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Finance Department

MEMORANDUM

To: Sweet Home City Council
Ray Towry, City Manager

From: Brandon Neish, Finance Director

RE: Financial Status Update for Fiscal Year 2022 – First Quarter

The first quarter of fiscal year 2022 ended September 30, 2021. Fiscal year 2022 represents a “return to normal” in terms of City-wide operations. With restrictions being lifted in Oregon originally on June 30, the City pushed ahead with fully reopening its facilities and getting back to a normal rhythm. Fortunately, while the COVID Delta variant resulted in the state reinstating many of the mandates seen throughout the previous year, closures have been limited in scope and many of our City facilities remain open to business. Alternatively, economic indicators are all over the map as interest rates remain at near all-time lows, inflation forecasts remain high and the housing market is seeing some cooling in sales moving into the colder, winter months. Staff remains cautiously optimistic that 2022 will be a strong year while monitoring for potential slowdowns that would impact fund balances negatively.

Q1 finished strong with all revenue lines exceeding last year’s year-to-date totals, accounts trending higher than budgeted estimates and expenditures down from the same period last year.

Investments

A new addition to this report, interest earnings on investments is a key component to cash management and important for management and the City Council to be informed of. During the first quarter of 2022, the City generated \$18,325.94 (~.55%) in interest on Local Government Investment Pool cash, \$12.68 on cash sitting in the City’s local accounts and \$1,607.97 from investments. Compare this to the \$20k+ monthly interest earnings (+/- 2.75%) just 24 months ago and its clear that holding on to cash no longer has its advantages. Unfortunately, I do not see this getting any better as the Oregon State Treasury has recently reduced the anticipated dividend yields in LGIP to .45% and bonds (a majority of our investment holdings) still continue to yield low returns with the economy in its current state. Look for action from the Federal Reserve in the coming months and years to help bond rates which would allow the City to expand its investment earnings while the pool rate will likely remain low for another 12-18 months.

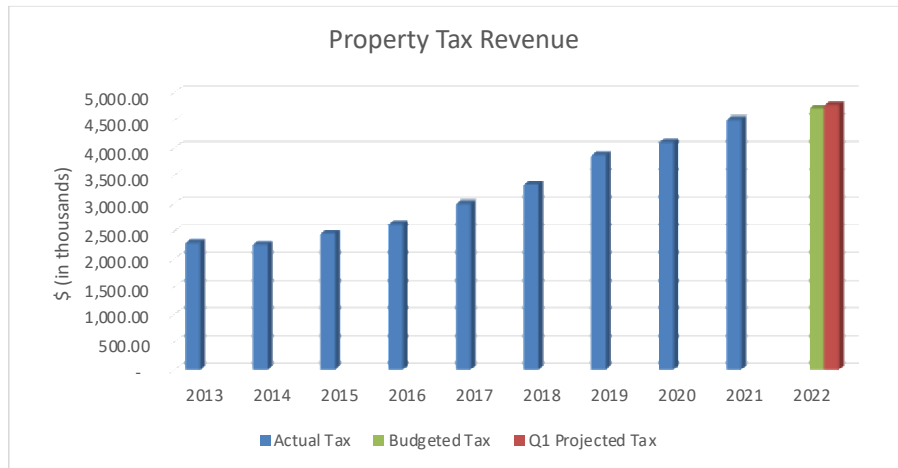
Property Taxes

Property tax revenue looks strong as the County released its tax estimates for the 2022 fiscal year. The City had planned for a 3% assessed value increase on taxable properties in Sweet Home but is ultimately seeing a 4% increase after the County reassessed nearly 3,500 accounts within the Sweet Home taxing district. For the City’s permanent rate (general fund tax revenue), estimates show a nearly equal collection compared to the initial budget while the Police Department and Library levies show an extra \$60k and \$10k in revenue generation respectively.

In terms of compression, the City continues to see a reduction in compression as real market values continue to rise in Sweet Home. The 2022 adopted budget planned for a compression rate of 13% for this fiscal year which impacts the Police and Library

budgets solely. According to County tax reports, compression is 11.5% contributing to the additional revenue anticipated in the Police and Library funds.

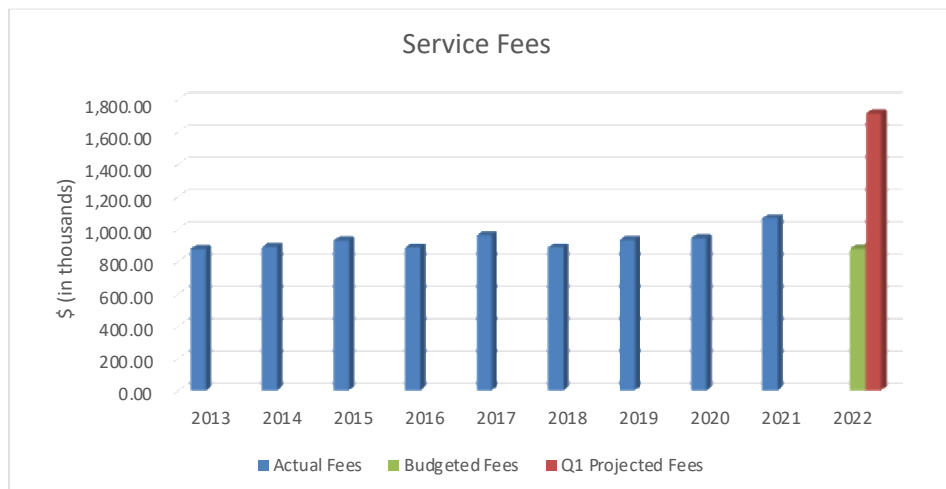
Overall, the current projection for property taxes is 1.27% above the adopted budget. The City projects it will generate \$4,783,794 in property tax revenue for the 2022 fiscal year with the adopted budget totaling \$4,725,178, a \$59k increase.



Service Charges

If property tax revenues was good news in this report, service charges will represent great news and the rest of the report likely won’t get any better. Service charges in the first quarter were 60.4% higher than the first quarter of the prior year and the forecast shows a 94.9% increase by fiscal year end. Driving this major swing

from the prior year and budget is the inclusion of the increased (and in a few cases, new) system development fees. After Council action increasing SDCs in May 2021, the City is starting to see this revenue come in droves. In the first quarter of 2022, SDCs totaled \$111,236. Specifically in water and wastewater where SDC fees have existed previously, SDC revenue totaled \$99,601 while the past five



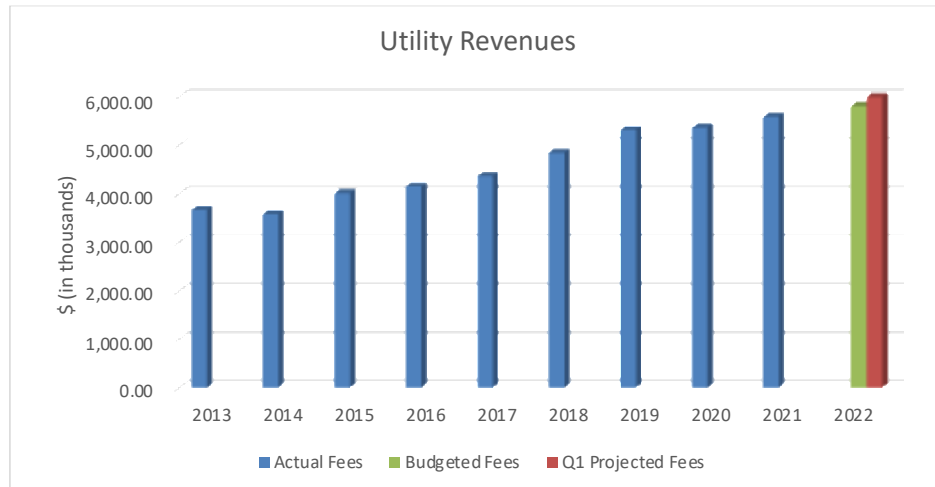
years has seen an average of \$18,610 collected in the first quarter. In other fees, revenue generation is 81.0% higher in the first three months of 2022 compared to the previous eight years.

While service charges are higher, it is important to note that SDC fees for storm water, parks and streets were not budgeted for 2022 due to the unknown (no previous SDC fees existed for these areas). This forecast is based on extremely early receipts and will likely change for the remaining

quarters. Expect to see the overall projection fall but still remain significantly above the adopted budget of \$880k for the fiscal year.

Utility Revenues

For the first quarter, utility revenues are up 3.1% over the first quarter of the prior year. Budgeted at \$5.8 million, staff expects that utility revenues will reach \$6.0 million by fiscal year end.

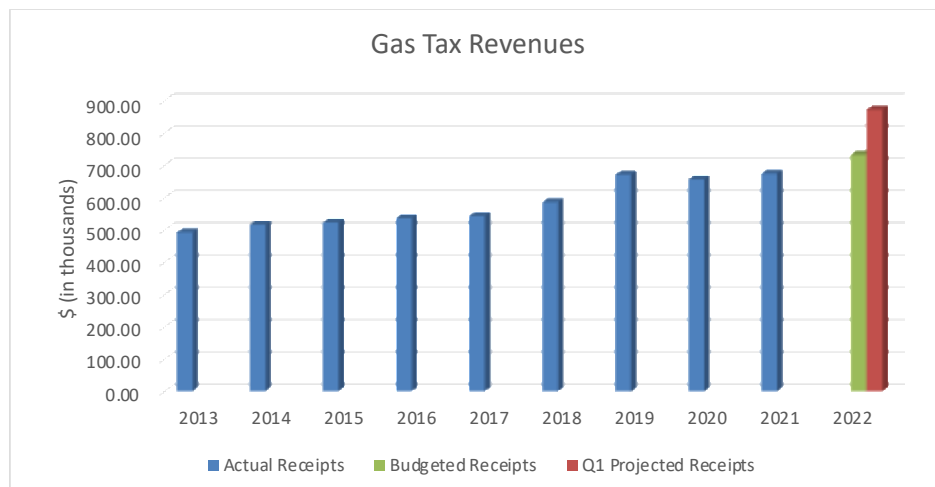


The primary driver behind this increase is the increase in the storm water fee that added \$2 to a residential utility bill beginning in July 2021 (commercial is based on a different calculation). What could impact this forecast in the long term is a drag on the overall economy which may force residents and businesses to cut back or consider paying for other needs over utility fees. The City continues to be flexible with customers during the pandemic though most

payment plan options have been taken off the table as an option (barring extenuating circumstances). 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. The City expects to receive a total of \$874k this fiscal year which is 19.1% higher than budget. Driving the increase is a contribution from ODOT as part of funding they received from the CARES

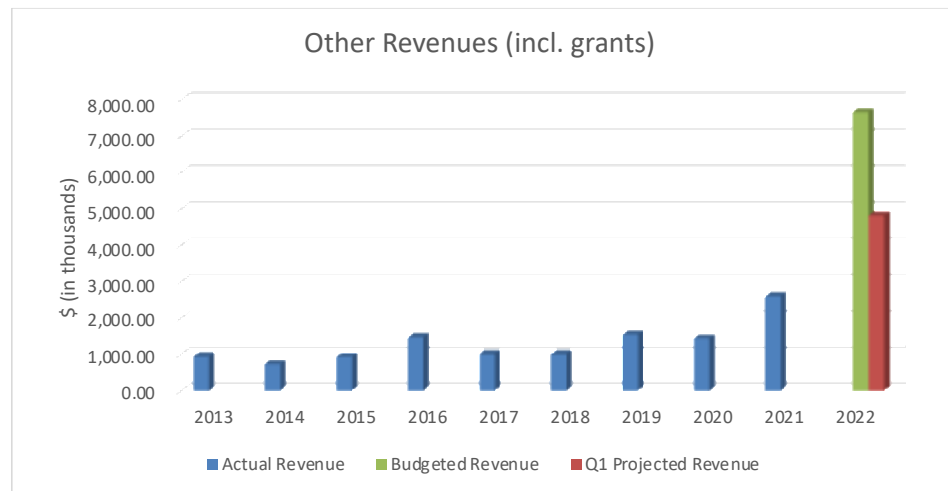


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Other Revenues

Included in “other revenues” are building permits, interest, grants and other miscellaneous revenues. Through September 2020, other revenue is down 36.4% primarily due to grant receipts as both the Library and Community & Economic Development had received substantial grants in the first quarter of the prior year. Included with other revenues this year was \$5.2 million in grant funds from the State of Oregon for the Wastewater Treatment Plant. Initial plans had construction beginning in the third quarter of the fiscal year but that schedule has now been pushed back six months or more. As such, it is highly unlikely that any of the state’s grant funds will be received this year resulting in less revenue for this category. Silver lining: less revenue means less spending as the state’s grant is a reimbursable grant. Look for additional decreases during the fiscal year in this projection but a related drop in capital spending as well (a net zero effect).



Personnel

Personnel expenditures generally make up nearly 50% of the City’s overall expenditures annually. For fiscal year 2022, personnel expenditures were budgeted at \$6.5 million and the City’s current projection shows that we exceed this figure. First quarter expenditures are up 14.9% from the prior year primarily due to the COVID premiums approved by the City Council for payment in August 2021. With some vacancies across various departments, it is unclear after three months where exactly personnel expenditures will land but anticipate a small increase from the \$6.5 million budget.

Materials & Service and Capital Outlay

During the prior fiscal year, a spending freeze prevented departments from purchasing items during the first five months of the fiscal year. For 2022, no such freeze exists and departments are eager to continue the progress they’ve made over the past ten months. Materials & Service and Capital spending is up 11.0% for the first quarter but I anticipate that we’re seeing more level spending across the year rather than a burst later in the year. \$13.8 million was budgeted for 2022 and current spending across these accounts yields an estimate of \$8.0 million spent for the year. As explained previously, spending on the Wastewater Treatment Plant is expected to fall drastically as the build calendar has been pushed out to the 2023 fiscal year with December 2022 slated as the anticipated construction start.