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To: John Day Budget Committee
From: City Manager Nick Green
Subject: 2018-2019 Budget Message
Date: April 27, 2018

Message from the City Manager

This is my second budget message as the John Day City Manager. It has been a momentous year. Through various fundraising initiatives and internal improvements, we have increased the City's net position by more than \$2.8 million. We are on our way to becoming leaner, stronger and financially healthier.

That said, there is a lot of misunderstanding in the community about what we are doing with our finances and why. Our residents see us spending money in ways we have never spent it before. Some are worried that these expenditures will come back to haunt us by creating future operating costs we cannot afford to cover. Others see us spending tax dollars on capital improvements and feel that money would be better spent on basic services like streets and public safety. Finally, there is a common misperception that "money is money" – if we can afford to buy land for a new treatment plant and buy up downtown buildings, why can't we afford our police department?

These concerns are understandable. Most people do not understand the complexities of public sector finance or the rules that govern how funds can be received and expended by public bodies. They don't distinguish between local sources of revenue, things like property tax and franchise fees; state sources of revenue, like fuel tax and 9-1-1 operating revenue; or special purpose grants, such as capital improvement projects. Yet, these distinctions matter because they govern where and how we can spend our money.

The vast majority of the money we received in 2017 was from special purpose grants. That money can only be spent on the projects for which it was specifically identified. Most of those grants required little to no matching funds (local money required to secure the grant funding). Some of the money we obligated we had already saved. For example, we chose to leverage savings in our Sewer Fund as collateral for a long-term, low-interest loan. We in turn used that loan to reimburse our Sewer Fund for the purchase of the Oregon Pine property. This was done by design – the interest rate on the loan was highly competitive and it allowed us to retain our local reserves for the construction of the new treatment plant. We also coupled the purchase with the subsequent sale of six acres of property. As a result, while we did incur a financial obligation to repay a debt, the city actually made money on the purchase of Oregon Pine in 2017 while retaining all of our reserves in the Sewer fund. The city council made a smart investment decision on this purchase that will pay dividends well into the future.

The same is true for the Weaver building. The City used \$100,000 in special purpose grant funding from the State to purchase a 122-year old mixed-use building, which did not meet basic occupancy safety standards. We obligated \$12,000 in local money from our general fund for the purchase, but we will recover 100% of that investment in rental income by June 2018. No loan funds or other financial obligations were incurred to purchase the building. As a result, we expect to make money on this investment beginning in July 2018. We also now have the opportunity to improve the structure by: addressing fire safety concerns, abating the hazardous substances used in its original construction, and adding up to eight new apartments on the top floor for our residents. We will retain the four commercial spaces on the ground floor for local businesses.

These investments are the result of a comprehensive Business Process Reengineering effort we began in order to address the long-term financial challenges facing the city. The goal of Business Process Reengineering is to radically redesign our core business processes to achieve dramatic improvements in productivity, efficiency and quality of service. We are syndicating risk by taking advantage of funds that are performing well and making them do more of the heavy lifting, while at the same time reducing burden on funds that are performing poorly.

The principles we are employing are not new in the realm of business, but they are new for the public sector. We are doing things in John Day that have never been done before anywhere else in the state. It is creating quite a buzz. People want to know what we're up to, and when they take the time to find out, they usually walk away impressed. We are taking tried and true principles from the private sector and putting them to work in a small, frontier community and the results speak for themselves – for every dollar of our taxpayer's money we spent in 2017, we raised \$40 in external funding. The net result? We made more money in external investment last year than from all local revenue sources combined.

We are diversifying our investments through a portfolio of projects because we have a portfolio of problems. If we only had one problem, we'd only need one solution, but the problems facing our community are many, so we are taking a multi-pronged approach to make smarter investments and better business decisions. We believe these choices will yield lasting results and will create real economic value – value that can be measured in improved financial health, more efficient public services and better quality of life for our residents.

For the remainder of this budget message, I am going to address specific projects we will be financing next fiscal year. Tabs provide additional detail for some of the more important or more complicated transactions. The majority of the budget message describes specific changes we are making to our individual funds, but first, I am going to talk about some of the changes in this year's budget. Most of these changes were driven by our successful fundraising strategy and recommendations the city council adopted, which will have a significant effect on our financial position in the future.

New Program Revenue

Last July, we requested and received a special appropriation from the 2017 Oregon Legislative Assembly for \$1,836,000 to improve broadband connectivity in John Day and throughout Grant County. We also received \$420,000 to operate the 9-1-1 Center. In addition, we applied for and received a total of \$422,500 in grant funding to kick-start the planning and development of four new capital improvement projects – the John Day Innovation Gateway, the John Day Urban Renewal Agency, the Grant County Digital Network and Main Street Revitalization. I will discuss our future financing and investment strategy for these projects and others throughout my budget message.

When combined, these sources totaled \$2,678,500 in new income for our community, at a cost of \$1 of local spending for every \$40 of external investment capital we raised (Table 1). None of these grants constitute an unfunded mandate, which is a statute or regulation that requires a state or local government to perform certain actions with no money provided to fulfill the requirements.

Table 1. Investment capital raised during FY2017 with projected city match

Program	Funding Agency	Amount	City Match
Broadband Network Modernization	State Legislature	\$1,836,000	\$0
9-1-1 Dispatch Operations	State Legislature	\$420,000	\$0
Transportation Growth Management	ODOT / DLCD	\$200,000	\$25,000
Main Street Revitalization	Oregon Main Street Program	\$100,000	\$20,000
New Wastewater Treatment Plant	IFA / OWRD	\$70,000	\$20,000
Housing Development Technical Assistance	DLCD	\$38,500	\$0
Oregon Pine Cleanup (Phase 2)	DEQ	\$9,000	\$1,000
Oregon Solutions Survey	Ford Family Foundation	\$5,000	\$1,500
Total		\$2,678,500	\$67,500
<i>Leverage Ratio:</i>		<i>\$40</i>	<i>\$1</i>

Not all of our effort has gone toward new fundraising. This year, I began a comprehensive financial assessment of the city by evaluating each department's revenues and expenditures and making recommendations to the city council to improve our financial position. The assessment resulted in three recommendations, which the city council approved.

- 1) Secure a \$2.1M low-interest loan to consolidate outstanding debt obligations and secure funds to complete the construction of the fire hall.
- 2) Discontinue 9-1-1 as a city-provided service by June 30, 2019 and transition it to a new jurisdiction.
- 3) Rebalance public safety spending and service levels to more closely align with general fund revenue.

Long-term Debt Consolidation

The Washington Federal loan consolidation, issued at 3.34%, was a complex transaction that took several months to complete. It was approved by the city council through two resolutions. The first resolution (18-784-08) authorized the consolidation of two existing loans, one for the west end water system improvements and the other for the airport industrial park. The second resolution (18-785-09) authorized the city to add an additional \$300,000 to complete the fire hall. The loan consolidation saved the city \$350,201.55 in interest payments and fees, which we would have incurred but for the consolidation (Table 2). These savings will be realized over the next five years. More importantly, the city will be able to pay off all of these outstanding debt obligations by December 2022 – six years earlier than planned under the original amortization schedules.

Table 2. Summary of Washington Federal Loan Consolidation, closed on April 27, 2018

Line Item	Payoff	Expected Interest + Origination Fees	New Interest + Origination Fees	Net Savings (Cost)
Loan B02002 (Water System Improvements - West End)	\$555,597.94	\$132,889.35	\$71,783.51	\$61,105.84
Loan L03055 (Airport Industrial Park)	\$1,234,449.27	\$372,271.01	\$159,491.41	\$212,779.60
Burch/Lang Note payoff (Fire Station Land)	\$62,104.56	\$7,594.19	\$8,023.94	\$(429.75)
Additional for fire station	\$300,000.00	\$146,306	\$38,760.14	\$107,545.86
Bank and Bank Counsel fee	\$10,000.00		\$10,000.00	\$(10,000.00)
Oregon State Treasurer/MDAC fee	\$800.00		\$800.00	\$(800.00)
Bond Counsel fee	\$20,000.00		\$20,000.00	\$(20,000.00)
Total	\$2,182,951.77	\$659,060.55	\$308,859.00	\$350,201.55

The loan consolidation will allow us to complete the construction of the fire hall without requesting more money from our residents. We also avoided \$97,545 in expected interest and an additional \$10,000 in origination fees by not having to do a separate, 20-year loan to complete the building. This saved the city \$107,545 over the life of the loan and gained several months on the construction timeline. As a result, Kirby Nagelhout will be able to resume work on the fire hall on July 9 and we expect it to be move-in ready by September 30 of this year. Finally, the consolidation resulted in the city having only one creditor for these loans, which simplifies annual payments and financial reporting.

The \$300,000 cost for the fire station will be paid in full by December 2022, however, this will require an interfund loan from the Water Fund to the General Fund so that the city fire department and John Day Rural Fire Protection District can pay back the loan over a ten-year and twenty-year period, respectively. These interfund loans are necessary because neither department has sufficient net working capital or annual tax revenue to pay off the loan in five years. Payment on these interfund loans is included in this year's budget and requires an authorizing resolution from the city council. At its discretion, the council can choose to extend the loan to its 10-year maturity. Continuing to maturity would only be necessary in the event of unforeseen circumstances.

9-1-1 Center Transition & Public Safety Spending

We are in the process of rebalancing our public safety spending to bring it more in line with what other communities spend in eastern Oregon. Successfully transitioning the 9-1-1 Center to a new jurisdictional authority is critical to this process. The State Legislature approved \$420,000 in House Bill 5006 to help the City accomplish this goal. By June 30, 2019 we expect the 9-1-1 Center to be operating under a new organizational structure in Grant County that is independent of the city; it may also be in a new location. These changes are expected to result in \$20,000 - \$30,000 in annual savings for the city beginning in FY20.

Police spending will be brought closer in balance with projected revenue over the next three years. The city will discontinue its law enforcement services to Prairie City on June 30 and will no longer provide victims assistance services to Grant County. Our focus will be on policing John Day and providing law enforcement services for our residents. These changes are expected to result in a significant reduction in calls for service, less wear and tear on our vehicles, and improved response times and quality of service for John Day taxpayers. The police department also has a new look due to the fleet upgrade to our vehicles this year, which the budget committee approved last year as an expenditure in our Motor Pool fund.

2017 Solar Eclipse and Future Event Planning

The City earned nearly \$75,000 in revenue from the 2017 Solar Eclipse. The majority of this revenue was in campsite reservations. City staff also volunteered their time to sell t-shirts, glasses and other merchandise to visitors. This also proved to be an excellent opportunity to discuss some of our city projects and the exciting things happening in John Day. Net of expenses, the city realized approximately \$50,000 in profit from this event – making it our eighth highest source of income.

We learned two things from the Solar Eclipse. First, it is a lot of fun to host events in our community. Our residents, businesses and visitors had the opportunity to interact with people from all over the world who loved coming to John Day. Second, we can make money by hosting events – money that can be spent to improve our community and provide services we would not otherwise enjoy.

I have reserved the \$50,000 in revenue for a special purpose. City staff and community volunteers have worked closely with the John Day/Canyon City Parks and Recreation District over the past eight months to develop a

proposal for a new John Day playground and splash pad. The Parks & Recreation District has committed \$50,000 in matching funds for this project. They have asked the City of John Day to do the same. The Oregon Department of Parks and Recreation (OPRD) would fund the remaining cost for the proposed \$350,000 playground through a grant, which the Parks & Recreation District has applied for (Tab #1).

John Day does not currently have a playground for children of all ages that is ADA-accessible. This project is in line with our Strategy for Growth, is a joint effort between the City and the Parks & Recreation District, and would be an excellent use of the funds the City was able to raise from the 2017 Solar Eclipse.

The John Day Innovation Gateway

Last May, the city council secured funding through Business Oregon's Infrastructure Finance Authority to purchase the former Oregon Pine mill site. Over the past twelve months, we completed both a Phase 1 and Phase 2 Environmental Site Assessment of the property. On February 14, 2018 the Oregon Department of Environmental Quality issued a No Further Action Determination for the site (ECSI No. 2739). As a result, this former brownfield is now ready for redevelopment.

We are proposing to create an 80-acre innovation center called the John Day Innovation Gateway. The central feature of the gateway is the new wastewater treatment plant, a water reclamation facility that will reclaim over 80 million gallons of water per year. This water, which currently flows into the ground, will become an economic asset that we have never had before – a marketable commodity the city can sell to generate profits and reduce costs to our sewer customers. We can also reuse that water to create a greenway along the riverfront and as an incentive to attract and retain high growth industries like controlled environment agriculture and torrefied biomass. These industries will bring in private sector capital, create new jobs and ultimately increase both our economic resiliency and our local tax base to fund city services. The conceptual framework for this business model is enclosed (Tab #2).

The area planning and design of the Innovation Gateway will begin in July 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). The grant will be administered by DLCD, who will award a contract in June 2018 to a multidisciplinary team of planners, civil engineers and landscape architects. The scope of area planning project includes brownfield redevelopment, active transportation and park design, riverfront engineering and regulatory frameworks. Our idea 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 and economically-viable, and community-supported.

The proposed concept makes the John Day River the central feature of the development (Tab #3). It reorients our development toward the river in order to enhance the beauty and economic value of the city as a riverfront community. The purchase of Oregon Pine gives us the opportunity to create a world-class destination location that will benefit our local residents and attract visitors to our area for the Kam Wah Chung heritage site, to tour our reclaimed water facility and to experience a frontier, eastern Oregon community.

The first major investment at the gateway is a 6,000 square foot commercial greenhouse, which will be owned and operated by the City. This project is also funded by Business Oregon. The greenhouse will initially operate on fresh water but will be converted to reclaimed water once the wastewater treatment plant is complete. It has been designed to grow over 31 tons of fresh produce annually, which will be sold in local markets. The greenhouse construction will begin this summer. Sample renderings for the design of the first greenhouse are enclosed (Tab #4).

The John Day Urban Renewal Agency

A key component of our Strategy for Growth is to create new housing and improve our existing housing stock. In June, the city council will adopt an ordinance creating the John Day Urban Renewal Agency. This agency will guide investments in housing development by offering a seven percent cash rebate on new home construction and a 15 percent cash rebate on major remodels. These incentives will be financed through our Community Development Fund and will be recovered through increased property tax receipts. DLCD funded the creation of the agency, which will begin operating in June 2018.

The Grant County Digital Network Coalition

John Day, Seneca and Grant County have joined forces to create a new intergovernmental agency, the Grant County Digital Network Coalition. The agency was lawfully organized on April 10, 2018 through an ordinance of the city council (Ordinance No. 18-171-01). The purpose of the agency is to promote economic development within Grant County, surrounding communities and their respective jurisdictions through development of a publicly-owned digital broadband network.

The mission of the Coalition is to help provide better broadband access to more residents at a lower price. Our approach is to leverage state and federal funds, in collaboration with organizations like the Oregon Fiber Partnership and the Oregon Broadband Advisory Council, to reduce the cost of the fiber optic infrastructure that connects our residents to the main internet. We do not intend to become an internet service provider or to provide internet services direct-to-consumer. Our goal is to reduce the capital expenditure to the private sector and create open access infrastructure that can be used by our existing broadband companies and new companies to expand their services to our residents. In effect, we are creating a market road – a digital highway that is open to anyone who wants to use it. Rather than competing with the private sector, we are building infrastructure that can be used by both public and private agencies in a true public-private partnership business model.

The Coalition's first project will be the construction of a fiber optic network between John Day and Harney County. Initial funding for the project was provided by the state legislature and was appropriated by the city council in 2017. This month, we will apply for an additional \$3M in federal funding through the USDA Community Connect Grant. Our state funding will be used to meet the match requirements for this project. John Day, as the lead agency in the Coalition, will manage the Coalition's finances and will manage the grant funds we receive. The city council has created an Information Technology (IT) Fund in our budget for this purpose.

Main Street Revitalization

Grant proceeds received in 2017 enabled the creation of a new department in the General Fund for Main Street Revitalization. These funds were received through the Oregon Main Street Network, which manages the program for the state through OPRD. The Main Street Revitalization Grant at the state level doubled in size this past legislative session. As a result, they now have \$5M in funding for grants that will be available in 2019.

The City of John Day is currently at the lowest level of the Oregon Main Street Network (Affiliate Level). The next level is Exploring Downtown. It requires a greater commitment from us but will also put us in the hunt for additional grant funding for downtown revitalization. Councilor Adair is leading an effort for the downtown merchants, in conjunction with the Grant County Chamber of Commerce, to create new opportunities for Main Street investments based on this grant funding, local match from the city, and investments from our business owners. Specific projects eligible under this program are façade improvements, major renovations to existing structures, and mixed-use development. We have created a department in our General Fund budget to manage these investments so that it is clear to our residents how these funds are received and expended.

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 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, 2018, and ending June 30, 2019 (Tab #5).

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 fiscal years 2015-16 and 2016-17. The third column reflects the adopted budget figures for fiscal year 2017-18.

The last two columns pertain to the upcoming fiscal year 2018-2019 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 new 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 in order 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 FY18-19 appointed budget committee members.

Table 3. FY19 Budget Committee Members

Committee Member	Appointed	Re-appointed	Term Expires
Ron Hasher	2004	2016	2019
Mike Miller	2011	2017	2020
Tom Olson	2017		2020
Robert Raschio	2017		2020
Vincent Maurer	2018		2021
Katrina Randleas	2018		2021
Beth Spell	2018		2021

Included in your budget packets is the *Budgeting Basics* article (Tab #6) 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 auditor, Kent Bailey of Guyer & Associates, regarding the fiscal year 2017 audit report. You will find the minutes of this meeting in your budget packets (Tab #7).

BUDGET DETAIL

BASIS FOR DETERMINING PROPERTY TAXES

The proposed property tax revenue is based on estimated 2017-2018 assessed valuation of \$100,015,746, times our permanent tax rate of \$2.9915/\$1,000 of assessed value, giving us a total of \$299,197.10. When we subtract loss due to Measure 5 compression (-\$192.20); Gain/loss from Ext (\$0.21); the Grant County Assessor estimates total taxes to be received for the City of John Day at \$299,005.11. We estimated uncollectable at 11%, leaving a total budgeted property tax of \$266,290.

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 three outstanding debt obligations. These are: (1) the Fire Hall Bond; (2) the Washington Federal Loan; and (3) the IFA loan for the wastewater treatment plant.

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.

The Washington Federal Loan Consolidation, discussed previously, resulted in \$2,182,951.77 in consolidated debt at 3.34% interest. This loan will be paid in full by December 1, 2022 (Tab #8).

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 28 payment remaining (Tab #9).

The City intends to originate a loan for \$350,000 to construct the new greenhouse during the coming fiscal year, also through Business Oregon. Loan terms are being finalized, but we have included this amount and an anticipated debt payment in our Sewer Fund budget for this loan. The City may also originate a loan for up to \$200,000 (less grant proceeds) to complete the hazardous materials abatement and draft stopping.

PERSONNEL SERVICES

The City has the ability to control personnel costs internally through a number of mechanisms: by the number of staff we choose to employ; by the services we choose to provide; through direct and indirect compensation; and by consolidating and outsourcing services. Technology can also be an enabler for cost efficiency gains in both staff time and personnel expenditures by reducing the number of manual labor hours needed to perform a task.

What is not controllable are the external impacts of PERS and health care costs, which put pressure on cities to request more cost sharing in health care, seek wage concessions or seek additional revenue sources. These external costs are growing at a faster rate than the City's revenue. This is not financially sustainable.

As a result, I began implementing several changes to our personnel services to both increase revenue and reduce the City's costs. I will continue to make staff changes in personnel services until the cost and revenue projections are more balanced.

The City completed a total compensation analysis in April 2018. Total compensation is defined as direct compensation (salary, overtime and leave payments) plus their indirect compensation (medical/dental benefits; life insurance and health savings account contributions; retirement; and state and federal benefits payments).

Results will be presented to the city council later, but generally, showed most of our staff are compensated below market compared to our near-peer cities. The City cannot afford to make immediate adjustments to bring our compensation in line with market rates. However, we can use a phased approach to implement specific changes.

Among the changes we are contemplating are:

- Converting all management and department heads to salaried (overtime exempt) status;
- Adding two additional paid holidays (Martin Luther King, Jr. Day and the day after Thanksgiving);
- Making one-time adjustments to staff paid significantly below market;
- Restructuring our salary tables and/or eliminating tables altogether;
- Converting from the current four-category system of sick leave, paid vacation, holiday and comp time to one leave category for paid time off (PTO);
- Capping total leave hours to reduce unfunded compensation liability; and
- Creating flexible work schedules within a thirty day pay period to reduce overtime (currently calculated by week or by shift, depending on the department).

Flexibility has been built into the budget in anticipation that some of these changes could be implemented in the coming fiscal year.

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:

- 4% increase in audit expense
- \$50,000 line item appropriation for matching funds on new playground and splash pad – to be spent only if the Parks & Recreation District receives the OPRD grant and commits their funds
- 15% increase for property/auto insurance
- Line item increase for other professional services

Police (Fund 01; Dept. 030). Because we were not meeting our expenses with sufficient revenue from covering Prairie City or from the District Attorney's victims assistance support we have terminated those agreements for next fiscal year and reduced our base funding in the budget to three full-time officers plus paid reserves. However, we have budgeted for a fourth officer with no paid reserves in the event the school district requests a School Resource Officer (SRO) for Grant Union High School.

Fire (Fund 01; Dept. 050). The Construction Manager/General Contractor (CM/GC) contract for the construction of the new fire station was completed in 2016. Due to budget constraints, the City was unable to complete the administration side of the project under the CM/GC contract. The City has budgeted \$320,000 in capital outlay this budget to complete the offices and the showers for the firefighters, with the Rural Fire District budgeted to reimburse the City for 46% of the cost. The John Day Fire Department will make payments to the water fund under an interfund loan over a ten-year period. The John Day Rural Fire Protection District will make payments to the City of John Day for their share of the cost over a twenty-year period.

Main Street Revitalization (Fund 01; Department 090). This is a new department within the General Fund for Main Street Revitalization revenue and expenditures. We have budgeted minimal administrative costs to this department and allocated up to \$200,000 plus origination fees for a loan in the event it is needed to complete the renovation of the Weaver building.

WATER – FUND 02

The most significant changes in the Water Fund are for new meter reading equipment, replacement of telemetry equipment, and a savings account we have created 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.

Changes to the Water Fund as follows:

- Water sales projected at \$575,000 due to potential incorporation of Grant Union High School
- \$43,815 revenue received as debt payment from fire departments
- \$170,000 savings in unappropriated for future WaFed debt payments
- \$100,000 savings for meter replacement

SEWER – FUND 03

Portland State University (PSU) completed a local income survey in March 2018. The survey identified over 57% of John Day and Canyon City residents as low-to-moderate income households. As a result, we are now eligible for community development block grants (CDBG). Up to \$2.5 million in CDBG funds can be used to pay for construction of the new wastewater treatment plant. The update to our wastewater facilities master plan will be completed in July 2018 and we will immediately begin planning and design for the new facility. We have budgeted \$240,000 to begin the engineering process.

Changes to the Sewer fund as follows:

- \$240,000 in sewer system improvements for the new treatment plant at Oregon Pine

- \$120,000 savings in unappropriated for future WaFed debt payments
- \$55,000 WaFed debt refinance principal + 21,000 interest
- \$13,000 Greenhouse principal + \$11,000 interest for anticipated loan on first greenhouse

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 FY18-19 is budgeted at \$305,102. 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:

- \$6,000 for new alarm ringer
- 15% increase for insurance and utilities
- \$8,000 for new drying oven
- \$2,000 for new testing equipment
- \$10,000 for chemicals (due to market price increases)

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 extension of Canton Street (terminating in a cul-de-sac) and acquisition of land and public right of way to improve bicycle and pedestrian-oriented transit options around the Innovation Gateway. A \$50,000 special cities allotment grant will offset a portion of this cost.

The city council also chose to issue a stop-work order on the US 395-sidewalk extension between SW 6th Avenue and Grant Union High School. The cost of the project exceeded its value and it would have put too much strain on the Street Fund to complete.

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 not budgeted to receive any funds from the County in the proposed budget; however, we were notified that we will receive approximately \$160,000 in timber receipts this year and are projected to receive them again next year. These funds will remain unappropriated until next year's budget.

With these changes, the Street Fund is projected to have a net working capital balance of \$370,669 for FY18-19. The fund also has an operating contingency budget of \$50,000 for unanticipated expenses.

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 \$4.7M in this fund for capital outlay in FY19 based on anticipated grant revenues.

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. We have budgeted for system development charge (SDC) payments in FY19 but do not expect to issue housing incentive rebates until FY20. Details of the administration of that program will be provided in the John Day Urban Renewal Plan and Report, which will be published in June 2018.

MOTOR POOL – FUND 26

This fund covers motor vehicles expenditures for all city departments. The most significant change to this fund is the inclusion of the new city shop, which was purchased as part of the Oregon Pine property. The shop will house public works vehicles and city maintenance equipment. It was transferred to this fund from the sewer fund because it is a multi-purpose building. We have budgeted \$100,000 in expenditures in FY19 to make improvements to the shop so that the old shop (located at the current treatment plant) can be discontinued. The fund will also pay the matching funds cost for the Transportation Growth Management grant because that area development plan affects multiple funds and 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 Grant County Communications Agency was reorganized in April 2018. The agency will begin management of the 9-1-1 Center next year through the intergovernmental council (IGC), which includes representatives of each city and fire district in the county. We have budgeted for increased personnel and equipment expenditures as a result of the transition from a city department to the new organizational structure. This transition will be completed by June 30, 2019.

The future location of the 9-1-1 Center has not been determined. The IGC may request that we continue to house the 9-1-1 Center as a tenant in our city hall for a time. Alternative locations have been discussed and are being evaluated by the IGC, including the possibility of moving the 9-1-1 Center to our fire hall. We have budgeted \$90,000 in capital outlay if this were to occur. If the Center should move to a different location, these funds will not be expended this year and will be used to pay our portion of the future operating expenses of the agency. These expenses are estimated to be approximately \$45,000 per year and will begin in FY20.

Additional changes to the 9-1-1 Fund as follows:

- 15% increase in utilities and insurance
- \$5,200 for computer aided dispatch (CAD)
- \$24,426 equipment replacement (used to balance fund)

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 \$106,640 in net working capital for FY18-19, down from \$118K last year. This is due to increased leave time used by the employees.

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 three 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.

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 \$11,555,027 for the City’s operating budget, which is up from the current year budget of \$10,527,981. This increase is increased revenue and grant proceeds that will be used for our new capital improvement projects.

This budget is a continuation of our Strategy for Growth (Tab #10) and the city council's strong desire to revitalize our economy while preserving our rural 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 all of 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,

A handwritten signature in blue ink, appearing to read "Nick Green", with a stylized flourish at the end.

Nicholas Green
City Manager/Budget Officer