
**CITY OF CANBY
MID-YEAR BUDGET COMMITTEE &
URA BUDGET COMMITTEE
MEETING
February 26, 2025**

Committee Members Present: Brian Hodson, Traci Hensley, James Davis, Daniel Stearns, Jason Padden, Paul Waterman, Herman Maldonado, Kim Wiegand, Elizabeth Chapin (arrived virtually at 7:20 pm), Jack Pendleton, Shawn Varwig, Daro Powlison, and David Tate (attended virtually).

Staff Present: Eileen Stein, City Administrator; Teresa Ridgley, Deputy City Recorder, and Scott Schlag, Finance Director.

CALL TO ORDER: Chair Wiegand called the meeting to order at 7:00 p.m., followed by a roll call.

MID-YEAR BUDGET REVIEW:

- a. FY 23-24 Audit Presentation - Scott Schlag, Finance Director, presented the audit report. He reported receiving the audit report took longer because he found a few things that needed adjustment based on his understanding. He stated the best audit the City could receive and did receive was an unmodified opinion. Additionally, there were no journal entries recommended from the auditors. The opinion was what matters the most since the Secretary of State would review any material misstatements, which there were none. The opinion was always based on government auditing standards, which required taking budgeted numbers (which do not have accounts receivable, accounts payable, or recording of fixed assets), called fund accounting, which was then translated into full GAAP accounting (Generally Accepted Accounting Principles). He stated the important thing to remember was the audit was an opinion on the numbers presented by the City not produced by the auditor. The Urban Renewal Agency Budget received the same audit report with no journal entries.

Mayor Hodson asked for clarification on why the audit took longer. Mr. Schlag responded he wanted to go through the numbers more closely since it was his first year doing an entire audit and wanted to be sure all the information was dialed in.

Member Daro Powlison asked about the audit information for the Canby Utility Board (CUB). Mr. Schlag recognized they were presented as a discretely presented component unit with their own audit firm and financial statements, and City had to incorporate their financials with ours to our auditors.

- b. FY 24-25 Mid-Year Budget Review – Mr. Schlag stated data was collected through December 2024 for the Mid Year Budget Review. First presented were General Revenues, which come from property taxes, cable franchise fees, federal grants, . Property taxes were 94% received, and the LGIP interest was performing better than anticipated. There were some revenues which were lower; overall there was a 3% increase in revenues. SDC Revenues, a separate fund, were down and were reflective of growth of the City. They cannot be used and transferred unless projects were SDC

eligible (eligibility identified by City Engineers). Because SDCs are their own fund, money is transferred to the general fund when SDC eligible projects are expended.

Councilor Padden asked what the risk level of Local Government Investment Pool (LGIP) (i.e., straight interest or investments tied to the market). Mr. Schlag responded it's not a high risk investment but was based on what investments the Treasury Department uses, and many municipalities were a part of that pool. There are statutes that limit how governments invest because they cannot play constituents' money.

Mr. Schlag also presented the Expenses for each line item in the General Fund, explaining some that were over 50% and why. For example, a large expense paid earlier in the budget cycle could make it look like an expense was going to be over budget when in reality there won't be more expenditures in that line item. Another example would be a line item looking a lot lower than 50% because a lengthy project may not be fully spent yet.

Discussion regarding different funds occurred included unexpected items like the emergency K9 vet expense and a totaled Police vehicle, which caused overages. However, the Police budget was presented as a whole. To ensure there were no overages at the end of the fiscal year, the line items were monitored.

Mayor Hodson asked for an explanation how the transfer to the Library worked. Mr. Schlag responded there was a \$500,000 transfer at the beginning of the fiscal year from the Cemetery Perpetual Care Fund as a loan to the Library to cover their expenses until their money comes in from the County. The General Fund transfers \$335,000 to transfer to cover Library expenses for the remainder of the year. He also shared there was interest saved in the loan from Cemetery Perpetual Care Fund because the funds from the County came in earlier. However, that was not represented in this presentation due to that event happening after December 31, 2024, which was the end date of the mid year.

In regard to Transit Revenues and Expenses, the Mayor asked for an update on the rider services regarding the expanded areas in Transit. Councilor Waterman mentioned the information was provided in the packets for every Transit meeting. Ms. Stein mentioned the concern of payroll taxes trending downward and how that would affect Transit revenues. It was planned to discuss it more during Budget Committee meetings.

Swim Center Revenues and Expenditures saw changes between Personnel and Material & Services due to moving seasonal swim employees to a staffing service eliminating the administrative costs of onboarding.

Trends in capital expenditures reveal spending was much less than what was adopted in the budget. Finance produced report for averages of adopted vs actual for fiscal years 2020-2024 to provide history on capital spending. He mentioned the need to do a better job of honing in on capital projects, resulting in less discrepancies between budgeting and spending. With increases in labor and materials increasing, it's important to have accurate estimates when budgeting.

Councilor Padden inquired about having a contingency in the budget to cover unexpected things such as K9 dogs requiring expensive vet visits and replacement of Police vehicles involved in crashes. Mr. Schlag responded that contingencies were already in the budget.

Councilor Stearns asked if capital expenditures were being over budgeted to be sure there was no under budgeting (i.e., padding the budget). Mr. Schlag responded due to his inexperience with the capital projects being budgeted, he relied on the leadership team to know what was needed for those projects. He also mentioned the goal was to hone in better for the capital budget needs so funds were not being held hostage.

Councilor Padden mentioned projects getting budgeted and not done, making it look like there was more money available than there really was because it keeps carrying over for the budget and complicating the process. He thought having an overview of several years of budget vs actual helps to get things better in line.

Member Daro Powlison asked about the purpose of showing these items. Mr. Schlag responded it is a matter of knowing a project may cost \$3 million; but will it happen in one year, or is it going to be spread across a couple budget cycles. If it was spread across a couple budget cycles, then it should be properly budgeted instead of lumping the whole project cost in one budget cycle. Costs for engineering, the master plan, and excavation costs all needed to be quoted to appropriately budget when those events were happening instead of in one budget year when it's known they won't all be done.

Mr. Schlag mentioned some things were budgeted for a capital project such as funds set aside for the new transit office and bus shelters along Highway 99E. There had been delays not expending the money on the shelters until they were finished or being able to afford building a transit office.

Councilor Stearns asked if we knew a project was going to cost \$10 million but was uncertain when it would be expended, could we budgeted \$1 million each year to save for 10 years was acceptable. Ms. Stein responded she hadn't seen it in Canby but in other agencies where she's worked. It was also discussed it was done for the turf project. Also discussed was collecting interest in accounts we were using as reserve funds for things being paid in the future.

Mr. Schlag shared the City had only spent 47% of funds allocated for capital projects in the last five years. The gap between budgeting and spending needed to be closer and required better planning. It will also alleviate concern and provide more confidence with citizens when they see the City plans to spend money on projects and actually see them come to life. Education will make the process work better.

Member Daro Powlison asked about the downward trend with SDC revenues and how it affects the general fund along with Council's goals of keeping 22-25% Reserves. Mr. Schlag responded Council was looking to expand the urban growth boundary and increase SDC charges, which could only be used to improve or to expand. Councilor Padden explained SDCs, Reserves, and General Fund were separate funds. SDCs could only be used for new projects (i.e., a new road to the industrial park) but not to widen an

existing road. He also explained SDC revenues were driven by the number of houses being built and businesses going (new construction). The fact that we only have 7 years of buildable land when we should have 20 years' worth was what is driving the SDC revenue down. Another factor was Canby had the lowest SDCs in the area, and increasing those fees would help to acquire more SDC revenues. Multi-family homes had previously paid less SDCs than single-family homes and was identified as a strain on the system will be studied and changed appropriately.

[The committee took a 5-minute break.]

- c. Long-Range Financial Forecast Update – Mr. Schlag stated the FY25 adopted budget had an estimated beginning fund balance of \$10,756,427, which was inflated due to the ARPA Fund balance being included twice. The misinterpretation was due to a note in the spreadsheet stating the beginning fund balance of ARPA funds as of 7/1/2025 was \$2.65 million, which didn't clarify it was already included in the FY24 ending fund balance. The actual ending fund balance for FY 24 was \$7,668,974, which also becomes the beginning fund balance for FY25.

To avoid losing the ARPA funding which had to be obligated by 12/31/2024, it was reported to the federal government that those ARPA funds were expended for public safety wages, which was a legal use of ARPA funds and allowed the city to keep them instead of returning them.

Councilor Davis questioned the use of the ARPA funds and mentioned Council obligating the funds to fulfill contracts with other agencies. Mr. Schlag responded Council cannot obligate ARPA funds without a contract, and it's not just based on a decision by Council. He also stated all of the ARPA funds have been spent. Councilor Davis again stated the ARPA funds were obligated in a Work Session to other agencies which still need to be paid and cannot be changed without a policy decision of the Council. He wasn't sure how that was not communicated to the Finance Director. Ms. Stein stated all ARPA funds had been allocated to the agencies such as fairgrounds and Canby Adult Center. The only allocation not made was \$130,000 to Canby Utility Board and our own internal projects. Ms. Stein said the \$130,000 Canby Utility project is SDC eligible, and they are waiting to see if the developer is going to put that improvement in before the money is expended. Even though the ARPA money was allocated to public safety wages, the money for any obligations is still available in the General Fund to meet those obligations.

Council President Hensley asked how all of this affects their 20-25% Reserves. Mr. Schlag stated it's still there because the percentage of Reserves was based off revenue, not beginning fund balance. He also stated it was a budget number, not an actual number, and we would come in over that in actual because we always have. That's also why it looked like we were going off a cliff. Finance was required to go off the budget number of Revenue and Expenses. If we budget and expend everything we've budgeted, then our beginning fund balance would FY 25 would be just over \$400,000. Then in FY 26, if we don't bring in enough revenue to cover all the expenses, we would be in deficit spending. Based on the fact that we have never expended 100% of what we budget, we always range in the 47-50% amount expended. The cliff is budget numbers, not actual

numbers. He had recommendations on how to outlast FY 26 which would push the cliff out to FY 27, which would be hard decisions that not everyone would like.

Mr. Schlag suggested ways to avoid the cliff was to cut materials and services 10%, not transferring funds to the Library, or cut FTEs. He also stated 4 years ago the City was at a \$3 million budget fund balance. Currently the city was at almost \$8 million. He thought sight was lost on the City doing pretty well in past 4 years. ARPA funds were still there but just classified differently because the City didn't have a contract, and he didn't want to write the Federal Treasury a check for \$3 million.

Councilor Davis questioned what happened when the URD closed and the General Fund had to absorb the wages/benefits of those in Economic Development. Mr. Schlag estimated roughly \$1 million property tax revenue coming in once the URD closed. In question was the timing of when the City would the roughly pay \$1 million after the URD closed. The County had to do their calculation and fast check they could turn it around in November on the next tax roll. Further discussion regarding the requirement of paying off all debt and projects still was on the agenda for the URD in order to close the district. Mr. Schlag suggested speaking with the City Attorney to clarify all of those details.

It was suggested to hold another budget committee meeting to discuss how to handle the budget with the impending cliff for FY 27, get recommendations from city staff, and have a Council Work Session to go over services provided by the city to see which were more important and could be cut. Ms. Stein said her intention was to return with cost cutting measures in May after involving the leadership team. She mentioned the League of Oregon Cities drafted a revenue tool kit to help government agencies identify all possibilities with their budgets and for new revenues since this was a regional issue, not just a Canby issue. Ms. Stein stated she had been doing financial projections for various cities her entire career, and she had never seen a city hit that cliff.

ADJOURN: The meeting was adjourned at 10:00 p.m.