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To: John Day Budget Committee
From: City Manager Nick Green
Subject: 2019-2020 Budget Message
Date: April 12, 2019

Message from the City Manager

Since launching our strategy for growth in 2017, we have taken on several significant capital improvement projects and a few internal restructurings that have changed the way we operate as a city. The basis for these decisions and our reasons for changing our operating model are described at a high-level in our strategy and have been discussed at numerous city council meetings, but they have never been explicitly stated in a single document. During my state of the city address in March, I talked with the council about the theory behind our decision making. I have provided a summary of these discussions and changes we have already made at the outset of my budget message because I think it is important to understand our budget in the context of the city's strategy and our overarching goals and objectives. Following the summary, I present an update on our major capital improvement projects and proposed adjustments to the budget for fiscal year 2020 (FY20).

SUMMARY OF CHANGES

Prior to my administration, the City had become overextended, particularly in public safety spending. In 2017, our total public safety expenditures exceeded \$1 million for the first time. We were providing too many services for too many external organizations with too little cost recovery. In most cases, our cost to provide service outside the city limits exceeded our revenue. The net effect was that John Day taxpayers were subsidizing services for other communities. I have worked with the city council to discontinue these practices where they are no longer in our best financial interests or where they conflict with our strategy for growth.

City programs that have been discontinued under my administration include:

- Countywide 9-1-1 service, effective January 1, 2019
- Police services for Prairie City
- Victims Assistance services for the District Attorney
- Financial support for the Grant County Economic Development Office

At the same time, we have added new programs that generate revenue and/or syndicate risk across multiple agencies. These new programs include the Grant County Digital Network Coalition, Grant County Emergency Communications Agency (GCECA), and the School Resource Officer (SRO) for Grant School District 3.

Grant County Digital. Grant County Digital is 100 percent grant funded. The City is managing the funds for the agency in Fund 07 (IT Fund) and the board is using this funding to apply for federal broadband grants. The board appointed me as their Executive Director last year. I am managing the agency until they are fully operational, at which point they intend to hire a Managing Director. The board's goal is to deliver affordable high-speed, reliable internet to every resident in Grant County.

Grant County Emergency Communications Agency. The City is participating in the GCECA organization to share the costs of 9-1-1 service. We are responsible for \$10 per call for the police and fire departments plus 12.8 percent of the cost for any operating deficits above the state shared 9-1-1 revenue. Under the prior agreement, most user agencies were not charged, so John Day and Grant County paid 100 percent of the cost overruns. Now, the cost and risk for 9-1-1 dispatch is syndicated fairly among all 13 local governments that use the service and every user agency that receives 9-1-1 calls. When the 9-1-1 tax increases (and there is a strong possibility it will increase by 50-cents this year as a result of House Bill 2499) our percentage will remain the same, but the total operating deficit will decline, resulting in increased savings in our General Fund. We are also receiving \$750 per month in lease revenue for the city by hosting the agency in our fire hall.

School Resource Officer. We are in our first year of a two-year operating agreement to provide an SRO to Grant Union Jr./Sr. High School. Chief Durr currently serves as the SRO. Grant School District 3 and the city feel the SRO position is working well and we intend to continue providing this service at the school. We currently share the cost of the SRO, with the District paying \$45,000 per academic year to the city and the city paying the balance of the cost (approximately \$55,000). This agreement funds 45% of one officer and allows us to maintain a four-person police department, which we otherwise could not afford.

Grant County Digital and the GCECA were organized under Oregon Revised Statute (ORS) 190.010. They allow local governments to share resources that already exist (i.e. revenue from the approved budgets and taxing authority of their parent organizations) in order to deliver services more efficiently. Some residents are concerned that these new agencies are going to raise taxes or incur future costs for the city and other participating local governments. They are not. An ORS 190 does not have the legal authority to raise taxes or financially obligate its parent agencies beyond the budget authority granted to them in their agreements. These arrangements are in the best interest of the city financially because they reduce our annual operating costs and increase our operating revenue. They also strengthen our net financial position (net worth), which increased more than \$2 million in FY18 as a result of grants we obtained for broadband, 9-1-1 operations and other capital improvements related to our strategy for growth.

NEW CAPITAL IMPROVEMENT PROJECTS

This year we are applying for over \$11.1 million in grant funding for various capital improvement projects. Four of these projects have already been awarded (Table 1). Many relate to the new waste water treatment plant project and redevelopment of Oregon Pine. We also applied for two Main Street Revitalization grants, one for 1188 Brewing and the other for Len's Drug.

In April 2019, I applied for \$3 million in grant funds through the USDA Community Connect Grant to develop a fiber optic network from Burns to the City of Seneca that includes one Gigabit internet connection for every home and business in Seneca. In May, I will apply for an additional \$4 million in funding to expand the network from Seneca to John Day and from Mt. Vernon to Long Creek (possibly Monument). For both projects we are teaming with Ortelco as our local internet provider, OTEC for co-location of our fiber optic lines on their power transmission poles, and in the future with Link Oregon as a 501(c)(3) non-profit partner who can help us expand academic opportunities for our area by connecting us to the national education and research network.

GRANT	PROJECT	FUND	GRANT AMOUNT	AWARD DATE
DEQ Brownfields Fund	Weaver Building Abatement	GENERAL - Main Street Dept.	\$ 65,300	Awarded
CDBG Engineering	Waste Water Facility Engineering	SEWER	\$ 199,500	Awarded
Special Cities Allotment	Charolais Heights Intersection	STREET	\$ 100,000	Awarded
Main Street Revitalization	1188 Façade Improvements	GENERAL - Main Street Dept.	\$ 92,000	TBD (May)
Recreational Trails Program	Riverfront Trails	STREET	\$ 191,300	Awarded
Main Street Revitalization	Len's Drug Revitalization	GENERAL - Main Street Dept.	\$ 200,000	TBD (May)
Oregon Water Resources Dept	Reclaimed Water Distribution	SEWER	\$ 2,200,000	TBD (Nov)
OPRD Large Grant	Integrated Park System	STREET	\$ 650,000	TBD (Aug)
OPRD Planning Grant	New Aquatic Center	GENERAL	\$ 40,000	TBD (Aug)
Ford Family Foundation	Planar Shed to Farmers Market	SEWER	\$ 250,000	TBD (Aug)
USDA Rural Development	Planar Shed to Farmers Market	SEWER	\$ 200,000	TBD (Aug)
USDA Community Connect	Fiber from Burns to Seneca	IT	\$ 3,000,000	TBD (Nov)
USDA ReConnect	Fiber from Seneca to John Day	IT	\$ 4,000,000	TBD (Nov)
			\$ 11,188,100	

Table 1. Grant applications for FY20

The John Day Innovation Gateway

The area planning and design of the Innovation Gateway began last fall and was funded through a Transportation Growth Management grant from the Oregon Department of Transportation (ODOT) and the Department of Land Conservation and Development (DLCD). As discussed last year, our goal is to create a community destination with a sense of place, rooted in the landscape and culture of John Day, which strikes the right balance between being creative, pragmatic, economically-viable, and community-supported.

The preliminary design concepts for the Innovation Gateway area development plan are enclosed (Tab #3). This plan reorients our development toward the river in order to enhance the beauty and economic value of the city as a riverfront community. About 20 discrete project elements have been proposed for the Innovation Gateway and we are actively pursuing funding to move from design into implementation in FY20, starting with improvements to convert the planar shed building to a community pavilion and farmer’s market, the design and engineering of the new reclaimed water facility, and development of the riverfront trails and parks.

Integrated Park System & New City Parks

We are proposing to build a new integrated park system at the confluence of the John Day River, Canyon Creek and Davis Creek (Tab #4). The central feature will be a new riverfront park, with a multi-modal bridge across the John Day River to provide trail access to the new riverfront trail system. The project will help create a walkable community with connections to: the John Day River, downtown John Day, the Innovation Gateway, 7th Street Complex, Kam Wah Chung, and the Grant County Fairgrounds. Our long-term goals are to: improve riverfront access, create additional in-city camping and recreation opportunities along the river, and enhance access to our parks spaces. We have requested \$650,000 in funding from the state to develop Phase 1 of this project. Because prior city land acquisitions were used for the grant match, there is in no additional cost to create the park improvements if we are awarded the grant.

New Aquatic Center

Initial pool design concepts have been developed with funding from the Community Development Fund. We contracted with Counsilman-Hunsaker and Opsis Architecture to create an initial set of line drawings for the proposed facility and a site development plan for its future location at the west end of 7th Street (Tab #5).

We have had several discussions with the city council and our community around the need to sell the pool. We know we are at the end of its useful life and we are motivated to sell it if the price is right. We have put a lot of

time and effort into planning the replacement of both the pool and the park. We submitted our grant application for the new integrated park system to OPRD and we are planning to apply for a planning grant in May for an additional \$40,000 to create a new organizational structure to operate and maintain the pool.

The city council passed Resolution 19-805-06 to apply for the large government grant and to codify our reasons replacing the pool. We also held a community listening session hosted by the John Day Swim Team and posted an FAQ page to the city website to address some of our residents frequently asked questions.

We have been very rational and deliberate about this process. We organized a steering committee last year and they have spent over six months assessing various options for the pool's replacement. We recognize the pool is near and dear to the hearts of a lot of people in the community. This is also a very frugal area. We like to own assets far beyond their typical lifespan but do not like to pay taxes to maintain those assets. As a result, we have a parks & recreation district with an incredibly low permanent rate and a very narrowly defined district boundary, a pool that would cost far more to repair than it's worth, and the various stakeholders who have an interest in seeing the pool succeed have not saved any money for its replacement. Without the sale to the State, we as a city will be left holding the bag for a pool that can't be repaired and maintained on our existing tax base.

We see the sale of Gleason as a strategic opportunity and one we are going to take seriously. Once the appraisal is done and we know what the State can offer, we plan to survey residents to get their feedback before we proceed. Many of the people who comment on the pool do not now (and never did) pay for it beyond the \$5 it costs them to swim there. While we value their feedback as a community, our responsibility is to the taxpayers of John Day who will foot the bill for the pool's ongoing maintenance after 2020 if it is not replaced.

We intend to create a master plan for the new aquatic center using ORS 451 to establish a county service district within a reasonable driving distance of the new pool. This approach would give the district the authority to issue operating levies and/or capital improvements bonds, but it would not have the obligation to create a permanent tax rate levy. We think this is the best approach to move forward on the new facility. It will take time to create it and get it organized but it also follows a structured and logical process to engage the community in the master planning process and through public hearings. It also spreads the cost for the new facility fairly among all its users rather than concentrating the costs on the City of John Day. I have budgeted \$40,000 for FY20 to help facilitate the master planning. These funds will be used as the match for the OPRD planning grant to create the facility plan, but only the county court can submit the plan to the voters for approval. They will need to do their part to help this project succeed. We have also asked the five major tax jurisdictions to contribute financially to the new pool's operations during its initial operating window in order to help the new facility launch in a positive financial position.

Waste Water Treatment Plant

We held a public hearing to discuss the design of the new wastewater treatment plant in December 2018 and our intention to apply for a Community Development Block Grant to begin engineering (Tab #6). The grant was awarded in 2019 and we are in the final stages of the contracting process to create our engineering team. The team will consist of four reputable organizations:

- Anderson Perry (lead engineer)
- Clean Water Services (Hillsboro utility district advising the city)
- Ducote Consulting (environmental consultant)
- Interfluve (riverfront restoration consultant)

The treatment plant may need to be built and financed in stages due to the complexities of the permitting process. Our target is to achieve 60 percent grant funding for the project to keep our rates affordable.

Greenhouse

Our first greenhouse is fully constructed and is scheduled to be operational within the next 30-days. Our draft grow plan is enclosed (Tab #7). We would like to pursue a public private partnership approach with the greenhouses, so we aren't viewed as being in competition with our growers. Our intention from the beginning was job creation and economic growth. We are trying to attract a new, high growth industry that fits our culture and labor market. We hired EcoNorthwest to help advise us in that process and to guide our thinking as we develop our operating model.

The greenhouse is a proof-of-concept. It was built to 6,000 square feet (SF) of hydroponics growing and can scale up to 10,000 SF with two additional bays. We need to demonstrate we can grow effectively and that we understand the market well enough to participate as the public side of a public private partnership. We do not have a private partner yet. We will explore co-op relationships, academic partnerships and joint ventures with a private grower, but these things take time and we aren't going to enter into any long-term relationship with a business until we know we can work with them effectively for an extended period of time and keep the incentives aligned, and that we can do our part to facilitate the expansion of this industry in John Day. In this year's budget I am proposing to keep the greenhouse as a department of the Sewer Fund, but once it begins generating revenue, we can separate it as its own fund and it would purchase reclaimed water for its operations from the new wastewater treatment facility.

Economic Development Planning

The City's last comprehensive plan was adopted in 2003 and is 16-years old. We have experienced economic decline for the duration of that period. Many of the elements of our comprehensive plan are out dated or no longer relevant. We are in the process of updating the plan with a new Comprehensive Economic Development Strategy (CEDS), led by EcoNorthwest. Deliverables from this strategy will include: a hydroponics market analysis; a marketing and branding package for the city; a detailed housing assessment; and an investment prospectus to help us continue to raise external funding for our capital improvement projects. The CEDS will culminate in a five-year action plan and a Regional Economic Development Summit (REDS) hosted in John Day on June 11, 2019. We are inviting multiple state and federal agencies to participate in the REDS along with non-profit endowments and private sector investors. This will be our first significant economic summit and one we hope will lead to continued growth and development.

STAFFING UPDATE

With the transition of the 9-1-1 Center to the GCECA, we were able to reduce our full-time staff this year by 30 percent. The City now employs 12 full-time and 3 part-time staff. Most staff received salary adjustments last year as a result of the total compensation survey performed by the Local Government Personnel Institute. We are now in the process of re-negotiating our collective bargaining agreement with the John Day Police Department to create a new agreement for FY20-22, which will re-baseline their compensation and bring their pay in line with the other employees.

Now that our salaries are more competitive with the market, I am recommending we take this opportunity to get better control over our salary escalation. We have developed a new salary schedule for this purpose (Tab #8). The schedule creates some new steps that give our staff more room for career growth. We are also extending the timeline for progression between steps, taking two years to get to the next step after reaching Step 6. The new table has a three percent increase between each step, which will save the city about \$39,000 this year in wage escalation over the prior schedule. Though annual progress is not guaranteed, this will also provide a more standard method for salary progression that will allow us to more predictably forecast our future labor costs.

We have also budgeted for a new Fire/Public Works Position that will be dual-hatted as our Fire Chief and a public works employee beginning in November 2019. Chief Smith plans to retire this year and will be replaced by a new full-time employee who works across multiple departments. This approach will keep costs affordable in our General Fund, where we have less control over revenue growth, while allowing us to maintain a full-time Fire Chief for the city.

NEW REVENUE SOURCES

In the coming months, I will recommend to the council that we begin exploring new revenue sources for the city. Our transient room tax needs to be re-evaluated and the city council should strongly consider implementing a TRT-tax for John Day. These funds (derived from visitors to our community) can be used to promote recreation, tourism and to improve our overall economy. We need to strengthen our partnership with the Grant County Chamber of Commerce as we evaluate this possibility and how best to use these funds.

The city has land that is not in productive use, specifically at the Airport Industrial Park and surrounding Oregon Pine. I have requested our attorneys draw up new procedures to allow the council to sell a portion of our land at the industrial park and Oregon Pine at fair market value. We have not budgeted revenue from these sales in this year's budget, but if the council chooses to proceed with land sales, the revenue from these sales will accrue to the Water Fund and Sewer Fund in direct proportion to the loans issued from those funds when the land was originally purchased and developed.

As part of the Innovation Gateway area planning process, we are also looking at new investment opportunities that would potentially generate revenue for the city in the form of TRT taxes, water and sewer revenue. We have been coordinating with hotel development groups to potentially site a new hotel at the west end of the Oregon Pine property. We are also looking at new in-city campgrounds that would allow visitors to stay in John Day while they vacation in our area and options to significantly increase available downtown parking. These opportunities are under review and will be further refined as part of our economic development planning.

OVERALL FINANCIAL POSITION

We have been operating at an incredibly fast pace in terms of fundraising. We have also undertaken several financial restructurings of our assets, liabilities, staffing and operating model. If you're having a hard time keeping up, you're not alone. What I can tell you as the City's chief executive and de facto chief financial officer is we are right where we need to be to execute our strategy. Not every fund is performing the way we'd like it to, but overall our financial position is improving. We are making smart investments and we have been proactive in evaluating our decisions and re-evaluating them when conditions change.

There is no universal definition for a strong financial position. A financial position is our ability to accomplish our mission now and in the future. When residents ask, "how are we doing, financially?" they are really asking about our financial position. It can be difficult to analyze an audited financial statement and derive any meaning from it. I am therefore going to do my best to clarify the key components of last year's audit and put those things in context for our city.

An organization's financial position has three main components:

- 1) **Liquidity.** Do we have enough liquid resources – especially cash – to cover our near-term liabilities?
Can we convert less liquid assets to cash to cover those liabilities?
- 2) **Profitability.** Do our revenues cover our operating expenses?
- 3) **Solvency.** Can we generate enough revenue to cover our near-term and long-term financial obligations?

Financial ratios are calculations derived from our audited financial statements. Each ratio illustrates one dimension of our overall financial health. There are ratios for liquidity, profitability, and solvency. I have compiled basic ratios for the City of John Day from last year's audit, along with a brief explanation for what they tell us, basic rules of thumb, and how the ratios are calculated (Tab #9).

Liquidity. The assets of the City exceeded its liabilities at the close of the fiscal year by \$10,459,823 (net position). Of this amount, \$1,941,983 is unrestricted and may be used to meet the City's ongoing obligations and pay for day to day operations. Our liquidity is high, and we can readily cover our expenses as they come due. I intend to keep it high and may even increase it in the coming years so we can take advantage of opportunities to use our available cash as matching funds on grants and for strategic investment opportunities that have a strong potential to generate economic returns on investment.

Profitability. Profitability is less important for a public agency. We are not designed to generate profits and are only required by law to break-even. That said, we are a profitable organization. Governmental funds reported combined ending fund balances at year-end of \$3,509,840, an increase of \$2,449,674 compared to last year. The only fund that did not increase overall is the Street Fund. Our street revenue is per capita based, and even with the increase resulting from the 2017 transportation bill, we are at a disadvantage because our state shared revenue is indexed to our population. When population growth stagnates or declines, we receive less tax revenue. To see significant improvements in street funding we need to increase our housing stock and create more buildable residential lots, which ironically requires more street funds. The remedy is to get smarter in how we leverage the funding we have and how we work with other public agencies like the county, ODOT and DLCD to reduce our street improvement costs. We must create matching funds opportunities so that a dollar of our money nets us 4-5 times that in external investment in order to succeed in maintaining and improving our streets.

Solvency. By following this investment approach, we are not only solvent, but our total net position increased \$2,190,754 last year – an increase in our net worth of about 40 percent. By using leverage (debt) to make land acquisitions, capital improvements like finishing the fire hall, and building greenhouses, we created near-term debt obligations (in the form of principal and interest payments) and long-term debt obligations (in the form of our overall debt position and non-current liabilities), but we also created assets whose value exceeds our debts as a result of external investment from third parties. As a result, we have enough capital and revenue available in both our General Fund and our enterprise funds (Water and Sewer) to meet our near-term and long-term debt obligations. We are solvent and we are not at all at risk of defaulting on any of our debts or on any of our individual investments. In fact, we were able to issue a long-term, low-interest loan to our Rural Fire Protection District for their share of the fire hall improvements because we are in a healthy financial position. However, this is an area I will monitor closely because it is important that we maintain our ability to meet our debt obligations. Debt for government agencies is a positive signal to both lenders and the private sector that we are investing in our community – so long as our debt does not exceed our capacity to pay.

SUMMARY

There is still much work to be done, but our efforts are already beginning to bear fruit. We are stabilizing our finances by addressing long-term budget imbalances. This, in turn, will reduce future tax burden on our residents and ratepayers. A stronger balance sheet and new revenue sources will make John Day more attractive to outside investors and more competitive when applying for capital finance for infrastructure projects like the new wastewater treatment plant, broadband network modernization, new home construction, downtown revitalization, and new recreational amenities. In other words, the financial work we are doing today will enable us to continue fueling our strategy for growth and make our city healthier and stronger for tomorrow.

BUDGET BACKGROUND

Oregon Local Budget Law (Oregon Revised Statutes Chapter 294) requires each local governmental unit to prepare and adopt an annual budget. A budget is a financial plan containing estimates of revenues and expenditures by fund for a single fiscal year. The enclosed budget document presents this information for the City of John Day for the fiscal year beginning July 1, 2019 and ending June 30, 2020 (Tab #10). This budget includes wages for all non-union staff under the new salary schedule.

The budget document consists of a list of resources and expenditures for each fund within the City. The first two columns contain actual audited data for FY17 and FY18. The third column reflects the adopted budget figures for FY19. The last two columns pertain to the upcoming FY20 budget. The column titled “proposed” contains the budget that I am submitting to the John Day Budget Committee for review. These data are based in part on prior year budgets and in part on the city’s investment strategy.

The “Approved by Budget Committee” column will be added and filled in following the approval of the proposed budget by the Budget Committee, including any changes you may make. I have also included “comments” in this column for you to understand why the line item was increased or decreased. The final column will be added and filled in upon approval of the data by the John Day City Council. The final budget data is then reported to the Grant County Assessor’s Office.

ROLE OF THE BUDGET COMMITTEE

A budget committee, comprised of the city council members and a like number of citizens of the city, reviews and approves the proposed budget and the tax rate or levy. The city council appoints the citizen members of the budget committee for three-year terms. The city council may make certain adjustments to the approved budget before adoption in June. Table 3 shows the FY19-20 appointed budget committee members.

Table 2. FY20 Budget Committee Members

Committee Member	Appointed	Re-appointed	Term Expires
Ron Hasher	2004	2019	2021
Mike Miller	2011	2019	2021
Tom Olson	2017	2019	2021
Robert Raschio	2017	2019	2021
Darin Toy	2017		2019
Vincent Maurer	2018		2020
Katrina Randleas	2018		2020
Beth Spell	2018		2020

Included in your budget packets is the *Budgeting Basics* article (Tab #11) that appeared in the February 2016 edition of Local Focus, a publication of the League of Oregon Cities. This article explains the role and purpose of the budget committee.

Each January, city staff begins the process of projecting revenues for the coming year and balancing those projections with anticipated department expenditures, taking into account factors such as historic trends; current economic indicators; demands for service; impacts of decisions made at the regional, state and federal levels; staffing needs; contractual obligations and increased cost of materials and supplies. We also took into consideration comments received from the city’s auditors regarding the FY18 audit report, available on the Oregon Secretary of State website.

BUDGET DETAIL

BASIS FOR DETERMINING PROPERTY TAXES

The proposed property tax revenue is based on estimated FY19 assessed valuation of \$105,741,768 times our permanent tax rate of .0029915 of assessed value, giving us a total of \$316,326.50. When we subtract loss due to Measure 5 compression (-\$194); Gain/loss from Ext (\$0.24); the Grant County Assessor estimates total taxes to be received for the City of John Day at \$316,132.74. We estimated uncollectable at 11%, leaving a total budgeted property tax of \$281,358.14.

When approving the budget, the budget committee must also approve a property tax rate or the tax amounts that will be submitted to the county assessor. The budget committee should make a motion to approve the property tax rate of \$2.9915/\$1,000 assessed value to document the action in the committee meeting minutes.

GENERAL OBLIGATION BONDS & OTHER DEBT OBLIGATIONS

The City has four outstanding debt obligations as a result of the 2018 debt consolidation (Table 3, highlighted).

Table 3. Outstanding debt as of FY18

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Water system improvement loan	\$ -	\$ -	\$ -	\$ 597,176	\$ -	\$ 597,176
Airport industrial park loan	-	-	-	1,297,051	-	1,297,051
Lang purchase agreement	-	69,442	-	-	-	69,442
Fire station bonds	550,000	588,000	-	-	550,000	588,000
SPWF - Gateway project	-	-	493,380	-	493,380	-
WA Fed consolidation loan	-	-	2,182,952	-	2,182,952	-
Accrued compensated absences	37,557	42,707	20,278	19,818	57,835	62,525
Total outstanding debt	\$ 587,557	\$ 700,149	\$ 2,696,610	\$ 1,914,045	\$ 3,284,167	\$ 2,614,194

Fire station bonds. At the May 20, 2014 primary election, the voters of the City of John Day approved to issue up to \$655,000 of general obligation bonds and the voters of the John Day Rural Fire Protection District approved to issue up to \$550,000 to finance a new fire station. Both the John Day City Council and the John Day Rural Fire Protection District accepted the proposal from Washington Federal and sold the bonds at 3.07% interest rate for 15 years. Bond payments began in December 2015 and will continue through 2030.

WA Fed consolidation loan. The Washington Federal loan consolidation resulted in \$2,182,952 in consolidated debt at 3.34% interest. This loan will be paid in full by December 1, 2022.

Gateway project. Business Oregon originated a loan for the purchase of Oregon Pine for the new wastewater treatment plant. It was approved by a resolution of the city council (Resolution No. 17-776-12). The loan originated on August 28, 2017 for \$519,000 at 3.78% interest. Annual principal and interest payments are \$29,217.29, with 27 payments remaining.

Greenhouse loan. The City originated a \$350,000 loan last year to construct the greenhouse, also through Business Oregon. Payments are budgeted to begin this year but may not begin until FY21 depending on the timing for the project completion. For this reason, these loans are not shown in the FY18 audit report.

GENERAL FUND EXPENDITURES

Administration (Fund 01; Dept. 010). Projected revenues in the Administration General Fund are estimated as conservative as possible while still being able to balance the fund. Cigarette, liquor and state revenue estimates were based on the League of Oregon Cities State Revenue projections. Revenue from cigarette taxes is paid to cities monthly within 35 days after the end of the month for which a distribution is made. The distribution is on a per capita (per person) basis. The city may use their share for general government service without program restrictions. Revenue from liquor taxes is distributed to cities from the OLCC by two methods: 1) 20 percent of the state's liquor receipts are given as revenues to cities on a per capita basis and distributed monthly; and 2) 14 percent of the state's liquor receipts are given to cities on a formula entitled "state revenue sharing." This formula is based on the city's consolidated property tax rate, per capita income and population.

Changes to the Administration Department as follows:

- Increased audit expenses to cover single audit (required for federal funding)
- \$45,000 line item appropriation for matching funds on pool planning grant plus \$5,000 for community promotion
- \$16,000 for 9-1-1 dispatch services (city portion of countywide service)
- 10% increase in electricity
- 15% increase in insurance
- \$15,000 capital outlay for capital improvements (carpet + A/V system for fire hall to record and broadcast council meetings)

Police (Fund 01; Dept. 030). City intends to keep a four-man police department plus volunteer reserves.

Changes to the Police Department as follows:

- \$30,000 for 9-1-1 dispatch services (based on \$10 per call x number of calls)
- 15% increase in insurance
- \$3,000 for new rifles, scopes
- \$8,000 for Justice software
- \$20,000 for office renovations to remodel after the 9-1-1 move
- Revenue of \$45,000 from SRO position
- Transfer of \$30,00 to pay 9-1-1 dispatch services

Fire (Fund 01; Dept. 050). City will maintain a full-time employee as Fire Chief / part-time public works employee for FY20.

Changes to the Fire Department as follows:

- \$500 for 9-1-1 calls (based on \$10 per call x number of calls)
- 10% increase in electricity
- \$16,000 (\$8000 x 2 line items) for potential increased payments to Volunteer Firefighter Association for drills and firefighting
- 15% increase in insurance
- \$15,000 transfer to motor pool for new vehicle savings
- Revenue of \$9,275 from 9-1-1 tenant at fire station (\$750 per month)

Main Street Revitalization (Fund 01; Department 090). City applied for \$292,000 in Main Street Revitalization grants for 1188 Brewing and Len's Drug. City will continue to invest in downtown and Main Street as funding allows.

Changes to Main Street Revitalization as follows:

- \$289,080 for development incentives (grant less 1% admin cost)
- 10% increase in insurance

WATER – FUND 02

We are continuing to budget in the Water Fund for future replacement of our water meters. We are also budgeting a savings line item for the five-year payoff of the Washington Federal loan. The Water Fund incurred debt as a result of the interfund loan to the General Fund and we therefore show revenue as loan repayment proceeds from the General Fund in this year's budget.

Changes to the Water Fund as follows:

- \$5,000 to cover single scope audit (if needed)
- \$7,500 for PLC replacement (four sites)
- 10% increase in chlorine
- 15% increase in insurance
- \$5,000 for VFD replacement
- \$1,000 handheld radio upgrades
- \$336/month for automated telemetry equipment
- \$1,000 safety improvements
- \$2,000 cross connection specialist training
- \$115,000 for water meter replacement in 2028 (savings account in capital outlay)
- \$340,000 in unappropriated (savings account for WaFed final payment)
- Revenue of \$42,992 from General Fund (interfund loan payment)
- Revenue of \$585,000 in Water Sales (conservative estimate)

SEWER – FUND 03

The 2019 waste water facilities master plan update has been adopted by resolution and we will begin engineering for the new facility this year.

Changes to the Sewer fund as follows:

- 10% increase in electricity
- 10% increase in heating
- 15% increase in insurance
- \$4,000 pump upgrade
- \$2,000 new ACS alarms
- \$1,500 certification testing
- \$164,921 in sewer system improvements (engineering for the new treatment plant)
- \$180,000 in unappropriated (savings account for WaFed final payment)
- Revenue of \$570,000 in Sewer Sales
- Revenue of \$131,000 for engineering grant funds (CDBG)

Agribusiness Department (Fund 03; Department 111).

- \$5,000 increase for greenhouse insurance
- \$900 in utility payments to city (water/sewer)
- Revenue of \$43,250 (sale of greens – conservative estimate)
- Revenue of \$43,250 (sale of tomatoes – conservative estimate)

JOINT SEWER FACILITY – FUND 04

The Joint Sewer Facility Fund administers the operation of the current treatment plant. The cost to operate the plant for FY20 is budgeted at \$290,077. These operating costs have remained stable over the years. Fund 04 does not include capital improvements as future expenditures will be made toward the new treatment plant from the Sewer Fund (Fund 03).

Additional changes to the Joint Sewer Facility Fund as follows:

- 10% increase for electricity
- 10% increase for heating fuel
- 15% increase for insurance
- \$1,000 new handheld radio
- \$1,000 new carefree alarm
- Revenue of \$72,036 from Canyon City (per agreement)
- Transfer of \$167,949 from John Day (treatment portion of sewer fees)

STREETS – FUND 06

City street funds are used to maintain transportation infrastructure and build new street and transit system improvements. New projects for this year include the Integrated Park System, Charolais Heights intersection improvements, and riverfront trail system.

The city council chose to issue a stop-work order on the US 395-sidewalk extension between SW 6th Avenue and Grant Union High School last year because the cost of the project exceeded its value and it would have put too much strain on the Street Fund to complete. ODOT was able to secure over \$1 million in additional state revenue through the safe routes to schools program this year. As a result, the state will complete this project and construction is scheduled to begin in 2021.

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. We have budgeted \$162,000 from County in the proposed budget, which is funding received last year that was held in unappropriated.

With these changes, the Street Fund is projected to have a net working capital balance of \$276,612 for FY20. The fund has \$44,792 for street maintenance and repairs for unanticipated expenses.

Additional changes to the Street Fund as follows:

- 10% increase for electricity
- 15% increase for insurance
- \$3,000 for pocket park maintenance
- \$1,500 for new traffic cones

- \$225,000 for Innovation Gateway riverfront trails
- \$25,000 to complete Canton Street paving
- \$75,000 to improve and re-deck the bridge at Oregon Pine
- \$200,000 for Charolais Heights intersection improvements
- Revenue of \$140,000 from fuel tax
- Revenue of \$162,000 from forest receipts
- Revenue of \$191,000 from recreational trails grant (awarded in 2018)
- Revenue of \$100,000 from ODOT special cities allotment grant (awarded in 2019)
- Revenue (unbudgeted) from future parks grants will accrue to the Street Fund and will be appropriated by resolution of the city council if awarded

IT FUND – FUND 07

The IT Fund was created to manage the finances of the Grant County Digital Network Coalition. We have budgeted to spend \$7.2M in this fund for capital outlay in FY20 based on anticipated grant revenues and expenditures.

Changes to the IT Fund as follows:

- \$10,000 for single scope audit
- \$30,000 for legal expenses (negotiated agreements for public private partnerships and grant reviews)
- \$102,000 for engineering and other professional services
- \$7.2 million in capital outlay for broadband network expansion
- Revenue of \$3 million from 2019 Community Connect Grant
- Revenue of \$3 million from 2019 ReConnect Grant

DEBT SERVICE – FUND 09

Fund 09 is new and is required for accounting procedures to identify principal and interest payments on the fire hall capital improvement bond. Expenditures of \$57,000 for FY20 are offset by \$57,000 in collectible general obligation bond tax receipts.

COMMUNITY DEVELOPMENT – FUND 10

This fund has been structured to operate as the collateral fund for the John Day Urban Renewal Agency’s housing incentives and other community development investments. We have budgeted to extend a line of credit to the URA in FY20 to allow them to make SDC and housing incentive rebate payments until the URA has enough tax increment financing revenues to be self-sustaining. Details of the administration of that program will be provided in the John Day URA budget meeting.

Changes to the CD Fund as follows:

- \$62,500 line of credit to URA (if needed)
- \$2,500 for CD fund share of audit
- \$113,072 for contingency expenses
- Revenue of \$70,000 from CD fees (\$6 per month per account)

MOTOR POOL – FUND 26

This fund covers motor vehicles expenditures and shared equipment/shop expenditures for all city departments.

Changes to the Motor Pool Fund as follows:

- 15% increase in insurance
- 10% increase in electricity
- \$22,280 fire truck replacement
- \$100,000 shop improvements
- \$61,846 all other capital outlay (no specific needs identified)
- Revenue of \$115,000 via interfund transfers from four departments

WATER REPLACEMENT RESERVE – FUND 27

Discontinued at the end of FY17. Funds transferred to Water Fund.

SEWER COLLECTION REPLACEMENT – FUND 28

Discontinued at the end of FY17. Funds transferred to Sewer Fund.

9-1-1 DISPATCH – FUND 32

The fund balance remaining in Fund 32 is the result of transfers from the John Day Police Department and city General Fund in prior fiscal years to keep the 9-1-1 system solvent. As a result, the estimated \$90K in funds remaining at the end of this year will be used to pay the city and JDPD portion of the 9-1-1 costs in FY20 and in future years. These funds are only an estimate as some costs associated with the 9-1-1 move have not been fully accrued. Once the remaining funds in Fund 32 are expended this fund will be discontinued.

UNPAID COMPENSATION – FUND 33

This fund is used to pay leave for employees that exceed their normal paid leave for the payroll year. The fund is projected to have \$100,611 in net working capital for FY20.

SAFE COMMUNITIES COALITION – FUND 100

The City of John Day no longer serves as the fiscal agent for the Grant County Safe Communities Coalition. This fund will remain in our budget for the next two years in order to report historical data only.

ACCOUNT CLARIFICATIONS – MISCELLANEOUS

- Some funds reflect Contingency balances (reserves) whenever possible, to offset any potential funding shortfall brought on by economic recession during the fiscal year or during upcoming fiscal years.
- Most expenditure line items have buffer amounts added to them as the budget has allowed. These additional amounts are intended to cover any unanticipated expenses and are to act as ceilings for expenditures.

ACCOUNTING POLICIES

There are no major changes to the accounting policies of the City of John Day. However, the city will be issuing a request for proposals for a new auditing firm in FY20.

In order to ensure adherence of limitations and restrictions placed on the use of the money available to the City, the accounts are maintained in accordance with the principles of “fund accounting”. This is the procedure by which revenues and expenditures for various purposes are classified, for accounting and reporting purposes, in account groups that are in accordance with activities or objectives specified under an adopted budget. The operation of these funds is accounted for by providing a set of self-balancing accounts. The basis of accounts utilized by the City is the modified accrual basis of account. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (when they are measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end.

A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when obligations are expected to be liquidated with expendable available financial resources. Property taxes, interest and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when the cash is received by the City and are recognized as revenue at that time. Entitlements and shared revenues are recorded at the time of receipt or earlier if the “susceptible to accrual” criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Capital asset acquisitions under capital leases are reported as other financing sources.

CONCLUSION

We are budgeting \$13,996,534 for the city’s operating budget, which is up from the current year budget of \$11,555,027. This projected increase is the result of additional revenue and grant proceeds that will be used for our new capital improvement projects.

This budget is a continuation of our Strategy for Growth and the city council’s strong desire to revitalize our economy while preserving our high quality of life. The budget is another step on a path that will allow us to fundamentally restructure our economy and place the city’s finances and services on a stable financial base.

I would like to thank our department heads for working together as a team to produce the budget and the Budget Committee members for their consideration of this proposed budget and their continued dedication to the City and residents of John Day.

Respectfully submitted,

Nicholas Green
City Manager/Budget Officer