



Finance Department

City of Sweet Home
3225 Main Street
Sweet Home, OR 97386
541-367-5128
Fax 541-367-1215
www.sweethomeor.gov

To: City Council
Ray Towry, City Manager

From: Brandon Neish, Finance Director

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Subject: 2020 Levy Renewals

The City currently has two local option levies that fund the operations of the City Police Department and Library. The current rates as approved by the voters in 2015 are \$7.85 per \$1,000 assessed value and \$1.17 per \$1,000 assessed value respectively. Under ORS 280.060, local option levies approved “by a majority of the electors¹” must be renewed every five years or the levy expires. The Police and Library levies are up for renewal during the coming general election and it will be up to the City Council to determine if the levies should be referred to voters and up to the electorate to determine if the levies should actually be renewed.

In the late 1980s, the citizens of the City of Sweet Home voted to enact two temporary levies, additional property taxes above and beyond the City’s existing tax rate. These levies have been renewed by the voters each time they have been on the ballot. In 1996, residents of Oregon voted for Measure 47 which was amended in 1997 by the Oregon Legislature and became Measure 50 after the state Legislature made necessary changes to make the original law function as intended. Measure 50 established a permanent rate for all existing taxing districts in the State of Oregon, less 10%. For those with existing tax levies on the books, the tax rates were rolled into the existing “permanent” rate to establish the new permanent rate. At the time of passage in 1997, Sweet Home had a “permanent” rate of \$1.4157 per \$1,000 real market value and the two, temporary levies. Unfortunately, those temporary levies were expiring and their replacements were higher and for another taxing period. As a result, the expiring temporary levies were not included in the new permanent rate calculation and the City was left with its extremely low permanent rate of \$1,4157 per \$1,000 assessed value. Furthermore, without action from Oregon voters, the Measures could not be amended (an attempt in 2000 to fix the issue failed at the voters box).

In 2015, voters in Sweet Home approved the current levy rates. The levy approval included an increase in the two rates of \$1.45 per \$1,000 assessed value for the Police levy and \$0.35 per \$1,000 assessed value. The new rates as described above generated \$11.4 million for fiscal years 2017 through 2020 and is projected to generate \$3.4 million for the current fiscal year, 2021. When the levy was proposed to the City Council and the voters, the increase was

¹ <https://www.oregonlaws.org/ors/280.060>

designed to keep taxpayer money in Sweet Home fighting compression. Compression occurs when a property's tax liability exceeds \$10 per \$1,000 real market value per Measure 5. At the time, compression of Sweet Home property taxes was 32.4% which resulted in the loss of nearly \$4.6 million in revenue for the Police Department and Library. After peaking in 2017 at 38.2%, compression in Sweet Home is now 19.8%. For the purposes of this review, staff has used the assumption that while compression will not reach the same level as 2017 over the next five year cycle, it will gradually increase as the real estate market begins to peak and level off. An average compression of 23.6% is expected annually through fiscal year 2026 (see figure 1 below).

For collectability, Sweet Home property owners have paid an average of 93.3% of the total taxes due to the City annually. As the economy improved from the 2008 recession, the delinquency rate has dropped from its high of 7.9% to a low of 5.2% in 2019. Given the various uncertainties due to the coronavirus pandemic and the optional deferral of mortgage payments for homeowners, the City took a conservative approach in its budgeting for 2021 and planned for an 8% delinquency rate. For the purpose of this discussion and review, staff has used the same delinquency rate for 2022 before returning to an average delinquency rate of 6% for the last four years of a renewed levy.

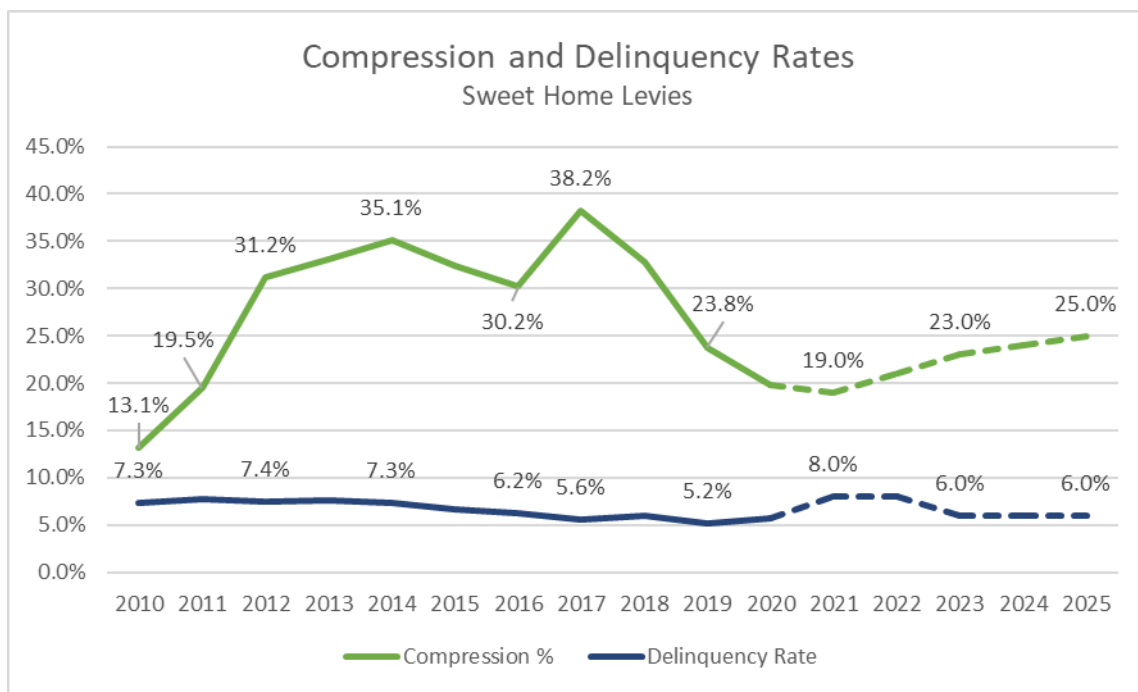


Figure 1

As previously mentioned, the purpose of these five-year operating levies is to provide a resource to fund the operations of the City's Police Department and the Library. In fiscal year 2019, the City spent \$2.8 million in personnel, materials and services and capital to operate these two departments. By 2026, the City anticipates that it will need \$4.3 million to meet current service levels. This includes a 4.78% annual increase in salary expenditures, PERS increases of 1.8% of salary every two years, a 7% increase in benefit costs and a 1% increase in material and services lines each fiscal year.

Five Year Forecast - Major Governmental Funds									
FY 2020-2021 through 2025-2026									
Major Funds	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Actual	Actual	Projected	Budgeted	Forecast	Forecast	Forecast	Forecast	Forecast
Public Safety Levy									
Fund Balance	\$1,213,098	\$1,196,347	\$1,635,371	\$1,646,222	\$1,324,666	\$1,135,676	\$864,967	\$504,298	(\$28,627)
Revenues:									
Property Taxes	\$2,364,203	\$2,682,810	\$2,985,220	\$3,029,373	\$3,043,538	\$3,120,948	\$3,172,423	\$3,224,202	\$3,331,793
Interest	\$33,469	\$51,824	\$57,789	\$52,754	\$53,282	\$53,814	\$54,352	\$54,896	\$55,445
Fees, Franchises, Etc	\$114,437	\$197,858	\$36,473	\$28,420	\$29,556	\$30,739	\$31,968	\$33,247	\$34,577
Transfers In	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenues	\$2,512,109	\$2,932,493	\$3,079,482	\$3,110,547	\$3,126,376	\$3,205,501	\$3,258,744	\$3,312,345	\$3,421,815
Expenses:									
Personnel Services	\$2,219,963	\$2,163,759	\$2,333,948	\$2,386,883	\$2,512,798	\$2,650,214	\$2,790,388	\$2,943,412	\$3,099,510
Salary	\$1,381,176	\$1,438,255	\$1,551,380	\$1,543,265	\$1,617,033	\$1,694,327	\$1,775,316	\$1,860,176	\$1,949,093
Retirement	\$196,750	\$187,621	\$202,379	\$227,573	\$238,451	\$254,522	\$266,689	\$284,663	\$298,270
Benefits	\$413,651	\$396,201	\$427,364	\$457,842	\$489,891	\$524,183	\$560,876	\$600,137	\$642,147
Other	\$228,386	\$141,682	\$152,826	\$158,203	\$167,423	\$177,181	\$187,507	\$198,435	\$210,000
Materials & Services	\$225,574	\$254,521	\$444,582	\$601,488	\$607,503	\$613,578	\$619,714	\$625,911	\$625,911
Capital Outlay	\$73,323	\$65,189	\$113,868	\$122,000	\$40,000	\$50,000	\$40,000	\$0	\$0
Transfers Out	\$10,000	\$10,000	\$176,233	\$83,944	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Contingency	\$0	\$0	\$0	\$237,788	\$145,065	\$152,418	\$159,311	\$165,948	\$173,753
Total Expenses	\$2,528,859	\$2,493,469	\$3,068,631	\$3,432,103	\$3,315,366	\$3,476,209	\$3,619,413	\$3,745,270	\$3,909,173
Fund Balance	\$1,196,347	\$1,635,371	\$1,646,222	\$1,324,666	\$1,135,676	\$864,967	\$504,298	(\$28,627)	(\$615,986)
			6.83	6.03	4.86	3.68	2.31	0.46	(1.42)
Library Levy									
Fund Balance	\$224,585	\$312,451	\$418,052	\$426,726	\$418,556	\$392,958	\$358,108	\$308,803	\$243,659
Revenues:									
Property Taxes	\$351,762	\$415,064	\$444,486	\$452,983	\$455,109	\$466,661	\$474,348	\$482,080	\$535,046
Interest	\$6,549	\$11,225	\$11,225	\$11,337	\$11,450	\$11,565	\$11,680	\$11,797	\$11,915
Fees, Franchises, Etc	\$21,856	\$29,068	\$7,657	\$8,000	\$8,080	\$8,161	\$8,242	\$8,325	\$8,408
Total Revenues	\$380,167	\$455,356	\$463,368	\$472,320	\$474,639	\$486,386	\$494,270	\$502,202	\$555,370
Expenses:									
Personnel Services	\$171,050	\$199,930	\$213,552	\$239,243	\$255,990	\$273,909	\$293,083	\$313,599	\$335,551
Materials & Services	\$107,948	\$135,202	\$144,785	\$209,985	\$212,085	\$214,206	\$216,348	\$218,511	\$220,696
Capital Outlay	\$303	\$1,623	\$40,000						
Transfers Out	\$13,000	\$13,000	\$56,357	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000
Contingency	\$0	\$0		\$18,262	\$19,162	\$20,122	\$21,145	\$22,235	\$23,398
Total Expenses	\$292,301	\$349,755	\$454,694	\$480,490	\$500,237	\$521,237	\$543,575	\$567,345	\$592,645
Fund Balance	\$312,451	\$418,052	\$426,726	\$418,556	\$392,958	\$358,108	\$308,803	\$243,659	\$206,384
			12.86	11.67	10.57	9.30	7.77	6.00	4.96

To meet the City's goals and continue providing the same level of service, staff is recommending that the City Council approve the levy rates at their current levels (\$7.85 and \$1.15 per \$1,000 assessed value) and refer the levies to voters for a five-year renewal. At these rates, the City projects that this would generate revenue totaling \$17.9 million over the life of the levy. If the levy rates were returned to their 2015 rates, the City would expect to generate approximately 15% less than the current rate or a total of \$15.2 million leaving a funding gap of \$2.7 million between the Police and Library to cover through other resources. The loss of funds could be greater depending on compression changes and how much money would go to other taxing districts as a result of the change in the City's rates. By not increasing the tax rate, voters would see increases only associated with the annual 3% increase in assessed valuation per Measure 50. In fact, as compression edges upward, property owners would **likely** see a decrease in their City taxes so they remain below the established tax caps of Measure 5. Staff recommends that the City Council review this memo and ask any additional questions during their July 28, 2020 City Council meeting before a public hearing and potential decision during the August 11, 2020 Council meeting.