



ARCH CAPE SANITARY DISTRICT
FY 2025-26 BUDGET MESSAGE
April 3, 2025

EXECUTIVE SUMMARY

I am pleased to present the 2025-26 Proposed Budget for the Arch Cape Sanitary District. The past year has seen us make great progress in planning and implementing needed maintenance and upgrades in our sanitary system. We have done so through the extraordinary efforts of our sole employee, Matt Gardner, who has done yeoman's work taking care of the system and saving money for the district's ratepayers. We also owe our thanks and appreciation to our contracted bookkeeper and administrative assistant Teri Fladstol, and especially to Water Board President Bill Campbell, who has taken on the role of de facto Interim Administrator for both districts. Bill has been key in keeping both districts running and making improvements to our business systems and operations.

But it is untenable for board and community members to continue to take on that role. We have been fortunate to find an excellent candidate to serve as our contracted Interim District Administrator for the next two years. Contract negotiations will begin soon, and we are optimistic our candidate will come on board July 1. The districts need an experienced professional to administer them for the coming two years and provide us with a road map for staffing them in the future. Funding for this position will be provided with property tax dollars, the result of a successful measure on last November's general election ballot that will provide \$125,000 per year for the next two years from a Local Option levy. We thank the members of our community for supporting this measure and for continuing to support the districts in spite of the rates that all acknowledge are quite high.

The district's financial future looks to be improved from the past couple of years. We anticipate an overall 4% increase in the monthly base rates for the fiscal year starting July 1, going from \$288 to \$300 per quarter. We hope, however, that with the work done over the past two years and continuing for a few more years, those rates may begin to hold steady or even decrease three or four years from now. But major question marks still remain about the level and cost of staff needed and the extent of work that will be required to repair leaking and broken pipes throughout the collection system.

LONG RANGE FINANCIAL PLAN

The regular business of collecting and treating the community's wastewater will continue and should continue to do so without interruption. The major influence on costs, and the rates required to pay those costs, is the capital improvements needed to keep the system running. We are nearing completion of the Webb Pump Station, which is the hub of the collection system. All wastewater

passes through this station to its final stop at the treatment plant. The Webb Station has been in need of replacement for some time and the new one should be fully operational this spring. The only potential stumbling block is the uncertainty of funding to finish it. We received a grant last year backed by the Federal Emergency Management Agency (FEMA), which pledged to reimburse the district for 90% of the \$575,000 cost. We are awaiting reimbursement of some \$260,000 for work done and paid for, but the uncertainty over FEMA meeting its contractual obligation to make this payment puts the project's completion in some jeopardy. We are keeping our fingers crossed.

Over the coming ten years, we plan to rehab the two remaining pump stations at a total cost of \$150,000. We also plan to buy a truck in 2026-27 to replace the 2017 model service truck that can last another year but should be replaced after that; we will share the cost with the Water District. Sanitary will share this cost with the Water District. Other than these, the only remaining capital project of significance is to replace and upgrade the screening system and the membranes that catch and separate out debris at the start of the treatment operation. The initial screens remove much of the solids and inorganic constituents that need to be caught before the remainder get to the membrane basins, where smaller impurities are caught. The cost estimate for this project is \$600,000. We expect to have that full amount set aside by the 2028-29 fiscal year when the project is tentatively scheduled. That will allow us to pay cash and avoid borrowing with its additional long-term costs.

There is one major maintenance project that is budgeted to be done over the next two years. That is to remedy the problem of water from outside our collection system getting into the system and overwhelming it. During the rainy season, this "Inflow and Infiltration" (I & I), comprises up to 90% of the water the plant needs to treat. It's the result of broken pipes throughout the collection system. We are budgeting \$130,000 over the next two years to run cameras through the whole system, find the leaks, and repair or replace them. This will help prolong the life of the treatment plant components and save significant wear and tear – and costly replacement of worn-out components. Until we can see the full scope of this work, though, we won't know whether the money we're planning to spend will be enough to get the work done, nor whether two years will be enough. This is one of the question marks we have in our financial plan.

Following completion of these anticipated projects some six years from now, there are no more capital projects we anticipate for another four or five years. If this holds true, and if additional need for personnel is not too costly, we hope to be able to avoid any rate increases, and maybe even reduce the rates for a few years.

2025-26 BUDGET

The Sanitary District budget contains four funds, each of which is separate and each is required by law to balance so resources (Beginning Balance and Income) equal requirements (Expenditures and Ending Balance). Most activity is in the General Fund, which collects customers' rate payments and some other income and pays regular operating expenses. We expect to begin the year with about \$327,000 carried over from the prior year and receive \$530,000 in income. Budgeted spending is set at \$600,000, with a balance at year end of \$257,000. Major spending items are for staff and administrative activities, maintenance and chemicals, utilities, liability and property insurance, a required annual audit, and a few smaller items. Significant changes from the prior year include \$65,000 for the I & I project discussed above and \$40,000 for a replacement generator. The district

had two of its three generators die on us last month, and we have a quote for a new one for \$70,000 in the current year. Replacement of the second one is in the 2025-26 budget.

Other General Fund expenses include \$38,000 per year as debt payments for earlier borrowings. The final General Fund expenditure is a planned transfer of \$50,000 to a new Fund that will collect the Local Option Levy funds and pay the contracted Administrator. That Fund won't start getting money until property taxes are paid in the fall, so this is a cash flow loan. The General Fund will be repaid from the levy receipts.

The other three funds have dedicated revenue sources which are required by State law to be maintained in separate funds. The newest of these is being created this year to receive the Local Option Levy proceeds, which are limited to paying the cost of the Interim Administrator. A separate fund pays for redemption of General Obligation bonds approved by District voters several years ago to rebuild the sanitary plant using bond proceeds redeemed with property taxes. Annual payments are \$144,600 and run through 2040. The final Fund is the Capital Fund, which is reserved for capital expenses. This Fund is also required under State law for any entity that imposes a Systems Development Charge (SDC), whose proceeds are required to go into a Capital Fund. SDCs are collected for new development to help offset the cost of existing infrastructure and help pay for maintaining and improving the system.

CONCLUSION

This budget follows last year's Long Range Financial Plan that anticipated a 4% overall rate increase. This will pay for the year's operations and continue to set aside funds to pay for capital improvements needed in subsequent years without having to borrow money, which commits future boards and ratepayers to repay that borrowing over time, with interest. It covers costs and continues our program of catching up on deferred maintenance and keeping the system maintained to manage long-term costs and system integrity.

Sincerely,

Casey Short
Sanitary District Board President