



To: John Day Budget Committee
From: Nicholas Green, City Manager
Date: April 6, 2021
Re: FY22 Budget Message

The first budget committee hearing is scheduled for Tuesday, April 20th, 7 P.M. at the John Day Fire Hall. If a second hearing is needed, it will be held on May 4th at a time and location to be determined.

It will likely take some time before the effects of COVID-19, both positive and negative, reverberate through our community. We've seen significant drops in tourism and tourism-related revenue statewide, but these decreases take time to hit our budget (for example, in the form of reduced fuel tax receipts). The state and federal governments were slow to respond to local government needs, and the CARES act did little in the way of financial aid for our city.

Total COVID-19 relief funds received for the City totaled \$52,796.81, or about \$30 per resident. These funds were expended on community broadband projects such as aid to Humbolt Elementary to help them with distance learning, for public safety measures, and for assistance for local food security measures. A portion of the funding was also used to create a socially distanced front lobby entrance for City Hall.

We are, however, more optimistic about the recently passed American Rescue Plan. Unlike the CARES Act, this plan allocates direct financial assistance to local governments that cannot be redirected by state agencies. The City's programmed allocation under the Plan is \$340,810, which will be received in two installments – half this year and half in approximately 12 months. We have not yet seen the grant agreement or full guidelines from the Department of Treasury on how these funds may be expended, but we know the funds can be specifically authorized for the following uses:

- To respond to the pandemic or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- For premium pay to eligible workers performing essential work (as determined by each recipient government) during the pandemic, providing up to \$13 per hour above regular wages;
- For the provision of government services to the extent of the reduction in revenue due to the pandemic (relative to revenues collected in the most recent full fiscal year prior to the emergency);
- To make necessary investments in water, sewer, or broadband infrastructure.

We are allocating \$180,000 of these funds this fiscal year to the Community Development Fund, from which it can be expended on various projects to benefit our community. We are waiting to receive additional Treasury guidance before making a more specific allocation for the coming fiscal year. We will budget the remaining funds received under the plan through a supplemental budget process or as part of next year's budget depending on the timing of the receipts and needs of the city.

Over the past five years we have launched a series of integrated initiatives aimed at improving and revitalizing our community. These initiatives have been adopted after holding many public hearings and working groups with our advisory committees, commissions and residents. They include efforts to repurpose the old Oregon Pine Mill site as the John Day Innovation Gateway; create new riverfront parks and trails; plan for our pool replacement; create new home incentives; spur private investments in a new hotel, event center and retail establishments, and; fund new community broadband, wastewater treatment and other public works projects. These initiatives are discussed in detail in this year's budget (**Tab 2**).

We have completed our land acquisitions to increase downtown parking and to create a new 14-acre business park at the Innovation Gateway, along with new right-of-way acquisitions and other street improvement projects to facilitate housing expansion at the Ironwood Estates subdivision. These investments are part of our Strategy for Growth and Community Investment Strategy to rebuild our economy and ensure we have a 20-year supply of buildable residential, commercial and industrial lands. We do not anticipate any new land acquisitions as part of this budget.

We have proven to be highly adept at financing our investment strategy. To date, we have been awarded 29 grants valued at \$13.4 million, which includes \$750,000 in additional grant funding for the new wastewater treatment plant and \$40,000 for new signage and restrooms downtown received this year. An additional \$2 million has been requested from the EDA to complete fiber to every premise in the city that currently lacks high speed internet. Furthermore, over two million in grant funds has been requested from Business Oregon for the new treatment plant. A summary of the grants received and requested to date is enclosed (**Tab 3**).

We have continued our pattern of community-wide investing by partnering successfully with other public agencies, non-profits and private companies. These include: the John Day/Canyon City Parks and Recreation District to build the new Hill Family Park; Grant County Digital and OTC Connections to raise funding for broadband, and; the Grant County Court to increase entrepreneurial activity and tourism through Oregon RAIN and the Fairgrounds Master Plan. The City has requested \$400,000 in funding from Grant County to assist with the 4th Avenue (Airport Road) repairs project. We have submitted an additional \$14 million in legislative funding requests for various capital improvement projects, including the Innovation Gateway, new wastewater treatment plant, community broadband, the new Kam Wah Chung interpretive center, and the Gleason Pool replacement. These legislative funding requests are not included in the current budget but will be determined during this legislative session. If awarded, they will be added through resolutions or a supplemental budget process.

While we will continue to fund and invest in these projects as grant funds become available, we must also recognize the cost of operating basic public services that are locally-funded has continued to increase

throughout this pandemic, while state shared revenue is flat or declining. We cannot use special purpose grant funds to offset operating costs in other departments. And unlike the federal government, local governments cannot run budget deficits under Oregon State law. Our expenditures must be equal to or less than our revenues. If revenues decline, we can transfer funds for a period of only 12 months in order to offset operating budget shortfalls. This is an interim solution but one we can only use if revenues are expected to increase again within a 12-month period, which they are not. As a result, we need to plan to decrease *operating expenditures* going into FY22 or increase local *operating revenue* through a local option levy, even as we plan to increase *capital expenditures* for our public works projects as grant funds become available.

This distinction between operating and capital expenditures is important. Most of our General Fund operating revenue comes from local property taxes, franchise fees and state shared revenue. These revenue sources fund general operations for the year they are received with very little left over at the end of the year. Our capital expenditures, on the other hand, are long-term, strategic investments that are funded through enterprise revenues (water and sewer receipts) or through grants and loans. These funds are restricted for their specific, intended uses. They cannot be directed toward general operating expenses.

Our revenues from utility customers and grants will increase in FY22 as a result of rate increases and new development, while our cost of capital (interest rates and fees) has decreased due to state and federal stimulus. We are well-positioned to take advantage of these optimal conditions for financing our capital improvement projects and have already seen the benefits of reduced interest rates as cost avoidance for the new wastewater treatment plant.

Our forecasted revenues for the General Fund, and specifically the Police Department within the General Fund, will not cover our budgeted operating expenses. I am therefore showing two budget proposals: Option 1) to transfer the law enforcement function to Grant County effective September 1, 2021; or Option 2) to hold a special election to propose a five-year operating levy to retain the Police Department. Both alternatives are discussed in detail in the General Fund section of this report.

City staff have not received a cost of living adjustment in two years. Therefore, we are proposing a one percent cost of living increase for FY22. I am also proposing to restore staff levels that were reduced last fiscal year to cover the backlog in planning and development activities that accrued during FY21 due to staff working reduced hours.

Because we are aiming at a moving target, we will be prepared to make further reductions, including the hours of operation at City Hall and staff furloughs, if they become necessary. The long-term economic impacts of COVID-19 are difficult to anticipate. We will work closely with the city council to ensure our financial house is in order by monitoring revenues and expenditures on a monthly basis and making quarterly evaluations on additional cost reductions based on funding received.

Thank you for contributing your time to this process. Our community is stronger when we work together to achieve results that endure.

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 documents present this information for the City of John Day for the fiscal year beginning July 1, 2021 and ending June 30, 2022 (**Tab 4A = Police Transition to the County Sheriff (Option 1); and Tab 4B = Police Retained with a levy (Option 2)**).

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 FY19 and FY20. The third column reflects the adopted budget figures for FY21. The last two columns pertain to the upcoming FY22 budget. The column titled “proposed” contains the budget that I am submitting to the John Day Budget Committee for review. This data is 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 1 shows the FY21-22 appointed budget committee members.

Table 1. FY22 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
Katrina Randleas	2018	2021	2023
Beth Spell	2018	2021	2023
Sarah Brown	2021		2024
<i>Vacant</i>			

Included in your budget packets is the *Budgeting Basics* article (**Tab 5**) 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, our 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 take into consideration comments received from the city's auditors regarding the FY20 audit report, available on the Oregon Secretary of State website and the cityofjohnday.com website.

BUDGET DETAIL

Basis for Determining Property Taxes

The proposed property tax revenue is based on estimated FY21 assessed valuation of \$111,984,149 less the Urban Renewal Agency assessed value of \$3,387,067, times our permanent tax rate of .0029915 of assessed value, giving us a total of \$324,868.17. When we subtract loss due to Measure 5 compression and Gain/loss from Extension. The Grant County Assessor estimates total taxes to be received for the City of John Day at \$324,877.22. We estimated uncollectable at 11%, leaving a total budgeted property tax of \$288,952.

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 six outstanding debt obligations for FY22 and one new debt obligation is proposed for the wastewater treatment plant project, which is carried forward from last fiscal year, discussed further in the Sewer Fund section on page 10. No additional debt is assumed in the budget provided the City receives financial assistance from Grant County on the 4th Avenue (Airport Road) repairs project, discussed further in the Street Fund section on page 11.

- 1) **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.
- 2) **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.
- 3) **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 25 payments remaining.

- 4) **Greenhouse loan.** The City originated a \$350,000 loan at 3.43% interest to construct the greenhouse, also through Business Oregon. Annual payments are \$21,074.90, with 23 payments remaining.
- 5) **Brownfield Redevelopment Loan.** The city council approved a new loan commitment in FY21 for \$595,000 at 2% interest through Business Oregon's Brownfield Redevelopment Fund. This loan, of which \$60,000 is forgivable, allowed us to purchase and reclaim 16 acres of underutilized land from Iron Triangle and Russ & Tara Young to build the new Government Entry Road and Innovation Gateway Business Park. This development was approved by the John Day Planning Commission on November 18, 2020. Brownfield remediation, site cleanup and redevelopment are underway per the approved plan (**Tab 6**). Loan proceeds will be repaid in part through land sales from the resulting lots.
- 6) **Business Oregon Water/Wastewater Loan.** The city council passed Resolution No. 21-857-05 on March 23, 2021 authorizing and approving a loan from Business Oregon of \$1,750,000 for 30 years at 1% interest and a grant of \$750,000 for the new wastewater treatment plant. These funds are budgeted for expenditure on the new plant procurement next fiscal year.
- 7) **USDA Rural Development Loan (Pending).** The City is currently applying for up to \$7.4 million in grant and loan funds through USDA Rural Development. These funds were included in the FY21 budget but are not expected until next fiscal year. The proportion of grant to loan funds has not yet been determined by USDA, however, this loan will pay the Sewer portion of the WaFd consolidation loan and the balance of the Gateway project loan as part of the treatment plant replacement project.

Intergovernmental & Interdepartmental Loans

The City has one intergovernmental/interdepartmental loan currently and one proposed for this FY.

- 1) **Fire Hall Renovation Loan.** The city council approved a ten-year loan of \$367,340.56 in July 2018 from the Water Fund to the General Fund to pay for the completion of the Fire Hall. The balance owed to the Water Fund is \$264,450.56 with seven (7) payments remaining. This loan will be paid in full on December 1st, 2027.
- 2) **URA SDC Loan.** We are proposing to loan \$100,000 of the City's SDC revenues to the Urban Renewal Agency in FY22 to help finance water and sewer improvements at the Ironwood Estates Phase 2 development. This loan will be repaid within ten years at a variable rate of interest (currently proposed at 0.5%) from the tax increments resulting from increased assessed values of the new homes and infrastructure built at this development.

General Fund – Fund 01

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 wages and salaries/benefits to fund a full-time planning associate (reduced to part-time in FY21)
- Increased audit expenses to cover single scope audit (required for federal funding)
- 15% increase in electricity
- 15% increase in insurance
- \$10,000 reduction in legal expenditures due to fewer General Fund-financed projects
- \$5,000 budgeted in capital outlay for building improvements

Option 1) Police Transition to County Sheriff

- \$50,000 transfer to Community Development Fund for community projects
- \$68,394 retained for operating contingency (if needed/no planned expenses)

Option 2) Police Department Retained

- No transfer to Community Development Fund for community projects
- No operating contingency

Police (Fund 01; Dept. 030). The cost to keep a four-man police department plus volunteer reserves has significantly out-paced revenues. Chief Durr is retiring on September 1st and we will need to recruit a new Chief if we are going to maintain this department. There are also several bills currently in the legislature that would significantly increase the cost to operate the department. Finally, we no longer have reserve funds from the 9-1-1 account (or any other General Fund reserves) to draw on to offset operating costs. As a result, we are evaluating two alternatives for the PD in this year's budget.

Option 1) Transfers the law enforcement function to the County. We are required by state law to fund the three officers we transfer (Sergeant and two officers). Any additional funds next FY beyond the final two months of operating expenses for the staff we transfer would have to be negotiated as a county cannot legally charge any city for law enforcement services without an agreement. **Total Police costs under Option 1 come to \$449,510 – a savings of \$85,916 over this year's budget.**

A summary of costs and revenues for this alternative is:

- \$108,945 for Personnel Services for two months of operations
- \$315,565 for Materials & Services for two months of operations plus a \$250,000 transfer to the County Sheriff to fund three staff positions for 10 months (September 1st, 2021 through June 30, 2022).
- \$5,000 for building improvements to reconfigure this space after the transition for future use
- \$20,000 transfer to Motor Pool to fund vehicles/maintenance (if needed)
- Revenue of \$7,500 for two months of Student Resource Officer (SRO) services to Grant Union
- Interfund Transfer of \$10,223 from Enterprise Funds (5% of personnel budget)

Option 2) Retains the Police Department as a City function. Under this option, we will incur the costs for the new Chief's recruitment, plus we are budgeting for a higher salary (up to \$90,000 per year) and PERS benefits, in addition to health insurance for an individual plus family. **Total Police costs under Option 2 come to \$655,405 – a cost increase of \$119,979 over this fiscal year's budget.** (These costs would be offset by \$37,500 in additional SRO revenue, bringing the total budget deficit for the department to \$82,479 for FY22, but require a larger transfer from our utility funds to cover the department's cost).

A summary of costs for this alternative is:

- \$513,240 for Personnel Services for a four-man department for 12 months of operations
- \$107,165 for Materials and Services, including \$10,000 to recruit a new Police Chief
- \$5,000 for building improvements (if needed)
- \$30,000 transfer to Motor Pool to plan for vehicle replacement of aging vehicles
- Revenue of \$45,000 for 12 months of SRO services to Grant Union
- Interfund Transfer of \$23,683 from Enterprise Funds (5% of Personnel)

The City Council is holding a town hall meeting on Thursday, April 8th to discuss these options with the public. The Budget Committee will need to determine which option to pursue. The additional budgeted cost for Police under Option 2 will need to be raised through tax increases or budget reductions elsewhere as we cannot meet these obligations with our current funding – the General Fund budget will not balance under Option 2 as presented – it will be \$34,197 short.

A local option levy of five years yielding up to \$75,000 per year in revenue is recommended if we retain the Police Department to ensure the new Chief has sufficient operating revenue to fund the department. This is not the amount we would necessarily need each year, but it would cover us in case of contingencies (i.e. replacement of aging vehicles, loss of an officer due to death or injury, increased costs resulting from state legislation/unfunded mandates such as qualified immunity or officers having to earn a degree, or the loss of the SRO funding from Grant Union) for which we have no reserve funds. If we are going to maintain a police department, we have to ensure they are adequately trained, equipped and staffed. We cannot reduce staffing or equipment to unsafe levels in order to save money – it is not fair to our officers, staff or residents to operate an ill-equipped, under-funded department. Residents are also complaining about higher utility costs for the new treatment plant – and retaining the department needs to include a reduction in Enterprise Fund transfers as these have grown

significantly to cover the costs of the department. Returning these funds will help keep rates manageable for our utility customers.

A summary of the police expenditures and revenues over the past 20 years is enclosed to help the budget committee make an informed decision (**Tab 7**).

Fire (Fund 01; Dept. 050). City will maintain a full-time employee as Fire Chief / part-time public works employee for FY22.

Key notes to the Fire Department as follows:

- 15% increase in electricity
- \$5,000 for new turnouts
- \$5,000 for building improvements in case needed
- Transfer to Water Fund of \$42,992 to pay Fire portion of WaFd loan for building improvements
- Revenue of \$10,835 from 9-1-1 tenant at fire station (\$750 per month + \$130/mo elec.)
- Revenue of \$22,440 from Rural Fire Protection District based on five-year rolling call average

Main Street Revitalization (Fund 01; Department 090). Main Street Revitalization moved to the Community Development department.

Water – Fund 02

We are budgeting a savings line item in Unappropriated 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. The Water Fund is also financing the purchase and redevelopment of the Iron Triangle property for the new Innovation Gateway Business Park. The City has also begun to sell property at the Airport Industrial Park at \$15,500 per lot. The first sale (Lot 17) closed on April 6th. Three more closings are anticipated by June 30th. Approximately 80 percent of the net proceeds from each sale will accrue to the Water Fund as unappropriated net working capital that will carry forward to the next fiscal year.

Changes to the Water Fund as follows:

- \$13,500 increase for chlorine costs
- 15% increase to electricity and insurance
- \$8,100 for lab testing
- \$14,000 for operating supplies (general)
- \$7,000 to replace two fire hydrants
- \$41,789 for water system maintenance (used to balance fund)
- \$78,500 for Capital Outlay (property improvements including site prep for street paving and final brownfield remediation)
- \$30,000 SDC transfer as intergovernmental capital improvements loan to URA
- \$35,000 transfer to Motor Pool
- \$6,583 transfer to Police
- \$56,285 for operating contingency

- \$10,000 for interest only payment on Iron Triangle property purchase (principal payments of \$32,700 begin in December 2022)
- \$750,000 in unappropriated for WaFd loan payoff (pays loan in full on Dec 1, 2022)
- Revenue of \$625,000 in Water Sales (no water rate increase budgeted for FY22)

Sewer – Fund 03

The Sewer Fund is not proposing significant changes to the budget from last fiscal year. The new treatment plant construction was delayed in part due to COVID-19 delays and in part due to additional site investigation and analysis required by our state and federal regulators/lenders. The preliminary engineering report is complete and a revised budget has been submitted for approval. The City has applied for \$5.2M through the state for procurement of the new package plant this fall and the balance of the funding for construction is pending with the USDA. We will proceed with construction upon approval of these funds and issuance of a new permit and/or permit pathway concurrence by DEQ. All capital outlay is budgeted in a new department (Dept. 75) specific to this project.

Changes to the Sewer fund as follows:

- 15% increase in electricity, heating fuel and insurance
- \$6,000 to replace a transducer
- \$255,333 transfer to Joint Sewer for treatment plant operations
- \$70,000 transfer to URA for interfund loan
- \$30,000 transfer to Motor Pool (under option 1) or \$25,000 (under option 2)
- \$1,820 transfer to Police (under option 1) or \$8,550 (under option 2)
- \$5,000 operating contingency
- Debt service per our amortization schedules on the Oregon Pine property purchase and WaFd consolidation loan
- Revenue of \$750,000 in Sewer Fees (based on new rate of \$60/mo. effective Jan 1, 2021)

Agribusiness Department (Fund 03; Department 111).

- Moved to Community Development Fund in FY21 at request of Business Oregon loan officer (needed dedicated fund, not tied to enterprise fund for Sewer account)

Project Construction (Fund 03; Department 075).

- New department to track project revenues and expenditures for Wastewater Treatment Plant replacement (estimating \$ 12,314,470 million in capital outlay, but this may increase or decrease depending on bids received for final design and construction)

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 FY21 is budgeted at \$329,412, a \$39,335 increase (13.6%) over this year's budget of \$290,077. The purpose of this increase is to cross-train a new wastewater treatment plant operator to get them certified in wastewater operations so we have continuity of operations when our current operator retires.

Fund 04 does not include capital improvements as future expenditures will be made toward the new treatment plant from the Sewer Fund (Fund 03). The contract with Canyon City to provide wastewater treatment expires this year and will need to be renewed. We are budgeting \$95,000 in revenue from Canyon City for this fiscal year. Beginning fiscal year 2023 we are budgeting about \$122,000 per year (15 percent of operating costs) for a two-year agreement.

Additional changes to the Joint Sewer Facility Fund as follows:

- 10% increase for electricity
- 10% increase for heating fuel
- 10% increase for insurance
- 10% increase for chemicals
- Revenue of \$75,168 from Canyon City (last year of agreement)
- Transfer of \$184,220 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. There are no new projects planned for this year. Continuing projects include the completion of the Integrated Park System, 4th Street Repairs, and Main Street parking improvements. Canton Street paving was completed in FY21 and the Charolais Heights project was awarded to Tidewater and is expected to be completed this fiscal year as well. We will budget for additional grant proceeds requested if they are awarded through a supplemental budget process.

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 \$157,346 from County in the proposed budget, which is funding received last year that was held in unappropriated.

We are also requesting \$400,000 in road reserve funds from Grant County to cover the matching funds requirement for the 4th Street (Airport Road) repair project. If the County declines this request, we will need a loan for this amount to complete the project. We have a legal opinion from the City's attorneys related to the use of Title 1 SRS funds for city projects, which are an approved use, but have not yet received a response from the County on their legal opinion related to our funding requests (**Tab 8**).

Additional changes to the Street Fund as follows:

- 15% increase for electricity and insurance
- \$1,400,000 for 4th Street (Airport Road) repairs
- \$5,000 for downtown parking improvements
- \$228,840 grant revenues from OPRD large government grant (awarded in 2019)
- \$1,050,000 grant revenues from FEMA for 4th Street (Airport Road) Repairs

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 \$3.2M in this fund for capital outlay in FY22 based on anticipated grant revenues and expenditures. These funds will be for the USDA ReConnect grant to build fiber to Monument, Long Creek and Seneca, connecting all county residents and farms/ranches along these routes, plus a full fiber buildout to every premise in John Day (if \$2 million EDA grant is awarded). The EDA grant includes funding for the developing of the CyberMill, a community accessible space with 24/7 access to high-speed internet. It will extend fiber to the newly acquired land for downtown parking and to areas proposed for redevelopment as part of the Innovation Gateway, including the Ironwood Estates housing development.

Debt Service Fund – Fund 09

Fund 09 was new in FY20 and is required for accounting procedures to identify principal and interest payments on the fire hall capital improvement bond. Expenditures of \$56,000 for FY22 are offset by \$56,000 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 like the greenhouse. Administrative wages and salaries are increased to budget for a full-time Community Development Director to manage these programs, if the Ford Family Foundation grant is awarded for a new program called "Growing Rural Oregon (GRO)." GRO is a five-year financial commitment for staff support to promote entrepreneurial business activity.

The new Community Development Director would manage the greenhouse, GRO program, the Urban Renewal Agency, along with other community outreach programs for the City such as partnering with educational institutions to create a greenhouse learning center. The Director would also be the lead for the City's Marketing and Tourism efforts and will manage the transient lodging taxes and Recreation Economy for Rural Communities (RERC) strategy adopted earlier this year. The Director would also be responsible for working with local businesses to expand riverfront recreation and food services, develop a plan to attract entrepreneurs, and seek partnerships to enhance and support existing businesses, with the overarching goal of advancing growth and concentrating resources in our targeted community investment areas: Recreation; Healthcare and Greenhouse Agriculture. This position will only be hired if the GRO program funding is awarded.

Wages and salaries in the greenhouse (Agribusiness) department are reduced to lower the cost of operations. The City is in the process of converting the greenhouse to a community cooperative, which will manage the facility and all produce sales in the future, further lowering our costs will incentivizing broader regional partnerships with growers, food outlets and distributors.

Changes to the Community Development Fund as follows:

Option 1) Transfer Police Department

- \$50,000 for community promotions/projects
- \$14,343 in operating contingency
- \$20,000 transient lodging tax receipts (new local lodging tax)
- \$30,000 Ford Family Foundation
- \$75,000 community development fee
- \$180,000 American Rescue Plan Act funds
- \$50,000 surplus revenue transfer from General Fund

Option 2) Retain Police Department

- \$2,000 for community promotions/projects
- \$12,000 in operating contingency
- \$20,000 transient lodging tax receipts (new local lodging tax)
- \$30,000 Ford Family Foundation
- \$75,000 community development fee
- \$180,000 American Rescue Plan Act funds
- No surplus revenue transfer from General Fund

Agribusiness Department (Fund 10; Department 111).

- \$10,000 decrease in wages and salaries
- 15% increase in electricity and insurance
- \$4,271 for capital outlay for three new ponds
- \$26,400 unappropriated (debt service reserve fund) required for Business Oregon loan
- \$50,000 revenue from produce sales

The Agribusiness Department provided an update to the city council on the greenhouse operations, which is included in the packets (**Tab 9**).

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 for insurance
- \$12,300 for annual payment on 5-year lease for police vehicle
- \$25,000 transfer from General Fund for operating expenses (may need to be adjusted depending on police option selected)
- \$5,000 for building improvements
- \$125,000 revenue via interfund transfers from enterprise funds

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

Fund balance of \$24 will transfer to General Fund. Fund will then 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 a balance of \$144,101 for FY22.

Urban Renewal Agency – Fund 34

This fund is new for FY22 and was requested by our auditors. The URA is considered a blended component unit of the City of John Day. As such, their budget needs to be included in ours, even though the budget committee will need to approve it through a separate budget process since it is a distinct legal entity from the City. URA budget message and budget are enclosed.

ACCOUNTING 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. City contracted with Gaslin Accounting CPAs, PC (Baker City, OR) beginning with the FY19 audit.

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.

SUMMARY

We are budgeting \$22,541,178 for the city’s operating budget (in the Option 1 for police transition to the county), which is up from the current year budget of \$18,458,481 due to increased capital outlay from grant expenditures.

We are budgeting \$22,601,554 for the city’s alternative operating budget (Option 2 for police retention), which has a forecast budget deficit of \$34,197 in the General Fund. The projected increase is the result of the cost to hire a new police chief, the added cost for wages and benefits for the new officer, and maintaining the rest of our staff as programmed in Option 1. A five-year local option levy will be needed to balance the budget under Option 2 because these deficits will continue to increase in the coming years.

This budget reflects a pivotal decision point in our community. We can continue our Strategy for Growth and the city council’s strong desire to revitalize our economy, which will require us to make additional reductions to operating costs while we restructure our economy and place the city’s finances and services on a stable financial base. Alternatively, we can continue to increase spending on public safety and reduce expenditures in community projects. These choices will likely determine the extent of our economic rebound and the pace of our economic recovery.

We have lost over 300 residents in the past two decades in John Day alone, and more than 1,000 in Grant County. There is much work to do to recover these lost residents and build back our infrastructure so that we can leave John Day in an improved financial condition and on a stable growth trajectory. The city council adopted a Strategy for Growth and Community Investment Strategy to help achieve these objectives. This budget funds many of the priorities in the Community Investment Strategy (**Tab 10**).

As a result of our collective efforts, John Day grew by one percent this year – the first time we’ve experienced positive population growth in over twenty years.

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