



Finance Department

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MEMORANDUM

To: Sweet Home City Council
Ray Towry, City Manager

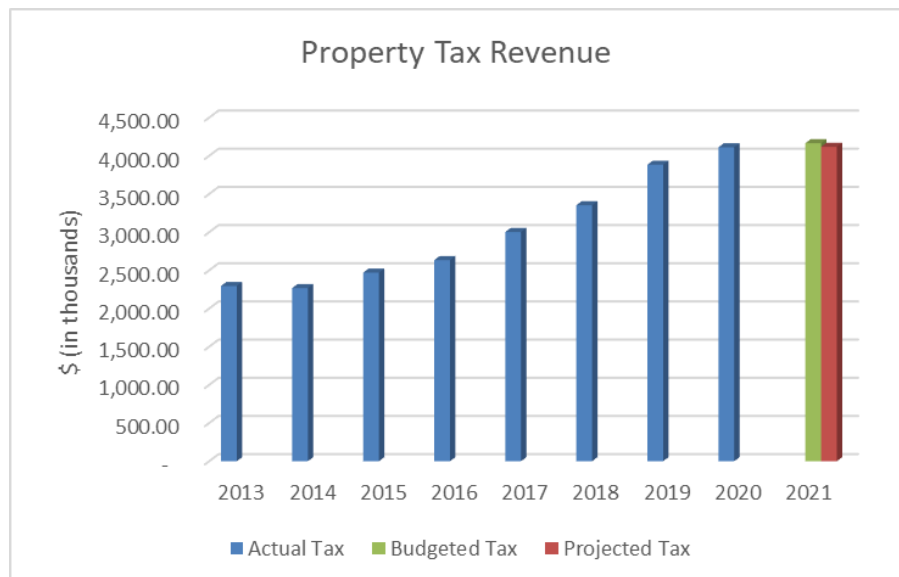
From: Brandon Neish, Finance Director

RE: Financial Status Update for Fiscal Year 2021 – First Quarter

The first quarter of fiscal year 2021 ended September 30, 2020. 2020 is a “year like no other” and certainly the City’s finances are no different. Using information gleaned from recent property tax reports from Linn County and historical data during the last economic downturn, the City has developed a financial snapshot and forecast for the remainder of the fiscal year. To develop this forecast, staff used “burn rates,” a rate which takes a specified timeframe (in this case, Q1) and calculating a percentage of the total from fiscal year 2013 and 2020. FY13 was used due to its proximity to the recession when the City’s property tax revenues were at their lowest point due to lower property tax values and astronomical compression rates. Additionally, at the height of the recession, fees and other revenues were lower as well. FY20 was used to provide a snapshot on the initial effects of COVID-19 on revenue generation. The result was a minimal increase in overall revenues and a decrease in planned expenditures.

Property Taxes

Due to the coronavirus pandemic, property tax revenue in this fiscal year is the most volatile of the City’s revenues. Through September, property tax revenues were down 19.8% when compared to the same time in September 2019. Generally in the first quarter, property tax payments consist of delinquent taxes being paid. With revenues down nearly 20%, this indicates a disturbing trend for the remainder of the fiscal year. If properties are struggling to catch up with their delinquent payments, current year taxes will likely be down for the year as well. Further analysis of property tax revenues coupled with information from Linn County demonstrates a contraction in revenues beyond what was budgeted for this fiscal year. The City had planned for the following with taxes:

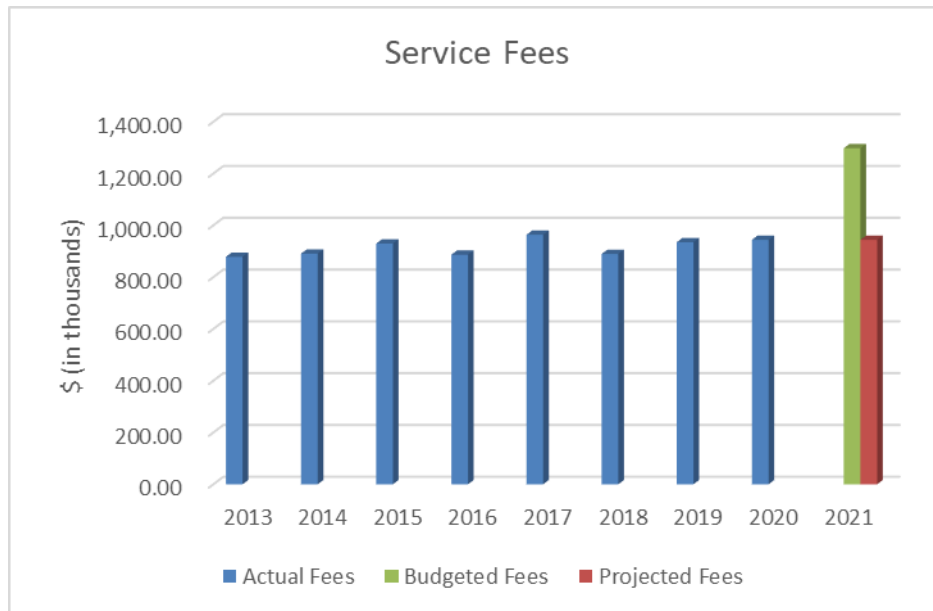


- Compression levels would drop from 19% to 18%
- Assessed values would increase the 3% allowed under Measure 50
- An 8% reduction from total billings to account for early pay discounts and delinquencies

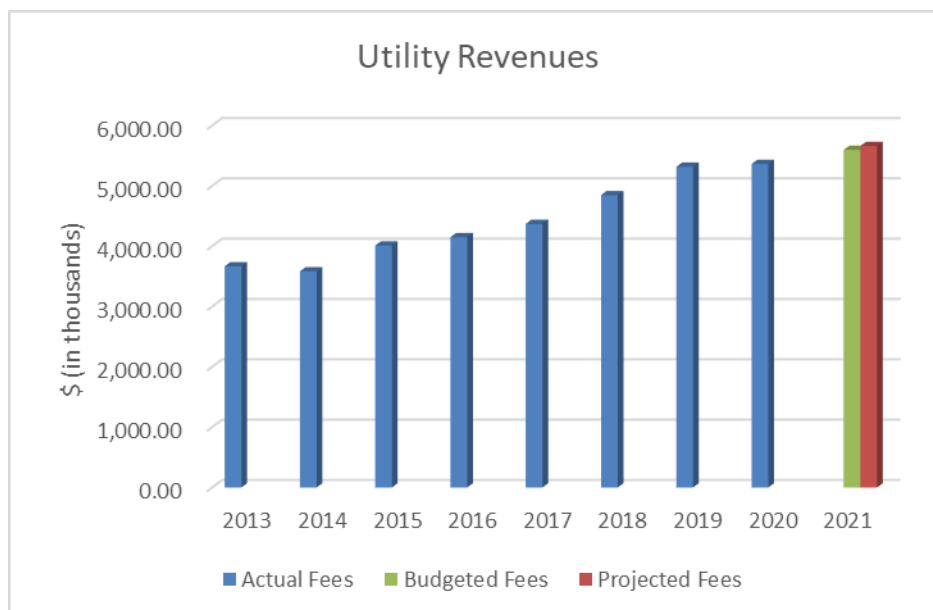
Overall, the current projection for property taxes is slightly below original estimates. The City projects it will generate \$4,116,994 in property tax revenue for the 2021 fiscal year. This is 1.14% below the budgeted amount of \$4,164,469. This is a loss of \$47,475. Much of the projection hinges on how property tax receipts will fill in during the month of November when the City typically receives over 90% of its overall tax revenue. Expect this projection to change for the Q2 report and likely in an adverse direction.

Service Charges

Service fee revenues have been impacted during the Coronavirus pandemic. Through September, services fees are down 2.8%. Service fees include franchise fees from utility companies, library fees, utility connections, court fees and planning fees. This does not include building permits. Court and franchise fees are up 25% (primarily in the general fund) but library and utility fees are down an



average of 60% for the first quarter. This is a direct result of coronavirus restrictions that have left the City struggling to adapt where the standard practice is direct, in-person service at various City locations. Additionally, more folks are opting to refinance property loans instead of moving as housing prices have continued to climb more than 7% since this time last year resulting in less connection fee revenue. Close monitoring of these service fees will be essential as we continue through the year. Budgeted revenue from service fees for 2021 is \$1.3 million and the first quarter projection puts fee revenue at \$944k, a 27% reduction or \$354k for the year.

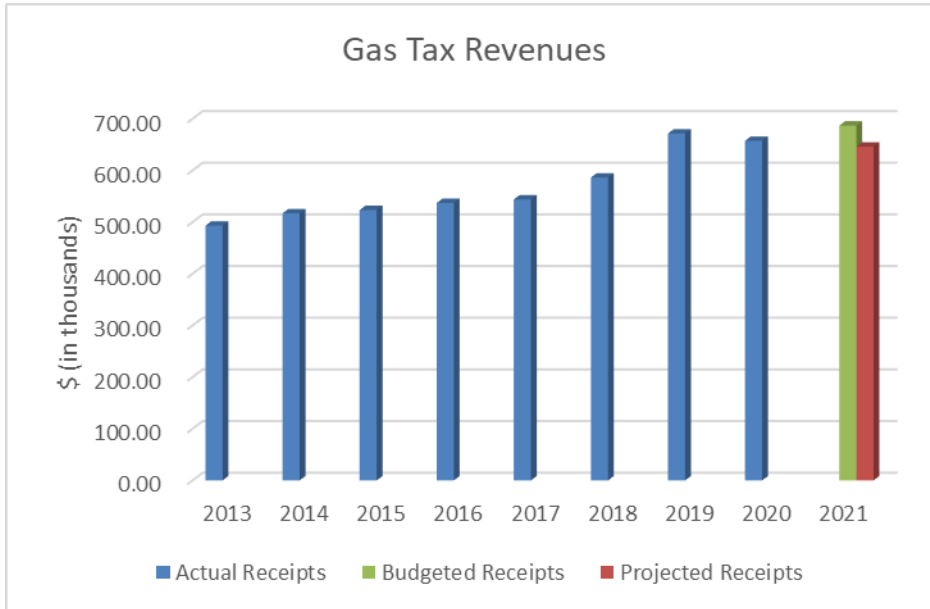


Utility Revenues

For the first quarter, utility revenues are up 4.8% over the first quarter of the prior year. Budgeted at \$5.6 million, staff expects that utility revenues will reach \$5.66 million by fiscal year end. As the pandemic continues and individuals stay home more, water usage will continue to remain higher than normal driving

the increased revenue as there were no increases in utility fees for the current fiscal year. What could impact this forecast in the long term is a drag on the overall economy which may force residents and businesses to cut back or consider paying for other needs over utility fees. The City has taken a considerate stance related to utility accounts as folks face temporary layoffs and will likely continue to work with customers who need additional time and help. This may slow revenue generation overall and spread out the revenue receipts in future fiscal quarters.

Gas Taxes

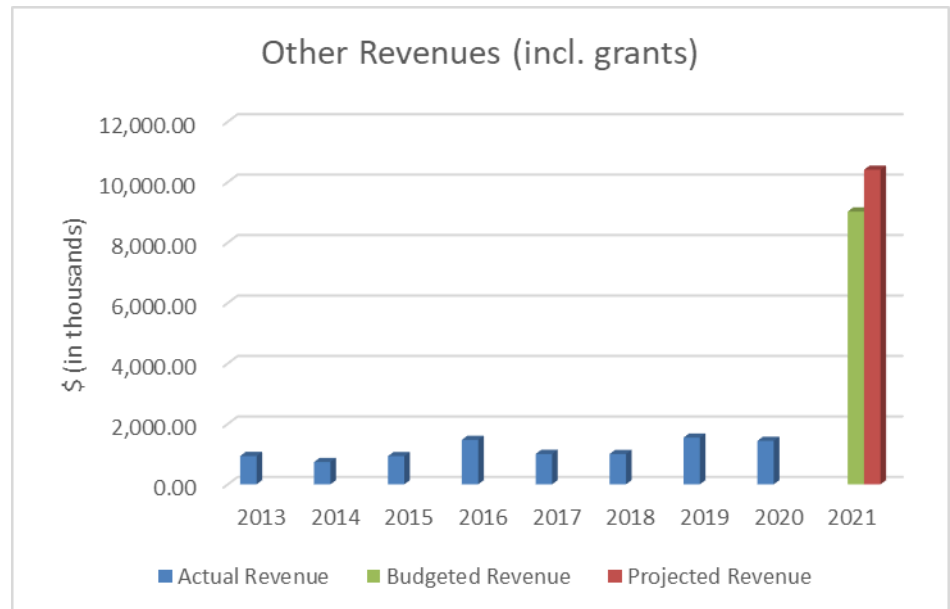


Gas tax revenue is paid by motorists who utilize DMV services, filling up fuel tanks resulting in fuel tax receipts and those who are required to pay tolls, ODOT permit fees, trucking fees and more. The revenue is collected by the Oregon Department of Transportation (ODOT) and distributed to cities and counties across Oregon. In 2017, the Oregon Legislature passed an additional payroll tax, 1/10th of 1%, which employees pay as part of their monthly payroll. These taxes originally increased the allocation that Sweet Home

was expecting to receive in gas tax revenues. However, when COVID struck, ODOT projections were swiftly revised and the City ultimately saw a reduction in receipts for the end of fiscal year 2020 as well as revised projections for 2021. These projections were included in the adopted budget which was set at \$686,742, a 4.5% increase over the 2020 actual revenue. As of the end of the first quarter, state receipts are down 13.2% and an October revenue report from ODOT tells the City to expect a reduction of \$40,925 from the original estimates resulting in a forecast of \$645,817 for streets. This impact will be absorbed by the original budgeted ending fund balance of \$194,805 but future reductions or limits to cost increases will be necessary to maintain operations long-term.

Other Revenues

Included in “other revenues” are building permits, interest, grants and other miscellaneous revenues. Through September 2020, other revenue is up 10.3% primarily due to grant receipts as both the Library and Community & Economic Development have leveraged grant funds to complete projects across the City. The result has been continued purchasing of new furniture to update the Library along with the purchase of new books to continually offer new and updated contents to the community. Additionally, significant progress at Sankey Park using a grant from the Oregon Parks and Recreation Department has resulted in new playground equipment, paths and lighting moving closer to realizing the full potential of Sankey as the City’s flagship park. Given that a majority of these revenues are due to grants, the projection for this grouping of funds, while higher than originally budgeted, has been tempered to match the prior year revenue figure, \$1.4 million in addition to \$9 million in planned grants from the State of Oregon for the Wastewater Treatment Plant Project. As the pandemic continues, grant organizations have shifted to providing grants for COVID mitigation efforts and donations being overall lower have impacted their ability to distribute funds as they have previously.



Personnel

Personnel expenditures generally make up nearly 50% of the City’s overall expenditures annually. For fiscal year 2021, personnel expenditures were budgeted at \$5.6 million and the City’s current projection shows that we are in-line with that target.

Materials & Service

At the height of the coronavirus pandemic, City Manager Ray Towry issued a non-essential spending freeze until the financial impacts of COVID could be better determined. This contributed to a carryover of \$2.6 million above the 2020 budget which resides in fund balances across the various funding resources adding to long-term fund stability as we navigate the effects of the pandemic. For 2021, the spending freeze has continued resulting in spending that is 8.1% less than this same period in the prior year. The materials and services budget for 2021 was adopted at \$5,198,202 and current projections estimate that the City will spend \$3.5 million if the non-essential spending freeze lasts through the remainder of the current fiscal year. This is a 33% reduction in total spending and net savings of \$1.7 million.