CITY OF JOHN DAY

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450 East Main Street
John Day, Oregon 97845

January 11th, 2017

Dear Senator Ferrioli and Representative Bentz:

As you are aware, John Day (*pop. 1,735)* is the largest city in Grant County and the economic center of the region. As a result of state and federal policies that began restricting Oregon's natural resource-based industries in the early 1990s, John Day is now in its third straight decade of population and economic decline.

The inability to diversify our economy into new frontiers combined with state tax policies that disenfranchise rural communities, has resulted in structural failures to our economy from which we cannot recover. While we may represent one end of the extreme, these conditions are not unique to John Day or Grant County. They can be seen in rural communities throughout eastern Oregon and the districts you represent.

It is time for the state legislature to formally recognize that there are two Oregons: One characterized by inadequate infrastructure to support basic services, financial dependence on external subsidies and population decline; the other suffering from over congestion, soaring housing prices and hyper-urbanization.

Reversing the uneven pattern of economic growth in the state will require the legislature to adopt a new rural paradigm for economic development – one that focuses on enhancing the competitiveness of rural communities through asset monetization strategies and innovative public development policies. State tax legislation and infrastructure financing should enable multiple industry sectors, including advanced industries, to operate profitably in eastern Oregon. These outcomes are attainable through targeted and strategic investments that allow cities like John Day to rebrand themselves as leaders in rural innovation.

The memo attached is depressing and, frankly, painful to read. It also clearly and accurately reflects our city's financial reality. The proposed legislative reforms you will review during this session will result in marginal improvements to our infrastructure, but alone are inadequate to resuscitate our economy.

We need a strategic investment partner with patient capital to help us stem the tide of economic decline. That investor should, and by rights ought to be, the State of Oregon. We need your help to educate the state legislature during this biennium on the real fiscal impacts of state tax policy on rural communities.

We are only one city among many you represent, but we hope you will find our story compelling.

Sincerely,

Nick Green

Nick Green
John Day City Manager

Enclosures(2)

CITY OF JOHN DAY

MEMORANDUM

TO:	SENATOR TED FERRIOLI; REPRESENTATIVE CLIFF BENTZ
FROM:	NICHOLAS GREEN, JOHN DAY CITY MANAGER
SUBJECT:	FISCAL IMPACTS OF STATE TAX POLICY ON THE CITY OF JOHN DAY
DATE:	JANUARY 11, 2017
CC:	JOHN DAY CITY COUNCIL; LEAGUE OF OREGON CITIES LEGISLATIVE DIRECTOR

This memo provides an overview of the City of John Day's revenue sources for FY15 and the fiscal impacts of the League of Oregon Cities' proposed legislative changes to statewide property tax and transportation funding. It also illustrates the opportunity cost of not reforming the 9-1-1 Tax and provides recommendations for improvement.

BACKGROUND

State funding accounts for less than one-fifth of John Day's revenue. Even under optimal conditions, the League's recommended reforms will not have a significant near-term financial impact on the City's operating budget or its net position.

In contrast, the decision not to reform the 9-1-1 Tax distribution costs local taxpayers over $200,000 per year in unrestricted funds. The opportunity cost of not reforming the 9-1-1 Tax is approximately $1M per year based on the next best use of this funding, which is as an 80/20 match on grants for capital improvement projects.

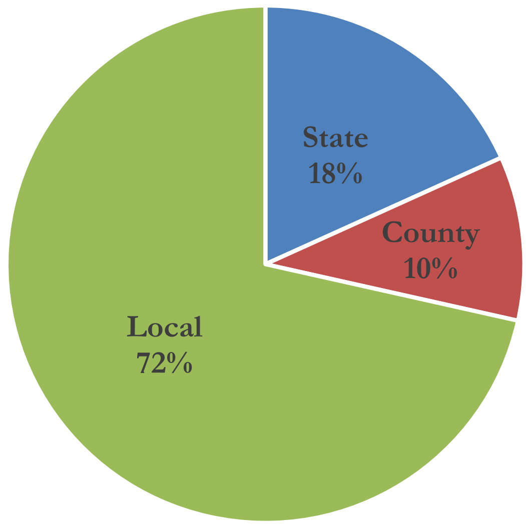
REVENUE SOURCES FOR THE CITY OF JOHN DAY

The top ten revenue sources for the City of John Day in FY15 were as follows:

Revenue Source	Funding	Use	Jurisdiction
1. Water Sales	$624,369	Water	City
2. Sewer User Fees	$520,111	Sewer	City
3. Property Taxes	$281,838	Unrestricted	City
4. State 9-1-1 Tax	$248,982	911	State
5. Grant County Forest Receipts	$221,447	Streets	County[1]
6. Franchise Fees	$105,333	Unrestricted	City
7. State Gasoline Tax	$100,779	Streets	State
8. State Excise Tax (Cigarettes/Liquor)	$27,474	Unrestricted	State
9. State Revenue Sharing	$16,209	Unrestricted	State
10. City Licenses	$10,422	Unrestricted	City
Net Revenue	*$2,156,963*		

[1] Grant County remits a portion of the timber receipts received under Public Law 75-210, 7 U.S.C. 1010-1012, Bankhead-Jones Farm Tenant Act. These are federal funds restricted for the benefit of public schools and public roads of the county or counties in which National Grassland or Land Utilization Projects are situated. See Catalogue of Federal Domestic Assistance No. 10.666 for more information.

The top ten revenue sources resulted in a total of $2.16M in FY15. Of this revenue, 80% was restricted to specific uses and 20% was available for general operations and investment (see Figure 1 for funding breakdown by jurisdiction).



Local revenue accounted for $1.71M (or 72%) of the City's total revenue. Of this, 74% was restricted to specific uses (Water and Sewer).

State revenue accounted for $393,444 (or 18%) of the City's total revenue. Of this, 89% was restricted to specific uses (9-1-1 Emergency Communications and Streets).

County revenue accounted for $221,477 (or 10%) of the City's total revenue. Of this, 100% was restricted to Streets.

Figure 1. Revenue Sources by Jurisdiction for the City of John Day, FY15 Actuals

IMPACTS OF STATE TAX POLICY AND PROPOSED LEGISLATION

The League of Oregon Cities is lobbying for tax reform in two areas of legislation: Property Tax and Transportation. The League chose not to lobby for 9-1-1 Tax Reform in 2017.

Property Tax Reform

The League is recommending a transition to a real market value (RMV)-based property tax valuation system and away from the assessed value system of Measure 50. They are also advocating for legislation to allow local voters to adopt tax levies outside of current constitutional limits and to remove and adjust certain property tax exemptions.

In FY15, John Day collected $281,838 in local property tax based on an assessed value of $9.58M at a mill rate of 2.99. The maximum assessed value (MAV) under current law accounted for 88.2% of the RMV of property within city limits.

Had the League's proposed changes been in place in FY15, using the RMV as the default property tax value, the net financial gain for the City would have been an increase of approximately $37,500. This is primarily due to a low RMV resulting from aging housing stock, the limited size of residential lots, undeveloped commercial and industrial property within city limits and the exclusion of profitable industrial lands from the city limits.

Property tax reform that allows John Day residents to increase their mill rate would have a greater financial impact. Canyon City and Prairie City, the next largest cities in Grant County, have rates of 3.99 and 4.08 respectively. An adjustment of $1 per $1000 would increase the City of John Day's FY15 property tax by $94,000 over the MAV and $106,500 over the RMV. However, this would require a double majority vote of residents.

While other exemptions such as the impacts on local option levies and compression relief would need to be considered as future benefits, a planning factor of $37,500 to $106,500 represents the upper range of the City's projected financial benefit in the near-term from the proposed property tax legislation.

Transportation Funding

The League is advocating for a comprehensive, multi-modal and statewide transportation funding and policy package with an emphasis on street, road and highway preservation and maintenance. Among other measures, this proposal calls for a substantial increase in the state gasoline tax and additional funding for capital improvement projects for intermodal transit. The League is also proposing an increase in funding for the statutory Special City Allotment (SCA) program.

The complex nature of the proposed package makes it difficult to project the long-term fiscal impacts for any given city. However, some basic assumptions show the potential range of the impact on the City of John Day's operating revenue in the near-term.

John Day received $100,779 in state gasoline tax in FY15. This revenue was based on the City's share of the state gasoline tax of 30¢ per gallon and fees from vehicle registration, title and license. Holding all other variables constant, the expected value of a fuel tax increase over various price ranges is shown in Table 1.

Tax increase	1¢	5¢	10¢	15¢	20¢
John Day revenue increase	$3,000	$16,000	$33,000	$50,000	$66,000

Table 1. Revenue projections from gasoline tax increase for the City of John Day

Using the mid-range of $33,000 as the expected local benefit of a 10¢ fuel tax increase, this aspect of the legislation would allow the City to chip-seal approximately one mile of its thirteen miles of city roads. While a one-thirteenth increase would be beneficial, it does not significantly alter the City's asset management strategy nor will it make the community more economically competitive.

The League's proposal to increase funding for the SCA program will have a more significant impact if the SCA budget is substantially increased. In 2009 John Day updated its Transportation System Plan to include 41 street improvement projects. Since that time, only one project has been completed (sidewalks and improved lighting along one half of US Highway 26 / Main Street). A second is planned for completion in 2019 (sidewalk extensions along US Highway 395 to Grant Union Jr. / Sr. High School).

These street projects were the City's top priorities because the intersection of US 26/US 395 is the commercial and economic center of Grant County and because students currently walk along the median of a state highway in order to get to the combined junior/senior high school.

At the end of FY15 John Day had $217,000 in net working capital in its street fund. This is the total available funding for future street improvement projects. It allows the City to complete an average of two street projects per decade using SCA and other state and federal grants, provided the City's applications are competitive and matching funds are available.

9-1-1 Funding

The City operates and maintains the John Day Emergency Communications Center, the only public safety answering point (PSAP) in Grant County. The PSAP has a service area of 4,529 square miles, including 1.8 million acres of public lands frequented by hunters and recreational tourists from outside the county.

The PSAP employs 4.5 full-time dispatchers and one dispatch manager at an annual cost of approximately $445,000. This is the minimum staffing level necessary to ensure 24/7/365 coverage for emergency 9-1-1 calls in Grant County.

The state 9-1-1 Tax provided $248,982 in revenue in FY15, leaving a deficit of just over $196,000. This deficit is funded by transfers from the City and County general funds and through fees to other local tax jurisdictions.

As the 911 Tax distribution is made on a per capita basis, the declining population for the County will result in a net decrease in 9-1-1 Tax revenue for the coming decade. Meanwhile, the cost for PERS, health insurance and cost of living allowances for staff continues to rise, creating a budget deficit that will continue to increase in the coming years.

Based on current tax law, Grant County (pop. 7,185) would need **64,667 residents** to break even on its minimum 9-1-1 operating expenditures in FY17

Tax reform that designates the Grant County PSAP as "mission essential" and funds it to the minimum level necessary to maintain 24/7/365 staff coverage would result in a near-term cost savings of $200,000 per year to local tax payers. These unrestricted funds could then be used for community development and investment in local infrastructure projects tailored to the community that are not limited to a specific asset class.

Based on a 20 percent cost match for federal grants on community development projects, **the opportunity cost of not fully funding emergency communications in Grant County is approximately $1M per year.**

UNDERSTANDING THE REGIONAL CONTEXT

Oregon is the sixth fastest growing state in the nation, yet twelve counties are in population decline. Eight of these counties are in eastern Oregon.

Grant County and John Day are currently leading the state in a number of socio-economic categories indicative of the region's challenges.[2] They include:

- Third highest rate of population decline with continued loss projected at the rate of -0.5% per year for the next fifty years
- Median age of residents increased from 42 in 2000 to 50 in 2010; more than four times the increase observed statewide
- Second lowest median household income in Oregon at $32,614 per household
- Highest unemployment rate in Oregon (8.0%), down from a 2012 peak of 14.2%
- Second poorest broadband connectivity in Oregon, with average download speeds of less than 10 mbps and upload speeds of less than 1 mbps
- Loss of 40% of student body enrollment since 2000 (23 ¼ students per year) forcing the closure of Blue Mountain Junior High in 2002
- Highest suicide rate (tied with Harney County) at 32 per 100,000 residents, double the state average of 16 per 100,000
- Behavioral crime rate 35% higher than state average, with DUII rate and Liquor Law violation rates 116% higher and 138% higher, respectively
- Aging housing stock and inadequate workforce housing, with 50% of the homes in John Day built prior to 1960 and a rental vacancy rate of <1%
- The loss of productive natural-resource based industries including three timber mills and the closure of Main Street businesses along US Highway 26
- Public safety spending in John Day of 289% of the FY15 property tax base; a higher rate of spending as a percentage of property tax than any other city in Oregon

Structural failures in the local economy have been reinforced by state tax policies, like the 9-1-1 Tax, that disenfranchise rural communities by including a population component to the tax distribution that ignores financial and operational realities. In John

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[2] For detailed information and data references, see enclosed briefing to the Governor's Regional Solutions Team, presented on November 7th 2016

Day, the resulting tradeoffs are between providing basic public safety services: whether to answer the phone when residents dial 9-1-1, fund the only municipal police department in the county or have our children and grandchildren walk to school along the median of a state highway.

RECOMMENDATIONS

To begin addressing these challenges in 2017, the City of John Day recommends the following:

1. Create a special appropriation to **“bridge fund” the Grant County PSAP** to the next biennium. This will allow the City and County to collectively evaluate whether maintaining an emergency communications center in Grant County is feasible and/or whether a regional PSAP consolidation is needed.

2. Support the League’s efforts to **substantially increase the SCA allotment** for eastern Oregon in the transportation funding package. Include specific incentives for public private partnerships and private industry investment.

3. Support the City of John Day in its efforts to **create a community development venture capital investment fund** to allow local residents, businesses and tax districts to pool public and private sector funding for community development projects. Authorize the creation of public development authorities and joint ventures between the public and private sector to **remove barriers to investment.**

4. Authorize legislation to **invest in rural broadband infrastructure** that is competitive with major metropolitan areas in price, scalability, bandwidth and reliability of service. Enable publically-owned broadband infrastructure, including an eastern Oregon regional fiber optic network, to ensure sufficient bandwidth and resiliency to support digital and advanced industries and disaster recovery in eastern Oregon.

5. Begin laying the foundation for **comprehensive 9-1-1 Tax Reform** in the 2019 legislative session.

CONCLUSION

Resolving the uneven pattern of economic growth in the State begins with a sound understanding of the fiscal impacts of state tax policy and fiscal policy on rural communities. It will end when the State makes a firm commitment to replace the current system of benign neglect with one of strategic investment.