



City of Manzanita

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CORRECTED MEMORANDUM

TO: Council Budget Committee, City of Manzanita

DATE: May 18, 2020

FROM: Cynthia Alamillo, City Manager, City of Manzanita
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RE City of Manzanita FY20-21 Budget - Budget Committee Meeting 5/13 Follow-up

The purpose of this memorandum is to follow-up on specific questions asked during the May 13th Budget Committee meeting.

1. Question: What has been the history of the City's room tax collections and what is the forecast for room taxes in the current fiscal year FY19-20?

Table 1 below illustrates historical room tax collections, by month, over the past 10 years. As shown, over the past three full fiscal periods, room tax collections have increased by between 9.7% to 15.0%. For the current fiscal period, FY19-20 through March, room tax revenues have increased 10.2% over the same period previous year.

**Table 1: Actual Monthly Room Tax Collections
 FY09-10 to FY19-20 To Date**

Month	Actual FY09-10	Actual FY10-11	Actual FY11-12	Actual FY12-13	Actual FY13-14	Actual FY14-15	Actual FY15-16	Actual FY16-17	Actual FY17-18	Actual FY18-19	Actual To Date FY19-20
7	66,684	64,637	63,619	80,585	99,019	112,604	127,926	128,924	158,443	188,139	211,994
8	5,209	8,459	11,387	6,763	945	5,308	6,931	6,498	11,514	15,043	6,296
9	1,487	6,073	3,626	5,053	8,805	7,087	5,157	3,575	1,561	1,208	2,810
10	174,407	173,407	178,010	219,602	247,679	253,298	290,212	322,517	361,360	378,827	437,385
11	17,669	29,493	34,652	7,826	13,415	27,030	8,334	15,695	14,544	33,891	14,122
12	7,325	1,515	641	3,338	2,382	1,277	2,908	877	1,371	6,443	839
1	36,636	42,210	35,142	63,690	59,748	69,682	74,200	85,879	80,803	109,804	146,644
2	15,449	8,599	15,597	659	11,303	16,214	15,997	18,569	29,332	27,439	16,812
3	48	467	817	365	505	1,147	685	195	1,153	252	1,416
4	34,089	27,756	40,175	46,907	48,478	64,565	60,492	76,598	74,068	100,013	-
5	8,581	10,370	2,369	7,065	12,005	13,084	15,410	9,129	18,588	4,498	-
6	1,664	1,928	960	1,017	1,215	1,746	1,102	81	1,684	1,746	-
Annual total	369,249	374,911	386,995	442,870	505,500	573,042	609,353	668,539	754,421	867,303	838,317
Y/Y % Chg		1.5%	3.2%	14.4%	14.1%	13.4%	6.3%	9.7%	12.8%	15.0%	
YTD % Chg											10.2%

Source: City financial records

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To prepare a forecast for FY19-20, we evaluated revenue collections based upon a 3-year, 5-year, or 7-year historical annual average. These results are shown in **table 2** below. With the emergence of the COVID virus and a forecast was attempted for the remaining three months of the current fiscal year. This forecast is based upon a 70% collection level (or a 30% decline in room tax revenues) based upon the previous three-year average. This is an aggressive decline in tourism, reflecting the novelty of the COVID virus and significant public concerns regarding testing and the virus' spread through asymptomatic carriers. Under this forecast, FY19-20 collections are estimated to total \$905K, or +4.4% over FY18-19 actuals – see **table 3**.

**Table 2: Room Tax Historical Collections
3, 5, and 7-Year Averages**

Month	3-Yr Avg Historical Collections	5-Yr Avg Historical Collections	7-Yr Avg Historical Collections
7	204,042	179,899	162,861
8	9,212	9,129	8,269
9	2,276	2,393	3,458
10	417,865	387,494	354,426
11	20,711	18,475	18,248
12	2,707	2,074	2,079
1	134,364	113,955	101,951
2	20,355	21,793	20,168
3	1,028	886	895
4	83,559	75,147	67,303
5	10,739	12,142	11,397
6	1,171	1,272	1,227
Annual total	908,029	824,659	752,283

Source: City financial records

**Table 3: Room Tax Forecast FY19-20
30% revenue realization based on
3-year historical average**

Month	Actual FY18-19	Actual To Date FY19-20	Forecast FY19-20	
7	188,139	211,994	211,994	
8	15,043	6,296	6,296	
9	1,208	2,810	2,810	
10	378,827	437,385	437,385	
11	33,891	14,122	14,122	
12	6,443	839	839	
1	109,804	146,644	146,644	
2	27,439	16,812	16,812	
3	252	1,416	1,416	
4	100,013	-	58,492	70%
5	4,498	-	7,517	70%
6	1,746	-	819	70%
Annual total	867,303	838,317	905,145	
Y/Y % Chg	15.0%		4.4%	
YTD % Chg		10.2%		

Source: City financial records and FCS GROUP

2. Question: Is the Room Tax budget for FY20-21 of \$540,000 reasonable?

Using the historical information presented in tables 1 through 3 above, we prepared a sensitivity analysis based upon collection levels ranging from a 50% loss in revenue (most pessimistic) to no loss in revenue (most optimistic). The intervals we used in-between these bookends include a revenue realization factor of 60%, 75%, 90% or 100% (or no loss in revenue). The base year used for this forecast included a 3-year, 5-year or 7-year annual average of historical collections. **Table 4** summarizes the results of this sensitivity analysis.

Table 4: Room Tax Forecast – Sensitivity Analysis

	Forecast FY19-20	FY20-21 Forecasts under alternative scenarios				
		100% No Change Forecast	90% Optimistic Forecast	75% Baseline Forecast	60% Baseline Forecast	50% Pessimistic Forecast
3-year historical average	866,958	908,029	817,226	681,022	544,817	454,014
5-year historical average	866,958	824,659	742,193	618,494	494,795	412,330
7-year historical average	866,958	752,283	677,055	564,212	451,370	376,141

Source: FCS GROUP

Based upon the above analysis, it is our opinion that the current City proposed Room Tax budget of \$540,000 for FY20-21 is reasonable and most closely approximates a 60% revenue realization level. This compares to a 70% revenue realization assumption table 2. The reason for this change is as COVID restrictions are eased, tourism will gradually return and increase but will not rebound to historical levels, at least not in FY20-21. The detailed monthly room tax forecast under the 3-year historical average at a 60% revenue realization is presented in table 5 below. There are many ways that this forecast can be approached. The range of scenarios is one methodology. If the Committee desires to explore additional forecasts, please let us know.

**Table 5: Room Tax Forecast by Month
Recommended Scenario to monitor against**

FY20-21 Forecasts under alternative scenarios 3-Yr Avg Historical Collections Basis						
Month	Forecast FY19-20	100%	90%	75%	60%	50%
		No Change Forecast	Optimistic Forecast	Baseline Forecast	Baseline Forecast	Pessimistic Forecast
7	211,994	204,042	183,638	153,032	122,425	102,021
8	6,296	9,212	8,290	6,909	5,527	4,606
9	2,810	2,276	2,048	1,707	1,365	1,138
10	437,385	417,865	376,079	313,399	250,719	208,933
11	14,122	20,711	18,640	15,533	12,427	10,356
12	839	2,707	2,436	2,030	1,624	1,353
1	146,644	134,364	120,928	100,773	80,619	67,182
2	16,812	20,355	18,319	15,266	12,213	10,177
3	1,416	1,028	925	771	617	514
4	58,492	83,559	75,204	62,670	50,136	41,780
5	7,517	10,739	9,665	8,054	6,443	5,369
6	819	1,171	1,053	878	702	585
Annual total	905,145	908,029	817,226	681,022	544,817	454,014
Y/Y % Chg		0.3%	-9.7%	-24.8%	-39.8%	-49.8%

Source: FCS GROUP

As discussed during the Budget Committee meeting on May 13, no one really knows how quickly the economy will recover as COVID restrictions are eased. Many factors will affect this including consumer comfort in returning to normal, the possibility of a second COVID wave, or other changes. We therefore recommend that the City regularly monitor actual collections against budget throughout the new fiscal year as well as continue to monitor collections into subsequent periods as the societal impacts from COVID continue to evolve.

3. Question: Please review the proposed personnel budgets for the Water, Roads and GF-Parks departments and in particular why Parks benefits exceed salaries.

After evaluating the personnel budget details, it has been determined that a correction is needed to the proposed personnel benefit line items for the Water, Roads and GF-Parks departments to remove the calculated health benefits for a part-time position in Public Works. This part time position primarily supported all areas of public works but based upon time sheet information was primarily focused on parks department functions. The following **table 6** summarizes the corrections required.

**Table 6: Current and Corrected Personnel Line Items for
Water, Roads and GF Parks for FY20-21**

	Water	Roads	GF Parks
Current line items			
Wages and Salaries	153,680	32,324	31,044
Payroll Benefits and Expenses	129,085	28,929	38,327
Total	282,765	61,253	69,371
Corrected line items			
Wages and Salaries	153,680	32,324	31,044
Payroll Benefits and Expenses	121,633	25,075	23,938
Total	275,313	57,399	54,982
Difference in Totals	(7,452)	(3,854)	(14,389)

Source: City financial records

4. Question: ICAP Study - As the City continues to use this model, how can we capture data that would help improve as we go along how we allocate those monies?

This is a living document for the City, and its intended to grow with the City. So, as the City's administrative group changes, either in duties or in the number of bodies, one thing to consider is to start thinking about how the City changes, and how that places demands on administrative staff. This includes using a third allocation factor to more accurately capture data when determining cost allocations for each position. This year's allocation factor uses FTE's and expenses but could add benefits or some other factor as well. It would be recommended that the City gather more information on the Court Utility Specialist position on how that function benefits the court and water departments.

5. Question: Why did the Carryover Balance for the Water Construction Fund (Fund 41, Department 810) decrease from \$2.764M in FY19-20 to \$2.444M in FY20-21?

Table 7 indicates the breakdown of expenses and revenues. The carryover amount changes depending on the expenses incurred within a year. As of March 31, 2020, \$122,00,000 have been incurred for the 6-inch Sitka water replacement project. The estimated end of year balance for FY 19-20 was increased to \$200,000 to cover expected engineering invoices. The \$350,000 left were intended for the emergency well that will not be completed this year. For FY 18-19, \$550,00 were appropriated for the emergency well, for the 3rd and Manzanita project, and additional money if unexpected projects could be completed. In FY 18-19, out of the \$550,00, \$405,000 were used for the 3rd and Manzanita project.

**Table 7: Water Construction Fund
For FY 20-21**

WATER CONSTRUCTION FUND FUND 41, DEPARTMENT 810						
WATER CONSTRUCTION FUND 41	18-19 Adopted Budget	19-20 Adopted Budget	19-20 EOY Estimate	20-21 Proposed Budget	NOTES	
<u>RESOURCES</u>						
3900 Carryover	2,525,000	2,764,632	2,441,567	2,444,367	Carryover changes for each fiscal year. It depends on the revenues received and expenses incurred.	
4200 System Development Charges	138,000	138,000	96,000	138,000	For the next FY, the City anticipates 20 new connections with SDC charges of \$6,900 each.	
4330 Service Extensions	1,000	1,000	0	0	Purpose: If a property owner asks the City to extend a water service line to their property. The property owner reimburses the City for the work. As of March 31, 2020, and for the last fiscal year, there has been no revenue under this code. Current practice is for the property owner to extend water main to the edge of their property and to cover all expenses. Therefore, this revenue source will not be considered. If the City receives revenue for this service, it will be allocated to the miscellaneous line item.	
4250 Earned Interest	30,000	35,000	30,000	35,000	Interest dropped	
4951 Transfer in - Water Operating Fund Transfer in - General Fund	75,000	75,000	75,000	75,000	Standard transfer amount	
4962 Transfer in - Puffin Lane LID Fund	68,000	1,800	1,800	900	Payments to Housing Rehabilitation Loan. There is only one person left that needs to submit a payment. An invoice will be sent out to collect the payment. In FY 19-10 two invoices were sent and paid.	
TOTAL WATER CONSTRUCTION	2,837,000	3,015,432	2,644,367	2,693,267		
FUND RESOURCES						
<u>EXPENDITURES</u>						
	18-19 Budget	19-20 Proposed Budget	19-20 EOY Estimate	20-21 Proposed Budget	NOTES	
<u>Water Construction Fund - Fund 41 Department 810</u>						
<u>Materials and Services</u>						
6040 Contract Services		500	500	0	500	As of March 31, 2020, no expenses have been incurred under this code.
6060 Advertising		1,000	1,000	0	1,000	As of March 31, 2020, no expenses have been incurred under this code.
6100 Professional Fees		1,000	1,000	0	1,000	As of March 31, 2020, no expenses have been incurred under this code.
Total Materials and Services		2,500	2,500	0	2,500	
<u>Capital Outlay</u>						
7220 Water Construction Projects		550,000	550,000	200,000	235,000	For the FY 20-21, there are no large projects scheduled. The proposed \$235,000 would cover \$185,000 to work on the emergency well located at the treatment plan and \$50,000 to cover Pelican Lane water main replacement.
Total Capital Outlay		550,000	550,000	200,000	235,000	
<u>Transfers</u>						
8014 Transfer to Puffin Lane LID Fund		0	0	0	0	
Total Transfers		0	0	0	0	
8970 Reserve for Future		2,253,000	2,431,432	0	2,431,432	For the FY 19-20 there was no need for the Reserve for Future funds.
8950 Contingency		31,500	31,500	0	31,500	Standard contingency amount. For the FY 19-20 there was no need for the Contingency funds.
TOTAL WATER CONSTRUCTION	2,837,000	3,015,432	200,000	2,700,432		
FUND EXPENDITURES						
Carryover			2,444,367			

6. Question: Can the contingencies that are within the water fund, water construction fund and road fund can be transferred to the General Fund to make up for the expected loss in STR taxes?

Yes, but it would require a resolution approved by Council. Transfers authorized by resolution can occur either within a fund, or from one fund to any other fund [ORS 294.463(3), renumbered from 294.450(3)].

7. Question: When can the City have a conversation about the cost recovery for building services.

It is recommended to have such discussion when evaluating the building permit fee increase proposal. The proposed budget does not assume an increase in revenue due to the increase of fees. This is because the City just initiated the process for the fee increase, and there is no direction if the City Council would approve the increase this year or not.

8. Question: Please review the budget notes-enterprise funds note (page 28).

Current text: “Water revenue is the largest single revenue source in the City’s budget, although all monies must be used for the water utility”.

Revised text: “Water revenue is the largest single revenue source in the City’s budget. This revenue can be used to cover direct and indirect costs needed for the operation and maintenance of the City’s water supply system.

9. Question: What is the status of the automatic meter system. Is the continuation of that project included in this proposed budget? What is the expected date of completion?

Approximately, 99% of the meters have been converted to a radio-read system. This means that it now takes one operator 45 minutes to read the entire system. In the past, the readings were done manually, and it would normally take two operators and five days of manual labor.

The proposed FY 20-21 budget does not include any expenditures for the continuation of the automatic meter system. Before allocating more funds to this project, staff needs to conduct more research to make sure the required software matches with the newly acquired financial software. It is expected that the next phase of the automatic meter system would be proposed for the FY 21-22. The next phase includes implementing an interface to allow City Staff and homeowners to see live water usage information.

10. Question: What is the status of the water study? What is the total cost? How is this expense being covered?

The water study is expected to be completed by the end of June 2020. Total expected cost is \$80,000 and this amount was included in the FY 19-20 Budget (Fund 40, Department 400, Code 6100 – Professional Services).

11. Question: What is the status of the replacement of the water tanks?

A tentative time for replacement is in five years. Currently, City staff is working with an engineering firm on an Oregon Emergency Management (OEM) grant for funds to replace the tanks. If awarded, the first grant application would be to complete 10% of the engineering studies required. This application is expected to take 8 months and 3 months to complete the studies. If these two milestones are completed, the next step would be to apply for a 3 milling FEMA grant. The FEMA grant process would take about 18 months and if awarded, 18 additional months would be needed to complete the replacement.

12. Question: Please explain why the City has transferred money from the Water Operating fund to the City Hall Expansion fund two years in a row. Does this transfer align with the City Charter?

It was decided to continue the transfer of \$113,675 to the City Hall Expansion fund as new facilities or improvements to the current City Hall is one of the City Council goals for this fiscal year. The revenues from the water sales can be used to cover direct and indirect costs needed to for the operation and maintenance of the City's water supply system.

13. Question: If the city transfers funds from the General Fund to another fund, is there any prohibition on later transferring some or all of those funds back to the General Fund, should another need arise?

No. There are no prohibitions from transferring General funds to other funds. However, is it recommended not to alter the scheduled transfers as that would create the need to process a supplemental budget and there is no immediate need. The City will finish the FY 19-20 in good financial standing.

14. Question: What are the benefits from waiting to complete the scheduled transfers to the end of the year?

The practice of the City has been to complete all transfer transactions on June, the last month of the fiscal year. This allows the City to have flexibility in funds in case those funds are needed to cover unexpected expenditures.

15. Question: Can City Council amend the 2019-20 Adopted Budget to roll over all of the 2019-20 budgeted transfers out of the General Fund (that have not already been transferred) to the same line items in the 2020-21 proposed budget.

It is possible, but it is not recommended. The City will end FY 19-20 in good standing and there is no need create a supplemental budget. The best strategy to control revenue streams would be to control expenditures. This strategy can be enforced by establishing a policy that would limit the City expenses until the revenue streams are consistent. The proposed budget does not include any large projects or large expenditures, aside from wages and salaries.

16. Question: Provide clarification as to the types of reserves that are contained in the budget, as identified in the City's annual financial statement.

The General Accounting Standards Board (GASB) issuance #54 establishes fund balance hierarchies based primarily on the use of the resources and governing City administrative or legislative authority. The hierarchy of funds include the following:

- *Restricted fund balance.* Constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) or by City legislation.
- *Committed fund balance.* Constrained to specific purposes by the City as determined by Council action. Amounts cannot be used for any other purpose unless approved by the City Council.
- *Assigned fund balance.* Amounts that City intends to use for a specific purpose. Intent can be expressed by the City Council or the City Manager.
- *Unassigned fund balance.* Available for any purpose and are reported only in the General Fund.

Table 8 outlines each of the City’s funds and the general hierarchal classification that applies to each fund.

Table 8: City of Manzanita Funds and Reserve Types

Fund Name (Fund Number)	Restricted	Committed	Assigned	Unassigned
General Fund (#10)	-	X	-	X
Roads Fund (#15)	-	X	-	-
Water Operating Fund (#40)	-	-	-	X
Water Construction Fund (#41)	X	-	-	-
City Hall Expansion Fund (#51)	-	-	X	-
Park Facilities Fund (#52)	X	-	-	-
Storm Drain Facilities Fund (#53)	-	X	-	-
Public Works Equipment Reserve Fund (#54)	-	-	X	-
Timber Management Fund (#57)	-	-	-	-
Trust Fund (#59)	X	-	-	-
Public Safety Equipment & Facilities Reserve Fund (#60)	-	-	X	-
Housing Rehab Loan Fund (#61)	X	-	-	-
Puffin Lane LID Fund (#65)	X	-	-	-
Tourism Promotion and Facilities Fund (#70)	X	-	-	-

Source: 2019 City Annual Financial Report, p33