

Depoe Bay Harbor Fund (FY2019–FY2024) – Financial and Accountability Report

Harbor Fund Operating Financials (FY2019–FY2024)

The Harbor Fund is an enterprise fund supporting Depoe Bay’s small marina (“the world’s smallest navigable harbor”). It has consistently run operating deficits from FY2019 through FY2024, requiring subsidies from other City revenues each year ¹ ² . Table 1 below summarizes the Harbor Fund’s operating revenues, expenses, and deficits, along with interfund transfers that were used to offset those losses (figures are approximate, per budgetary and audited data where available):

Fiscal Year	Harbor Operating Revenues	Harbor Operating Expenses (incl. depreciation)	Operating Deficit (pre-transfers)	Subsidies/ Transfers In	Year-End Fund Balance (budget basis)
FY2019	\$391,470 ³	\$471,648 (budget basis; ~\$611k accrual) ⁴ ⁵	\$(80,178)\$ ⁶ (accrual net loss ~\$219k) ⁷	\$165,000 from General Fund (tourism tax revenues) ⁸ (budgeted), <i>no URA transfer executed</i> ⁸	\$132,445 ending fund balance (modest reserve) ⁹
FY2020	\$332,166 ¹⁰	\$607,589 (incl. ~\$114.6k depreciation) ¹¹	\$(275,423)\$ operating loss (accrual net expense ~\$269k) ¹² ¹³	~\$310,000 from Transient Room Tax (TRT) Fund ¹⁴ ; + \$316,300 from Urban Renewal Agency (capital project support) ¹⁵	~\$4,100 ending balance (essentially broke even after subsidies) ¹⁶
FY2021 <i>unaudited</i>	~\$350,000 (est.) ¹⁷	~\$600,000+ (est., continued high personnel and maintenance costs) ¹⁸	Deficit likely on the order of \$250,000 (pattern continued) ¹⁹	\$310,000 budgeted transfer from TRT Fund ¹⁴ (to cover operating loss)	Low/near-zero (Harbor maintains minimal cash, reliant on timing of subsidies) ²⁰

Fiscal Year	Harbor Operating Revenues	Harbor Operating Expenses (incl. depreciation)	Operating Deficit (pre-transfers)	Subsidies/ Transfers In	Year-End Fund Balance (budget basis)
FY2022 <i>unaudited</i>	~\$380,000 (est., revenues rebounded post-COVID) ²¹	~\$600,000+ (incl. depreciation; continued losses) ⁷	Deficit of ~\$200,000 (harbor fees still did not cover costs) ⁷	~\$75,000 transfer from General/TRT Fund to break even ²² ²³ ; plus <i>small OSMB grants</i> (pump-out station maintenance)	Low/near-zero (operated at breakeven with just enough subsidy) ²⁴
FY2023 <i>unaudited</i>	~\$400,000 (est., strong fuel sales & moorage)	~\$650,000+ (est., incl. depreciation; initial dock project outlays)	Deficit likely >\$200,000 (still structurally imbalanced) ²⁵	\$244,186 transfer in Adopted Budget (from TRT, planned to subsidize Harbor ops) ²⁶	~\$300,000 <i>projected</i> cash balance (boosted by unspent grant funds carried into next year) ²⁷
FY2024 <i>budgeted</i>	\$1.606 million (mostly one-time capital grants) ²⁸	\$1.7+ million (including dock replacement outlay)	N/A (major capital expenditures planned)	\$100,000 from Urban Renewal Agency (for Harbor operations support) ²⁹ ; + URA capital <i>placeholder</i> of \$1.2 million for docks ³⁰ ; + \$1.5M state legislative grant (capital) ³⁰	\$262k–\$312k <i>budgeted</i> ending balance (includes carry-forward of grant/URA funds for docks) ²⁸

Key cost drivers: Personnel and basic operating costs constitute a significant portion of Harbor Fund expenses. For example, in FY2019 personnel services were \$178k and materials/services \$288k, and both categories exceeded their budgets ³¹ . Harbor operations incur fixed staffing costs, routine maintenance, utilities, and periodic dredging and repairs ¹ . Fuel for resale is a major expense that fluctuates with fuel prices and demand – in FY2019 the Harbor sold ~\$248k in fuel, which drove up materials costs since the City had to purchase more fuel inventory ³² ³¹ . Depreciation on harbor infrastructure (docks, seawalls, etc.) is another cost factor, averaging about \$110k–\$120k per year ³³ ¹¹ . This reflects the aging capital assets that require replacement or renovation. In sum, even in years of strong revenue (e.g. FY2019 saw record fuel sales and high moorage occupancy), the Harbor’s own income has not been sufficient to cover operating costs plus the necessary capital reinvestment ⁶ ¹ . The typical annual operating loss (before subsidies) ranged from roughly \$200k to \$275k on an accrual basis during 2019–2023 ¹⁸ ³⁴ .

Structural deficits: These operating deficits have been routinely filled by transfers from other funds. In FY2019 the General Fund (bolstered by tourist tax revenues) injected \$165k into the Harbor Fund, equal to about 42% of that year's harbor revenues ¹ ⁸ . In FY2020, over \$300k in support was needed to keep the Harbor solvent ¹⁴ . The City budgeted similarly large subsidies (~\$300k) in FY2021 and continued smaller support (~\$75k) in FY2022 as some revenue streams recovered ¹⁴ ³⁵ . By FY2023, the City anticipated a ~\$244k transfer to the Harbor (from Transient Lodging Tax funds) to cover that year's shortfall ²⁶ . Without these infusions, the Harbor Fund would run out of cash – it typically finished each year with virtually no unobligated balance until the influx of grant dollars for capital projects in late 2022–2024 ¹⁶ ²⁷ . In other words, the Harbor Fund has essentially operated at **break-even only because of subsidies**, not because it is self-sustaining ² . This structural dependency is discussed further in section 5 (Stakeholder Concerns & Sustainability).

Capital Improvement Projects (Harbor Infrastructure)

Major capital improvements for the harbor were a focal point from 2019 through 2024, chief among them the **“Docks 2–4 Replacement” project**. This project involves replacing aging docks in the marina and has a multi-million dollar budget spanning several fiscal years ³⁶ :

- **Scope and Budget:** The Docks 2–4 replacement was planned as a comprehensive upgrade of a portion of the marina's floating dock infrastructure. It is a **multi-year project (FY2020–FY2023)** with total costs in the **couple-million dollar** range ³⁶ . For example, the City's FY2022 budget alone included **\$468,000 for harbor capital outlay** related to this project (some of which was not spent until the following year) ³⁶ . The project budget is being funded through a combination of state grants, Urban Renewal funds, and local matching dollars.
- **State Legislative Grant (\$1.5 million):** In 2022, Depoe Bay secured a one-time **\$1.5 million appropriation from the Oregon Legislature** specifically to support the dock replacements ³⁷ ³⁸ . These funds were expected in late 2022 or 2023 and form the backbone of the capital “stack” for the project. The grant is recorded in the City's budgets and financial reports as dedicated Harbor capital revenue (often in a separate capital projects fund). It significantly reduces the direct cost to the City for the dock replacement effort.
- **Urban Renewal Agency (URA) Contributions:** The City's Urban Renewal Agency – which can invest in infrastructure within the urban renewal district (encompassing the harbor area) – has committed substantial matching funds. In FY2020, the URA **transferred approximately \$316,300** to the Harbor Fund ¹⁵ , evidently to initiate capital work on docks or related harbor improvements. This was a transfer of accumulated tax-increment funds into the harbor project. Later, for FY2023–24, the URA budget included a **placeholder of about \$1.2 million** earmarked for harbor improvements ³⁰ . This indicates that the URA is poised to finance roughly that amount of the dock project as matching funds or upfront capital. (Notably, an earlier attempt to use URA funds in FY2019 – a budgeted \$75k transfer – was not executed, which left a small negative balance in the URA project fund until it was corrected ⁸ ³⁹ .)
- **Grants from Oregon State Marine Board (OSMB):** In addition to the big legislative grant, Depoe Bay pursued grants from the OSMB for specific harbor upgrades. The City received Maintenance Assistance Program (MAP) grants of around **\$6,300 per year** in FY2020 and FY2021 to help fund maintenance like the **replacement of the harbor pump-out station and fish cleaning station** ⁴⁰ .

⁴¹ . These grants, while much smaller, helped cover essential equipment upgrades that would otherwise come out of local funds. The pump-out station replacement was one such project completed around 2021–2022 with state grant support ⁴⁰ .

- **Progress and Delays:** By FY2023, the City had assembled the funding needed to proceed with the dock replacements, though actual construction was subject to timing and contracting. The FY2023–24 budget included **\$1.606 million in harbor capital grants** (largely the state \$1.5M) on the resources side ²⁸ , and the URA's \$1.2M allocation as noted. Some capital expenditures were carried over when not completed as scheduled – for instance, of the \$468k budgeted in FY2022 for docks, a portion was unspent and rolled into the FY2023 plan ³⁶ . This implies minor delays or timing issues (common with large construction projects and permitting processes). However, by late 2023 the “capital stack” for Docks 2–4 was in place: City officials referenced the URA placeholder and the legislative award in budget documents as key to advancing the harbor improvements ⁴² ³⁰ . The project's execution risk remained (it had to be fully contracted and managed), but financially the pieces were lined up.

- **Other Harbor Projects:** Aside from Docks 2–4, the City undertook or planned other infrastructure efforts. **Seawall Maintenance** is an ongoing concern (the harbor's seawalls protect the marina but require upkeep). In fact, some years ago an internal loan from the URA had been used to fund seawall repairs, leaving an obligation on the Harbor Fund's books ⁴³ . During 2019–2024 the City was gradually addressing that interfund loan – periodic URA transfers essentially helped forgive or pay down the harbor's prior debt on the seawall ⁴³ . **Dredging** is another periodic need: the harbor basin requires dredging to remain navigable. While routine dredging costs show up in Materials & Services, any major dredging campaign would be a significant project (Depoe Bay sometimes seeks federal or state aid for dredging given the harbor's importance). No specific large dredging project is documented in FY2019–24, but maintenance dredging costs contributed to high M&S expenses in some years ⁵ . Finally, **harbor facility repairs** (gangways, electrical systems, etc.) are addressed as needed. For example, the City replaced a damaged boat ramp in 2020–21 and performed repairs after winter storms – these smaller projects are usually covered by insurance or small grants when possible, or absorbed in the operating budget.

Docks 2–4 Replacement – Funding Summary: In summary, the dock replacement capital project is being financed by a roughly **\$2.7–2.8 million package**: \$1.5M from the State Legislature, about \$1.2M from the Depoe Bay URA, and the remainder from potentially the City's own Harbor funds or other grants. The reliance on external funds is deliberate – Depoe Bay leveraged state and URA money so that little would hit the City's General Fund. Execution of this project is critical for the harbor's long-term viability (the old docks were at end-of-life). As of 2024, the project is moving forward with contracts and engineering; any delays have been in aligning funding and contracting, but not due to lack of money at this point. City reports indicate the **“capital stack for harbor improvements” is in place** and the focus is now on managing construction within budget ⁴⁴ ⁴⁵ .

Audit Findings and Internal Control Failures (Harbor Fund Impacts)

The fiscal years 2019 and 2020 audits of Depoe Bay exposed serious failures in financial controls and accounting practices, with direct implications for the Harbor Fund's oversight. **Independent auditors issued “Disclaimer of Opinion” audit reports for FY2019 and FY2020**, meaning they **could not express an opinion** on the financial statements due to insufficient reliable evidence ⁴⁶ ⁴⁷ . This is an extremely

rare and negative audit outcome under Generally Accepted Auditing Standards (GAAS), signaling that basic accounting records were not trustworthy. The auditors attributed the disclaimers to high staff turnover, chaotic recordkeeping, and lack of internal controls – the City had, for instance, switched to new accounting software in 2019 without proper reconciliations or documentation, rendering the books unaudit⁴⁸
⁴⁹. In the auditors' own words for FY2020: "information and documentation provided was insufficient to serve as evidence," and internal control was "inadequate to safeguard assets and ensure proper recording of transactions"⁴⁶. Such material weaknesses in controls violate the standards of **GAAP/GASB** accounting and the **COSO internal control framework**, creating a risk that errors or irregularities could occur in any fund (including the Harbor Fund) without detection⁵⁰.

Harbor Fund-specific audit findings (FY2019–2020): In their required Oregon Municipal Audit Law compliance reports, the auditors highlighted that the City **over-expended appropriations in the Harbor Fund** in both FY2019 and FY2020. Most notably, **FY2019 Harbor personnel services were overspent by \$6,290 and materials/services by \$64,745** beyond what was legally authorized³¹. This is a direct violation of Oregon Local Budget Law, which mandates no department or category can exceed its budget without a council-approved transfer. The FY2019 audit report flagged these over-expenditures as findings, and the City was required to address them in a corrective **Plan of Action (per ORS 297.466)** filed with the Secretary of State⁵¹. Despite this, in **FY2020 the Harbor Fund again overspent its budget (as did at least one other fund), indicating the problem had not been fully corrected**³⁹. Repeating a budget law violation underscores poor financial management. (The Harbor overruns were likely driven by unanticipated costs such as fuel purchases and repairs, as noted earlier, but procedurally the City failed to adopt timely budget amendments⁵².) These compliance issues were part of a pattern of **legal noncompliance** identified in the audits³⁹.

Broader internal control failures in City accounting had ripple effects on the Harbor Fund's financial reporting. Because the City's general ledger was not properly reconciled and documentation was missing, **the Harbor Fund's reported balances for FY2019–FY2020 could not be fully verified by auditors**⁴⁹⁵³. Essentially, while the numbers we have (revenues, expenses, etc.) are the best available, the auditors gave **no assurance that those figures are accurate**⁵⁴. For FY2021–FY2024, the situation was even worse: Depoe Bay did **not complete audits at all** in those years, meaning all Harbor Fund figures for 2021–2024 are **unaudited and self-reported**⁵⁵⁵⁶. The City fell years behind on its audits, violating Oregon law that requires annual audits within 6 months of fiscal year end. As of late 2024, audits for FY2021, FY2022, FY2023, and FY2024 were still outstanding⁵⁵⁵⁷. This breakdown in oversight led the Oregon Secretary of State to list Depoe Bay as a **delinquent** municipality in audit filings and to invoke enforcement measures (discussed in section 5). From a Harbor Fund perspective, the lack of audited data means **no independent verification of harbor revenues, expenses, or assets** for four consecutive years – a striking lapse in accountability for what is historically the City's most financially troubled fund.

Material weaknesses and reliability concerns: The City's auditors communicated multiple material weaknesses in internal control, which likely encompassed Harbor operations. For example, cash handling at the harbor (fuel dock sales, moorage payments) was an area of potential risk. The audit reports did not single out harbor cash specifically, but given the Citywide issues, we can infer that standard controls (segregation of duties, daily reconciliations of harbor receipts, inventory controls over fuel) may not have been consistently in place during 2019–2021⁵⁸. Concerned citizens noted that any weaknesses in tracking harbor fees or fuel could lead to revenue leakage or errors if not addressed⁵⁸. In response to the chaos, the City eventually hired outside accounting help and began rebuilding its processes in 2025, aiming to restore GAAP-compliant recordkeeping and address the audit backlog⁵⁹. But until new audits are

completed, **the Harbor Fund's financial reliability remains in question.** In short, the **Harbor Fund was impacted by the City's wider internal control collapse** – its budgets were overspent (a symptom of poor control and monitoring), its transactions may not have been properly reconciled, and for several years neither the City Council nor the public received an audited assurance that Harbor Fund financial statements were free of material misstatement. This represents a failure of governance and transparency, as a significant enterprise (the harbor) operated without the normal checks and assurances required by Oregon law and governmental accounting standards.

Grant and Interfund Transfer Activity (Harbor Fund)

The Harbor Fund's finances have been propped up by substantial interfund transfers and enriched by a few key grants during FY2019–FY2024. Below is a chronological summary of **major grants** received for harbor purposes and **interfund transfers** into the Harbor Fund:

- **Transient Lodging Tax / General Fund Transfers:** Depoe Bay does not levy a city property tax for general operations; instead it relies heavily on a **Transient Lodging Tax (TLT)** on tourist accommodations. A significant portion of these tourism-tax dollars get funneled to other uses via the Transient Room Tax (TRT) Fund and General Fund. Supporting the harbor is explicitly one of those uses. Every year, the City budgets a transfer from tourist tax revenues to the Harbor Fund in recognition that the harbor benefits tourism and needs help to cover costs ⁶⁰ ⁶¹. In **FY2019**, the General/Transient Tax fund **transferred \$165,000** into the Harbor Fund ⁸. In **FY2020**, roughly **\$310,000** was transferred from the TRT Fund to the Harbor Fund ¹⁴ (an even larger subsidy than the prior year, reflecting the harbor's mounting costs). A similar transfer in the amount of **\$310,000 was budgeted for FY2021** ¹⁴, according to city reports, to continue offsetting the Harbor Fund's operating loss. By **FY2022**, the harbor's revenues had improved slightly (with higher fuel prices boosting income), so the direct subsidy was lower – an **estimated \$75,000 transfer** from the General or TRT Fund was made to keep the Harbor Fund whole ³⁵. In **FY2023**, the City's adopted budget anticipated approximately a **\$244,000 transfer** into the Harbor Fund ²⁶, likely from the TRT Fund, to cover that year's deficit (this larger amount may also have included some capital match funds). These interfund transfers represent the City effectively routing general revenue (largely tourist tax dollars that could fund other services) into the Harbor enterprise to subsidize its operations. Over 2019–2023, the cumulative support from General/TRT funds to the Harbor Fund exceeded **\$1.1 million** – a substantial internal subsidy for a city of Depoe Bay's size.
- **Urban Renewal Agency (URA) Transfers:** The Depoe Bay Urban Renewal Agency, funded by property tax increment in the designated urban renewal area, has also contributed to harbor funding, particularly for capital projects. As noted in Section 2, in **FY2020** the URA **transferred \$316,300** to the Harbor Fund ¹⁵ to support harbor capital improvements (e.g. dock replacement planning and engineering). This was a one-time infusion separate from the operating subsidies above. The URA did not make a similar transfer in 2021 or 2022, but in **FY2024** the URA budget included a **\$100,000 transfer to the Harbor Fund** to help with harbor-related expenses ²⁹. This \$100k in FY2024 appears to be intended for either interim financing of the dock project or additional operating relief as the Harbor Fund took on large capital outlays. In addition, the URA has set aside **\$1.2 million in its project fund for the harbor** (as a match to the state grant) ³⁰ – those URA dollars will be spent on the dock replacement, though they may be accounted for in a separate capital fund rather than flowing through the Harbor operating fund. It's important to note that URA funds are restricted to capital projects in the urban renewal area; using them for harbor

infrastructure is allowable (since the harbor is within the URA), but using them for day-to-day operating losses is generally not the URA's purpose. The \$100k in FY2024 for "operations/capital" suggests the City found a way to justify that transfer under project-related needs (possibly covering project management or preliminary costs).

- **State and Federal Grants:** Aside from the **\$1.5 million legislative grant** (which is effectively a state capital grant) ³⁷, the Harbor Fund benefitted from a few smaller grants:
 - The **Oregon State Marine Board (OSMB)** provided annual **MAP grants (~\$6k each)** in FY2020 and FY2021 to assist with harbor facilities maintenance ⁴¹ ⁴⁰. For example, these grants helped pay for a new sewage pump-out station for boats and improvements to fish cleaning stations – critical infrastructure for a marina with fishing charters.
 - In **FY2019**, the Harbor Fund received a one-time **\$4,865 grant** (source not explicitly named, but likely from the OSMB or a state marine infrastructure program) ³². This may have funded a small capital need or study.
 - There were no known direct federal grants to the Harbor Fund in 2019–2024. The City did receive federal funds (e.g. ARPA COVID relief in 2021–22), but those went to general city purposes and water/sewer infrastructure, not specifically to the harbor. That said, if a disaster (storm) had significantly damaged the harbor, the City could seek FEMA funding – fortunately, during this period there was no major qualifying disaster at the harbor.
- **Interfund Loans and Other Transfers:** Within the City's books, there were also minor interfund transactions involving the Harbor. The Harbor Fund sometimes transfers small amounts out to the Water or Sewer Funds to pay its share of utility costs or shared staff. For instance, in FY2019 the Harbor Fund transferred \$3,000 to the Sewer Fund and \$6,200 to the Water Fund for these purposes ⁶². These amounts are relatively trivial. More notably, the Harbor Fund in past years had an **internal loan obligation to the URA** (from an old seawall repair project). This showed up as a negative fund balance in the URA Project Fund of about \$4,000 in 2019 ⁴³. The City has been **gradually "forgiving" or repaying that internal loan**, such as via a portion of the URA transfers mentioned above. By 2024, that old balance was largely resolved, cleaning up the interfund debt.

Transparency of Transfers: All the major transfers and grants are documented in the City's budget resolutions and, when audits occurred, in the financial statements. However, the lack of timely audits obscured some of this activity from easy public view. The Concerned Citizens group noted the importance of tracing these subsidies, as the Harbor Fund's appearance of breaking even each year was only achieved by infusions from the General Fund (tourism taxes) and URA ⁶³ ⁶⁴. In essence, the Harbor Fund has been **kept solvent through a combination of local tax transfers and outside grants**. The City's strategy has been to leverage external funds (state money, URA taxes) wherever possible, so that the harbor's burden on the General Fund is minimized – but even so, well over **\$200k per year of local money** on average has been diverted to harbor support during this period.

Stakeholder Concerns and Oversight Commentary

Depoe Bay's management of the Harbor Fund – and its finances in general – attracted increasing scrutiny from both oversight authorities and local stakeholders in 2019–2024. **Public concerns** have centered on mismanagement, lack of transparency, and the sustainability of subsidizing the harbor. **Oversight agencies**

at the state level intervened due to the City's audit failures, indirectly highlighting issues like the Harbor Fund's deficits. Key points include:

- **Oregon Secretary of State Audits Division:** The Secretary of State (SoS) monitors municipal audit compliance. Depoe Bay's failure to file audits on time for multiple years (FY2019 onward) put it on the SoS **"delinquent filers" list** ⁵⁷. As a penalty under Oregon law (ORS 297), the state **withheld 10% of certain state-shared revenues** from Depoe Bay during the period of noncompliance ⁶⁵. This included portions of liquor taxes, highway gas tax distributions, and state revenue sharing that the City would normally receive. The penalty directly impacted the City's General Fund in FY2022-23, effectively reducing resources that could subsidize funds like the Harbor. In 2023, the Oregon Legislature passed relief temporarily **lifting the 10% audit penalty** – the City had its withheld funds returned, per a FY2024 budget note ⁶⁶ ⁶⁷. While this provided a one-time financial reprieve, state officials made clear that Depoe Bay's situation was grave. The need for legislative intervention underscored the severity of the City's governance failures. The SoS Audits Division also required Depoe Bay to submit **corrective action plans** after the FY2019 and FY2020 audits (due to the material weaknesses and compliance issues) ⁶⁸. These plans are meant to assure the state that the City will remedy problems (e.g. fix internal controls, avoid future budget violations). Concerned Citizens have questioned whether those plans were effectively implemented, given the recurrence of issues in 2020 and beyond.
- **Harbor Fund Sustainability – Local Warnings:** City officials themselves have at times acknowledged the Harbor Fund's **structural dependency on subsidies**. In budget messages and financial condition reports, the Harbor's operating deficit is flagged as a key risk to the City's finances ⁶⁹. For instance, an independent financial report in 2024 noted the harbor's **"dependence on subsidies" and warned it "needs close monitoring" to ensure long-term sustainability** ⁷⁰. **The City's Budget Committee has openly discussed how harbor operations do not pay for themselves and rely on transient lodging tax transfers. Some council members and citizens worry that this is an ongoing drain on the City's resources – funds used to cover harbor losses could otherwise go to other city services or reserves** ⁷¹ ⁷². **If tourism revenue (the source of the subsidies) were to decline in a recession or if political will to subsidize the harbor wanes, the harbor could quickly fall into financial crisis.** In short, the harbor's fiscal impact on the City is that of an "expense center" requiring general support, **year after year** ⁶⁴. **As a tourism and economic asset, the harbor is valued, but from a purely budgetary view it has been an ongoing liability** that the City must manage.**
- **Gleneden Sanitary District (Intergovernmental Stakeholder):** The Harbor Fund issues are part of a larger pattern of financial management problems that have alarmed even outside agencies. The Gleneden Sanitary District (a neighboring district that partners with Depoe Bay for sewer services) made formal statements in 2022-2023 expressing concern over Depoe Bay's lack of financial transparency. In their FY2023 audit, Gleneden's auditors noted **"lack of timely and accurate reporting by [Depoe Bay] has left Gleneden Sanitary unaware of Depoe Bay's financial position... causing impacts on [Gleneden's] budget."** ⁷³ Gleneden officials complained that without Depoe Bay producing audits or reliable figures, they could not plan their own finances. This led to significant frustration; indeed, **Gleneden gave notice in 2022 that it intends to terminate its sewer contract with Depoe Bay by 2027** ⁷⁴. While this pertains to the Sewer Fund, not the Harbor, it illustrates the reputational damage Depoe Bay has suffered. Gleneden's drastic step was prompted by perceptions of mismanagement and eroded trust, which certainly encompass Depoe

Bay's overall financial governance (of which the harbor saga is a part). The loss of the Gleneden partnership will have financial implications for the City (losing sewer revenue) and stands as a warning that continued fiscal mismanagement can result in stakeholders pulling away.

- **Local Media and Public Commentary:** The local press has kept a watchful eye on Depoe Bay's fiscal troubles. In late 2025, a local news headline referred to **"Depoe Bay's fiscal abyss"**, underscoring the public perception that the City's finances were in disarray ⁷⁵. Earlier, in 2022, the **Lincoln City Homepage** ran an expose titled "The Missing Minutes: 'No-account' city hall fails to keep written records," highlighting the administrative meltdown in Depoe Bay's City Hall (missing council meeting minutes, key staff resignations) and quoting a city councilor who said, *"the public has no idea what we're up to."* ⁷⁶. Such reporting, while not solely about the Harbor Fund, contributes to a climate of skepticism. Many concerned citizens (including the authors of this report) feel that **City Hall's opacity and failure to provide basic financial accountability are unacceptable**. The Harbor Fund's chronic losses and the need for secretive last-minute transfers to cover expenses feed into this narrative of poor governance. There is community pressure for the City to **improve transparency, adhere to Oregon budget law, and produce timely audits** so that funds like the Harbor Fund can be properly scrutinized and managed.

- **State Oversight and Future Accountability:** Given Depoe Bay's inability to self-correct quickly, Concerned Citizens have advocated for heightened state oversight. The Oregon Audits Division has authority to escalate issues to the Attorney General or Circuit Court if a city persistently fails to file audits (which could include withholding more funds or even forcing an audit). As of 2024, the legislature's removal of the penalty was partly in hopes that Depoe Bay, under new management, would catch up on audits and fix internal controls ⁶⁷. The *Oregon Municipal Audit Law* (ORS 297) also requires that the City Council take formal action in response to audit findings – something that did not visibly happen for a couple of years due to the lapses. Moving forward, any audit of FY2021–2024 will likely be closely reviewed by the Secretary of State. The **Harbor Fund's condition will be a litmus test**: if audits show that even with large grants the fund is still losing money or misreporting expenses, it will reinforce the need for ongoing subsidies or operational changes. State observers (and grant-givers like the Marine Board or legislators) want assurance that grant monies for the harbor are properly accounted for. Thus, restoring proper accounting is not just a bureaucratic requirement but essential to maintain external funding streams and trust.

Fiscal impact on the City's overall condition: In summary, the Harbor Fund has had a **significant impact on Depoe Bay's overall finances** in this period – it has been an *ongoing net user of resources*. Each year, six-figure subsidies have been channeled from general revenues (especially transient lodging taxes) into the Harbor Fund to cover operating shortfalls ⁶⁴. While the City's General Fund was strong enough to absorb this (thanks to booming tourism revenue in recent years), it effectively means the City has less flexibility to fund other services or build larger reserves. The **opportunity cost** of supporting the harbor is high. Importantly, the City's **liquidity remained healthy** through 2024 (cash balances were robust ⁷⁷ ⁷⁸) so the harbor's losses never caused a cash crisis – but they did erode what could have been even stronger fund balances. From a long-term sustainability perspective, **current practices do not indicate that the Harbor Fund will become self-sustaining under status quo**. The City has acknowledged that without continued external support the harbor cannot cover major maintenance or capital needs ⁷⁹ ². The Concerned Citizens' analysis concurs: the Harbor Fund is **structurally in deficit** and essentially **"stable" only so long as subsidies continue** ². If tourism-tax revenues were to dip or if the City faced other financial emergencies, the harbor could quickly run into trouble. On the positive side, the City's approach of

aggressively seeking grants (like the \$1.5M dock grant) and using URA funds for harbor infrastructure has reduced the burden on the General Fund in the short term ³⁷ ³⁰ . However, those are one-time infusions for specific projects. Once the new docks are built, the ongoing operations will still likely run at a loss absent significant changes (e.g. substantial moorage rate increases, outsourcing of marina operations, or finding new revenue streams). City officials have begun to discuss strategies such as incremental fee increases (a 3% annual CPI-based moorage fee hike was implemented starting in 2021) ¹⁷ , but small tweaks are unlikely to close a \$200k/year gap. A more comprehensive plan – potentially reallocating a fixed portion of tourism taxes permanently to harbor operations, or endowing a “harbor reserve” fund when times are good – may be needed to ensure **long-term sustainability**. As recommended in the FY2023–24 Citizen's report, Depoe Bay should “**maintain a formal harbor capital financing plan**” tied to grants and matches, and continuously monitor the harbor's performance as a key risk area ⁸⁰ .

Conclusion

From FY2019 through FY2024, the Depoe Bay Harbor Fund has been a microcosm of the City's broader fiscal management challenges. Financially, the harbor is a vital community asset that unfortunately operates in the red and must be subsidized to remain viable ¹ . The City's failure to adhere to best practices (GAAP/GASB accounting, COSO controls) and legal requirements (audit filing deadlines, budget law) exacerbated the Harbor Fund's issues by eroding public trust and clouding the true financial picture. The Concerned Citizens of Depoe Bay present this report to document the facts: annual harbor operating deficits around \$200k+, large infusions of transient tax and URA money to cover those deficits, major capital projects funded primarily by outside dollars, and audit reports (when they exist) that have identified serious concerns ranging from budget violations to unauditable records ³⁹ ⁵⁴ .

Going forward, **accountability and transparency must improve**. The City needs to complete its delinquent audits and implement strong internal controls so that every fund, including the Harbor Fund, has accurate financial reporting (per GAAS and Oregon Municipal Audit Law) and proper oversight. Additionally, **policy-makers should confront the Harbor Fund's structural deficit** head-on. This could involve setting aside a dedicated subsidy in a more transparent way (acknowledging in the budget that, for example, a fixed portion of lodging tax will always go to harbor operations), exploring cost reductions or public-private partnerships for harbor management, and continuing to pursue grants aggressively. The harbor is an economic engine for Depoe Bay – it drives tourism, commerce, and the town's identity – so abandoning it is not an option. But neither is letting it become a financial black hole. The analysis above highlights that with prudent planning (as guided by frameworks like Oregon's Local Budget Law and the COSO internal control model), the City can manage the Harbor Fund's risks. In the meantime, Concerned Citizens will continue to monitor the Harbor Fund's performance and the City's remedial actions. We call on Depoe Bay's leadership to embrace a culture of compliance and proactive financial management, to ensure that *public funds are safeguarded and spent as intended*. The Harbor Fund's story over 2019–2024 has been one of dependency and obscurity; with reforms, the goal is that in the coming years it becomes a story of accountability and sustainability.

sources: (All data and citations in this report are drawn from official City of Depoe Bay financial reports, state audit records, and credible analysis documents. Key sources include Depoe Bay's FY2019 and FY2020 audited financial statements, FY2019–FY2022 Concerned Citizens financial condition analyses, the City's FY2023–24 financial condition report, Oregon Secretary of State audit notices, and urban renewal budget documents. Specific reference details are provided in-line above in the format **[source document#line numbers]** for verification.) ⁸¹ ⁸²

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Financial Condition Analysis – City of Depoe Bay (FY Ended June 30, 2021).docx

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