



Finance Department

MEMORANDUM

To: Sweet Home City Council
Ray Towry, City Manager

From: Brandon Neish, Finance Director

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

The third quarter of fiscal year 2021 ended March 31, 2021. 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, Q3) 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. During the third quarter, most of the revenue projections remained stable with the exception of other revenue which fell significantly due to changes in the Wastewater Treatment Plant (WWTP) timelines and information from the State of Oregon on WWTP grant funding.

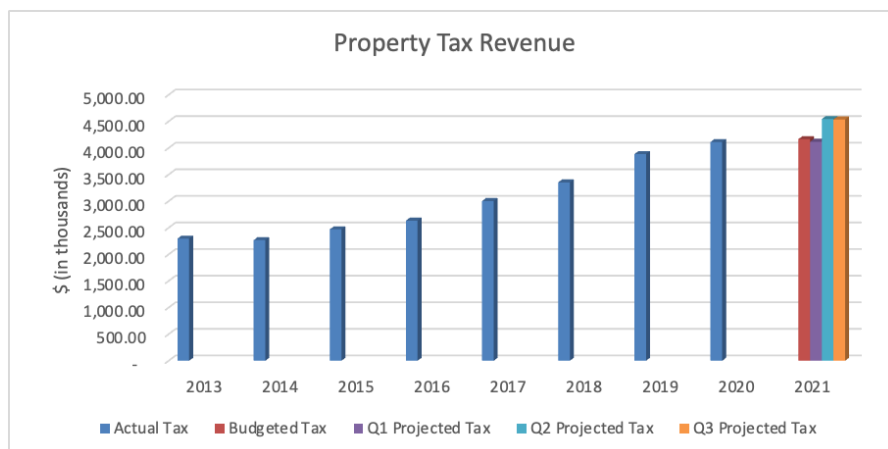
Property Taxes

2021 has yielded a wild ride for property tax receipts but the third quarter showed some leveling of the projected revenues. From the second quarter to third quarter projections (current projection), estimated property tax revenues trended downward .18% or \$8k. For the 2021 fiscal year, estimated property tax revenue across all funds is now \$4,535,732. This is a 10.3% increase over the same period the prior year and an 8.9% increase from the 2021 adopted budget.

In fiscal year 2020, the City had received 96.02% through the end of March which is being used to inform the current projection.

As a reminder, the City had planned for the following with regards to tax receipts:

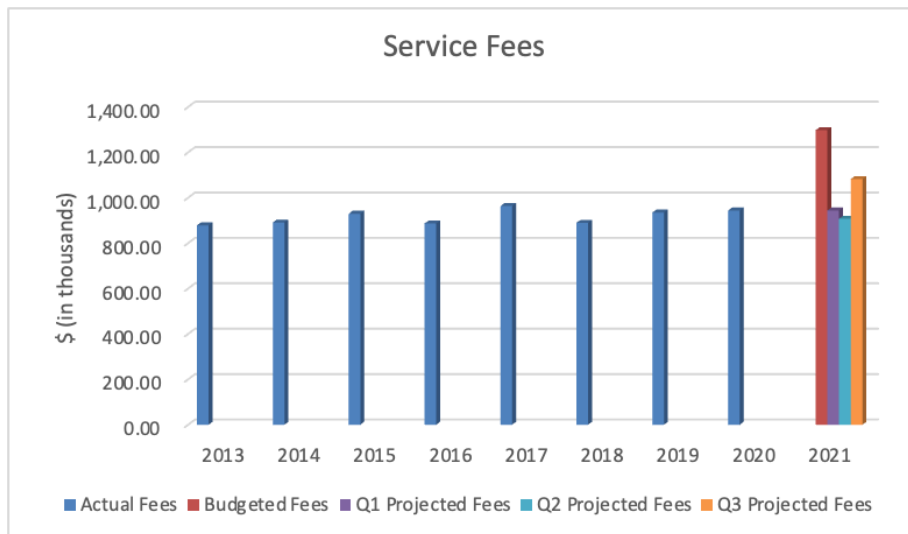
- Compression levels would drop from 19% to 18%
- Assessed values would increase 3% as allowed by Measure 50
- An 8% reduction from total billings to account for early pay discounts and delinquencies



An analysis of property tax bills for the 2021 fiscal year highlights a higher than anticipated drop in compression rates (compression now sitting at approximately 15%) which accounts for \$152,000 in additional revenue. The remainder of the increase from budgeted estimates, \$219,000, indicates fewer delinquent accounts than originally projected when the pandemic began.

Service Charges

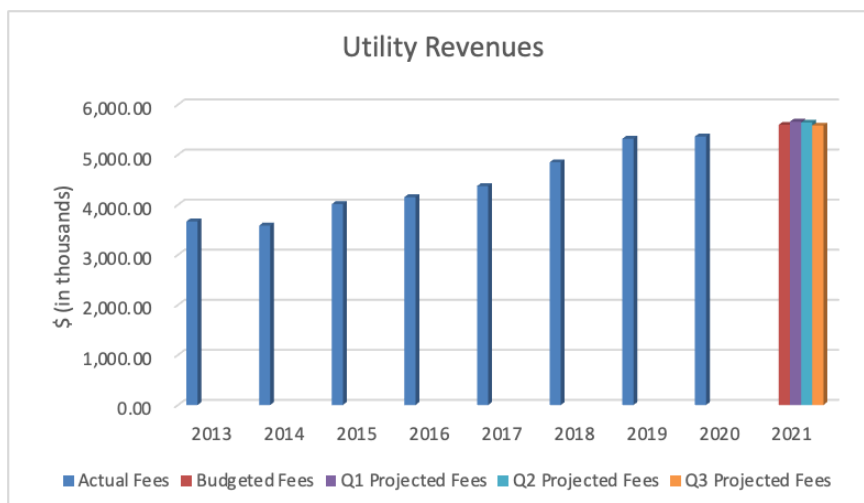
Through December 2020, service fee revenues had been trending lower than the prior year due to impacts due to the Coronavirus pandemic. Fast forward to the end of the third quarter and the year-to-date service charge revenue has flipped from negative (lower than prior year) to positive. At the end of the third quarter, service charges are up 11.4% driven largely by significant increases in planning fee



revenue and system development charges (SDC) received by the City. Each of these categories saw gains of 232% and 383% respectively as building and housing continues to dominate in today's economy and as the City's SDCs are set to raise at the end of the fiscal year. Planning receipts are now \$7,351 higher than all four quarters of 2020 and SDC revenue is \$3,619 higher with three months left. While these revenues have increased and electricity franchise fees are

\$30k higher than the prior year in Q1, the City still expects that revenues in this category will still be 16.6% below budget (\$215k). Budgeted revenue from service fees for 2021 is \$1.3 million and the third quarter projection puts fee revenue at \$1.1 million. The projection assumes a reduction in overall court fee revenue, library service charges (late fees and other customer charges) due to limited open hours and finance charges for passports and lien searches.

Utility Revenues



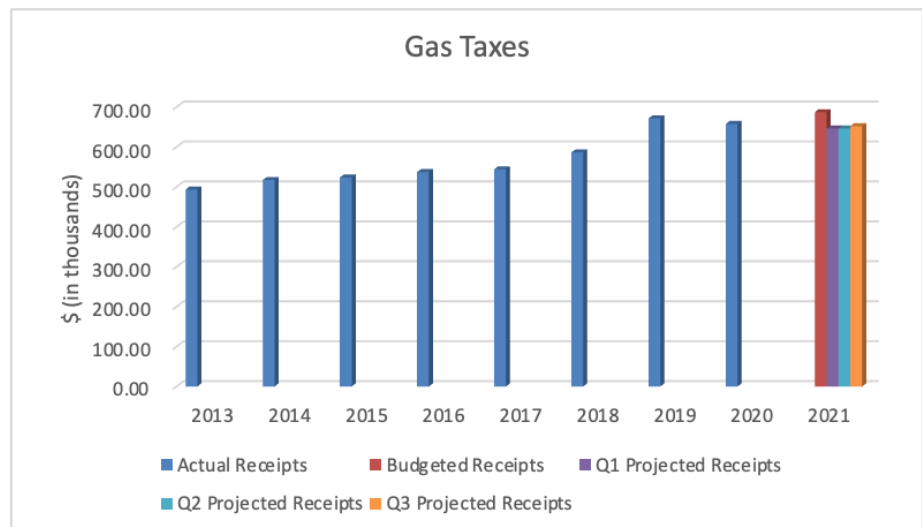
For the third quarter, utility revenues are up 3.4% over the third quarter of the prior year. Budgeted at \$5.6 million, staff expects that utility revenues will reach \$5.60 million by fiscal year end, a 1.1% reduction from the Q2 report. Previous reports indicated that long-term economic struggles may force consumers to reduce consumptions or consider paying for other needs over utility fees. The latter has not occurred as the City's delinquent accounts are lower than ever before, but consumptions have decreased

slightly resulting in a new forecast which indicates total revenue earned will be .3% lower than budgeted (\$60k). Given the City is $\frac{3}{4}$ through its fiscal year, this updated projection is unlikely to

change drastically without a significant change in weather or other natural event which forces an increase in consumptions for the last three months of the fiscal year.

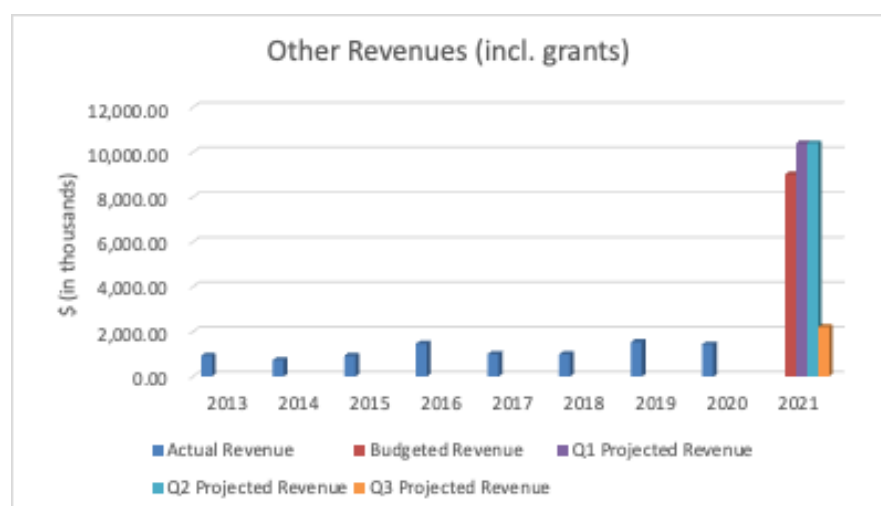
Gas Taxes

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 were down 13.2% and an October revenue report from ODOT conveyed an expected reduction of \$40,925 from the original estimates resulting in a forecast of \$645,817 for streets. For the third quarter, this projection had not changed but an April ODOT forecast shows a slight uptick in anticipated revenue to close out the fiscal year. The City now expects to receive \$651,880, an increase of nearly 1% from previous estimates but still 5.1% below the 2021 adopted budget. The impacts on this reduction, while initially concerning, have been mitigated by a freeze on expenditures during the first nearly six months of the fiscal year and a delay in anticipated street construction projects. Overall, the streets fund is expected to close out the year “healthy” (\$400k plus in reserve) and allow for additional capital funding in future fiscal years.



Other Revenues

Included in “other revenues” are building permits, interest, grants and other miscellaneous revenues. Through March 2021, other revenue is up 84.9% over the prior fiscal year primarily due to grant receipts as both the Library and Community & Economic Development have leveraged grant funds to complete projects across the City. The City has also received funds for the Wastewater Treatment Plant engineering work and



CARES funding (COVID) from the State. 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. With a revised timeline for the construction of the Wastewater Treatment Plant, and anticipated grants receipts as a result of the construction, the projection for the third quarter has been substantially lowered. The City anticipates receiving \$2.2 million in other revenues for the fiscal year, a reduction of \$6.8 million from the adopted budget and \$8.2 million from the Q2 projection. Due to plant construction timelines, the City does not anticipate receiving \$7 million in grants from the State of Oregon which, if removed from budget assumptions, means the City is projecting an increase in other revenue receipts of \$189k above budgeted figures.

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. Through the third quarter, personnel expenditures are down 2.7% from the same period last year or \$108,807. The savings comes from personnel decisions made during the onset of the pandemic such as leaving open positions vacant and salary freezes instituted for management and AFSCME employees. As we continue further into the fiscal year, the City will begin to hire additional, previously unbudgeted staff to fulfill a City Council decision to take over the operations of the water and wastewater treatment plants. Additionally, previously vacant positions will now be filled to address capacity concerns and a cost-of-living adjustment occurred in April 2021. These changes, recognized in Q4 this year, will utilize the available savings seen through the third quarter.

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 resulted in spending that is 14.5% less through Q2 than the same period in the prior year. As of Q3, the spending freeze had been lifted and we anticipate that the total materials & services spending will increase through the remaining quarters. 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 (\$200k above the prior quarter projection). This is a 33.3% reduction in total spending and net savings of \$1.7 million.