

Oceanside Water District

FY 2026 – 2027

BUDGET MESSAGE

A budget message is prepared annually by the executive officer of the district. If there is no executive officer, the budget message is prepared by the presiding officer of the governing body (ORS 294.403renumbered from 294.391). The executive officer or presiding officer may delegate the preparation of the budget message to the budget officer. The extent of the budget message depends upon the size and complexity of the budget, and any changes in fiscal policy or financial position since the preceding year

The budget message must:

- Explain the budget document.
- Include a brief description of the proposed financial policies for the coming fiscal year.
- Describe the important features of the budget document in connection with the financial policies of the local government.
- Explain the reason for changes from the previous year in appropriation and revenue items.
- Explain the major changes in financial policy. Any change in the basis of accounting must be explained in the budget message for the year in which the change is planned [ORS 294.333(2), renumbered from 294.445(2)].

The budget message is delivered to the budget committee at its first meeting. The budget message must be in writing, since it is a part of the complete budget document. The message can be delivered by anyone the executive officer or presiding officer appoints.

Based on our estimations for the year ending June 30, 2026, we are projecting Income of \$1,005,445 after deducting Capital Reserve Income (System Development Charges) of \$20,744. A key element in our finances is our existing 30-year \$7.2M loan from the Infrastructure Finance Authority (IFA) of Oregon. The loan was used to pay for major facilities upgrades to the District's treatment and distribution system. It has two critical covenants. The first requirement is that we have sufficient operating income to cover payment of our annual loan obligation of \$243,561. The second requires us to maintain an amount in our bank account at all times equal to one year's payment. Failing to increase rates for next year's budget so that we have sufficient funds both to operate the District with a positive net profit and to be in compliance with the loan agreement could result in an increase in our interest rate for the loan from 1% to 3%.

Beyond the general cost of living increase for next year of around 3.2% on expenses, OWD operations and development projects which are critically needed and will have to be funded next year include:

1. Updating our Engineering Master Plan (last updated in 2012) which is required by the OR Health Authority. Master plans must be prepared by a professional engineer registered in Oregon and submitted to the Authority for review and approval. The estimate for updating our plan is \$30,000 plus additional costs which can be covered by external matching grants.
2. Customer curbside water meters replacements have an expected lifetime of 10 years, and many of our existing meters are at that threshold. The anticipated total cost to replace the meters which we plan to carry out over the next five years is estimated at \$170,000 for which we will accumulate \$43000 this next year, and additional amounts the four years beyond.
3. Maintenance of Pressure Reducer Valves (PRV), which are used to maintain pressure and flow throughout the distribution system. These valves will cost a total of \$10,000.

4. Installation of a new system Oxidation Reduction Potential (ORP) which is a device used to sense the chemical condition of treated water allowing us to optimize the chemicals and treatment process. The cost is \$16,300.
5. Accumulate funds for vehicle replacement of the District's aging diesel pickup truck, which is subject to increasing expensive repairs. We will save up \$20,000 a year over five years which will enable us to purchase a truck capable of performing the type of industrial service we need.

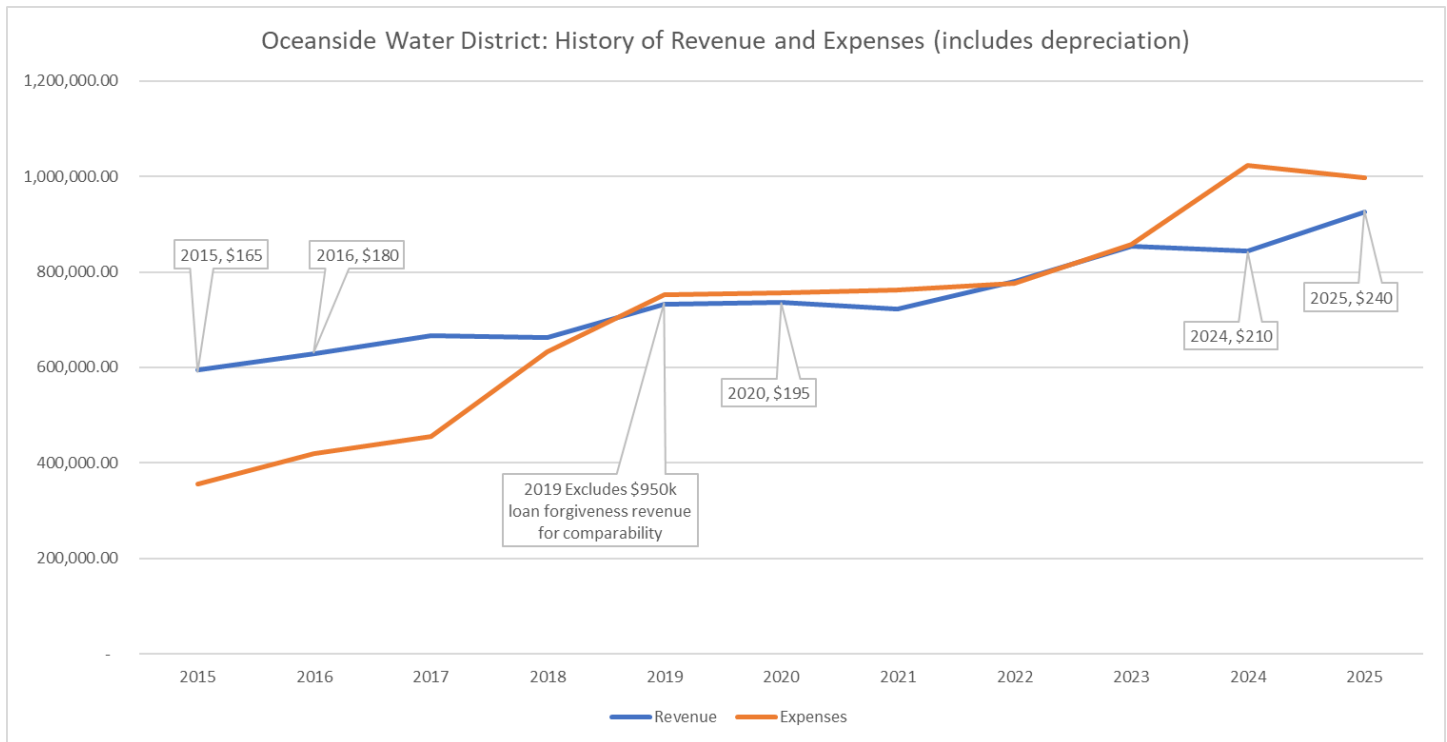
In the meantime, the District has carried out a number of steps during this year and last, to attempt to control or reduce our operating expenses:

1. We have changed banks to eliminate a number of un-needed costly banking fees.
2. The District has instituted a policy of maintaining between \$30,000 and \$50,000 in the checking account and moving funds in excess of \$50,000 into our savings account at LGIP (Local Government Investment Pool) where we earn approximately 4% in interest.
3. Aldrich Advisors has been hired to do all the District's bookkeeping and accounting.
4. The total number of employees has been reduced to 3 ½.
5. Our company credit cards have been moved to a Visa account that pays us a 2% refund on all purchases.
6. Several of our accounting processes have been automated that allow for quicker execution of transactions, better records, as well as enabling customers who wish to use auto pay or pay by bank transfers.

Taking all of these cost reduction elements, anticipated increases in spending, and the projected income from customer fees into account, the District has found that in order to maintain the required level of financial profitability, the 2026-2027 budget will require a rate increase of \$18.00 per month or 20% for a single-family home, with a proportional increase for all other customers.

Financial Highlights from the 2024-2025 Audit

- The District's total assets decreased by \$227,381 (or 3%) during the fiscal year that ended June 30, 2025, principally due to depreciation of \$314,759.
- The District's total net position decreased by \$71,998 (or 2%) in 2024-25.
- Operating revenues increased by \$101,080 (or 13%) in 2024-25, from the previous year.
- Operating expenses decreased by \$40,410 (or 6%) in 2024-25, from the previous year.
- OWD has been tracking General Fund Income and Expenses, as well as its other funds, to make sure that there is sufficient revenue after expenses to cover our annual debt service. Since depreciation is not an out-of-pocket expense, we exclude that in our calculation, interest income is also included, and interest expense is excluded as it is included in our annual payment of \$243,561. System Development Charges cannot be used to cover operating expenses, but they can be used to acquire capital assets, instead of using General Operating Funds, so they are included in our calculation.
- Net Revenue was as follows for the recent years:
 - 6/30/2023 - \$326,876 – in compliance
 - 6/30/2024 - \$157,198 – not in compliance
 - 6/30/2025 - \$278,236 – not in compliance
 - 6/30/2026 – if the final quarter of the fiscal year remains the average for the first 3 quarters, then the Net Revenue will be approximately \$302,000, which would be in compliance, with approximately \$10,000 margin



LB-1 Form

Document A: Water District Comparison

Document A compares key operating figures for FY 25-26 from Netarts Water District, Fairview Water District, Neskowin Regional Water District, and Arch Cape Water District. Data was obtained from their own website or from the audits on file with the Secretary of State.

All sources of Income are included, except Capital Reserve Income (System Development Charges).

Oceanside Water District remains comparable to these other districts in terms of expenditures toward Personnel and Materials & Services. Oceanside Water District is the only district with a loan and thus, higher water rates are needed to meet the demands of the loan as well as increases in our operating expenses.

General Fund Resources, Form #1

The General Fund Resources summarizes historical and projected sources of income for the General Fund. The General Fund includes an estimate of Cash on Hand as of July 1, 2026, plus interest and Operating Revenue for the year.

Total Operating Revenue, line 14 is projected to be about 10% higher than last year’s budget (20% higher than 2025-2026 actuals) principally due to our proposed rate increase (2026-2027).

Requirements Summary, Form #2

The Requirements Summary outlines the projected demands on Operating Revenue and Cash on Hand. The total requirements come to \$1,232,820. This total matches the total resources at \$1,232,820.

Capital Outlay & Contingencies, Form #3

There are no funds for capital outlays and contingencies this year.

Personnel Services, Form #4

OWD is proposing a 2026-2027 Personnel Services Budget of \$388,128, which is down from \$402,421 in the FY 25-26. The decrease reflects the shift from a full-time to part-time office manager and outsourcing the accounting to Aldrich Advisors, funded through Materials and Services. The decrease is also due to adjusting the budgeted medical benefits to reflect the actual cost; FY 25-26 was overbudgeted.

Currently, Christian Anderson is the DRC (Direct Responsible Charge) of the water treatment plants. The DRC is the person the State holds responsible for complying with all regulations related to water treatment and distribution. This past year both Plant Operators, Walter Nordman and Philip Weaver, obtained their Treatment 2 certifications, making them qualified to take on responsibility for the operation of the plant should the need arise. Salaries and benefits have increased based on merit, years of experience, and cost of living.

The Water District pays into a 457(b) Retirement Plan 12% of an employee's wages (line 11). The district has no unpaid obligation regarding this plan, unlike those Districts that participate in PERS. In order to make sure our employees' retire funds are accruing decent earnings, we recently have moved our 457(b) funds from Nationwide to T. Rowe Price.

Materials and Services, Form #5

In fiscal year 2025-2026 OWD budgeted \$453,900 for the material and services fund. For fiscal year 2026-2027 OWD has increased this fund to \$493,849. This increase is largely due to the following.

The planned expenditures were increased by 3.3% according to the 2026 Consumer Price Index. Other contributing factors to this increase include, the need for an updated Engineering Master Plan, increases in expected repairs due to aging infrastructure, parts for said repairs, construction costs, increases in insurance rates, and increases in utility rates like electricity. The Engineering Master plan is expected to cost \$80K. OWD will be going after grant funding for \$50K of that, leaving the remaining \$30K to come from the budget.

Capital Reserve Fund, Form #6

This fund shows the money that can be used for capital improvement projects that will expand and improve the water district's capacity to serve a growing population. OWD currently has \$92,500 in this fund and is expected to receive a minimum of \$29,500 of additional income from new developments in the form of System Development Charges (SDCs). This fiscal year, OWD plans to use \$32K of this money for two projects of increasing importance. We will be upgrading our Supervisory Control and Data Acquisition (SCADA) computer that is currently running on a severely outdated operating system, Windows 7. Upgrading to current Windows 11 technology will ensure that we can defend against emerging cyber security threats. These threats have the potential to affect public health and safety, which is becoming increasingly more important as the service population grows. The other project will be the installation of a new system Oxidation Reduction Potential (ORP), adding more water quality monitoring and chemical dosing automation to both treatment plants. The new ORP equipment will cost \$16,300. This project aims to optimize chemical dosing and improve water quality. Optimizing chemical dosage and improving water quality will help meet public health requirements and serve healthier water to an increasing population.

Infrastructure Upgrades, System Replacement & Water Source Development Fund, Form #7

OWD will be transferring \$87,000 into this fund to save for estimated future expenditures in the next 3-5 years.

The customer water meters are nearing the end of their 10-year lifespan across the district; 799 water meters in total. Although the manufacturer says they typically last longer, the cost to replace all of them is approximately \$170,000. We will set aside \$43,000 this year and similar amounts for the next four years to fund the meter replacements.

OWD has a 2005 Ford F150 that will need to be replaced in the next 4-5 years. Although it is running well for now, OWD plans to save \$20,000 per year over the next 4-5 years for a replacement vehicle.

As our capital assets continue to age and depreciate, an additional \$24,000 will be transferred into this fund to save for those asset replacements.

Debt Service Fund, Form #8

Oceanside Water District has been paying on the IFA Water Wastewater loan, line 14, for several years. This loan, in the original amount of \$790,000, along with a grant of \$125,000, was used to develop the Cape Meares Water Reservoir site location and the 220,000-gallon reservoir. The balance on the loan is currently \$433,052.

The IFA Safe Drinking Water Loan, line 15, in the original amount of \$5,360,000, along with a Forgiveness Loan in the amount of \$930,000, plus matching funds of \$827,000, was used to upgrade the water treatment and distribution systems in both Oceanside and Cape Meares. This loan has a balance of \$3,902,277, and the \$930,000, has previously been forgiven.

The loan agreement with IFA requires OWD to maintain a Net Revenue of 1.2 times the annual payments. The annual payment totals \$243,561 per year, thus requiring a Net Revenue of \$292,273. Additionally, the loan agreement requires OWD to always maintain an amount equal to one annual payment in the Debt Service Fund. The March 31, 2026 balance in this fund is \$343,315, with monthly transfers in the amount of \$20,250 plus interest from LGIP (Local Government Investment Pool). When the loan payments come due at the end of November, the fund will have accumulated \$516,861 which is approximately \$30,000 more than the required amount of \$487,122. A margin should be maintained to account for possible interest changes, but the transfers into the fund will be lowered this next year to accumulate a \$15,000 margin, allowing funds to be utilized elsewhere in the district.

Membrane Module Replacement Fund, Form #9

Both the Cape Meares and Oceanside filtration plants require membrane filter modules. These modules have a guaranteed lifespan of 10 years. The membranes were installed in 2016 so that guarantee life is coming to an end this year. Although OWD expects to see more life out of the membranes, we are prepared for a full replacement as well as 4 additional membrane modules (18 in total for both plants) to improve production rates. The most recent quote from the WesTech engineers who designed the treatment facility was \$69,000. We currently have \$87,000 in the fund, giving us a buffer in case the cost increases when we replace them in the near future. We are no longer transferring money into this fund, but it is accruing interest of 4.0%.