



To: Manzanita Budget Committee  
From: Leila Aman, City Manager  
RE: Indirect Cost Allocation FY 2024-2025

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This memorandum summarizes the city-adopted methodology (Resolution 23-01) for determining the indirect costs (administrative overhead) to be allocated across funds and departments for the proposed budget for Fiscal Year 2024-2025.

## **What are Indirect Costs?**

Most costs the City incurs are direct costs, which are attributable and charged directly to the fund or department that generated the cost. Indirect costs are those costs of doing business that are not readily identified with a specific activity but are necessary for the operation of the program or service. 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, city attorney, 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. The administration of a governing body's business benefits the entire city but is not attributable to a specific fund or department. How should those (indirect) administrative costs be paid? Every local jurisdiction and every private enterprise has this problem of sharing indirect costs among divisions, departments, and funds.

The purpose an indirect cost allocation methodology is to have a transparent way to fairly and expeditiously distribute the indirect cost of administrative services across all funds and departments.

## **Materials and Services Methodology**

Manzanita's methodology is purposefully simple and requires only five steps to determine indirect costs shares. The underlying principle is that every operating department or fund incurs materials and services (M&S) costs that are accounted for under Oregon law. The level of M&S spending by each operating fund or department is a reasonable proxy for the level of administrative, finance, and overhead support for that fund or department. The model allocates administrative overhead (administrative staff and M&S) to each fund or department based on the percentage of total M&S spending of each department or fund.

### **Step One. Determine Administrative FTE Costs**

Determine the specific employees (FTE, or full time equivalents) to be included in the indirect cost allocation, their full-time compensation for the ensuing budget year, and the fraction of each employee's time to be shared.

For FY 2024-2025 the model assumes 100% of the Accounting Manager FTE, and a quarter each of the Assistant City Recorder (ACR) and City Managers (CM) time for a total of 1.5 FTE distributed across all operating funds. The proportion of the CM and the ACR FTE is an approximate estimate of the time each staff member spends solely on administrative or city council administration in addition to other more specific duties.



*The sum of administrative FTE costs for the FY 2024-2025 budget is \$217,500.*

## **Step Two: Determine Administrative Overhead Costs**

Actual administrative materials and services (M&S) expenditures were determined using the most recent audited financial statement and detailed financial information from the 2023 trial balance. According to the city's audited financial statement, total professional services for FY 2023 for administration was \$268,193. The administrative overhead calculation excluded any non-recurring, non-operational costs such as council related goals or legal fees related to specific projects.

*The operational overhead administrative costs for the FY 2024-2025 budget is \$192,498.*

## **Step Three: Determine the Total Administrative Indirect Cost**

The sum of the amounts determined in steps 1 and 2 constitutes the total amount of administrative indirect costs that will be allocated across all funds and departments.

*Total administrative indirect cost amount to be allocated for in the FY 2024-2025 budget is \$409,998.*

## **Step 4: Determine the Percentage of M&S for each Department or Fund (See table A – 5 Year Averages)**

Determine five-year average actual M&S expenditures for all funds that will share the total indirect cost allocation based on the five most recent audited financial statements. Calculate the total of the M&S five-year averages and determine a percentage/fraction of the total for each fund or department.

## **Step 5: Determine the Indirect Cost for each Department or Fund (See Table B – Total Cost Share Calc)**

Apply the fractions from Step 4 to the estimate from Step 3.

## **Which Funds Pay Indirect Costs**

The Water Utility and Building Funds are the only two funds that pay an indirect cost transfer to the general fund for overhead services. The only other operating fund that could pay is the Tourism Fund, if there are no legal limitations imposed by state law. Staff will study the extent to which the tourism fund benefits from administrative services and whether the city can legally charge that fund for such services. It is possible that staff will propose a future indirect cost transfer from the Tourism Fund to the General Fund.



# CITY OF MANZANITA

P.O. Box 129, Manzanita, OR 97130-0129  
 Phone (503) 368-5343 | Fax (503) 368-4145 | TTY Dial 711  
 ci.manzanita.or.us

**Table A: 5 Year Average**

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<b>Materials &amp; Services</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2019-23 Total</b>	<b>Average</b>	<b>5 year Average</b>
Court***	16,808	12,686	8,252	8,759	6,731	53,236	10,647	1.63%
Parks***	25,609	20,101	28,910	15,966	8,629	99,215	19,843	3.04%
Police***	64,355	52,283	59,447	48,231	61,456	285,772	57,154	8.76%
Non Department***	3,232	100	1,378			4,710	942	0.14%
<b>Total General Fund</b>	<b>112,023</b>	<b>87,190</b>	<b>100,008</b>	<b>74,978</b>	<b>78,839</b>	<b>442,933</b>	88,587	13.57%
Building Fund*	44,354	33,117	23,364	42,782	35,281	178,898	35,780	5.48%
Water Utility (M&S)	238,683	404,151	327,937	355,417	260,579	1,586,767	317,353	48.62%
Water SDC (M&S)	0	0	0	0	0	0	0	0.00%
Road Fund (M&S)	25,797	28,895	44,526	63,712	32,826	195,756	39,151	6.00%
Tourism Fund (M&S)	58,725	90,801	53,038	39,880	66,716	309,160	61,832	9.47%
Timber Mngmt (M&S)	14,483	66,806	0	0	0	81,289	16,258	2.49%
Housing Rehab (M&S)	0	0	0	0	0	0	0	0.00%
Trust Fund (M&S)	0	0	0	0	0	0	0	0.00%
Puffin LID (M&S)	0	0	0	0	0	0	0	0.00%
City Hall Expansion (M&S)	22,493	79,630	39,550	76,479	217,772	435,924	87,185	13.36%
Park SDC (M&S)	0	0	0	0	0	0	0	0.00%
Storm Water SDC (M&S)	0	11,014	4,770	1,173	15,837	32,794	6,559	1.00%
<b>Total other funds</b>	<b>404,535</b>	<b>714,414</b>	<b>493,185</b>	<b>579,443</b>	<b>629,011</b>	<b>2,820,588</b>	<b>564,118</b>	86.43%
<b>Total All Funds</b>	<b>516,558</b>	<b>801,604</b>	<b>593,193</b>	<b>654,421</b>	<b>707,850</b>	<b>3,263,521</b>	<b>652,704</b>	100.00%



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**Table B – Total Cost Share Calc**

<b>Fund/Department</b>	<b>Materials &amp; Services Spending FY 2023 Rate</b>	<b>Materials &amp; Services Cost Share</b>	<b>FTE Cost Share</b>	<b>Total Indirect Cost Share</b>
<b>General Fund</b>				
Court	1.63%	\$3,140	\$3,548	\$6,688
Parks	3.04%	\$5,852	\$6,612	\$12,464
Police	8.76%	\$16,856	\$19,046	\$35,902
Non-Department	0.14%	\$278	\$314	\$592
<b>Other Funds</b>				
Building Fund*	5.48%	\$10,552	\$11,923	\$22,475
Water Utility (M&S)	48.62%	\$93,595	\$105,751	\$199,347
Water SDC (M&S)	0.00%	\$0	\$0	\$0
Road Fund (M&S)	6.00%	\$11,547	\$13,046	\$24,593
Tourism Fund (M&S)	9.47%	\$18,236	\$20,604	\$38,840
Timber Mngmt (M&S)	2.49%	\$4,795	\$5,418	\$10,212
City Hall Expansion (M&S)	13.36%	\$25,713	\$29,053	\$54,765
Park SDC (M&S)	0.00%	\$0	\$0	\$0
Storm Water SDC (M&S)	1.00%	\$1,934	\$2,186	\$4,120
<b>Totals</b>	<b>100.00%</b>	<b>\$192,498</b>	<b>\$217,500</b>	<b>\$409,998</b>

**Summary of Administrative Cost**

**Totals**

FTE	\$217,500
Materials & Services	\$192,498
<b>Total Administrative Costs</b>	<b>\$409,998</b>



City of Manzanita

**COUNCIL RESOLUTION No. 23-01**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MANZANITA, OREGON, ADOPTING A MATERIALS AND SERVICES INDIRECT COST METHODOLOGY FOR THE PURPOSE OF DETERMINING TRANSFERS FROM ENTERPRISE FUNDS TO THE GENERAL FUND FOR ADMINISTRATIVE OVERHEAD SERVICES**

**WHEREAS**, the City of Manzanita administration provides overhead services to Enterprise Funds; and

**WHEREAS**, the City of Manzanita has historically ensured that Enterprise Funds cover the cost of administrative overhead for the services provided by the City's administration; and

**WHEREAS**, the city has investigated several options and have determined that a Material and Services model best fits the city's current needs.

**Now, Therefore, be it Resolved by the City Council of the City of Manzanita** that the city of Manzanita hereby adopts a Materials and Services Indirect Cost allocation method for the purpose of determine Enterprise Fund transfers into the General Fund for administrative overhead as part of the city's annual budgeting process.

Introduced and adopted by the City Council on 3/8/23.

This resolution is effective on 3/9/23.

Deb Simmons, Mayor

ATTEST:

Leila Aman, City Manager/ City Recorder