

**CITY OF JOHN DAY
CITY COUNCIL MINUTES
JOHN DAY, OREGON**

March 11, 2014

Adjourned Meeting

COUNCILORS PRESENT:

Ron Lundbom, Mayor
Steve Schuette, Council President
Gene Officer, Councilor
Don Caldwell, Councilor
Paul Smith, Councilor
Doug Gochnour, Councilor

COUNCILORS ABSENT:

Donn Willey, Councilor

STAFF PRESENT:

Peggy Gray, City Manager
Ron Smith, Fire Chief
Valerie Luttrell, Dispatch Manager

GUESTS PRESENT:

Anna Bass, Oster Professional Group
Amy Walker, Oster Professional Group
Rob Batten, John Day Rural Fire Protection District
Dean Elliot, John Day Rural Fire Protection District
Jerry Daake, John Day Rural Fire Protection District
Bill Wilcox, John Day Rural Fire Protection District
Scotta Callister, Blue Mountain Eagle
Phil Gray, KJDY

Agenda Item No. 1 – Open and Note Attendance

The John Day City Council meeting opened at 7:00 p.m. Mayor Ron Lundbom noted that all Councilors were present with the exception of Councilor Donn Willey who was absent and excused.

Agenda Item No. 2 – Approval of City Council Minutes of February 25, 2014

The minutes of the February 25, 2014 adjourned meeting were included in the agenda packets and presented for the Council's approval. Councilor Don Caldwell noted a correction under Agenda Item No. 1 – Open and Note Attendance; the council meeting began at 6:00 p.m. not 7:00 p.m. as stated in the minutes.

Councilor Gene Officer made a motion that the minutes of February 25, 2014 be approved as corrected; Councilor Steve Schuette seconded the motion. The motion passed unanimously.

Agenda Item No. 3 - Appearance of Interested Citizens

Mayor Ron Lundbom welcomed those in attendance and asked everyone to please sign in. He asked if there were any additional items that anyone would like to add to the agenda. Mayor Lundbom informed the Council that the Rural Fire Board would like to add an item to the agenda entitled a Second Extension to Rural Fire Protection Agreement and that he would add it after Katie Schwab's presentation.

Agenda Item No. 4 – Presentation by Katie Schwab of Wedbush Securities regarding the City of John Day and John Day Rural Fire Protection District General Obligation Bonds, Series 2014

Katie Schwab of Wedbush Securities attended the council meeting by telephone. Her firm has been hired by the City of John Day and the John Day Rural Fire Protection District as their financial advisor for the new fire station project. Ms. Schwab explained to the Council and the Rural Fire Board that her presentation will focus on four primary items of discussions:

- Overview of Municipal Securities Market
- Financing Essential Purpose Facilities
- Pricing Mechanics
- Getting from A to Z: Bond Process

Overview of Municipal Securities Market:

- ⇒ Very large market, interest on municipal bonds is exempt for investor's income tax returns, on the federal side and also on the state side in Oregon.
- ⇒ \$381.5 billion market (10-year average)
- ⇒ Top three uses of funds
 - General purpose
 - Primary and secondary education
 - Higher education
- ⇒ A bond is a legal contract to make payments
- ⇒ It is a regulated security
- ⇒ General obligation bonds gives you the power granted by taxpayers to levy an additional property tax rate to pay debt service
- ⇒ Any other financing vehicle does not have a tax levy; it has to have its own source of revenue

Essential Purpose Facilities:

- ⇒ The Oregon Constitution gives the ability to pay for capital projects within tax limitations; however, within the tax limitations of Measure 5 and 50 it is very hard to use any of that money for capital projects. Given the limitations most local governments use their tax money only for operating purposes.
- ⇒ Fire safety services are not enterprises, so there are no other revenues other than tax support.
- ⇒ GO bonds provide low cost of financing
- ⇒ Investors willing to accept lower yield for pledge of dedicated GO bond levy
- ⇒ City and Fire District approved resolutions for ballot measures
- ⇒ Election – May 20, 2014

Pricing Mechanics:

- ⇒ The City has approved a resolution to put a measure ballot for the May 20, 2014 election for the principal amount of \$655,000; the Rural Fire District has approved a resolution in the amount of \$550,000.
- ⇒ Several things within the City and the Fire District's control
 - Principal amount \$655,000 for the City; \$550,000 for the District
 - Maturity – 20 years (not locked in but we have been using that as our calculation)
 - Payment dates – 6/1 and 12/1 (same for both districts)
 - Structure – level debt service
- ⇒ Several things outside of the City and the Fire District's control:
 - Taxable assessed property values (average change between 3-4%; Wedbush assumed annual assessed growth rate of 2%)
 - Tax collection rates (average county-wide collection slightly under 91%)
 - Market interest rates (very low interest rates; good time to go out for bonds)

Councilor Doug Gochnour asked about the collection rates, what if the assessed value was higher than the projected 2% collection rate; will the City and the District be collecting more than what we need to pay in that particular year?. Ms. Schwab responded stating that as the rate changes; you will be giving the County a dollar amount that you need to levy and then the County will back into what the actual rate will be.

Pulling it all together; based upon the projected growth rate; estimated taxable value and estimated tax collection rate and adding in the interest rates, the City would be paying about \$53,000 - \$54,000 a year over 20 years borrowing on the \$655,000. The estimated levy rate is calculated based on that amount of money. It starts out about 0.62 per thousand dollars of assessed value and decreases over time as assessed values grow at the 2% annual rate. Ms. Schwab stated these are estimated rates; as we know that assessed values don't necessary grow at the 2%. As the assessed values grow; the levy rate will decrease. Consequently, the homeowner annual tax rate will decrease over time. Wedbush used an estimated homeowner property value of \$125,000 assessed value; a homeowner would be paying the City about \$77 for the first year and decreasing down to about \$53 in year 20. Similarly the Fire District would be paying about the same; paying about \$77 in the first year and decreasing down to about \$53 in year 20.

Councilor Doug Gochnour questioned what if a \$5 million industry moved into John Day, what would that \$5 million due to the assessed value? Ms. Schwab responded saying that it would increase the taxable value within your district; therefore, potentially the amount for everyone would get decreased by a tad bit.

How the process works:

- Ballot Measure Resolution – City and Rural Fire District have already done the first step
- Bond campaign – strict rules from the Secretary of State from what elected official can and cannot say and what staff can and cannot say. Once the measure is adopted, we have taken official action, staff cannot promote the bond at all, they cannot even in their off time, they cannot advocate for the bond but staff can give factual information. Elected officials do not have that restriction, they can and should advocate for the measure.
- Election: May 20, 2014
- County has 20 days to certify the levy
- Adopt an authorizing resolution – delegates certain authority
- Choose a date and sell the bonds
- Close and receive funds
- Continue to disclose information to the market place (i.e. commercial banks)

Mayor Ron Lundbom asked if this project will be competitive; Ms. Schwab stated you would go out for an RFP (request for proposals). She stated it will be a challenge going out to commercial banks for a twenty year loan as most banks do not like to go out that long. However, in recent weeks we have been hearing from banks that 20 year bonds are something they would consider.

Ms Schwab explained that 20 year bonds in the public market is common, but not for bank placement. She stated the reason they discussed bank placement for both the City and the Fire District is because our principal amounts each are less than one million dollars. Therefore, to go through the public market would be materially higher than going through a private placement.

Rural Fire Board Chair Rob Batten asked Ms. Schwab when we go out for the RFP could we put in options for duration say 15 and 20 years? Ms. Schwab stated yes, you absolutely can. She stated however, if you give out campaign materials that gives estimates of what the levy rate will be, you have to be very, very careful because that amount will change depending on any variable you change, even the maturity date.

Councilor Gene Officer asked if both bonds have to be bought by the same bank. Ms. Schwab responded by saying no they do not.

Rural Board member Dean Elliott asked if we could solicit our local banks ourselves. Ms. Schwab stated you could; however, they will be sending out an RFP to our local banks. They are putting together a list of banks that they would like to send an RFP to; they will send them to Peggy and Rob to look at. They will include local banks as well as some of the larger banks. For a private placement we can only show the RFP to a certain number of qualified buyers (they call the Qualified Institution Buyers). Ms. Schwab stressed that if you do talk to a local bank, be sure to let them know that we will be sending out an RFP because you don't want to have them think that you made them an offer.

Councilor Paul Smith had a question regarding how they calculated the interest rates. Ms Swab stated that in today's dollars it would be about 5.3%. Mayor Lundbom asked about a prepayment penalty, could we pay the bonds off early. Ms Schwab stated one of the features that are typical in municipal bonds is that after 10 years you can pay off the bonds without any prepayment penalty. In a bank loan you have flexibility that you do not have in the municipal market for a public offering. The options are 1) In the RFP, ask if there are any prepayment penalties prior to 10 years, each bank is structured different and what they offer. 2) You could structure the loan like a home mortgage and pay monthly, you pay more on the principal each month and the overall interest expense will decrease. Those are some of the flexibilities that banks can offer that the municipal markets will not offer. Ms Schwab stated they will include options for the banks to be creative, once the actual RFPs are received the City and the Rural will have to make a decision on which way they want to go; Ms. Schwab stated they will help us in making those business decisions.

Rob Batten asked Ms. Schwab that based on all of the assumptions such as the growth rate, collection rates, and interest rates, are all very conservative and are the worst case scenario. Ms, Schwab responded by stating they hope it is the worst case scenario. They built in 0.50% contingency to allow for changes from today's rates, however, there is no guarantee that rates may not change in excess of that amount. She stated they were conservative in the growth rate by only putting in the 2%; the 91% collection tax rate, they believe is right on based on history. She stated if the market goes up by more than 50 basis points; these numbers will not be accurate. City Manager Gray stated then our message to the public is that these numbers are our best estimate based on the information from the tax assessor. Ms. Schwab stated that is absolutely correct.

Scotta Callister, editor of the Blue Mountain Eagle, questioned earlier the estimates that came out on the tax rate was quite a bit lower, she asked where those numbers came from and how are you going to address the increase to the public.

City Manager Gray stated the City and the Fire District hired PARC Resources as their consultant. They developed a Strategic Capital Plan and this is where the original numbers came from. City Manager Gray stated she could email the document to her.

Fire District Chair Rob Batten stated we are not asking to borrow any more money than what was originally requested but we were not given the best information and interest rates have gone up since that time when we missed the November election. We want to make sure that our citizens know that the rate is going to be flexible and we won't know what it will be until we actually award the securities to a bank and find out what the terms are. But we have never changed the amount that we are requesting to be borrowed (\$1.2 million).

There being no more questions of Ms. Schwab; Mayor Lundbom thanked her for the information.

Agenda Item No. 5 – Discuss for Signature Second Extension to Rural Fire Protection Agreement

Mayor Lundbom asked for a motion to add the Second Extension to Rural Fire Protection Agreement to the agenda. **Councilor Gene Officer moved to add the Second Extension to Rural Fire Protection Agreement to the agenda. Councilor Doug Gochnour seconded the motion, the motion passed unanimously.**

Rob Batten explained this is an extension of our current agreement with the City and the Rural District to extend it for another two years until June 30, 2015. No changes to the terms and condition of the original agreement. The idea is to extend it now and know that we will have to revise the agreement once a new fire station is built. This is the second extension on the agreement.

Councilor Doug Gochnour moved to allow Mayor Lundbom to sign the Second Extension to the Rural Fire Protection Agreement. Councilor Don Caldwell seconded the motion. The motion passed unanimously.

Agenda Item No. 6 – Other Business and Upcoming Meetings

1. LOC Bulletins were given to the City Council.
2. Newsletters from Rep. Cliff Bentz were included in the council packets.
3. City Manager Gray gave an update on the Prairie City Law Enforcement Agreement. She stated she felt they are very close to coming to an agreement and the next meeting of the Prairie City Council will be held on March 12, 2014.
4. City Manger Gray gave the Council an update on the meeting with the utility companies regarding the downtown sidewalk project. We are getting very close to receiving agreements with the local utility companies regarding putting their utilities underground. The project is on schedule to go out for bid in May with the construction expected to begin this summer.

5. The February, 2014 Statement of Revenue and Expenditure Budget to Actual reports were given to the John Day City Council.

Adjourn

There being no further business before the Council, Councilor Don Caldwell made a motion to adjourn the meeting. Councilor Gene Officer seconded the motion and the motion passed unanimously. The meeting was adjourned at 7:45 p.m.

Respectfully Submitted:

Peggy Gray
City Manager

ACCEPTED BY THE CITY COUNCIL, MARCH 25, 2014.

Mayor Ron Lundbom