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MEMORANDUM

Finance Department

To: Mayor Jackola and City Council

September 9, 2026

From: Brandon Neish, Finance Director

Subject: FY2026 Year-End Financial Update

As the governing body responsible for overseeing the financial health of the City, it is essential that the City Council is regularly informed of our financial status and ongoing fiscal matters. These updates provide transparency, support sound decision-making, and ensure alignment with our strategic goals and responsibilities, specifically action item 3.3: Develop and deliver communication tools to inform community on financial position and funding options to maintain service levels.

The 2026 fiscal year ended June 30, 2026. Invoices continue to come in for expenditures related to the prior year, and certain revenues received before September 1 are also recorded back to FY2026. As a result, some revisions to these preliminary numbers are expected as the City moves into audit season and works through remaining year-end items. Those adjustments are not expected to materially change the information below, and this report represents a fair assessment of the City's financial position at the end of FY2026.

Overall, the City recorded $47.6 million in revenue and $40.2 million in expenditures during FY2026. Nearly all funds, including the General, Water, and Wastewater funds, added to their fund balances, with a cumulative increase of approximately $7.3 million.

The General Fund added $127,841 to fund balance during the year; however, that result was supported by approximately $2.1 million generated by the City Services Fee. The positive year-end result is welcome, but it also reinforces the importance of that revenue source to maintaining existing General Fund services.

Utility Charges for Service

Budgeted at $14.14 million for FY2026, the City collected $14.57 million in utility charges. Combined revenue across the City's three utility funds increased 2.1% over the prior year despite no rate increases between the two fiscal years.

The additional revenue helped contribute to a combined $2.5 million increase in fund balance across the three utilities. The Wastewater Fund finished FY2026 with approximately $18 million in fund balance. While significant, those resources will be important as the City moves toward completing necessary and costly projects at the Wastewater Treatment Plant.

Property Taxes

Property tax collections finished within 0.02% of the adopted budget. The close result reflects the City's effort to budget revenues carefully and provide the City Council and community with a realistic picture of the resources available to provide services.

Accurate revenue estimates are particularly important because they allow spending decisions to be made based on what the City reasonably expects to collect, rather than relying on overly optimistic projections or unnecessarily accumulating resources that could otherwise be used.

The City collected approximately $8.9 million in property taxes during FY2026, which were deposited primarily into the General Fund and General Obligation Bond Fund.

Intergovernmental

Intergovernmental revenue includes funding received from other government agencies, including the school district, fire district, county, state, and federal governments. Overall, intergovernmental revenue totaled $6.0 million in FY2026, approximately $2.1 million less than originally budgeted.

Most of the difference relates to reimbursable grants in the Parks Fund associated with improvements at Cheadle Lake Park. Reimbursements through the Oregon Parks and Recreation Department's Local Government Grant Program remained pending as of August 31. Because the funds were not received by that date, the revenue will instead be recorded in FY2027. This represents primarily a timing difference rather than a loss of anticipated grant funding.

More concerning for the City's long-term financial position is the continued decline in state-shared revenues. State cigarette tax revenue fell to $9,692 compared with an $11,000 budget, liquor revenue finished 21.7% below budget, and state revenue sharing finished 20.4% below budget.

These have historically been stable sources of revenue for the General Fund. Their continued decline places additional pressure on a fund where the cost of maintaining existing services is already growing faster than many traditional revenue sources. Over the long term, continued declines will require replacement revenue, reduced expenditures, or greater reliance on fund balance.

Franchise Fees

Franchise fee revenue totaled $3.3 million in FY2026, exceeding the adopted budget by $4,401, or 0.13%. Rate increases by utility providers such as Pacific Power, NW Natural, and Consumers Power helped push franchise fee revenue to its highest level to date.

However, the significant utility rate increases of recent years, particularly for electricity, are unlikely to continue indefinitely. As those increases moderate, growth in franchise fee revenue is also likely to slow.

Performance varied among individual franchises. Pacific Power franchise fees finished 9.2% below budget and NW Natural finished 1.3% below budget, while franchise fees generated by the City's water, sewer, and stormwater utilities finished 2.8% above expectations.

Interest

Interest revenue was once again a strong performer, significantly outpacing the adopted budget. Interest rates declined gradually during much of FY2026, falling from approximately 4.6% to 4.0% by February

2026, where they remained through the end of the fiscal year. Despite the decline, the City realized approximately $2.7 million in interest earnings during FY2026.

Interest rates are expected to remain relatively favorable in the near term as inflation continues to remain above the Federal Reserve's long-term target. Combined with strong cash balances, the City expects interest earnings to remain strong in FY2027.

Looking further ahead, interest revenue is expected to decline as rates gradually normalize and the City puts accumulated resources to work on planned capital projects. Significant projects, including approximately $32 million of investment at the Wastewater Treatment Plant in fiscal years 2027 and 2028, will draw down cash balances that are currently generating interest income. As a result, the unusually strong interest earnings experienced in recent years should not be viewed as a permanent source of ongoing revenue.

Other Revenue

Other revenue totaled $6.8 million in FY2026, approximately 38.5% above the adopted budget. Several factors contributed to the strong performance, including the unbudgeted sale of the Santiam Travel Station, increased building and development activity, and a nearly 75% increase in system development charge revenue. Combined, revenues in this category finished approximately $1.9 million above budget and contributed significantly to the City's positive financial results for the year.

Other revenue is among the more difficult categories to forecast because it includes revenue sources that can vary considerably from year to year, including donations, court fees, sales of City property, development-related revenue, and other miscellaneous receipts. As a result, the strong FY2026 performance should not necessarily be viewed as an indication of similar growth in future years.

This category also includes the City Services Fee, which generated $2,091,664 in FY2026. Unlike many of the variable or one-time revenues included in this category, the City Services Fee represents an ongoing revenue source supporting General Fund services and was an important contributor to the General Fund's positive year-end result.

Beginning Balances

The City began FY2026 with approximately $50.5 million in combined fund balances, compared with $46.6 million estimated when the FY2026 budget was adopted. The approximately $4.0 million difference was concentrated primarily in the General Fund, system development charge funds, and the Water and Wastewater utility funds.

In the General Fund, the actual beginning balance was approximately $1.66 million higher than originally projected. Much of this difference can be attributed to the City Services Fee, which began generating revenue during FY2025. At the time the FY2026 budget was prepared, the fee was still new and the City had limited information available to estimate how much revenue it would generate before the end of FY2025. Actual collections totaled approximately $1.1 million during that period, accounting for a significant portion of the higher-than-anticipated General Fund balance entering FY2026.

Higher beginning balances in the utility and SDC funds were largely the result of expenditures occurring more slowly than anticipated. Delayed capital projects, along with slower-than-expected legal proceedings associated with the South Santiam drawdown, resulted in cash remaining in those funds at year-end rather than being spent as originally projected.

While the higher beginning balances strengthened the City's financial position entering FY2026, much of the difference does not represent new or permanently available resources. In several funds, the balances reflect revenues already dedicated to specific purposes or expenditures and capital projects that have shifted into future fiscal years.

Personnel Expenditures

Personnel expenditures totaled $16.74 million in FY2026, approximately $137,000, or 0.83%, above the adopted budget of $16.61 million. Given the size of the City's workforce and the number of variables affecting personnel costs throughout the year, overall spending remained very close to budget.

Personnel expenditures exceeded original estimates primarily in the LINX and Building funds. LINX experienced increased personnel costs associated with new and expanded program offerings, while staffing changes and employee turnover affected expenditures in the Building Fund.

While FY2026 expenditures remained close to budget, personnel costs increased approximately 5% over the prior year as cost-of-living adjustments took effect and previously vacant positions were filled. Personnel remains the City's largest operating expenditure and one of the most significant pressures on future budgets.

Continued wage growth, along with increasing PERS and health insurance costs, is expected to push personnel expenditures higher in future years. Unlike some operating costs that can be delayed or reduced, personnel costs are closely tied to the services the City provides, making continued growth particularly important to the City's long-term financial outlook.

Materials & Services

Materials and services expenditures finished below budget in FY2026, with the City spending approximately $9.29 million compared with an adopted budget of $10.25 million. The approximately $959,000 variance was larger than experienced in other major expenditure categories, although several significant items account for much of the difference.

The Water Utility accounted for approximately $468,000 of the unspent budget, primarily due to $540,000 budgeted for legal services associated with the South Santiam drawdown that was not needed during the fiscal year. Street Maintenance finished approximately $88,000 below budget, including approximately $75,000 in insurance savings. The Building Fund finished approximately $101,000 below budget, primarily in merchant card fees and general operating expenses.

Information Technology finished approximately $127,000 below budget as planned computer replacements and contract services were not fully expended. Finance finished approximately $94,000 below budget, primarily due to audit services that were delayed as completion of the City's prior-year audit extended later than anticipated.

While materials and services finished approximately 9.4% below budget overall, much of the variance can be traced to specific expenditures that were delayed or ultimately cost less than anticipated. Some of these amounts represent true savings, while others represent expenditures that are still expected to occur in a future fiscal year.

Capital Outlay

Capital outlay represented the City's largest variance from the adopted budget in FY2026. The City budgeted approximately $25.7 million for capital expenditures and spent approximately $7.3 million during the year, leaving $18.4 million in budgeted capital unspent.

Unlike operating expenditures, however, the City's capital budget is not necessarily expected to be fully spent each year. In several capital funds, particularly system development charge and utility funds, the City budgets resources available for planned projects, contingencies, and potential cost overruns. These appropriations provide the authority necessary to complete projects without assuming that every available dollar will ultimately be spent.

This was particularly evident in the City's system development charge funds, which accounted for approximately $11.6 million of the unspent capital budget. Water and Wastewater also finished with approximately $2.84 million in combined unspent capital appropriations. These resources remain available for infrastructure needs and future capital projects rather than representing ongoing operating savings.

Other capital spending was delayed during the year. Several planned street projects did not move forward as anticipated due primarily to staffing constraints and will need to be completed in future years.

While the difference between budgeted and actual capital spending is significant, it does not represent $18.4 million in project savings. Much of the variance represents projects that were delayed, contingency amounts that were not needed, or resources intentionally reserved and budgeted for capital improvements that will occur over multiple fiscal years.