

May 6, 2021

Yachats City Council Meeting, 9:30 AM

Supplemental Budget Proposal

Mayor and Councilors:

As a direct consequence of experiencing a change in City Manager's, the pace of the 2021-2022 budget preparation slowed considerably. Mayor Vaaler asked me to partner with fellow volunteer Don Groth to make sure Yachats had a timely and informative fiscal budget. A municipal budget for a fiscal year has two major categories: operational details (revenue and expenses) and financial planning details (fund balances, reserves, and capital planning). Don had a good grip on the operational part of the budget and only needed a little help with the financial side.

The first step in preparing a viable financial plan as part of the budget process was to look at Yachats' fund balances. Our review showed that the City had considerable fund balances spread among the three major operations areas of the City: City Hall, Water Operations Fund, and Wastewater Operations Fund.

As of March 31, 2021, the balances in the three areas were:

City Hall Department of the General Fund	\$1,032,721
Water Operating Fund	\$ 485,061
Wastewater Operating Fund	\$ 323,053

In consultation with the Interim City Manager, Lee Elliott, we concluded that Yachats should not carry these excess fund balances forward in operations categories but should utilize the balances to advance our resolution of interfund loans and repay a higher-interest loan from the Oregon Infrastructure Finance Authority (IFA). Repayment of that loan might serve as a catalyst to amend the terms of the South Tank loan that currently requires an annual transfer of \$100,000 from the URD to the Debt Service Reserves.

Four items were identified for our recommended Supplemental Budget. The attached worksheet shows all the pertinent details. This document provides a description to accompany the numbers.

- (1) Repay the balance of the Interfund Loan for the purchase of the 501 Building, which occurred in 2015. The original amount of \$300,000 has since been reduced to \$234,248. The Water Reserves will be increased, and the City Hall Fund Balance will be decreased. No actual dollars will leave the City. This is merely an internal repayment.
- (2) Repay the balance of the Interfund Loan related to the construction of the sidewalks and the undergrounding of utilities along our main street. The original amount of \$650,000 has been reduced to \$500,000 in the current fiscal year. The supplemental budget will transfer the remaining \$100,000 to the Water Fund and all of the original \$400,000 to the Wastewater Fund. The City Hall Fund Balance will be decreased by \$500,000. No actual dollars will leave the City. This is merely an internal repayment.

- (3) Transfer \$400,000 from the Water Operations Fund and \$150,000 from the Wastewater Operation Fund to the respective reserve funds. The original budgets were conservative and did not allow for transfers that were consistent with pre-pandemic amounts. No actual dollars will leave the City. This is merely a normal transfer of reserves generated by operations.
- (4) Cost overruns in the construction of the Wastewater Plant led to a loan from the IFA to finish the project. Normal payments since 2009 have reduced the balance to \$344,006 as of March 31, 2021. The current budget has already authorized a \$100,000 transfer to Debt Service Reserves for Loan reduction. The remaining \$244,006 in the Supplemental Budget proposal allows the City Manager to repay the 2009 Loan in its entirety and enter a negotiation to reduce the \$100,000 annual URD transfer to the \$40,000 level necessary to meet the loan payments. In addition, we will have eliminated an obligation carrying a 5% interest price tag. This is an actual expenditure of City dollars and will reduce Debt Service Reserves. The reduced Debt Service Reserves will be adequate to meet all remaining loan reserve requirements.

Thank you for your consideration of this Supplemental Budget request.