



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

BUDGET COMMITTEE WORK SESSION

Zoom Video Conference
<https://ci.manzanita.or.us>

AGENDA

June 2, 2023
10:00 AM Pacific Time

Video Meeting: Council will hold this meeting through video conference.
The public may watch live on the [City's Website: ci.manzanita.or.us/broadcast](http://ci.manzanita.or.us/broadcast)

or by joining the Zoom meeting:

<https://us02web.zoom.us/j/83734924882?pwd=QUd1dVVyUXFKc0pxZnlINVEY1amJKZz09>

Meeting ID: 837 3492 4882

Passcode: 368151

Call in number:

+1 253 215 8782

1. **CALL TO ORDER (10:00am)**
Dave Dillon, Budget Committee Chair
2. **FY 23/24 BUDGET DISCUSSION/QUESTIONS**
3. **ADJOURNMENT (12:00 PM)**

Meeting Accessibility Services and Americans with Disabilities Act (ADA) Notice

The city is committed to providing equal access to public meetings. To request listening and mobility assistance services contact the Office of the City Recorder at least 48 hours before the meeting by email at cityhall@ci.manzanita.or.us or phone at 503-368-5343. Staff will do their best to respond in a timely manner and to accommodate requests. Most Council meetings are broadcast live on the [city's youtube channel](#).

Response to May 25 budget commentary by Mayor Deb Simmons

Jim Dopp, Chip Greening, Kathryn Stock
May 29, 2023

5/21/23 QUESTIONS ABOUT THE BUDGET submitted by Deb Simmons

When you put five young people on a basketball court and tell them the goal is to “go out there and Win,” they will give it everything they have. However, if they have little or no experience or don’t know the rules of the game, the goal of winning is unrealistic.

This is only the second budget our city manager has compiled. The 2023 / 2024 budget is more complete than the previous one, but questions still remain.

Foremost is the lack of financial policies. Although the term is mentioned under goals on page 7 “governments should establish a formal policy...” financial policies are not laid out in the budget book.

Much like the basketball players who are told the goal is to win the game, if they are to have any chance of success, they need to understand the rules under which the game operates.

Manzanita’s budget is the same. What are the financial policies that the city manager adheres to? When she came into office, there were none. On page 6 of the 2022/2023 budget, it states that “We begin with setting our financial house in order by establishing a reserve, defining new sources of revenue and setting up financial policies...”

Page 7 of that same budget states, “A key recommendation is for the Budget Committee and City Council to set financial, reserve and debt management policies.” I have not seen evidence this has occurred [sic].

There is a reference on page 8 (paragraph 3) of the 23-24 proposed budget “...implementing a set of **fiscal financial policies** that provide a central and long-term approach to financial management for the city.” Before voting to approve the budget as it stands, I propose that the Council discuss and take action on Municipal Financial Policies regarding the following changes:

Response to commentary

The budget message at page 8 clearly states that the budget includes resources for a financial professional to “assist the city in reviewing, revising, and implementing a set of fiscal financial policies.” The Mayor’s suggestion that the Council adopt financial policies before adopting the budget would violate the State’s budget law that requires an adopted budget before the beginning of the next fiscal year. The Council is set to hold a hearing on the 2023-24 budget on June 14. Does the Mayor seriously propose that the Council discuss and adopt financial policies in less than three weeks and risk violating state law? The Budget Committee should reject this unrealistic suggestion outright in favor of a deliberative process that is more likely to yield a sound, “long-term approach to financial management for the city.” (p 8)

Funds Page 19

“There are a total of 15 funds managed by the city.” On pages 19 - 21, I counted 3 reserve funds and 11 other funds listed which equals 14. Is the Trust Fund (page 63) the 15th Fund?

All 15 funds are identified in the table of contents (pp 4-5). The commentary on the Trust fund (p 63) makes clear that the Trust Fund will be closed and the funds remaining transferred to the Tourism Fund. The funds described on pp 19-21 are the funds that will remain after the Trust Fund goes away.

Debt Obligations: Page 26

Currently, the summary shows: purpose, due, interest rate, outstanding amount and annual debt service FY 23 / 24. It should show: issue amount, debt obligation, loan purpose, beginning balance, principle [sic] paid, payment due, interest paid, interest rate, ending balance, accrued interest, long term principle, reserve and maturity date.

The city's June 30, 2022, audited financial statement (pp 29-30, 60) provides information and schedules of long-term debts, including annual principal and interest payments made from the Tourism, General, and Water Utility Funds. The summary information on page 26 of the budget does not include all details of the debt obligations. While it might be desirable to include some additional details in the summary, it is unnecessary and impractical to include all the proposed details. Budget Committee members should be well-acquainted with the city's most recent audit. Annual budgets should provide sufficient information to ensure the Budget Committee that the city can meet its obligations.

Personnel Services Analysis: Page 82 (requirements)

Currently, the summary shows amounts attributed to each fund. It should show 3 columns: Salaries, Insurance and Overhead cost changes in both dollars & percentages.

This is a presentation format suggestion, not a substantive budget question.

Forecasting [sic] Projects: Page 85

Any proposed project under consideration must show an estimate of expenses (investment costs) including the final project costs before it is initiated.

Having this policy in place would have prevented our current situation of having major expenditures on a city hall construction prior to having the investment costs and funding path approved by the council.

It's unclear what “projects” the Mayor is talking about in this comment. Page 85 introduces a five-year General Fund projection.

Per employee raises — the COLA raise in 22-23 was 6% but being proposed for 23-24 is only 4%? Also, salary increases should follow a review schedule so as not occur [sic] at the whim of the council. Review schedules should be published for all departments.

This is not a budget question—and it gets the facts wrong. Staff salary increases are not made “at the whim of the council.” The City Manager’s performance is evaluated annually and the city conducts a staff wage study every four years.

Consolidated Debt Fund (not present in budget)

Many coastal cities use a Consolidated Debt Fund as it allows funding sources to be in one place for easier tracking. Reserves are specific to replacement of existing infrastructure and improvement plans and are not anticipated to be spent in the fiscal year, but carried forward into future fiscal years for expenditures.

This is a suggestion, not a budget question. Moreover, it’s not clear what the Mayor is suggesting. The city has three debts outstanding, each of which is paid by different funds with separate revenue sources. Nor is it clear what the Mayor is suggesting about reserve funds. If the Mayor has an idea for a different approach to debt funding, she should present a clear proposal.

Inter-fund Services: Page 82 – 83

Although resolution 23-01 (which includes “indirect methodology” from the Water Utility and Building Funds) was approved by a majority of city council, there should be a plan for oversight of transfers in the future. The Warrenton model for transfers from the Water Department to the General Fund is approved for this FY. However, charges need to be reviewed quarterly [sic] through an accounting process to see if the model for a population of 6,393 is comparable [sic] to a population of 650?

This is commentary, not a question. Certainly, the city should assess the effectiveness of the overhead allocation methodology.

City Council must also consider the health of the water department. ‘Barely breaking even’ does not bode long-term security for that department which has high financial needs.

For the financial welfare of the city, the goal should be to reduce the dependence on these transfers, continue to build up reserves in the water department and go after grants and low-interest loans to supplement funding.

This is more commentary. The City Council resolved to adjust water rates regularly in 2014 but never followed through so any new rate structure for the Water Utility will have to recover from nine years of inflation and encourage water conservation especially by heavy users. The overhead cost allocation in no way puts the Water Utility at financial risk. Nor does the General Fund “depend” on transfers from the Water Utility. The methodology is simply a cost recovery mechanism required of any government or business entity.

The Mayor has continually raised the issue of “grants” as if there are pots of money waiting to be tapped. While grants may occasionally provide a supplemental source of funds, the city will continue to rely on dependable revenue sources.

Below are the proposed projects on pages 92 - 95 of the 23-24 proposed budget. A quote from page 91, “Due to the city’s low property tax revenue other sources of funding will need to be

identified in addition to System Development Charges to ensure the ongoing maintenance and operations of all the city's utilities." As noted by the City Manager, SDC changes take time to organize and implement. As the city has lost much money in the past without this implementation, SDC adjustments should be done prior to approval of future developments.

Oregon Law governs the establishment and collection of SDCs to ensure that local jurisdictions do not abuse the use of such charges. A *sine qua non* of any new or increased SDC is a capital improvement plan (CIP) or master plan. The city does not have a complete CIP for all capital projects. As the budget at page 91 makes clear, CIP projects are matched with funding sources "where known and available."

Water Utility Projects (Pages 93-95)

1) Hwy 101 - Phase 2 water main replacement total funding =	\$ 568,830 FY 2025
2) Pelican Lane water main replacement total funding =	\$ 226,528 FY 24 - 25
3) Windward water main replacement total funding =	\$ 289,809 FY 24 - 25
4) Sandpiper Ln. water main replacement total funding =	\$ 276,591 FY 25 - 27
5) Nehalem Ave water main replacement total funding =	\$ 291,629 FY 25 - 27
6) Puffin Ln. water main replacement total funding =	\$ 271,997 FY 27 - 29
7) Hwy 101 Phase 3 water main replacement total funding =	\$ 373,217 FY 27 - 29
	TOTAL = \$2,298,771.

None of the above projects have a "funding source."

Multi Fund Projects Page 92

1) South Classic Street total funding = \$4,412,198 FY 25 - 29
2) Dorcas Phase 2 total funding = \$1,132,516 FY 24 - 28
TOTAL = \$5,544,714.

Neither of these projects have a "funding source."

There is no question connected to the foregoing project lists, so it's not clear what point the Mayor wants to make. The Council will have to decide on the project priorities and funding sources. The new Water Utility rates will have to include funding for its priority projects. To avoid asking the General Fund to subsidize road and storm drain projects, the Council will have to consider whether to tap new revenue sources such as the transportation utility fee suggested by the city's consultant.

There has been discussion about the need for reservoir [sic] replacements, and I was told by a senior councilor that these would be paid for by grants. How will these grants be procured? What is the time line? At the League of Oregon Cities (LOC) conference in Seaside last month, government officials talked about the large amount of federal money available for infrastructure

which are not based on the financial status of the city. What is our plan to procure a share of these funds? What alternate sources of income are available besides the four options recommended by ECO Northwest? What is the timeline for bringing in alternate sources of income?

This commentary has nothing to do with the 2023-24 budget. Certainly, the City Council will tap every available funding source (including grants) to replace the existing water reservoirs as the Water Utility has done to this point. To be clear, the reservoirs function just fine now. The city is lucky to have leadership that is actively working toward a resiliency solution for the reservoirs.

Finally, addressing **grants**

The only grant reflected in this budget report is on page 74 and pertains to the City Hall Construction Fund (\$60,000 from Business Oregon).

No grants are listed for the Water Utility Fund, the Tourism Promotion and Facilities Fund - although there is a proposal for \$20,000 in off-season tourism grants which was approved by the council. Grants are not listed under the Road Fund (although in the previous two budgets the city secured \$51,402 in grants), nor in the Public Safety Fund (although Chief Harth did secure body cameras through a grant, but I am not sure when they were purchased).

The Mayor returns frequently to the elusive subject of grants, even suggesting that grants are a “major” source of municipal funding. While grants can occasionally provide an unexpected funding source for a specific project, it would be irresponsible to build a budget based on an expectation that the city could obtain future grants.

According to another coastal city’s budget (which includes its financial policies) “additional grants are written on a nearly monthly basis....” this, from a city that secured \$6 million in grant money this past year.

Assuming the Mayor is referring to Waldport, a city she has previously cited as one for Manzanita to emulate, that city has indeed been fortunate to secure grants to replace infrastructure that Waldport neglected to maintain for years. Despite a reported \$3.6 million state grant to help with water and wastewater projects, the city must spend an additional \$22 million on water and wastewater repairs over the next ten years. (FY2023 Waldport Budget Document, page 9) Fortunately, Manzanita’s Water Utility management is ahead of the infrastructure maintenance and repair game and doesn’t have to play catch up like Waldport. Plus, the federal government paid several million dollars to cover the entire cost of engineering and construction of the Manzanita Water Utility’s well and transmission system.

There are highly qualified citizens in our community who are willing and able to devote time and talent to sourcing and writing grants. I propose the council set up an ‘ad hoc committee’ that would take on this challenge in support of the city manager who could first help identify sources and details that would fund water, street or storm [sic] drain projects. I further propose that grant writing be one of the financial policies approved by this City Council with specific

annual goals targeted. A plan to focus on Work Force Housing needs to be included in these goals, as well.

This is certainly an idea worth pursuing but it is not a question related to the current budget proposal.

In the months ahead, the council will be asked to approve a major project with a huge financial impact on the city which can occur without a citizen's vote. Both the Budget Committee and the Planning Commission need to expand their focus to provide the council critical advice on this major expenditure facing the city.

This is not a question related to the current budget. The City Council will have to decide on the approval and financing of major projects. Moreover, the Planning Commission's authority is limited by [Ordinance 66, Section 8](#), to land use, planning, and development. The Budget Committee's authority is limited to budget oversight. Finally, neither entity has the independent ability to expand its authority beyond what the law already provides.

The Budget Committee represents all people, many of whom have expressed concerns about the financial future of the city. Addressing the implementation of financial policies is one step towards addressing those concerns. I will not vote to approve the budget as presented because it puts Manzanita on an unsustainable path to financially secure the required services in the years ahead. In no way, will a single vote deter the budget from approval nor create any havoc with the requirements of the state's timeline.

The Mayor has not raised any serious concerns that would justify a vote against approval of the 2023-24 budget. At most she has made some suggestions for future consideration by the Council or Budget Committee. She seems to take refuge in assuring the other councilors that her "single vote" will not put the city at risk of violating Oregon's budget law.

ACTION ITEMS FOR THE COUNCIL noted in the proposed budget:

Page 1 "the city council must take concrete steps to diversify income."

Page 2 "the council must repeal and replace Ordinance 91-4" (regarding SDC)

Page 6 "the city council will review the city's CIP and 10 year project plan" of 3 4

Dear fellow Budget Committee members,

I have the following comments after reading Mayor Simmons's questions as well as Jim Dopp's, Chip Greening's and Kathryn Stock's response.

Upon reading the mayor's comments, I felt somewhat confused and thought it was due to my lack of city budget experience. I thought some of the issues that were brought up were either immaterial or were not really budget related, which should not be included in the discussions during the budget process. After reading Jim's, Chip's and Kathryn's responses, I realized my thinking was mostly valid.

On the other hand, among all the issues that Mayor Simmons raised, there are two items that may warrant some consideration.

1. The new indirect cost allocation methodology has created a few unfavorable comments. Part of it is because the allocation concept is unfamiliar to some patrons. On top of it, we have been told the reasons, the logic, and the results of the allocation but the detail of calculations were not conveyed (not yet). The lack of detailed review can be the cause of confusion, anxiety, and doubt. It is just natural that anyone who is affected by the allocations expresses their concerns. I think the mayor's suggestion of inter-fund transfers oversight is a good point.
2. The mayor also mentioned grants as another source of income for the city. It is true that no city can/should rely mainly on grants, but grants are free supplemental income when available. I believe it is worth some effort to pursue. It doesn't hurt to ask. You don't get it if you don't ask.

I have no problem approving the proposed budget as is, but I do want to share with you my thoughts and concerns. As I have mentioned in one of the Budget Committee meetings, I ran an analysis to compare my calculations to the numbers in the proposed budget. Please refer to the attached spreadsheet:

1. On issue 1, I annualized the 2023/2024, 3rd quarter results and came up with an ending fund balance of \$3.9 million for the current fiscal year, which is \$1.3 million higher than the beginning fund balance for the fiscal year 2013/2014 as shown in the budget.
2. On issue 2, I created a very conservative 'what-if' scenario by applying only 10% increase each year to calculate the short-term rental tax from 2019 and onwards. By the end of the 2013/2014 fiscal year, the short-term rental tax revenue is \$1.4 million, which is \$97k higher than the projection in the budget. Note that 10% is a very conservative rate as it increased from 2017 to 2018 was 13% and 2018 to 2019 was 15% (before Covid).

I heard staff mentioned conservatism quite a few times during the budget meeting. I support the idea of being conservative, but over-conservative budgeting plays a resident trade-off effect. When we keep the budget too tight, we tend to borrow more money than we need. Residents of the city will consequently bear the burden of higher and longer loan repayments.

Best regards,

Kit

<u>Revenue</u>	General Fund	Actual 16/17	Actual 17/18	YOY 17-18	Actual 18/19	YOY 18-19	Actual 19/20	YOY 19-20
	Property taxes	196,655	207,166	5%	220,063	6%	224,056	2%
	Licenses, fees & permits	192,259	225,797	17%	169,815	-25%	170,543	0%
	short-term rental tax	668,539	754,421	13%	867,303	15%	902,786	4%
	investment earnings	9,000	16,475	83%	31,341	90%	27,828	-11%
	Other Revenues	347,651	263,613	-24%	229,862	-13%	311,266	35%
	Total Reveues	1,414,104	1,467,472	4%	1,518,384	3%	1,636,479	8%

total STR tax what if covid never happen	668,539	754,421	13%	867,303	15%	954,033	10%
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annual average increase if covid never h 10%

I used 10% to calculate annual increase from 2019 and onwards. The projection of 23/24 budget results in \$1.4 million, \$97k higher than the proposed budget.

Actual 20/21	YOY 20-21	Actual 21/22	YOY 21-22	Annualized 22/23	YOY 22-23	Budget 23/24	
232,756	4%	249,564	7%	250,490	0%	263,500	5%
465,170	173%	593,890	28%	205,249	-65%	258,000	26%
1,142,055	27%	1,628,971	43%	1,963,251	21%	1,300,000	-34%
10,380	-63%	17,276	66%	152,373	782%	520,000	241%
303,619	-2%	281,775	-7%	315,356	12%	179,670	-43%
2,153,980	32%	2,771,476	29%	2,886,718	4%	2,521,170	-13%
1,049,437	10%	1,154,380	10%	1,269,818	10%	1,396,800	10%

