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MEMORANDUM

Finance Department

To: Mayor Jackola and City Council

January 2, 2025

From: Brandon Neish, Finance Director

Subject: FY2024 Year-End and FY2025 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.

This financial update is intended to offer an overview of financial status (comparing budget to actuals) and highlight any key financial developments, including stressors, and to address any questions or actions required to maintain the City's fiscal integrity. Included with this report is a listing of all checks cut by the City.

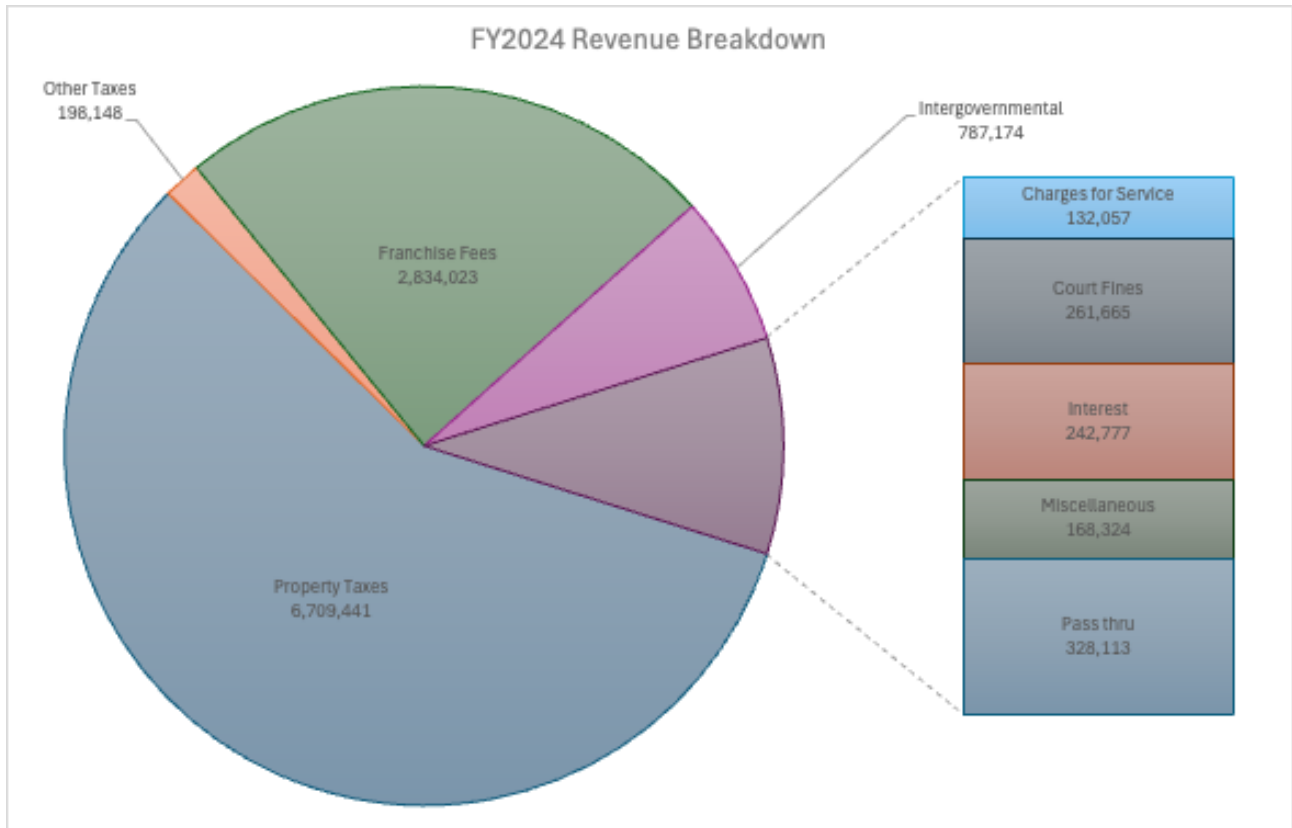
Fiscal Year 2024

To start this report, a review of the prior fiscal year is in order as the City wraps up its annual audit and prepares the financial report. This information is "as-is", meaning it is unaudited and represents the best picture staff has as of the date this report was produced. As staff completes the annual financial report, additional changes are possible.

We'll start with the City's General Fund. The City is projected to finish 2024 having earned \$11,661,721 in new revenue (.61% above budgeted figures) and spent \$11,782,162 (20% below budgeted figures), a deficit of \$120,441. The beginning fund balance offsets the deficit which was \$4,854,132 (.82% above the budgeted figure). At the end of the fiscal year, the City had an ending fund balance in the General Fund of \$4,733,690, a 2.38% reduction from the 2023 fiscal year.

The primary revenue source in the General Fund was Property Taxes at 57.53% of the total revenue generated. Franchise fees followed at 24.30% and the remaining revenue categories totaled 18.16%.

Property tax revenue came in at \$6.7 million which was 1.20% shy of the budgeted revenue for the year. Throughout the fiscal year, the City saw slower than average collections in property tax revenues suggesting that less properties took advantage of the 3% discount by paying property taxes in November and delinquencies were increasing. An analysis of property tax data from Linn County shows that unavailable revenue (delinquent amounts) increased nearly six percent in 2024, a trend that may continue as inflation continues to drag on.



Interest earnings was the most surprising in 2024, earning nearly 2.5 times more than the adopted budget. This increase was due to a persistently high interest rate set by the Federal Reserve hoping to slow inflation down to a target of 2.0% annually. During the fiscal year, the City saw interest rates paid on its Local Government Investment Pool (LGIP) accounts move from 4.05% to 5.20% in 12 months. While fiscal year 2025 is slated to see decreasing rates, the rate reductions will be relatively small thereby yielding significant earnings for a second year.

For 2024, expenditures in the General Fund were 9.10% less than the 2024 budget when excluding transfers out and contingencies with the largest savings seen in Materials & Services (\$716k). Personnel expenditures were \$364k short for the fiscal year and can be attributed to vacancy savings, primarily in the Police Department (\$441k less than budget) as the department continues to work on fully staffing its 42 positions.

Across the organization, the City generated \$39,913,118 in new revenue and spent \$37,375,292. The City's utility funds added \$2.24 million to their respective fund balances with the lions share seen in the Wastewater Utility fund which is setting aside funds for an estimated \$30+ million capital upgrade at the Wastewater Treatment Plant in the next five years. Interest earnings again saw the largest increase above budgeted amounts with \$2.46 million in total earnings (more than 3.5 times the budget of \$527k). On the expenditure side, total expenditures (excluding contingencies and unappropriated ending balances) were 35.48% less than budgeted with Capital Outlay expenditures falling to just 32.91% of budgeted figures.

Fiscal Year 2025

For the current fiscal year, this update contains projections using data through November 2024. To-date, the City has brought in \$16,463,200 in new revenue and has spent \$12,887,690. This report will focus primarily on the revenue side of the City's operations as Department Directors are currently working on their year-end projections for budget purposes. This report will also follow the major categories as outlined in the annual budget document beginning on page 24 consisting of Utility Charges for Service, Property Taxes, Intergovernmental revenue, Franchise Fees, Interest, and Other Revenue.

Utility Charges for Service

Budgeted at \$13.79 million for 2025, the City has collected \$6.38 million in utility fees. Based on historical trends, the current projection estimates the City will collect \$14.07 million. The increases are being driven primarily by increased water consumption across utility accounts and an increase in bulk water purchasing.

Property Taxes

Property tax revenue is projected to fall below the adopted budget by 1.14%. Driving the decrease is a less than anticipated increase in assessed value. Congruent with the Oregon Constitution, assessed value (AV) is allowed to increase a maximum of 3% per year. New structures/building can result in increased AV that is allowable beyond the 3% cap. For 2025, the City budgeted a 4% increase in AV. County records however show the actual increase as 2.7% for 2025. As a result, the 4% AV increase for 2026 has been reduced to 3%, impacting the General Fund's five-year forecast (more on that below). The current year projection across the organization shows a \$97k reduction which could iron itself out by fiscal year end.

Intergovernmental

Intergovernmental revenue includes revenue from other government organizations such as the school district, fire district, county, state, or federal government. Overall, intergovernmental revenue is projected to fall short of the adopted budget by 3.62% or \$287k. Driving this reduction is a significant deficit seen in state revenue sharing, impacting the General Fund. State liquor taxes are projected to fall over 40% and cigarette revenue continues to fall year-over-year. The decrease in state liquor taxes is the most surprising in this projection as liquor revenue has always been reliable. Look for future reports to hopefully have this trend turn around or the City will need to be cognizant of the "new normal" in state revenue sharing.

Franchise Fees

Franchise fee revenue is projected to land at \$3.09 million by year end which is \$57k more than the adopted budget. As the winter continues however, we expect that the forecasted fee revenue will increase as natural gas franchises are showing a significant decline. Staff believes this is due to a longer than expected fall weather season which did not bring colder temperatures until November, later than past years. Additionally, franchise revenue should increase as utility fees rise and both Pacific Power and NW Natural either instituted recent increases or have pending increases effective January 1.

Interest

Interest revenue is once again a high performer in outpacing the adopted budget. While interest rates have started to fall, the small decreases instituted by the Federal Reserve will have a nominal impact on interest revenue. For 2025, the City projects \$3.07 million in interest earnings, more than 1.5 times the adopted budget. With the City Services Fee coming online in January, this forecast has a potential to climb as we move into the 2025 calendar year though it is nearly impossible to project the fee's specific impact.

Other Revenue

Other revenue city-wide is projected to increase 5.00% from the adopted budget or \$227k. This includes surprising increases in court fees (\$98k) and motel tax revenue (\$40k) based on year-to-date receipts. Budgeted at just 11.61% of the City's total revenue, the overall impact to the organization is nominal but noteworthy given the projected increases. Since this category is driven often by customer interactions and projects, the revenue here is harder to project as it can swing at any given moment, but staff is confident that this will remain a significant contribution to the city operation.

General Fund

The City's General Fund has not moved in a positive direction from a revenue generation standpoint. With state shared revenue falling and AV growth falling below 3%, the overall revenue trend is something to monitor very closely moving forward. For this update, staff believes that new revenue will fall 1.49% or \$178k for fiscal year 2025. While this seems small, the most concerning part of the forecast is its impact to the long-term picture, specifically the ending fund balance at the end of fiscal year 2029. AV reductions for 2025 mean that \$300k in fund balance is eliminated over the current year and next four years bringing the total ending balance, with no intervention, to a deficit of \$5.6 million. However, the inclusion of the City Services Fee, with revenue generation beginning in February 2025, is expected to add \$7.9 million over the next five years resulting in a small surplus at the end of 2029 of \$2.3 million. This assumes there is no increase to the \$18 monthly fee through fiscal year 2029.