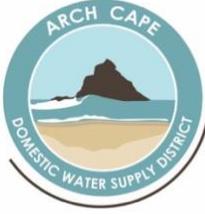


BUDGET MESSAGE FY2025 - 2026



Arch Cape Domestic Water Supply District

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April 4, 2025

We are pleased to present the Fiscal Year 2025-26 budget to the Arch Cape Domestic Water Supply District Budget Committee, Board of Commissioners, and Public. This budget message is a brief synopsis of the District's financial position and plan for the coming year.

Executive Summary & Analysis:

The District's Achilles heel is staffing – specifically the cost and elusiveness of well-rested, experienced staff to meet the growing demands of plant, equipment and infrastructure. District staff is needed to do the technical work and to administer the business of the Districts, but the cost of staff is high in order to attract and retain them. To cover these costs, the current budget proposes a 5.5% annual increase in rates and fees and even with those increases FY2028-2029 will end in a deficit. A 9% annual increase in rates and fees would be required to keep the District solvent through the foreseeable future. Note; In either case, these increases do not consider the additional cost of District administration which will be paid by tax revenue over the next two years.

It may be prudent for the next Boards convene a Finance Committee to consider alternatives for mitigating the 'cost of staff' / 'risk of not finding staff' in the midst of a vanishing workforce on the coast. The classical approach of employing or contracting District staff is becoming problematic and expensive in the near-term, and potentially antiquated in the mid-to-long term.

Question for the Committee – should we propose rates at 5.5% annually until finance committee reviews next year or set rates at 9% annually?

- A. The District's plant and infrastructure, above and below ground, are now aging more quickly than we can keep up.

Matt has made great strides in addressing the backlog of critical issues in the 2023 Engineer's report and other issues that have been identified since the report was written. Matt has been able to keep up with plant and equipment malfunctions and address them as they happen and document them in the new Asset Management System.

Recently, malfunctions of the underground infrastructure – pipes, gates, valves, fittings, etc. – are now beginning to occur. These events have revealed that: 1) rust and corrosion of the 50 year old infrastructure are taking its toll and the extent is likely very widespread across

the District. 2) use of 50 year old paper maps are not the most effective way to be able to identify where the infrastructure components are actually located.

As for preventive maintenance, though Matt is making some progress, he has not had the time to document in the Asset Management system and keep up with the manufacturer recommended requirements. As such, work will continue to be more reactive than proactive as we fall further behind the maintenance requirements, thus increasing the risks and cost of unanticipated malfunctions.

If the District were to get ahead of the “aging infrastructure” curve and stay ahead, significant rate increases would likely be required. However, staffing availability more than revenue is the limiting factor of making progress.

- B. The District has been and continues to be short staffed. Qualified full time staffing has been almost impossible to find, though we have been able to creatively cobble together interim support. Using staff efficiently has become the guiding principle.

Matt is the District’s only full time staff member and he is getting burnt out with 24x7x365 responsibility. Our previous Operator-in-training resigned last July after less than 18 months and no viable candidate has presented themselves. Matt’s request is to resume the Operator roll as soon as the new position of Manager of Plants and Operations can be hired. In the interim:

- We have been fortunate to borrow a “quick-study” staff member from Mike McEwan and he provides invaluable support to Matt.
- Our posting for an Operations Manager has gone completely unanswered.
- Very recently we have been able to find an extremely qualified operator to give Matt relief one weekend a month and several weeks during the summer.
- The unspent expenses budgeted last year for 2 full time staff positions have covered the cost of the interim staff and the lodging for the relief operator. This is expected to continue to be true with the presented budget.

With staff time more than revenue being the critically limiting resource, finding ways to use Matt’s (and other staffs’) time more efficiently has been established as the guiding principle. As such, Matt has increasingly outsourced tasks that don’t need to be done inhouse, such as some of the compliance labs, office cleaning, etc. For even more efficiencies, the Districts should consider the cost/benefit of a capital outlay, shared by both Districts, to purchase equipment such as a small excavator or vactor truck. Rather than spending Matt’s time contacting with, scheduling, overseeing a contractor and doing quality assurance, it is likely that Matt would spend less time on underground infrastructure projects by doing some of them inhouse.

- C. Though not a staffing issue, a significant and sustainable revenue stream is required in order to fund forest management activities past 2030.

Once the ARPA grant funds expire in September 2026, all forest expenses will need to be paid out of the Forest Fund. With the exception interest on the fund and donations of \$10,000-\$20,000 a year, there is no revenue stream to cover the operating expenses which are projected at \$50,000/yr and growing with inflation. Within the next 12-18 months, a decision will need to be made as whether logging will be required for revenue generation so that contracts can be put in place before the revenue stream is depleted.

Budget Detail: Fiscal Year 2025-2026

After several years in arrears, the audits for the District are up to date, so there is a degree of confidence in the opening balances for all funds.

The budget is presented in a fund-by -fund format, itemizing Resources and Requirements for the General, Capital and Forest Funds. The budget figures are based on the best estimate of what the District will receive and what it will spend from July 1, 2025 to June 30, 2026.

REVENUE

- A. The **General Fund’s** primary revenue are rate-based fees, excess usage charges, revenue received from the Sanitary District through the intergovernmental agreement (I.G.A.), and debt service surcharges. The District’s financial plan has identified funding future capital improvements through rates, rather than servicing debt, whenever possible.

	FY2024-25 Amended Budget	FY2024-25 Projected Actual	FY2025-26 Proposed Budget
Revenue	\$ 631,125	\$ 613,101	\$ 518,855

The 18% decrease in revenue is due in large part to the current year’s one-time transfer of \$145,622 from the Forest fund to repay the General Fund for pre-purchase costs.

Rate-based fees will increase by 5.5% to \$184 / quarter. Though Excess Usage Fees will increase by the same percentage (5.5%), the associated revenue is expected to be less than the projected current year amount since it is anticipated that the fee increase is/will deter rate payers from excess water usage.

- B. The **Capital Fund** reserves accumulate through the collection of system development charges which are assessed to new homes connecting to the Water District and from grants/loans. The FY2025-2026 budget has been developed assuming:
 - Revenue associated with 2 new connections (\$ 13,801).
 - A \$275,000 grant from Oregon Department of Transportation to cover District expenses to move the Asbury Creek inlet.
- C. The **Forest Fund’s** primary revenue are private donations (\$10,000), fund interest (\$8,000) and the ARPA grant (\$346,300). The ARPA grant funds expire in September 2026.

REQUIREMENTS

A. Operating Expenses

	FY2024-25 Amended Budget	FY2024-25 Projected Actual	FY2025-26 Proposed Budget
Personnel Services	\$ 247,431	\$ 153,677	\$ 299,567
Materials & Services	\$ 287,732	\$ 350,781	\$ 245,296
TOTAL	\$ 535,163	\$ 504,458	\$ 544,863

1. Personnel Services:

These expenditures are for employee related costs such as salaries, medical insurance, retirement etc. The expectation is that the District will employ two full time staff for plant operations, maintenance and District projects, though that objective has not been achieved since August 2024.

Personnel Service expenses will increase by 21% over FY2024 budget due to cost of living increase and anticipated increase in salaries for a more experience Operator (still in the District's salary range for the position) and for the new Manager of Plants and Operations position.

2. Materials and Services

These expenditures are for the operations of the District including required projects, planned and unplanned maintenance, utilities, professional services, and administrative expenses. The detail line items in the budget document have been categorized differently than in the current year budget so as to be more meaningful in explaining their use and accounting for them.

The anticipated costs for FY2025-2026 is anticipated to decrease by 15% from FY2024 primarily due to reduction in auditing expenses (only one will be done this coming year versus two during the current year) and less budgeted expenses for temporary staff as any need for temporary staff will be offset by reduced personnel expenses.

B. Debt Profile & Cash Flow

The District currently services debt on only one loan, entering into a loan agreement with IFA Business Oregon in 2011 for \$536,000 repayable over 30 years to upgrade the water filtration plant.

C. Capital Projects:

Oregon Department of Transportation (ODOT) is requiring the District move the Asbury Creek intake and replace/move a water main.

- FY2025 & FY2026: A total of \$500,000 of District expenditures in FY2025 and FY2026 will be 100% reimbursed via an ODOT grant. Reimbursement will be 30 days after the District pays related invoices and those checks are deposited by payee. As such, cash flow will need to be tightly monitored and short-term loans of 30-60 days from the General Fund, Forest Fund and/or Sanitary District may be required.
- FY2026: The District's work truck will need to be replaced at an estimated cost of \$75,000. The District will receive payment from the Sanitary District in the amount of 50% of this expense.
- FY2026 & FY2027: \$150,000 of related District expenses in FY2026 and FY2027 will not be reimbursed. In February, application was been made for that amount through the Safe Drinking Water Revolving Fund (SDWRF). No status of the application processing is available
- FY2027: Membranes will need to be replaced at an estimated cost of \$50,000

D. Forest-Watershed Projects:

Until September of 2026 significant road work will be underway to: 1) stabilize/improve the major roadways that are to remain and 2) to decommission all of the other roadways. This roadwork is to protect the quality and quantity of the District's source water. The work is primarily funded with ARPA monies, approximately \$300,000 of which will be used this coming fiscal year.

Summary:

The budget presented here allows the District to maintain current levels of service and undertake the defined set of operational and capital projects. The attached documents provide a breakdown of the proposed budget. We look forward to the budget process and working with you all, as the District plans for FY 2025-26 and beyond.

Sincerely,

Bill Campbell, Board President