

From: [cityhall](#)
To: [Leila Aman](#)
Subject: FW: April 9 budget Committee Meeting
Date: Wednesday, April 3, 2024 11:41:54 AM

Hi Leila,

Forwarding this to you.

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From: Randy Kugler <rkinor@gmail.com>
Sent: Wednesday, April 3, 2024 11:40 AM
To: [cityhall](mailto:cityhall@ci.manzanita.or.us) <cityhall@ci.manzanita.or.us>
Cc: Kathryn Stock <kstock@ci.manzanita.or.us>; Linda Kozlowski <lkozlowski@ci.manzanita.or.us>; Jerry Spegman <jspegman@ci.manzanita.or.us>; Brad Hart <bhart@ci.manzanita.or.us>; Tom Campbell <tcampbell@ci.manzanita.or.us>
Subject: April 9 budget Committee Meeting

Lelia,

Please include the following in the meeting packet so that the Council and Committee members can provide answers to the questions contained therein. I appreciate the Council's invitation for citizens to submit their questions for discussion and response.

My specific questions come at the end of the following.

The City Manager's explanation below of examples of indirect cost activities offers a general explanation of the theory but totally fails to connect operational reality based upon her own examples of tasks being performed by City Hall support staff related to the operation of the water utility through the Water Operating Fund.

City Manager. “The costs incurred to plan and conduct City Council meetings provide a good example. City employees have to manage the calendar, consult with the mayor, prepare an agenda, produce documents such as draft resolutions or ordinances, explain proposals, record meetings, produce minutes, answer councilors’ questions, and post meeting information on the website.” (March 6, 2023 memo to City Council).

For all of FY 2022/23, approximately 144 Agenda items were brought to City Council meetings by City employees. A total of 3 or 2% of the total Agenda items for the year involved the Water Operating Fund. **The Water Operating Fund can not be charged to pay overhead costs for City Hall staff efforts for managing Council Agenda items that have nothing to do with the water utility. Check * for details of these 3 meetings.**

The City Manager has also stated “we process significantly more invoices to the tune of about 50% of all of the financial transactions that occur in the City are for the water department and that is clearly indicated in the analysis that shows in the Materials and Services.”

The monthly statement of bills that Council pays each month serves as a good proxy for the actual financial transactions of each City Department that is paid out of those respective Fund's Material and Services Budgets. I invite each Budget Committee member to do a review of monthly bills posted in past Council packets on the City website and see if you can confirm the claim that 50% of all financial transactions based on payment of the City's monthly bill statements are for the "water department". If you want an explanation as to how processing "invoices" differs from monthly bill payments to vendors for expenses purchased out of a Materials and Services Budget category, ask the City Manager for an explanation.

A simple fact check of "water department invoices" processed by City Hall staff are nowhere near 50% of the annual Material and Services transactions claimed by the City Manager and is yet another exaggeration of City Hall support services to justify transfer of hundreds of thousands of dollars of Water Operating Fund revenue to the General Fund. A number of the same vendors each month submit invoices to both the Water Department and Police Department such as Pacific Office for office supplies, RTI for telephone, Sheldon Oil, Tillamook PUD, Verizon, Charter Internet, One 11 computer, RHYNO network services and US Bank for Visa. **Somehow the accounts payable overhead costs for staff to process a payment to the same vendor is substantially more complicated and costly if it is submitted by the Public Works Director as opposed to the Police Chief. Why is that?**

How the Warrenton Model fails any common sense analysis for Manzanita is demonstrated below by comparing the FY 2022/23 overhead allocation charge of \$38,332 for City Hall support staff services for the Police Department and overhead allocation charges of \$168,350 that was transferred to the General Fund for

those exact same City Hall services from the Water Operating Fund.

The theory of the Warrenton Model is based on the assumption that any Fund with a Material and Services Budget category that has a high dollar amount of budgeted expenditures is entitled to claim a greater overhead allocation for City Hall support services. **That may indeed be a plausible theory but it fails to pass any common sense test when applied to operational reality in Manzanita.**

In operational reality terms, the Warrenton model would have you believe that in Manzanita, a \$1,000 invoice submitted to City staff for payment by the Public Works Director from his Material/Services Budget requires 4 times more effort for City Hall staff to process than a \$250 invoice submitted by the Police Chief from his Materials/Services Budget.

CITY OF MANZANITA FY 2022/23

PUBLIC SAFETY DEPARTMENT

WATER OPERATING FUND

of FTE employees

4

3

of invoices

processed out

of Materials/Services

Budget annually

approx. 130

approx. 420

of Agenda items

1

***3**

Total Personnel,

Materials/Services

and Capital Outlay

Budget

\$ 732,330

\$915,474

**TOTAL INDIRECT COST SHARE FOR CITY HALL STAFF BASED ON
THE WARRENTON MODEL**

\$38,332

\$168,350

Why are the costs for City Hall staff to provide indirect support services for the Water Operating Fund more than 4 times higher than similar support services for the Public Safety Department?

The operational characteristics, operating budget costs, effort spent to develop each respective budget, effort it takes to process monthly payroll and invoices submitted by each respective Department Head for payment and the time spent by staff to prepare the City Council at Council meetings in discussion of the respective services is about the same.

The answer is obvious. There is no opportunity to transfer and collect indirect cost charges from the Public Safety Department for the General Fund because the Public Safety Department is already in the General Fund. There is however tremendous incentive to develop a model to justify exaggerated or nonexistent effort by City Hall staff to transfer Water Operating Fund monies to the General Fund that can then be spent for anything that the City wants.

*** The 3 Council meetings involving the Water Operating Fund were all workshops led by the Public Works Director to discuss new water rates. Contrary to the above City Manager's claims, no Resolutions, Ordinances or memos were presented to Council by City Hall staff nor did the City Manager consult with the Mayor on water rates prior to these three meetings.**

Questions:

What specific expenses for FY 2022/23 did the \$168,350 Water Operating Fund transfer pay for once it was transferred to the General Fund?

2% of Agenda items brought before Council in 2022/23 were related to the Water Operating Fund. How does this become the "good example" cited by the City Manager to justify City Hall staff overhead costs to "plan and conduct meetings" when there is little record of City Hall staff support for even these three meetings?

How did the City Manager arrive at a conclusion that " 50% of all of the financial transactions that occur in the City are for the water department"?

Why are the costs for City Hall staff to provide indirect support services for the Water Operating Fund more than 4 times higher than similar support services for the Public Safety Department?

The FY 2022/23 \$168,350 Water Operating Fund transfer to the General Fund to compensate City Hall staff for support services for some perspective amounts to 100% of the Accounting Manager's annual salary, 50% of the Assistant City Recorder's annual salary and 50% of the City Manager's annual salary. How are each of these respective City Hall support staff entitled to this level of salary compensation from the Water Operating?

In addition to paying City Hall staff salaries for their support services to operate the water utility, the City Manager states that there are material and service costs used by City Hall staff. She described examples of these items as purchases of "a desk, computer, paper and so on". How much paper and how many desks and computers were purchased out of the FY 2022/23 Budget to provide City Hall staff with these needed items for their support of the Water Operating Fund?

The indirect cost transfers from FY 2022/23 from the Water Operating Fund to the General Fund increased from \$168,350 to \$191,000 in the current Budget. Why did support service costs for the Water Operating Fund increase \$22,650 in just one year?

In the past 4 Budgets, approximately \$675,000 has been transferred from the Water Operating Fund to the General Fund for City Hall staff overhead expenses. During these same years, staff repeated that Water Fund revenue was not keeping up with expenses. Do you believe that residents would prefer greatly reducing these overhead transfers so that more revenue remains in the Water Operating Fund to cover the costs of operation, maintenance and needed upgrades to the water system?

I would respectfully ask that in answering these questions that you do not simply claim that since this is the overhead allocation method that Warrenton uses, that is the only answer we need to provide. Your inability to provide answers to these questions that make any sense without referencing Warrenton in your explanation is confirmation of your inability to defend the City's inappropriate transfer of these funds.

Randy Kugler