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MEMORANDUM

Finance Department

To: Mayor Jackola and City Council

May 14, 2025

From: Brandon Neish, Finance Director

Subject: 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.

For the current fiscal year, this update contains projections using data through April 2025. To-date, the City has brought in \$34,634,484 in new revenue and has spent \$31,078,392. This report will focus primarily on the revenue side of the City's operations as expenditure estimates have been provided as part of the Proposed Budget which can be found on the City's website. This report will also follow the major categories as outlined in the annual budget document beginning on page 35 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 \$11.94 million in utility fees. Based on historical trends, the current projection estimates the City will collect \$14.24 million. The increases are being driven primarily by increased water consumption across utility accounts and an increase in bulk water purchasing. Sewer revenue has held relatively stable compared to budget but may increase for the final three months of the fiscal year as winter average changes have just been completed. Winter averages for sewer use are based on water usage between October and March annually which is then used to establish a 12-month sewer usage or "consumption." With increased water usage this fiscal year, sewer will likely climb as well.

Property Taxes

Property tax revenue is projected to total nearly even with budgeted figures for FY2025. The City budgeted \$8,534,769 and estimates show projected revenue totaling \$8,579,986, \$45k (.53%) above budgeted figures. While taxes are nearly balanced, fund-by-fund the variances differ. In the General Fund, the City projects an extra \$140k in property tax revenue while in the General Obligation Bond Fund, tax revenue is projected to fall \$94k short of the original budget. This will result in an inter-fund loan to cover necessary debt service payments which will need to be repaid in the 2026 fiscal year. The City Council approved this inter-fund loan during their April 2025 council meeting.

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 nearly 20%, excluding state grant funds for work at Cheadle Lake Park. Driving this reduction is a significant deficit seen in state revenue sharing, impacting the General Fund. State liquor taxes have recovered slightly and are projected to fall nearly 20% instead of the 40% projected earlier this year. Cigarette revenue continues to fall year-over-year. Falling short of the budgeted amount by \$75k this year, the state liquor tax will need to be monitored moving forward as it once was a stable source of revenue for the City. Peaking at \$381k in 2023, liquor taxes are projected to be \$357k this year and the state's projection shows \$317k for Lebanon next year, a decrease from 2023 of over 15%.

Franchise Fees

Franchise and contribution revenues for FY2025 are projected to slightly exceed budgeted expectations, with total collections estimated at approximately \$3.34 million - about \$300k more than the \$3.03 million budgeted. This positive variance is driven primarily by higher-than-expected receipts from Pacific Power and NW Natural, which together account for more than the overall increase. Rate increases across these two utilities are likely driving the significant increases. While a few categories—such as Comcast and Consumer Power - are projecting slightly lower returns than budgeted, these shortfalls are more than offset by gains in other areas. The strong performance in key utility sectors provides a modest boost to the City's General Fund and reflects stable or increasing utility activity within the community.

Interest

Interest revenue is once again a high performer in outpacing the adopted budget. While interest rates have started to fall, the Federal Reserve has held off on rate increases recently which is driving higher revenues. For 2025, the City projects \$2.85 million in interest earnings, more than 1.25 times the adopted budget. As the City continues to spend more money held in reserve for capital projects, this will begin to fall again alongside falling rates which is widely expected. Staff expects this to occur after the current fiscal year.

Other Revenue

Other revenue city-wide is projected to increase 41.90% from the adopted budget or \$1.21 million. This includes not only surprising increases in court fees (\$83k) and motel tax revenue (\$88k) based on year-to-date receipts but also the City Services Fee which is estimated to bring in \$1.03 million this year. Remove the service fee and the increase is \$414k for 2025. 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

Revenue generation in the General Fund has increased since the last financial update in January. Revenue estimates for 2025 have increased nearly $\frac{3}{4}$ of a million with increases seen in state revenue sharing and a rebound in franchise fee revenue. As a result, the five-year forecast shows a much better picture though still shows a need for the newly minted City Services Fee throughout all five-years and an increase of approximately 1% annually to maintain ~\$2 million in one-time, expendable fund balance. The five-year forecast is included with this update for Council and public consumption.