Budget Committee

Saturday, March 19, 2022 at 10:00 am

MEETING NOTICE AND AGENDA

The Waldport Budget Committee will meet at 10:00 A.M. on Saturday March 19th, 2022 in the City Council Meeting Room, 355 NW Alder Street to take up the following agenda:

1. **Call to Order w/ Roll Call**
2. **Assign Budget Committee Chair**
   Mayor will call for nominations for chair (passed by vote of the committee)

3. **Public Comments**
4. **Discussion/Action Items**
   a. **CONSIDERATION OF PUBLIC WORKS (Water, Wastewater, Streets) FUNDS OF BUDGET FOR FYE23**
5. **Additional Public Comments**
6. **Adjournment**

The City Council Meeting Room is accessible to all individuals. The public is also encouraged, if they see fit, to mail written testimony to the City. Comments may be mailed to PO Box 1120, Waldport, OR 97394, and must be received no later than 9:30 a.m. on the day of the meeting in order to be considered.

Notice given this 18th day of March, 2022
Reda Q. Eckerman, City Recorder

CITY COUNCIL Budget Meeting #1: FY23

Introduction for Public Works Budget

TITLE OF ISSUE: Introductory Budget Message for Public Works

FOR MEETING DATE: March 19th, 2022

Welcome to the first of three budget meetings, for consideration of the fiscal year FY23 budget spanning July 2022 through June of 2023. In our second year of a new budget meeting process, and based on positive feedback, Waldport will continue with our three-pronged budget meetings to allow for more time spent on single subjects and the ability to reflect over the weeks and come back at the third meeting for a comprehensive review of the entire budget at the Public Hearing.

The full budget packet and budget will be provided for the final meeting in late April. In this initial meeting, we will be considering the overall budgets of our Public works, and associated Utility funds. While the final budget packet will put these in context, these departments are unique in that they essentially act as a separate company or 'enterprise' within the city. They do not get city funds directly, but receive funding from special districts (the Road District), service charges and special taxes.

Continuing from last year are the optional budget packages for recommendation to the Council. While a budget committee sets recommendations, it cannot set policy – which is reserved for the Council. It is hoped that this process allows greater transparency and an ability to have a broader discussion on these important issues to better inform the recommendations. Waldport for years has been focused on the planning aspects of its infrastructure, recently completing our Water Master Plan, a Wastewater Master Plan, and a Transportation System Plan. These plans spell out our anticipated needs to ensure continuity of operations and, starting this last year, we have begun executing them.

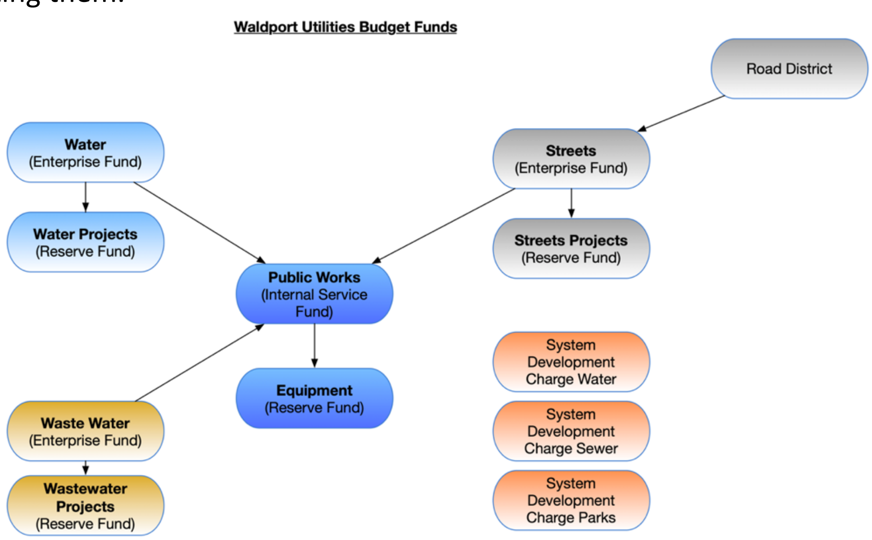

Figure 1: Fund types and relations

As mentioned last year, these plans show the deficiency in capital maintenance over the preceding decade, and how time has caught up with our previous investments in new infrastructure. As such, last year was a year of rebalancing. It was our hope that by doing so, we could better allocate costs to where they originate – and to better show where additional funding is needed. In doing so, we have created a model which shows how the differing funds relate to each other (Figure 1).

Regarding the funds, it is important to understand how Oregon Law breaks down the different funds. First are the 'Enterprise Funds'[1]. These funds essentially generate their own revenue, or receive revenue from a taxing district. The expenditures are intended for the purpose of the enterprise itself, i.e. Water cannot pay Sewer costs and vice versa. Each enterprise fund has an associated 'Reserve Fund'. These reserve funds are how these enterprises save money across multiple years, and how they accomplish projects or deal with non-routine expenditures.

We also have broken out specific contributions to the other two funds. First is the 'Internal Service Fund', or Public Works. This fund allows contributions to address shared costs where it would be challenging to break down time or materials spent on one single enterprise, but which need access to those resources. A great example of this are the staff and buildings operated by Public Works, as well as certain training, general safety requirements, some fees etc.

The other associated fund with Public Works is the 'Equipment Reserve' fund. Previously, the Public Works capital fund, we are narrowing this to better focus on exactly how we balance our equipment purchases and depreciation schedule. It is anticipated in coming years we will also be setting up a similar city-wide building reserve fund. This is the first part of this process.

Finally, there are two other funds. One is the 'SDC fund'. We will address these in the final meeting, but we will be moving them next year into their own fund category, as special and detailed rules apply for their usage. As such, this year, these are restricted reserve funds which we will not expend. The other is the Road District. It is a 'taxing district fund', in and of itself. It is simple a pass-through fund for the street fund. We will hold a specific sub meeting for it at the final meeting.

In this meeting today, no action need be taken. We are providing this approach to better break out the differing budgets, give time for consideration before the final public hearing, and allow time for the budget committee to direct questions or suggest refinement to the Budget officer (the City Manager). It is hoped this will prevent budget fatigue while allowing for a better overall understanding of the budget and more meaningful dialogue.

So let's begin. To start, we will go over some of the initiatives the City is proposing, we'll discuss staffing and trends, and we'll discuss rates. Then we will explore each budget piece by piece.

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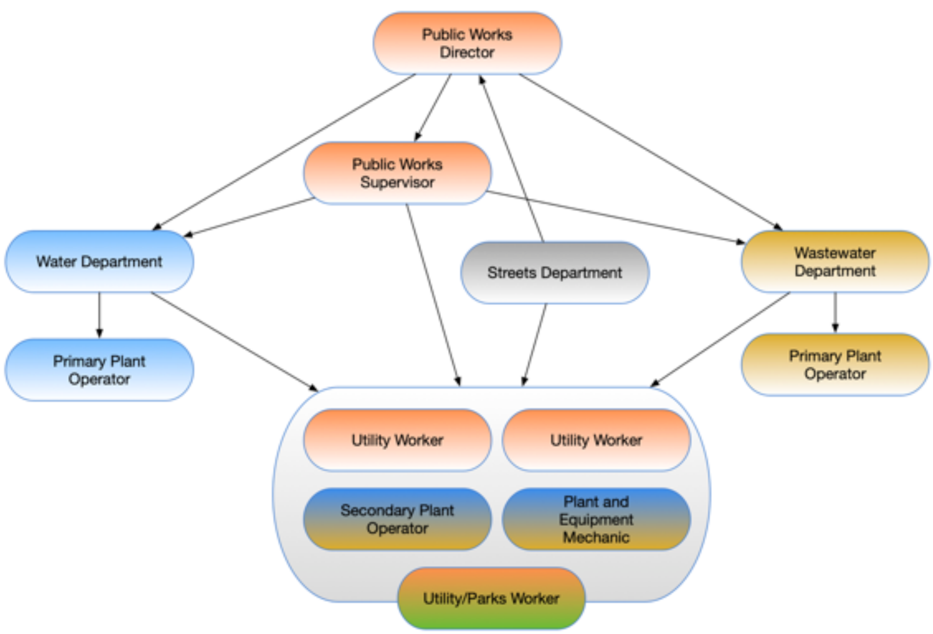
[1] The Street Fund is technically a 'Special Revenue Fund' not an enterprise fund. The only difference is in a SRF "the user of the governmental service does not pay for the service based on actual use."

Section 1: Staffing

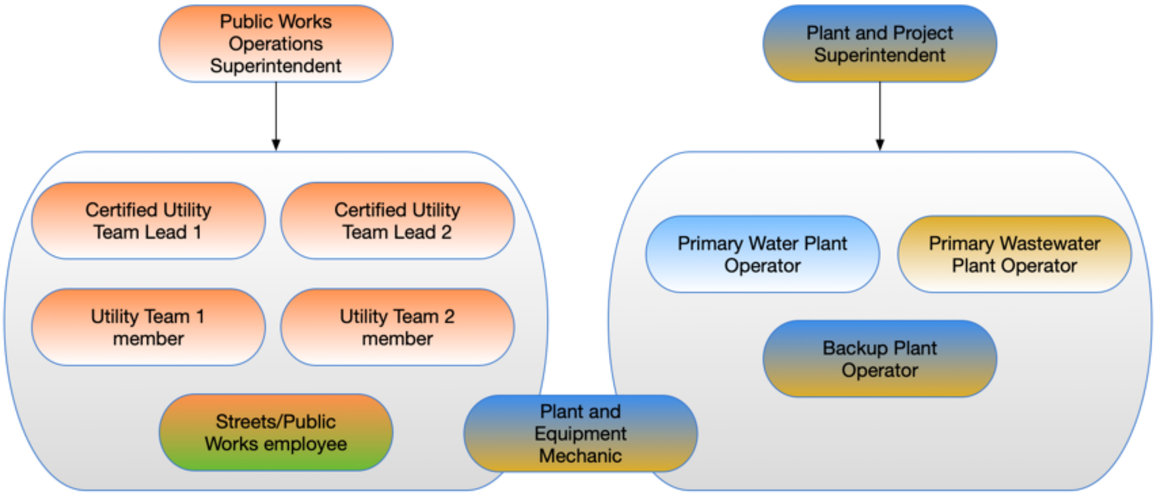
At the core of the Enterprise funds and Public Works is its staff. We have dedicated staff for Water, Wastewater, Streets and overall supervision and direction of the different funds.

This year, we have made a radical change to how staffing is organized in the enterprise funds. Our public works director retired, and we have been given notice that our chief water plant operator is also retiring. This allowed us to do a deep dive into how Public Works operates, how coverage and projects are accomplished, and how best to ensure strong stable staffing. At the same time, we saw unprecedented inflationary pressure, and challenges in hiring.

So, we shifted our philosophical approach to how the city operates. Figure one on the left shows the 'old' model of public works. Figure two (next page) shows the new model.



Effectively, we removed the Public Works Director position (for which salary was going to be very expensive) and promoted the PW Supervisor, and will look for a Plant & Project Superintendent. Why this change? Major projects are starting (which will be in the next section).



Overall FTE changes from 9 to 10 with the potential for an 11th. Why add staff? This is the philosophical change. We are trying to flatten the employment model so more people are actually in the field fixing things and making changes. As an example – right now, we have essentially one team of certified public works crew. If we have a line break, everything else stops. If we are trimming limbs, everything else stops. State requirements are piling up (for example, we have over 2 miles of sewer line to camera and flush this year). And we have to install >1400 water meters this summer. Adding one employee makes that TWO teams (OSHA always requires a second person for safety for almost any inground project). Adding that employee at the lower level is cheaper than replacing a director at the higher level, and doubles the project output.

The potential for the 11th employee is based on what we receive for the water and wastewater recruitment. We absolutely MUST have a staff member who is certified to float between both plants so that current operators can be gone a day. Previously, our PW Director was certified, so that in a pinch, he could step in. But salaries have become very competitive, and we are unsure about whether we can find a Superintendent who has the necessary certs or a backup operator who has the certs. We are leaving it a bit vague – ideally, in the next year, we'd like to bring on both a backup operator and a superintendent. But we may only get one, as qualifications are tough. So, we are budgeting only for one FTE increase this year, and one will be budgeted the following year. We are using the numbers for the superintendent, but we are unsure who will be hired and at what certification level.

<u>**Decision point ONE:**</u>

Should the budget committee recommend hiring the 2nd staff person in the next fiscal year at an additional cost of $98,000 including all benefits?

<u>Pros</u>: We need the position. If we find a Superintendent, we still need to hire a backup operator, as that person might not be certified in both systems. If we hire a backup

operator, we still need someone taking the lead to manage large water and wastewater projects which are starting this next year and continuing in the coming years, as well as handle the myriad of reports and requirements for reporting on these projects. We have some additional dollars from each project which could be applied to the position, and would require only a minor increase to the current rates (roughly 2%). It might take us well into next year to hire the position, and we are vulnerable to staff leaving until we have redundancy.

Cons: It is an additional rate increase (2%) on top of an 8% rate increase required below. The following year, it would require an additional 3% increase as well.

Section 2: Salaries

Given significant inflation, one of the largest issues the city has faced this year has been in position hiring, replacement and retention. We had two upper-level staff changes. In order to have a meaningful discussion on impact, the numbers below remove the prospective new hire. so that year over year comparisons can be made. Keeping all things equal, even with the fairly large increase due to cost of living, and medical insurance costs, the removal of higher paid positions for starting wages leads to a nearly 4% decrease in overall salaries.

Table 1: Public Salaries over last fiscal year

	FY22	FY23	Change	
Salaries	$588,376	$557,802	-5.2%	
Health Insurance	$231,624	$227,399	-1.8%	
Overhead	$258,004	$251,248	-2.6%	
Totals	**$1,078,004**	**$1,036,450**	**-3.9%**	

This, however, creates the challenges as spelled out previously. As such, we are budgeting for a new hire as mentioned.

Table 2: Public Salaries compared to last year with new hire

	FY22	FY23	Change
Salaries	$588,376	$634,865	7.9%
Health Insurance	$231,624	$253,146	9.3%
Overhead	$258,004	$267,898	3.8%
Totals	**$1,078,004**	**$1,155,909**	**7.2%**

This overall change very closely matches the Western CPI adopted by Council. It is worth noting that this simple hire effectively doubles the teams working in the field and ensures backup support at the plants. While there is still a competitive case for the hire next year, it will be based on an evaluation of how the staff in these positions are able to handle the infrastructure over the next year. One of our biggest challenges for staffing will be certifications, and water and wastewater have significant projects scheduled.

Section 3: Certifications

Water lines, and plants require certifications. There are six certifications needed. They are: Water Treatment level 2 (3 preferred), Wastewater treatment 2 (3 preferred), Filter endorsement, Cross Connect, Transmission (water) 2 and Collections (waste) 2. It takes several years of training for each level.

<table>
<tr><th></th><th>Water Treatment</th><th>Wastewater Treatment</th><th>Water Transmission</th><th>Wastewater collection</th><th>Filter Endorsement</th><th>Cross Connection</th></tr>
<tr><td>Water Plant</td><td>Level 2</td><td></td><td>Level 1</td><td></td><td>Yes</td><td rowspan="3">Yes</td></tr>
<tr><td>WW Plant</td><td></td><td>Level 2</td><td></td><td>Level 1</td><td></td></tr>
<tr><td>Utility Worker</td><td></td><td></td><td>Level 2</td><td>Level 2</td><td></td></tr>
</table>

None of these are optional. A city recently had to pay $17,000/month to have a Water Level 3 certified staff member from a consulting company provide them coverage while they hired a certified operator. The fines and inability to operate far outweigh the cost of keeping certified operators. While there are a number of certified operators, the field is skewed heavily towards retiring employees. This is to say, these are well-paying fields for young people to get into (starts about $25/hr with full benefits).

<u>Decision point TWO:</u>

We are proposing and budgeting a new incentive program for certification. Essentially, we have need for eight employees to have their water and wastewater collections certifications, three employees to have their treatment certifications, and it is advantageous to the city in the long run that lower-level employees receive advanced certifications to allow for promotion as employees depart.

We are budgeting for employees to receive bonus pay per certification. For example, if we assign $50/month per level of certification, when fully certified it would add roughly $16,800 to the overall budget. It is anticipated that it will be just over half of that now. Those max numbers are included in the above figures for overhead.

We would gauge how this program works by seeing the level of interest and effort made to achieve higher certification. The maximum per employee is only about $2400, which is less than 5% of their gross salary, but the hope is that when looked at in totality of the entire compensation package, this does help to ensure employee retention and recruitment and incentivize certification.

Section 4: Water

Last year, we implemented $70,500 in recurring expenses which drove our costs in the water program. This year we will be talking capital projects. In the recent Water Master plan (2020), several projects were identified for the next twenty years. The priority 1 projects, which are meant to be done as soon as possible, are:

Project Code(1)	Project	Priority	Total Estimated Project Cost(2)
T-1	Water Treatment Plant Improvements (See Chapter 7)	1	$4,766,000
ST-1	New 300,000 gallon Bolted Steel Tank (See Chapter 9)	1	$1,010,000
ST-2	2 Million Gallon Tank Seismic Retrofit and Recoating (See Chapter 9)	1	$1,165,000
S-1	Permit Numbers S-18654 & S-23587 Extension Applications (See Chapter 6)	1	$10,000
S-3	Water Management and Conservation Plan Update (See Chapter 6)	1	$25,000
D-1	Water System Design Standards (See Chapter 8)	1	$5,000
D-2	Pressure Reducing Valve Maintenance & Coordination (See Chapter 8)	1	$40,000
D-3	Hemlock Street Waterline Connection (See Chapter 8)	1	$10,000
D-6	South Transmission Main (See Chapter 8)	1	$1,131,000
D-7	Highway 34 Waterline East of Lint Slough (See Chapter 8)	1	$780,000
	Subtotal Priority 1		**$8,942,000**

Table 3: Excerpt from Executive Summary of Waldport Water Master Plan 2020

In the next year, we will engage in a process to create an updated capital improvement plan, but we have roughly $9 million in projects to accomplish as soon as we are able. We are happy to report that the next two years, we will be engaged in Projects ST-1 and ST-2, as we have received funding from the state legislature for those projects. Both projects will be reflected in the final budget, but <u>neither are expected to create an increase in required expenditures</u> for the city in this fiscal year – though we remain cautious about project inflation costs.

Section 5: Wastewater

Similar to Water above, specific recommendations have been made in the newly adopted Wastewater Master Plan. Like the water plan, the wastewater plan breaks down projects by priority, and encourages the priority one projects to be accomplished as soon as can be budgeted. The table on the next page lists these priority projects:

Table ES-1 | Recommended Capital Improvement Priorities

Project Code [1]	Project	Priority	Total Estimated Project Cost [2]
T-1	Equalization Basin and UV Disinfection System Improvements	1	$743,000
T-4	New Biosolids Disposal Site Acquisition	1	$100,000
F-1	Ocean Hills Forcemain Air Valve Improvements	1	$50,000
G-2	Range Drive Trunk Sewer	1	$902,000
G-3	Siphon Diversion Structure	1	$70,000
G-1	Hemlock and John Street Sewer	1	$262,000
T-3	Plant Pump Station Improvements	1	$580,000
G-5	Wastewater Collection System Design Standards	1	$5,000
P-1	Master Pump Station Improvements	1	$1,051,000
T-2	Grit Handling & Screen Wash Improvements	1	$400,000
		Subtotal Priority 1….	**$ 4,163,000**

Table 4: Excerpt from Executive Summary of Wastewater Master Plan 2021

Again, much like water, we will be engaging in developing an updated Capital improvement Plan to incorporate these priority projects, but we are again happy to report that over the next year, we will be doing projects T-1 and T-3 as we were just awarded $1.4 million from the 2022 legislative session for that work. These projects represented the deficiency noted in last year's budget meeting that was going to be a required expense. The acquisition of outside funds will likely mean no expenditures for these projects, though again, keeping an eye to inflation.

These projects however are driving the potential need next year to ensure we have a project superintendent position at the plants. Both treatment plant operators are busy running the plants, and do not have time to manage the large projects as is necessary. It is also why we are not including a specific additional smaller project from the list – we may tackle one out of reserves but feel that we may be at project capacity for a year while we recruit additional staffing to manage the city side of the projects.

Section 6: Rates

While both previous issues show that project budgeting is not driving rate increases for Water and Wastewater, this year inflation is the primary driver. The Council had previously adopted the NCCI (National Construction Cost Index) as the minimum yearly increase. For the last year, the published increase is 8.0%. As such, the recommended minimum rate increase is:

Table 5: Water and Wastewater rate proposals

Rates: Water					Increases	
	City Base	County Base	Unit			
Then	$30.35	$50.14	$3.68		City Base	$2.43
Now	$32.78	$54.15	$3.97		County Base	$4.01
					Unit	$0.29
Rates: Sewer						
	Base	Units			Base	$3.48
Then	$43.56	$4.43			Unit	$0.35
Now	$47.04	$4.78				

This corresponds to an average increase of $8.47 per household (assuming 4 units).

The recommended rates represent the suggested rate increases at this time only in accordance with the annual rate increase required by city policy. While needs suggest a slightly higher increase might be warranted, given the substantial increase last year the city will explore a rate study in the next year to provide better detail for a future rate recommendation.

Section 7: Streets

Our ‘special revenue fund’ is the Street fund. Our Transportation System Plan was adopted this early 2020. It outlines our costs in capital projects (included below). Many of these can be tied to ODOT funding sources, but require a match. Though listed in detail in the budget, the revenue expected for this fund will be roughly $320,000/yr. The funding is only the Gas Tax and the Road District tax, with no mechanism for increase.

Table 19: Transportation System Plan Cost Summary

Project Type	High Priority (Financially Constrained Plan)	Medium Priority	Low Priority	Total
Parking	$0	$50,000	$0	$50,000
Pedestrian	$1,570,000	$3,310,000	$270,000	$5,150,000
Bicycle	$1,330,000	$2,390,000	$1,805,000	$5,525,000
Multi-use Path and Trails	$340,000	$1,350,000	$565,000	$2,255,000
Transit	$0	$40,000	$0	$40,000
Local Street Connectivity	$0	$1,795,000	$7,230,000	$9,025,000
Street Connectivity	$25,000	$6,440,000	$13,660,000	$20,125,000
Street Capacity	$10,000	$175,000	$175,000	$360,000
Traffic Safety	$150,000	$0	$0	$150,000
Total	**$3,425,000**	**$15,550,000**	**$23,705,000**	**$42,680,000**

Table 6: Cost needs based on 2020 Transportation System Plan

In looking directly at the street budget, a significantly different approach is taken than last year. The city will explore a 'contracted slurry program'. This program will identify a specific number of roads based on mileage each year for coverage, and those roads will be slurry sealed. It is the hope that this step will provide maintenance of the roads in a fashion which will preserve the paving lifespan. However, it is a fundamental acknowledgement that we simply no longer have money to pave. Paving in the future will entirely be from outside funding project dollars, and the city will not attempt to budget paving projects without that type of funding.

(40000)		Street Lighting Utility cost	(40000)
(6000)		Storm Utilities	(7000)
(600)		Insurance	(600)
(15000)		Contract Services	(15000)
0		PW Street, Storm Services	0
(1200)		Downtown Restroom	0
(6000)		Pumps, Equipment R&M	(10000)
(20000)		Street R&M	(70000)
(88800)		***Total Materials & Services***	**(142600)**

Figure 2: Previous year vs FY23 suggested funding for Street Materials and Services

Using an estimate from a number of recent city contracts, it costs roughly $22,000/mile to slurry seal. Given the mileage in the city, this means that roughly every ten years we could cover every street if we budget 3 miles per year, or roughly $66,000. For comparison, it costs roughly $400,000 per mile to pave.

Section 8: Storm System

The final category is one which has not seen a lot of interest in years but is becoming more and more critical. The city has no storm system fee, and no identified dollars to replace or maintain its stormwater system. Maintenance accounts for nearly 30% of the public works FTE in the stormy months, and regularly incurs significant cost. The system is degrading. At some point, in the relatively near future, this may lead to significant expense and property damage.

As such, the city is budgeting $50,000 in reserve funds to complete a stormwater master plan, so as to be able to accurately both account for infrastructure needs and anticipated costs which might then be brought to Council for further action.

Section 9: Reserve Funds

We have four different reserve funds, one for each major fund.

The Public Works Reserve is a large-equipment reserve. Right now, our policy is to target specific needs from this reserve account identified by the staff and brought to council. We do this as a change from previous efforts as often we would budget for large projects and then not do them, leaving them year to year. Instead, we only transfer when we are actually spending the money. We are budgeting however for a vehicle for the public works crew to allow the two work crews to take the big trucks and allow the superintendent to have something a bit less cumbersome and fuel intensive. We are not specifying a budget until we identify the vehicle. This will be brought for Council once identified. We are also budgeting for a couple smaller vehicles and 4x4 units for some necessary work in difficult to access locations.

The Water and Sewer reserve funds have no specific planned reserve expenditures due to the large projects which will be occurring. However, we are getting a handle on some large maintenance issues, and we may have some pump maintenance which requires a capital expenditure due to over lifespan pumping and generator equipment. That is not budgeted, as it will be an expense which is brought at the time of need to the council.

Finally, the Street reserve fund is also not spending funding due to the large sidewalk project anticipated this next year. We however do hope that we receive SCA dollars for a large additional slurry project along Range and Crestline, which is budgeted in the anticipation of potential funding. This table shows balances held in reserve and projects:

	Water Fund	Sewer Fund	Streets Fund	Public Works
Contributions	$90,000	$70,000	$5,000	$15,000
Grant Funding	$2,200,000	$1,400,000	$1,672,000	$0
Debt Service	$40,290	$90,836	$0	$30,370
Reserve Balance	$290,664	$215,277	$109,893	$116,491

Figure 3: FY23 Reserve Fund Expenses and Balances

The rate study and capital improvement plan combined with the capital asset and equipment analysis will show us by how much we need to increase our funding for the reserves over the coming years. While we are significantly underfunding our reserve contributions this year, it was deemed more important after a significant rate hike last year that we undergo some forecasting analysis before suggesting another raise.

Final Thoughts

Nobody likes to raise rates. Nobody likes to propose additional fees.

We need passable and safe streets. We need clean drinkable water, and we need a wastewater system which meets standards – failing that our costs will be no longer in our control and much higher. We must address the real costs of living in and taking care of our community. The initial budget presented before you accomplishes that, keeping rates and cost as low as is reasonable given the rampant inflationary pressure the nation is seeing, and the uncertainty of costs going forward.

Appendix

A. Individual Budget Breakdowns for by budget category

Public Works Fund	Budgeted FY22	Suggested Budget FY23	Change
Revenue	$ 278,369	$ 297,702	7%
Salary And Benefits	$ (123,733)	$ (154,740)	25%
Materials and Supplies	$ (98,564)	$ (96,500)	-2%
Transfers and Savings	$ (56,072)	$ (45,255)	-19%
Total	$ -	$ 1,207	

Streets Fund	Budgeted FY22	Suggested Budget FY23	Change
Revenue	$ 383,143	$ 346,000	-10%
Salary And Benefits	$ (84,153)	$ (45,043)	-46%
Materials and Supplie:	$ (88,800)	$ (142,600)	61%
Transfers and Savings	$ (210,190)	$ (157,300)	-25%
Total	$ -	$ 1,057	

<u>FAQ: Why the change in salary and Materials for Streets?</u>

We are trying to relieve recurring pressure for staff by moving them back to Public Works, so that we can free up more dollars for slurry paving project. We'll start trying to shift transfers next year to free up even more dollars to stay on specific street maintenance.

Water Fund	Budgeted FY22	Suggested Budget FY23	Change
Revenue	$ 922,696	$ 879,637	8%
Salary And Benefits	$ (458,451)	$ (481,654)	5%
Materials and Supplies	$ (138,900)	$ (169,000)	22%
Transfers and Savings	$ (325,345)	$ (228,982)	-30%
Total	$ -	$ 1	

Waterwater Fund	Budgeted FY22	Suggested Budget FY23	Change
Revenue	$ 844,347	$ 924,420	8%
Salary And Benefits	$ (370,156)	$ (476,778)	29%
Materials and Supplies	$ (199,800)	$ (226,000)	13%
Transfers and Savings	$ (274,391)	$ (221,221)	-19%
Total	$ -	$ 421	

<u>FAQ: Why does the Water fund have virtually no change in Staff costs, but Wastewater have such a big one?</u>

Last year, we budgeted for a replacement water operator. We are still recruiting. It essentially 'double dipped' the WO salary, so when the increases this year came, but we didn't have to double up, water didn't take a huge hit, while Wastewater finally saw the full breakdown.

<u>FAQ: Why the hike in Materials and Supplies in Water? And why a decrease in revenue?</u>

Chemical costs and generator maintenance. On revenue, we are still collecting more, but can't yet predict roll over, so that fund shows a low roll over amount, making it appear that we have less money. But collections are budgeted at an 8% increase for now.