above in Exhibit 3 are shown in **Exhibit 4**.

**Exhibit 4
 Direct Service Departments and Funds**

General Fund	Other Funds
Courts Department #130	Building Fund
Police Department #125	Roads Fund #15
Parks Department #135	Water Operating Fund #40
Civic Improvement Department #140	Water Construction Fund #41
	City Hall Expansion Fund #51
	Parks Facilities Fund #52
	Storm Drain Facilities Fund #53
	Public Works Eq Reserve Fund #54
	Timber Management Fund #57
	Trust Fund #59
	Public Safety Eq and Reserve Fund #60
	Housing Rehab Loan Fund #61
	Puffin Lane LID Fund #65
	Tourism Promotion and Facilities Fund #70

Steps 2 and 3 of 5: Compile Indirect Costs and Determine Cost Allocation Bases: 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. For example the City Manager’s Office cost pool is allocated 50% based on Citywide FTEs and 50% on Total Actual Expenditures. **Exhibit 5** shows the allocation factors assigned to each cost pool.

**Exhibit 5
 Allocation Factors**

Indirect Cost Pool	Allocation Bases
City Manager	50/50 Split Between FTEs and Expenditures
Assistant City Recorder	40% Courts and remaining 60% based on a 50/50 Split Between FTEs and Expenditures
Accounting Manager	Actual Expenditures
Licensing and Ordinance Specialist	95% Agenda Items; 5% Expenditures; 5% Courts Department

Step 4 of 5: 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 above. Industry best practice for allocation factors that may vary significantly from one period to the next include using multi-year averages to mitigate their effect on cost allocations. Consistent with this, the allocation factors for expenditures and agenda items were averaged over the 2019 and 2022 time periods. The actual allocation factor data is shown in **Exhibit 6**. These allocation factors are then converted into a percentage, as shown in **Exhibit 7**.

**Exhibit 6
 Allocation Factor Data**

Direct Service Cost Pool	Direct Service FTEs	Average Expenditures	Average Agenda Items	Direct Assign
General Fund				
Court Dept	-	12,530	1	100.0%
Police Dept	4.0	44,286	7	
Parks Dept	0.6	43,990	3	
Civic Improvement Dept	-	67,500	2	
Other Funds				
Building Fund	1.5	34,789	13	
Roads Fund (#15)	1.9	237,495	4	
Water Operating Fund (#40)	3.0	584,725	6	
Water Construction Fund (#41)	-	213,123	0	
City Hall Expansion Fund (#51)	-	186,354	11	
Park Facilities Fund (#52)	-	-	3	
Storm Drain Facilities Fund (#53)	-	77,759	1	
Public Works Eqt Reserve Fund (#54)	-	42,635	0	
Timber Management Fund (#57)	-	7,242	1	
Trust Fund (#59)	-	318	0	
Public Safety Eqt & Fac Resv Fund (#60)	-	27,449	0	
Housing Rehab Loan Fund (#61)	-	-	0	
Puffin Lane LID Fund (#65)	-	-	0	
Tourism Promotion and Fac Fund (#70)	-	115,143	8	

FTE support for the Parks Department, Roads Fund and Water Operating Fund is provided by the Public Works Department and are based on detailed employee timesheet records for the 2021 calendar year.

Exhibit 7
Allocation Factor Percentages

Direct Service Cost Pool	FTEs	Actual Expenditures	50/50 Split Between FTEs and Expenditures	Agenda Items	Direct Assign	40% Courts and remaining 60% based on 50/50 Split between FTEs and Expenditures
General Fund						
Court Dept	0.0%	0.7%	0.4%	1.8%	100.0%	40.4%
Police Dept	36.4%	2.6%	19.5%	11.5%	0.0%	1.6%
Parks Dept	5.5%	2.6%	4.0%	4.4%	0.0%	1.6%
Civic Improvement Dept	0.0%	4.0%	2.0%	3.5%	0.0%	2.4%
Other Funds						
Building Dept	13.6%	2.1%	7.8%	23.0%	0.0%	1.2%
Roads Fund (#15)	17.3%	14.0%	15.6%	6.2%	0.0%	8.4%
Water Operating Fund (#40)	27.3%	34.5%	30.9%	9.7%	0.0%	20.7%
Water Construction Fund (#41)	0.0%	12.6%	6.3%	0.0%	0.0%	7.5%
City Hall Expansion Fund (#51)	0.0%	11.0%	5.5%	18.6%	0.0%	6.6%
Park Facilities Fund (#52)	0.0%	0.0%	0.0%	4.4%	0.0%	0.0%
Storm Drain Facilities Fund (#53)	0.0%	4.6%	2.3%	1.8%	0.0%	2.8%
Public Works Eq't Reserve Fund (#54)	0.0%	2.5%	1.3%	0.0%	0.0%	1.5%
Timber Management Fund (#57)	0.0%	0.4%	0.2%	0.9%	0.0%	0.3%
Trust Fund (#59)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Public Safety Eq't & Fac Resv Fund (#60)	0.0%	1.6%	0.8%	0.0%	0.0%	1.0%
Housing Rehab Loan Fund (#61)	0.0%	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%	0.0%
Tourism Promotion and Fac Fund (#70)	0.0%	6.8%	3.4%	14.2%	0.0%	4.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

By applying the allocations from each indirect cost pool to each direct service department, the total indirect cost allocation can be identified. **Exhibit 8** shows the fully allocated costs to each direct service department.

Exhibit 8
Fully Allocated Indirect Costs by Department

	City Manager	Asst City Recorder	Accounting Manager	Licensing and Ordinance Specialist	Total
Indirect Cost Pool	\$245,224	\$134,221	\$148,974	\$138,313	\$666,732
General Fund					
Court Dept	906	54,284	1,101	2,448	58,739
Police Dept	47,789	2,104	3,891	15,912	69,696
Parks Dept	9,869	2,090	3,865	6,120	21,945
Civic Improvement Dept	4,882	3,206	5,931	4,896	18,916
Other Funds					
Building Dept	19,236	1,653	3,057	31,824	55,770
Roads Fund (#15)	38,355	11,282	20,869	8,568	79,074
Water Operating Fund (#40)	75,729	27,776	51,381	13,464	168,350
Water Construction Fund (#41)	15,414	10,124	18,728	-	44,265
City Hall Expansion Fund (#51)	13,478	8,852	16,375	25,704	64,410
Park Facilities Fund (#52)	-	-	-	6,120	6,120
Storm Drain Facilities Fund (#53)	5,624	3,694	6,833	2,448	18,598
Public Works Eqt Reserve Fund (#54)	3,084	2,025	3,746	-	8,855
Timber Management Fund (#57)	524	344	636	1,224	2,728
Trust Fund (#59)	23	15	28	-	66
Public Safety Eqt & Fac Resv Fund (#60)	1,985	1,304	2,412	-	5,701
Housing Rehab Loan Fund (#61)	-	-	-	-	-
Puffin Lane LID Fund (#65)	-	-	-	-	-
Tourism Promotion and Fac Fund (#70)	8,327	5,470	10,118	19,584	43,499
Total	\$245,224	\$134,221	\$148,974	\$138,313	\$666,732

Step 5 of 5: Calculate Indirect Cost Reimbursement Rate: 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 8.1%, meaning about \$8 of indirect cost would be added for every \$100 expense. This compares to an indirect cost reimbursement rate of 12.8% from the previous study. Annual changes to the indirect cost reimbursement rate should be expected as it can also be affected by changes to the budget for each direct service cost pool changes over time (e.g. the reorganization and addition of the Building Department as a new General Fund department), and/or changes to the budget for the indirect services cost pool changes (e.g. the reorganization of a water utility clerk to the Water Operating Fund). **Exhibit 9** shows the rate that each department could apply to target full cost recovery.

The cost allocations 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.

Exhibit 9
Citywide Indirect Cost Rates by Department

	2021-2022 Budget	Allocated Indirect Service Cost Pool	Total (Fully Loaded Direct Cost Pool)	Indirect Cost Pool Allocation as % of Direct Service	Memo: 2019 Study Indirect Cost Pool Allocation as % of Direct Service
General Fund					
Court Dept	68,160	58,739	126,899	86.2%	180.0%
Police Dept	671,213	69,696	740,909	10.4%	12.2%
Parks Dept	88,914	21,945	110,859	24.7%	27.7%
Civic Improvement Dept	70,000	18,916	88,916	27.0%	8.6%
Other Funds					
Building Dept	164,404	55,770	220,174	33.9%	16.6%
Roads Fund (#15)	840,224	79,074	919,298	9.4%	8.4%
Water Operating Fund (#40)	1,623,274	168,350	1,791,624	10.4%	15.8%
Water Construction Fund (#41)	2,860,262	44,265	2,904,527	1.5%	7.9%
City Hall Expansion Fund (#51)	846,600	64,410	911,010	7.6%	23.0%
Park Facilities Fund (#52)	21,255	6,120	27,375	28.8%	0.0%
Storm Drain Facilities Fund (#53)	209,800	18,598	228,398	8.9%	10.6%
Public Works Eq't Reserve Fund (#54)	105,228	8,855	114,083	8.4%	10.6%
Timber Management Fund (#57)	10,702	2,728	13,430	25.5%	5.8%
Trust Fund (#59)	3,968	66	4,034	1.7%	1.0%
Public Safety Eq't & Fac Resv Fund (#60)	135,106	5,701	140,807	4.2%	11.4%
Housing Rehab Loan Fund (#61)	117,249	-	117,249	0.0%	0.0%
Puffin Lane LID Fund (#65)	45,300	-	45,300	0.0%	0.0%
Tourism Promotion and Fac Fund (#70)	341,824	43,499	385,323	12.7%	11.6%
Total	\$8,223,483	\$666,732	\$8,890,215	8.1%	12.8%

Exhibit 10 table compares the allocated indirect service cost pool between the current study and the previous. It is important to note that increases or decreases in the allocated indirect cost pool can be affected by changes in allocation factors between the current study and the previous, as well the relative change in allocation factors between departments and funds. For example, while actual expenditures for the Water Operating Fund increased from the previous study, its actual expenditures relative to other departments did not increase to the same degree, thus resulting in a relatively smaller share of allocated indirect costs.

In general, major factors affecting changes in the allocated indirect costs include: increase in the number of agenda items (Building Department, Civic Improvement Department), increase in actual expenditures (Court and Police Departments, Public Works Equipment Reserve Fund), decrease in actual expenditures (Water Construction Fund), change in the direct charging of staff from reorganization (Water Utility Billing Clerk is 100% assigned to the Water Operating Fund).

Exhibit 10
Citywide Indirect Cost Pool 2019 Study vs 2022 Study

	2019 Study	2022 Study	Significant Changes
General Fund			
Court Dept	37,634	58,739	Reorg: Asst. City Recorder
Police Dept	72,250	69,696	
Parks Dept	18,761	21,945	
Civic Improvement Dept	6,855	18,916	
Sub Total – General Fund	145,310	169,295	
Other Funds			
Building Dept	9,809	55,770	Planning commission agenda items included
Roads Fund (#15)	55,120	79,074	
Water Operating Fund (#40)	157,348	168,350	Reorg: Water utility clerk directly budgeted
Water Construction Fund (#41)	46,169	44,265	
City Hall Expansion Fund (#51)	46,397	64,410	
Park Facilities Fund (#52)	-	6,120	
Storm Drain Facilities Fund (#53)	19,465	18,598	
Public Works Eqt Reserve Fund (#54)	1,588	8,855	
Timber Management Fund (#57)	4,026	2,728	
Trust Fund (#59)	73	66	
Public Safety Eqt & Fac Resv Fund (#60)	1,142	5,701	
Housing Rehab Loan Fund (#61)	-	-	
Puffin Lane LID Fund (#65)	-	-	
Tourism Promotion and Fac Fund (#70)	20,835	43,499	
Sub Total – Other Funds	352,163	497,437	
Total	497,473	\$666,732	

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

Description: 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.

Allocation: 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 Recorder

Description: The Assistant City Recorder is responsible for the oversight of the City's municipal court functions as well as providing administrative support to City operations.

Allocation: This cost pool is allocated 40% courts and 60% on an evenly weighted combination of total actual expenditures and FTEs.

Finance

Description: The Finance cost pool consists of the City's Accounting Manager and associated administrative costs. It is responsible for managing the City's finances in accordance with state and federal law.

Allocation: This cost pool is allocated based on total actual expenditures.

Licensing & Ordinances

Description: The Licensing & Ordinances cost pool is responsible for preparing certain City ordinances, managing short term rental licenses, and shares many functional similarities with a City Clerk including back up to finance and the city recorder responsibilities.

Allocation: This cost pool is allocated 100% agenda items.