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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 – Second Quarter

The second quarter of fiscal year 2022 ended December 31, 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 and now Omicron variants 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 (though are starting to climb), inflation forecasts remain high (CPI-W for 2021 registered at 7.0%) and the housing market is seeing some cooling in sales as mortgage rates rise (though market values are still extremely high). Staff remains optimistic that 2022 will be a strong year while monitoring for potential slowdowns that would impact fund balances negatively.

Q2 finished strong with all revenue lines exceeding last year’s year-to-date totals, except grants, accounts continuing to trend higher than budgeted estimates and expenditures down from the same period last year.

Investments

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 second quarter of 2022, the City generated \$15,743.43 (~.45%) in interest on Local Government Investment Pool (LGIP) cash, \$11.53 on cash sitting in the City’s local accounts and \$2,604.05 (+62% over Q1) from investments. This equates to \$18,359.03, an 8.0% decrease over the prior quarter.

A major driver in the reduction of interest earnings for the second quarter is the rate reduction imposed by the LGIP. The rate was revised twice during the quarter from .55% to .49% then again to .45% where it current resides. Today, market rates are beginning to increase after action from the Federal Reserve Board but it will be a while before the rate in the LGIP is increased. I anticipate the LGIP rate to remain at .45% for the remainder of the fiscal year.

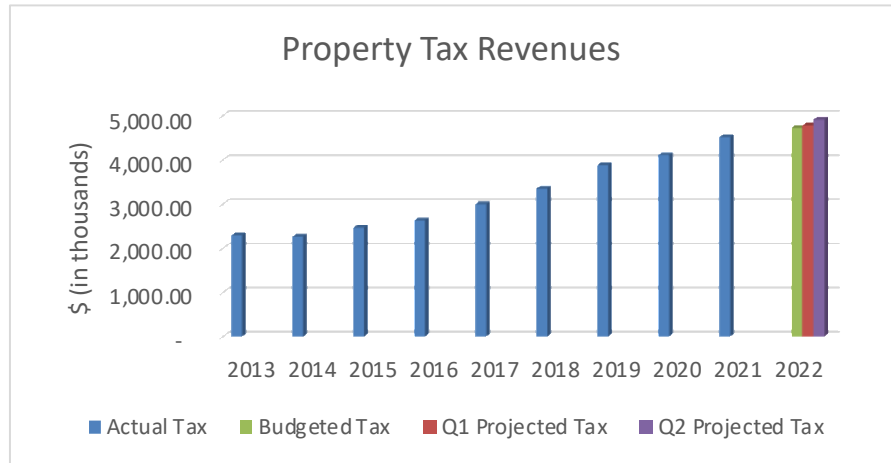
At the end of the 2021 calendar year, the City was sitting on \$16.1 million in cash-on-hand and \$2.3 million in investments, more cash than the City has held in recent history. The City purchased \$1.3 million over 2021 in a mix of primarily bonds and some equities (stocks) and \$2.4 million since the investment program began in July 2020 (\$100k has already matured and been returned to City accounts). As interest rates begin to rise again after the historical low rates during the pandemic, watch for City investments to net additional proceeds. The art of investing is a delicate balance ensuring higher yields on investment accounts than proceeds from the LGIP.

Property Taxes

Property tax revenue continues to look strong as tax proceeds began rolling in during the month of November. 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 (estimated excess of 1.7%) while the Police Department and Library levies show an extra \$160k (4.6%) and \$22k (4.3%) in additional 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.

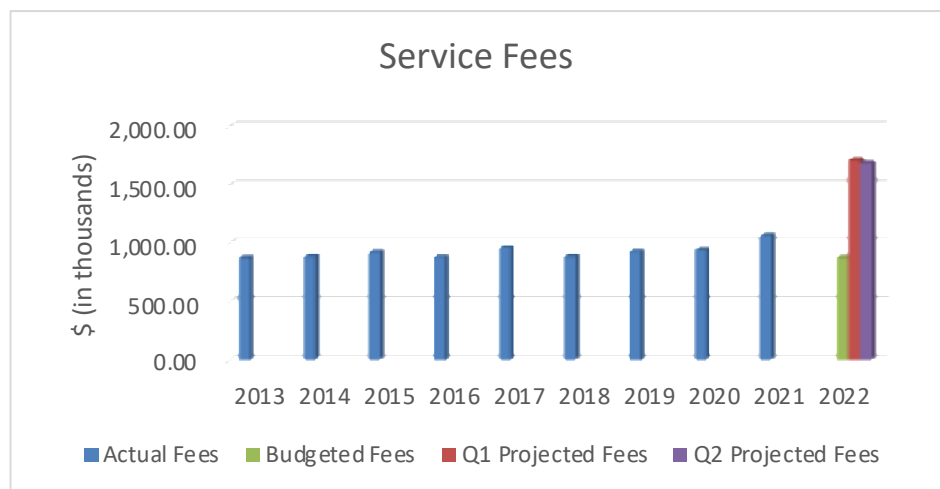
Overall, the current projection for property taxes is 4.12% above the adopted budget. The City projects it will generate \$4,919,517 in property tax revenue for the 2022 fiscal year with the adopted budget totaling \$4,725,178, a \$194k increase.



Service Charges

If property tax revenues were 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 second quarter were revised downward slightly from the first quarter but are still 57.9% higher than the second quarter of the prior year and the forecast shows a 91.8% 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. Through the second quarter of 2022, SDCs totaled \$188,038. Specifically in water and wastewater where SDC fees have existed previously, SDC revenue totaled \$162,431 while the past five years has seen an average of \$33,764 collected in the second quarter. In other fees, revenue generation is 44.8% higher in the first six months of 2022 compared to the previous eight years.

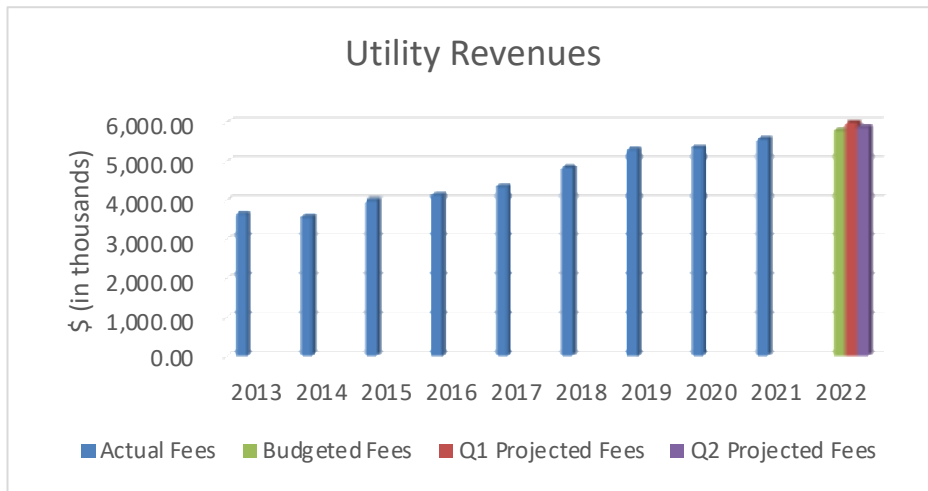


While service charges are higher, it is important to note that SDC fees for storm water, parks and streets were not budgeted for 2022 due to the unknown (no previous SDC fees existed for these

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 remain significantly above the adopted budget of \$880k for the fiscal year.

Utility Revenues

For the first quarter, utility revenues are up 5.4% over the second quarter of the prior year. Budgeted at \$5.8 million, staff expects that utility revenues will receipt an additional \$75k above budget by the end of June.

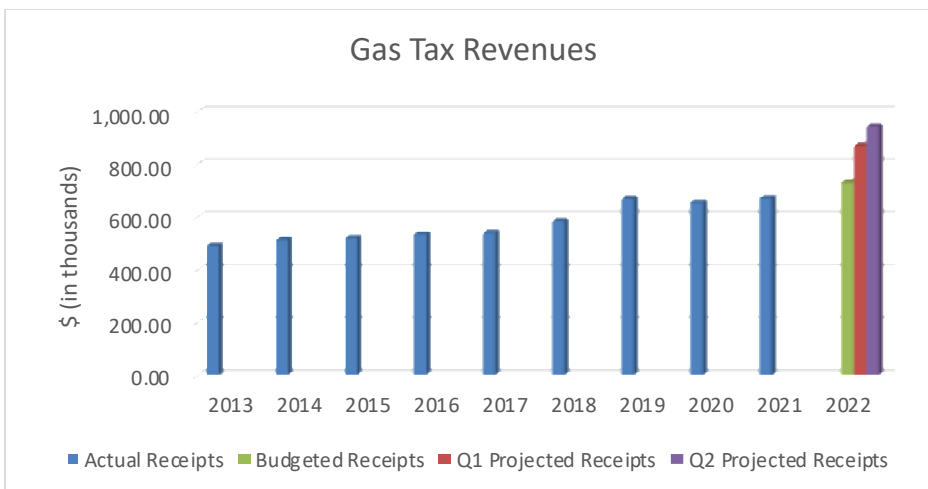


The primary driver behind this increase is the increase in the storm water fee that added \$2 to a residential utility bill beginning in July 2021 (commercial is based on a different calculation). What could impact this forecast in the long term is a drag on the overall economy which may force residents and businesses to cut back or consider paying for other needs over utility fees. We've already seen some adjustment in the forecast as

the new forecast is 1.8% less than the prior forecast at the end of Q1. 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.

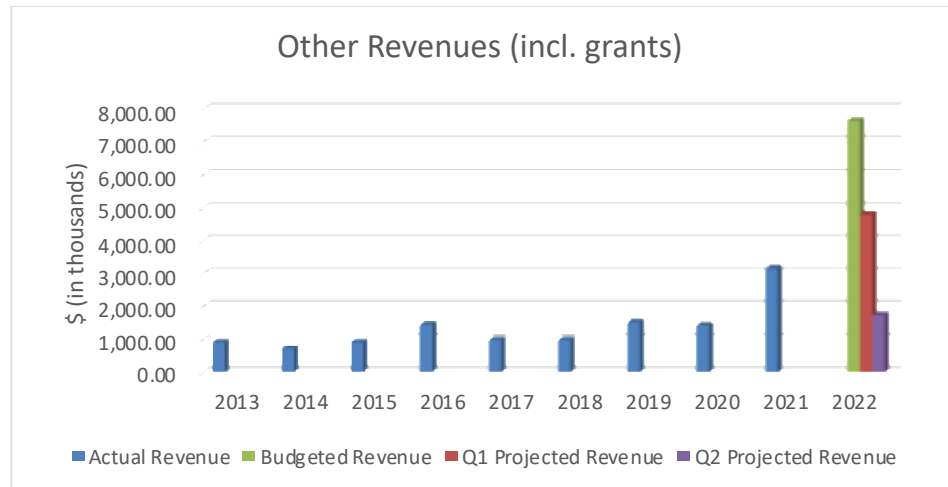


The revenue is collected by the Oregon Department of Transportation (ODOT) and distributed to cities and counties across Oregon. The City expects to receive a total of \$945k this fiscal year which is 28.8% higher than budget. Driving the increase is a contribution from ODOT as part of funding they received from the CARES

act. Cities across Oregon received an additional allotment and Sweet Home's allotment was \$140k. With many street projects already under construction, the additional funding will be used to continue making progress on City streets that need help and putting asphalt down in future fiscal years.

Other Revenues

Included in “other revenues” are building permits, interest, grants and other miscellaneous revenues. Through December 2021, other revenue is down 75.4% 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. Construction is unlikely to begin in the current fiscal year. 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 now shows that we will fall below that budget. second quarter expenditures are up 9.2% from the prior year primarily due to the COVID premiums approved by the City Council for payment in August 2021. This is down from over 14% at the end of the first quarter indicating that vacancies are impacting overall spending in personnel. Today’s forecast estimates personnel spending at \$5.9 million. I don’t anticipate this to fall much more (if at all) as the Police Department and Public Works have filled most of their vacant positions to-date.

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. Materials & Service and Capital spending is up nearly 50% for the second quarter due to significant capital projects completed in the first half of the year. Specifically, overlays on multiple City streets, the \$350k purchase of ultrasonic water meters thus far and the down payment for the Highway 20 sidewalk project with ODOT are driving costs this fiscal year. \$13.8 million was budgeted for 2022 and current spending across these accounts yields an estimate of \$9.1 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.