

**OTTER ROCK WATER DISTRICT
2018-2019 BUDGET MESSAGE**

**TO: OTTER ROCK BUDGET COMMITTEE
OTTER ROCK WATER DISTRICT BOARD**
FROM: ART BRADLEY, BUDGET OFFICER
DATE: JUNE 5, 2018

Budget Committee and Otter Rock Water Board:

Enclosed is the 2018-2019 Proposed Budget. The annual budget sets forth District services for the 2018/2019 fiscal year, and dictates the District's short-term financial position. The purpose of this Budget Message is to highlight the major issues and changes and to discuss future projections.

BACKGROUND:

Budget Officer:

The budget officer is responsible for preparing the proposed budget to present to the budget committee. (ORS 294.331) A budget message is required as part of the budget preparation. The statute requires that the budget message contain a brief description of the financial policies reflected in the proposed budget and, in connection with financial policies, explain the important features of the budget. The budget message must also explain proposed changes from the prior year's budget and explain any major changes in financial policies.

Role of the Budget Committee:

The budget committee, consisting of five citizens and five governing body members, has several purposes. It conducts public meetings to hear the proposed budget message and review the budget proposed by the budget officer. One of its most important purposes is to listen to comments and questions from interested citizens. It considers this public input as it deliberates on the budget. It can revise the proposed budget to reflect changes it wants to make to the local government's fiscal policy. When the budget committee is satisfied with the budget, it is approved. Approval of the budget should be made by motion and be recorded in the minutes of the meeting. (ORS 294.428)

After the budget is approved by the Budget committee, a budget hearing must be scheduled before the governing body – the Otter Rock Water District. This hearing is currently scheduled for June 26, 2018 at 6:00 P.M. ORS 294.438 requires that a budget summary and notice of budget hearing be provided five to 30 days before the scheduled hearing. This information must either appear in a newspaper or be mailed. The District has typically mailed notice, notice has been mailed and emailed.

This year, as part of the mailed Budget Committee notice, the District has invited ratepayers and residents to comment on a proposed rate increase pursuant to ORS 264.312. Table 1 below reflects the existing rates, fees and charges approved as part of the 2016/2017 Budget and later ratified in Ordinance 2017-01 and the 2017/2018 budget adoption. Please note: The Board has voted to reduce the application fee for connection to Otter Rock Water District water service (to be approved by Resolution). This reduction is related to the District's processing of a system development charge ordinance, currently scheduled for consideration on July 24, 2018. The budget shows a new fund for SDC revenues, should the

SDC charge be adopted. (SDCs are imposed on new development and fees collected are required to be segregated and may only be used for capital projects, not operations).

In addition, at its meeting on June 26, 2018, the Board is considering whether to increase the residential water rate from \$30.00 per month to \$40.00 per month. The Budget Committee should make a recommendation on such increase. The increase is proposed to fund the contingency line item in the 2018/2019 budget, and, as such is available for maintenance, including providing incentives for the installation of water meters. The Board has recently voted to select a standard water meter and hopes to install meters to gather information about system usage and probable location of leaks.

Rates and Charges as they are now constituted are shown in Table 1 attached. Recent and proposed Changes are in highlighted text.

BUDGET DISCUSSION

The Budget Officer is to propose a budget that in his/her judgement fits the needs of the Otter Rock Water District community and is fiscally responsible. While the Budget message is somewhat an independent view of the Budget Officer, it is strongly influenced by an assessment of the Otter Rock Water Board's position that has been articulated through months and even years of actions.

The national, state and local economy is still recovering from a recession, but there is a resurgence in building activity in Oregon. For the purposes of this budget, we have assumed that the recovery will continue at a slightly faster pace. Building construction and the demand for new water service is not predicted to grow too much in the District due to the lack of development activity, unsuitable soils for septic service and unavailability of sewer service. Volatile federal policies have dampened the prospects for federal funding assistance to the District. Similarly, state funds are becoming more scarce.

Balanced Budget: The overriding financial policy of the District is to maintain a balanced budget. Operating expenses and ordinary repair and maintenance of facilities and services should not cut into reserves or funds legally set aside for capital improvements. In prior years, operating expenses exceeded revenue and the budget became unbalanced. For the 2016/17 fiscal year budget, the Budget Committee and governing body made modest adjustments to rates and charges during the budget process and in implementing regulations. After compliance with Oregon budget and special district laws, the adjusted rates and charges and district regulations are in full force and effect. The 2016-17 rate increase and associated revenues balanced the budget so that the District did not run at a deficit. In this regard, the District is financially sound. However, no funds were collected or set aside for capital projects. This will be addressed in future budget years.

Through the efforts of the Water Superintendent, James Osburn, the maintenance and operation of the system including repair of leaks, has improved dramatically. The District did not have to issue water conservation notices owing to the increased efficiency of the system. In addition, the water storage tank coverage has been completed in the 2016/17 fiscal year, reducing exposure to contaminants seeping through cracks in the tank lid. This small capital project was funded through savings (contingency) reducing the District's overall ending balance.

In the 2016/17 budget year the District received approval of a Safe Drinking Water Grant/ Loan from the Oregon Infrastructure Authority in the amount of \$20,000.00 This forgivable

loan funded the master plan/feasibility study project which was completed in the 2017/2018 budget year with the adoption of Ordinance 2018-03. In addition, the District commissioned an SDC study (methodology is currently available for review) and will consider a SDC ordinance on July 24, 2018. This study was funded from savings (contingency) reducing the District's overall ending balance.

The 2018/19 Budget proposal does not change the level of services provided by the District in any material way. **Importantly, only the \$10.00 per month increase in water rates is proposed** as part of the budget adoption; however this does not mean that the District will ignore the requirement to review, adjust and refine fees, rates, and charges.

Twice in the past fiscal year the Board conducted a review of fees, rates, and charges and invited ratepayers to public hearings to provide comments. No testimony was received. This past fiscal year, as a corollary to the master plan update, an Engineering Consultant prepared an SDC study and the Board reviewed the adopted connection charge. The connection charge has been reduced and the SDC is scheduled for consideration at a public hearing in July.

The Water Master Plan forms the basis for future capital improvement planning and capital projects, as well as the development or refinement of financing mechanisms, including system development charges, bonding, grants and loans. The Board will consider refinements (changes) to the feasibility study (master plan) on June 26, 2018 as part of the public hearing on the budget adoption. The Board is interested in scheduling over five years improvements to the district. It is expected that year one 2018/2019 will not include any major improvements, but may include installation of water meters to gather additional data about the timing of improvements. The Budget Committee may want to offer a recommendation about the timing of such improvements as it relates to this fiscal year.

The important features of the proposed budget are that there are few changes from the current budget. There is no change proposed in the number of employees or status. Similarly, operating expenses for routine maintenance and laboratory testing remain constant. The District has only part time employees working below PERS thresholds. No additional regulatory costs or equipment purchases are presently anticipated, although the completion of the master plan has indicated a need for additional data to prioritize capital improvements. The rate increase is for contingency, including but not limited to water meter purchase, installation (or subsidy) to gather more pertinent information.

Demand for service appears to be growing at a slow pace. Three new services have been paid for by property owners in the 2016/17 fiscal year. Upon connection (which has been delayed) revenues will increase. Service requests paid one full connection charge in 2017/18 fiscal year. Overage paid will be refunded. Another connection is pending. In 2015, the County approved a preliminary plat subdivision application by Mr. Barry Brown. The development of the subdivision has now progressed although the status of County approvals is questionable. No actual requests for service have been submitted for this subdivision. The new SDC charge should ensure that new development pays its fair share while not overpaying. Unless something changes, after the construction of subdivision infrastructure, and recording of a final plat, the District will begin delivering services to six (of 8) new subdivision lots. (This is dependent on County land use action and appeals, if any). Revenues will increase with 6 new services as will funds for future capital improvements – depending upon refinement of the connection/development charge.

FUTURE BUDGETING

An annual budget in itself does not give a clear picture of either the District's financial condition or ability to continue to deliver services in the long term. Other factors must be considered including:

- Age and condition of infrastructure, including maintenance and deferred maintenance for our infrastructure and buildings (beyond useful life)
- Adequacy, age, and condition of productive equipment (beyond useful life)
- Amount of debt (none)
- Long-term contracts, permit requirements, land leases, easements, licenses, etc.
- Adequacy of water quantity and quality for new development, capacity of water facilities and mains
- Adequacy of rates, taxes, fees

While the budget is balanced with current rates, District management strategy has not dealt very effectively with all of these factors. Particularly, the age and condition of existing infrastructure, deferred maintenance and the need for replacement of facilities will need to be addressed in future budget years. The availability of grants/forgivable loans (like the safe drinking water loan which funded the master plan) and other financing mechanisms will be key to future improvements; ratepayers should expect future increases in charges and rates to build matching funds for grants and loans. Meters will likely be required for all classes of uses including residential use and surcharges may be possible for excessive or inappropriate use – to promote water conservation. Finally, financing mechanisms, like possible bonds for infrastructure, and associated rate increases to repay such obligations are possible in the future.

CONCLUSION

The Otter Rock Water District is currently in a balanced budget situation with the current ability to deliver services. No dramatic changes in operating expenses or revenues are proposed or anticipated for this fiscal year. A modest rate increase to fund or subsidize water meters is necessary to pursue grants, loans and pinpoint leaks and address excess usage. We are turning our attention to long range capital improvement planning and anticipate an aggressive infrastructure replacement program to be implemented over the coming years. The Master Plan and the success of obtaining grants and loans and other financing options and alternatives will play a key part in future rates, fees and charges. The District, like other local governments, would like to build contingency funds for unexpected occurrences or emergencies. Future budgets will strive for new and creative initiatives to improve services and keep costs down while adequately preparing for the future. Finally, this community is being served by talented and dedicated volunteers and employees. The District volunteers and employees strive to improve the efficiency and effectiveness of our delivery of services. We must thank all of the employees and volunteers for their dedication and caring for the community. I look forward to the Committee and the governing body review and approval of the attached budget.

Respectfully Submitted,

Art Bradley, Budget Officer

TABLE 1
CURRENT RATES, FEES, AND CHARGES

1. All single family residential service accounts are flat rate ~~\$30.00~~ **\$40.00** per month (3/4 inch minimum service); no overage charges are currently applied when the single family dwelling has its own service.

2. Water Meter rate is \$4.00 per 1000 gallon for overages over base. Overage charges above base apply to all accounts except single family residential above. Base Gallons by meter size for calculation of metered overage charges are as follows:

<u>Meter Size</u>	<u>Base Gal</u>
• ¾ inch	6,500
• 1 inch	10,500
• 1 ½ inch	18,500
• 2 inch	26,500

3. All single family residential service accounts with rented accessory dwelling unit(s). Rates:

- ~~\$30.00~~ **\$40.00** per month plus \$30.00 for each rented accessory dwelling unit(3/4 inch minimum service)

4 All multi-unit residential [regardless of whether it is a residential long term rental or commercial tourist accommodation] shall be metered. Rates:

- ~~\$30.00~~ **\$40.00** per month per unit (3/4 inch service to 2 inch service)

5. All commercial users shall be metered. Rates:

Meter Size	Base Gal	Minimum charge
• ¾ inch	6,500	\$37.50 \$47.50
• 1 inch	10,500	\$45.00 \$55.00
• 1 ½ inch	18,500	\$75.00 \$85.00
• 2 inch bldg	26,500	\$90.00 single commercial
		Multi-unit commercial rate: \$30.00 \$40.00 per month
		<u>per unit</u>

6. Government Facility shall be metered. Rates:

- | | | |
|-------------------------|--------|---------------------------------------|
| ○ ¾ inch | 6,500 | \$30.00 \$40.00 |
| ○ 2 inch bath or shower | 26,500 | \$30.00 \$40.00 per |

7. Turn on and Turn Off charges for replacement/repair of shut off valves and lines: subsidized at \$50.00 turn on. \$50.00 turn off. All other On or Off service charges set at \$500.00 per service.

8. New water service application*/connection fee:

- ~~\$5650.00~~ **\$750.00** (plus cost of line installation and water meter) * includes adjustment Resolution 2018-01

9. ORWD Application fee for billing Tenant
\$30.00