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Finance Department

MEMORANDUM

To: Sweet Home City Council
Ray Towry, City Manager

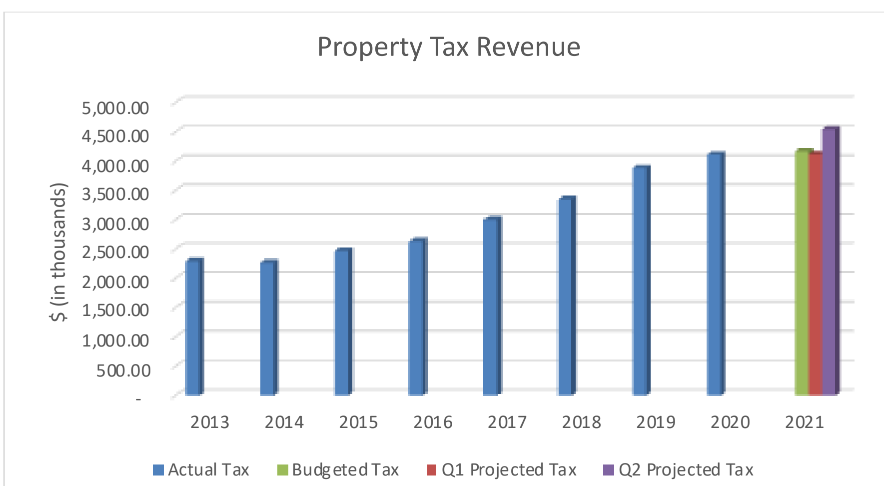
From: Brandon Neish, Finance Director

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

The second quarter of fiscal year 2021 ended December 31, 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, Q2) 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 second quarter, most of the revenue projections remained stable with the exception of property taxes which swung the other direction from the original projection.

Property Taxes

Property tax revenues rebounded significantly during the second quarter of the year and now indicate that the collection of property taxes will exceed the budgeted figures. Originally budgeted at $4,164,469, the City now anticipates it will collect $4,543,807 which includes both current property taxes and delinquent payments from prior years. The second quarter is generally the most significant for property taxes as the City typically receives ~90% of the total property tax receipts for the year. In fiscal year 2020, the City had received 92.48% through the end of December which is being used to inform the current projection.



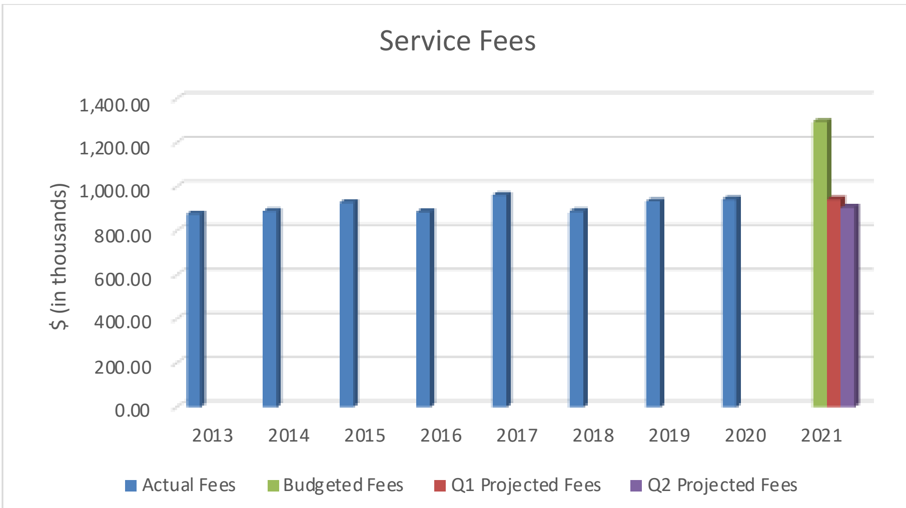
As a reminder, the City had planned for the following with regards to tax receipts:

- 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, $227,000, indicates fewer delinquent accounts than originally projected when the pandemic began.

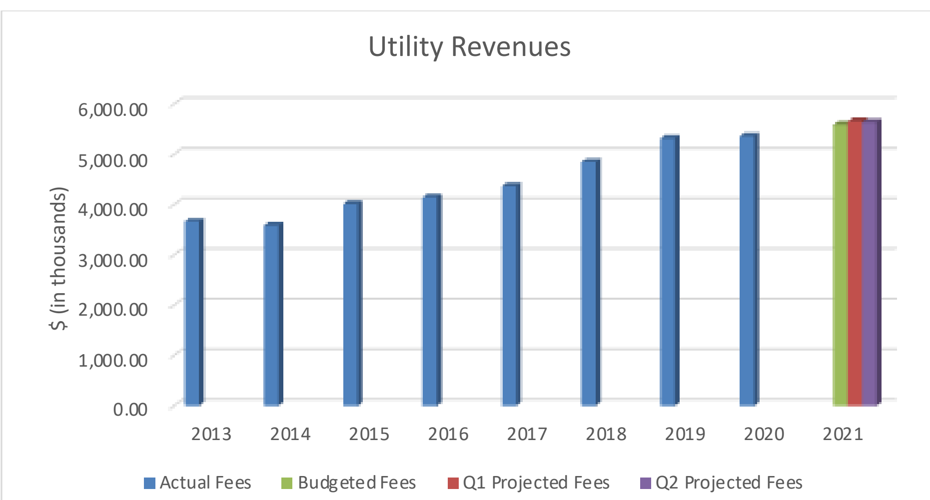
Service Charges

Service fee revenues have been impacted during the Coronavirus pandemic. Through December, services fees are down 6.6% from the prior year. 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 48% through the second 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 second quarter projection puts fee revenue at $907k, a 30% reduction or $390k for the year.



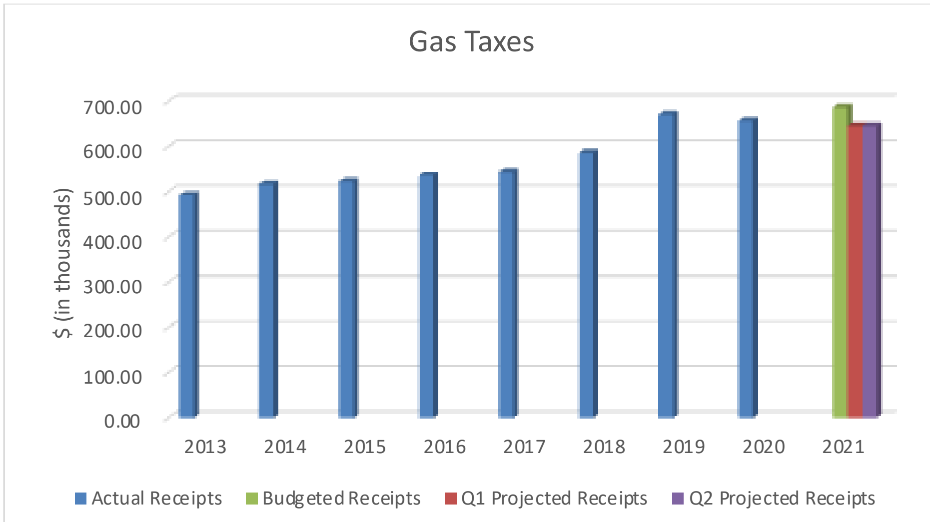
Utility Revenues

For the second quarter, utility revenues are up 4.6% over the second quarter of the prior year. Budgeted at $5.6 million, staff expects that utility revenues will reach $5.62 million by fiscal year end. The pandemic has increased consumption for individuals who are home more 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 first quarter projection was $44k higher for the year). 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.



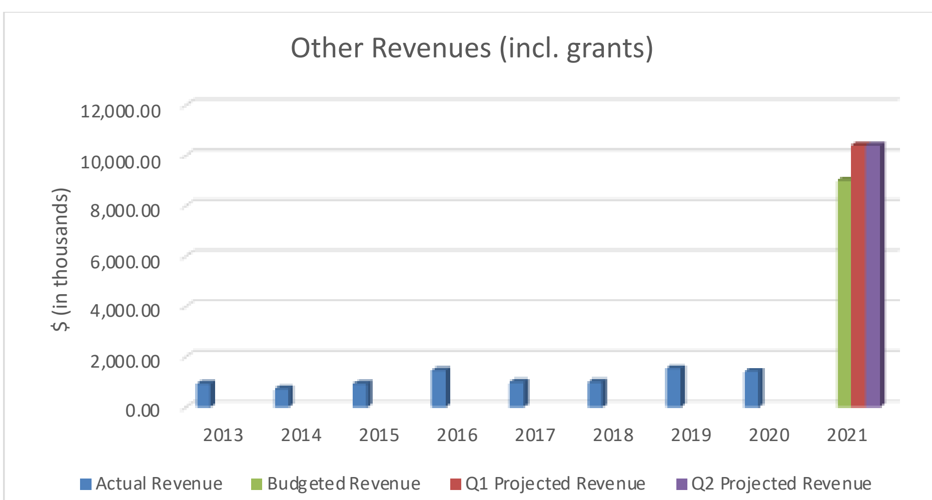
Gas Taxes

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 were 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 December 2020, other revenue is up 119% 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. 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. Through the second quarter, personnel expenditures are down 4.8% from the same period last year or $131,651. 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. These two changes, likely recognized in Q4 this year, will utilize the available savings seen through the second 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 than this same period in the prior year. As of Q3, the spending freeze has 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 $3.3 million. This is a 37% reduction in total spending and net savings of $1.9 million.