

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

December 13, 2016

Adjourned Meeting

COUNCILORS PRESENT:

Ron Lundbom, Mayor
Steve Schuette, Council President
Gregg Haberly, Councilor
Paul Smith, Councilor
Donn Willey, Councilor
Louis Provencher, Councilor

COUNCILORS ABSENT:

Lisa Weigum, Councilor

STAFF PRESENT:

Nicholas Green, City Manager
Valerie Luttrell, Emergency Communications Center Supervisor
Richard Gray, Chief of Police
Monte Legg, Public Works Director
Janine Weaver, Secretary/Cashier
Julie Larson, Senior Account Clerk

GUESTS PRESENT:

Kent Bailey, Guyer & Associates
Anna Bass, Oster Professional Group
David Holland, Councilmember-elect

Agenda Item No. 1 – Open and Note Attendance

The John Day City Council meeting opened at 7:00 p.m. Mayor Ron Lundbom noted Councilor Weigum is absent and excused.

Agenda Item No. 2 – Approval of City Council Minutes of November 8, 2016

The minutes of the November 8, 2016, City Council meeting were included in the agenda packets and were presented for the Council's approval. Councilor Provencher noted that on Page 4, second paragraph from the bottom, second sentence, he stated that he is against dog licensing and the minutes incorrectly stated he is not against it.

Councilor Willey moved to adopt the minutes as amended. Councilor Schuette seconded and the motion passed unanimously.

Agenda Item No. 3 – Appearance of Interested Citizens

Mayor Lundbom thanked our guests for attending.

Agenda Item No. 4 – Discuss for Approval the 5-year Interagency Agreements for Water and Sewer Services to Canyon City

City Manager Green presented the five-year intergovernmental agreements signed by Canyon City to the City Council and stated that they were adopted by Canyon City in accordance with the terms proposed and reviewed in the November City Council meeting. Council reviewed the agreements.

Councilor Willey moved to adopt Amendment No. 1 to the First Amended and Restated Water Sale Agreement in its entirety and authorize Mayor Lundbom to sign the agreement. Councilor Schuette seconded and the motion passed unanimously.

Councilor Schuette moved to adopt Amendment No. 1 to the First Amended and Restated Sewer Sale Agreement in its entirety and authorize Mayor Lundbom to sign the agreement. Councilor Haberly seconded and the motion passed unanimously.

Agenda Item No. 5 – Discuss for Adoption Resolution No. 16-762-09, A Resolution to Authorize Expenditure of the FEMA – Assistance to Firefighters Grant

City Manager Green presented the FEMA AFG Grant expenditures to date. He stated the money was expended this fiscal year and therefore the Council must authorize the expenditures. Green said this will close out the grant for the FY14 AFG award and we will know in 2017 if we receive funding for the FY16 AFG award.

Councilor Schuette moved to adopt Resolution No. 16-762-09. Councilor Willey seconded and the motion passed unanimously.

Agenda Item No. 6 – Discuss for Approval the Fiscal Year 2016 Audit by Guyer & Associates

Mayor Lundbom turned the time over to Kent Bailey of Guyer and Associates to present the FY16 audit results. Mr. Bailey stated his firm has found that the financial statements present, fairly and in all material respects, the financial position of the City in accordance with generally accepted accounting principles.

Mr. Bailey reviewed the Financial Highlights of the Management's Discussion and Analysis section of the report (Page 4). He noted that the City's assets exceeded its liabilities by \$7.822M, of which \$1.576M is unrestricted and may be used to meet the City's ongoing expenses. He stated this is a very high asset balance for a city of this size.

Mr. Bailey noted that the major decrease in the fund balance can be accounted for by the construction of the fire hall (we turned cash into a building). He also noted the City has about 45 days of cash for operating expenses, and that is about as close as we want to be. He said the longest city he audits has 3 to 3.5 months of unassigned fund balance and the shortest is 16 days.

Mr. Bailey reviewed the Statement of Net Position on Pages 12-13. He noted the Government Activities Cash & Investments balance declined by \$341K as a result of converting that cash into the fire hall; and in the Business Activities we had an increase in cash of \$195K over the previous year. Similarly, the Unrestricted portion of the Net Position declined to \$167K this year from \$857K the prior year because we converted the money from the prior year and put it into the fire hall.

He noted the Net Pension Asset went from a \$173K asset to a \$256K liability. He reminded Council he told them a year ago that the net asset was going to disappear. The Net Pension Liability this year is \$386K. This was a result of the Moro Decision by the Supreme Court that reversed the state legislature's

efforts to reduce the State's pension liability. He said he expects those swings to be more consistent moving forward and the net swing in our financial position of \$560K that resulted from the Supreme Court decision will be spread out over the next thirty years.

He referenced the Deferred Inflows of Resources line item and noted the \$132K inflow is the result of the stock market performing better than the PERS financial managers estimated. He noted the prior year it was \$351K, so the market is performing better than expected, but not as well as it was a year ago.

Mr. Bailey provided Council with a handout of Program Revenues and Expenses over the past three years. He discussed the changes in the revenue balances as a result of projects like the US26 sidewalk extension and fire hall funding. He noted that the net increase in program revenue (excluding those projects) was \$31,159 or 2.1% (not a large increase). He also noted that our actual expenses were up \$48,859 or 3.8%, so revenues and expenditures were fairly close for the year.

For Governmental Activities, Mr. Bailey said excluding our capital improvements, our net position increased by \$181,302 on a full accrual basis and by \$139,431 on a modified accrual basis. This is the net position change in Governmental Activities after all expenses were paid (equivalent to business profit).

For Business Type Activities, Mr. Bailey noted there was an increase of 3.3% for business revenue, and actual expenses were up \$38K (so almost flat).

Mr. Bailey discussed the depreciation expense in both the Water and the Sewer funds and noted we are covering 19.8% of our accumulated depreciation in Water and 37.1% of our accumulated depreciation in Sewer. By increasing rates we have almost doubled our net income for both funds over the past four years, with an average annual increase of \$62,720 in Water cash and \$60,130 in Sewer cash.

He discussed the City's position with regard to its Water infrastructure and said we have more infrastructure than we have demand, which is an enviable position for a city to be in.

Councilor Provencher noted that on Page 36, the City Manager appoints all other officers (not the City Council as written). Mr. Bailey said he will make that correction next year.

Mr. Bailey referenced Page 47 of the Audit Report (footnote 4). At the top of the page are three columns showing a 1% decrease, the current discount rate of 7.75%, and a 1% increase. These scenarios reflect the range of our liability in PERS based on a one percent change in the rate of return on the State's PERS investments. A 1% decrease creates a \$931K liability for the City, a 1% increase creates a \$73K asset.

On Page 49, he stated we are paying down our debt by about \$180K per year (note 4).

Mr. Bailey found one area where the city is not in compliance, and that is on Page 93: the general fund administration department exceeded its budget by \$14,137. *(Note: City Recorder Anna Bass verified that this is in fact not correct and was the result of an accounting error that incorrectly reflected charges to the Admin department. She will discuss during the January 10 City Council meeting and changes will be made to the audit report before it is submitted).*

Mr. Bailey stated the most significant estimates his firm made were with PERS projections and depreciation expense. He noted that the modified approach for depreciation is an option for the City, where the City does not record depreciation expense because it is expending funds to maintain assets at a static level. He said that approach requires engineering firms to assess the City's infrastructure and identify the level of its useful life that the City will maintain. He said he has no cities in eastern Oregon that he audits that use the approach because of the expense in assessing the infrastructure. City Manager

Green said his goal was to make us more competitive in the municipal bond market by decreasing our depreciation expense; Mr. Bailey said we could also accomplish that by extending the depreciation schedule, but that those adjustments should be made at least two years before you bond so that there are not abrupt changes to the financial statements.

Councilor Provencher moved to have the John Day City Council accept the Independent Auditors' Report and Financial Statement for the Year ending June 30, 2016. Councilor Schuette seconded and the motion passed unanimously.

Agenda Item No. 7 – Options for Reinvesting Water Revenue to Maximize Return on Investment

City Manager Green discussed the City's water supply with the Council. He stated that water revenue is the largest source of revenue for the City (over \$600,000 per year in user fees) and nets more money than every other revenue source combined. He provided the Council with the analogy of the airline industry, which overbooks its seats because it is more cost effective to overbook than to leave even one seat vacant. He said that if John Day's water system were an airline, we would be leaving 90% of our seats vacant. The City currently uses one tenth of its water infrastructure to meet current demand, and only one twentieth of its annual water rights.

Green said that one could look at the current system and say it is overbuilt, but geography matters. We have a long skinny city in a river valley, and to supply water to the foothills and valley requires multiple pressure zones and reservoirs. He said if you didn't know about our geography, you would question why a city of only 1.8 square miles has five wells, a natural spring and six reservoirs.

Green suggested that if we were to take some of our profit out of water revenue, reclassify it as a community development fund or fee, and then use that money to stimulate demand for water by investing in projects that will increase our population and our net user base, we would see the return on investment through increased water users.

Green said, stated another way, we can continue to put our profit into an investment account earning 1-2% annual interest that has no chance to spur demand, or we can use water as an incentive to attract new, "thirsty" industries, for recreational amenities or as matching funds for capital improvement grants. Any of these options could lead to population growth and new water users that would repay the fund.

Councilor Willey asked if using the revenue to create new jobs would be part of that equation. City Manager Green said he thinks we could stimulate job growth by attracting digital commuters who can work remotely who don't need to have a new business move to town, and that we will likely have greater success in that endeavor than we will in recruiting a new enterprise. However, that would require investing in better broadband infrastructure. He said that some of the money could be used for a municipal fiber optic network that would have the added advantage of benefiting our current residents.

Councilor Haberly stated that we also struggle with labor pool challenges and the availability of skilled and certified workers. He asked how we can address that problem. Mayor Lundbom said he thinks we could diversify our labor pool by attracting new residents and infrastructure improvements like better internet would lead to that.

Councilor Smith said he appreciates the City Manager's proactive thinking on this issue, but he sees a red flag in the legal requirements for appropriating money from the water fund for these types of uses. Mr. Bailey said he believes it can be done legally, either by making the investment within the water fund so that all of the return stays in the water fund, or alternatively to charge a franchise fee to the water and sewer funds from the general fund and then set up an economic development fund inside the general fund.

However, those changes have to go through the Budget Committee in order to be lawful. If the Committee approves it and the Council adopts it, then it becomes legal.

Councilor Smith asked if taking this money out of the water fund would in any way harm our water infrastructure. Green said we have wells that don't even turn on because there is insufficient demand. We pay to power them and incur the expense to build and maintain them but they almost never run. He said he doesn't see us putting too much stress on the system, but we will need to continue to fund depreciation and we will need to be able to pay for the distribution system as water lines need to be repaired and replaced. Green said increasing density would help with this, but there is an expense associated with replacing the water pipes. Councilor Smith said he thinks it is a proactive approach to use our assets to create more assets as long as we do it in a balanced way.

Councilor Provencher suggested we tie this suggestion in with our strategic planning process to ensure it aligns with our broader priorities for reinvestment. Green said pooling these resources would lead to greater economic impact from our investments. Councilor Willey said he would like to ensure we don't use an "if we build it they will come" approach. He noted our population loss of 300-400 residents over the last few decades and asked how many homes that represents. Green said he thinks we've probably condemned more than we've built, and he is concerned about our housing stock. The average age of a home in John Day is more than 60 years old, and those homes tend to be smaller and less well maintained. As a result, we will likely see more decline in our housing stock in the future.

Green said his concern is that if we don't do anything we will continue to see moderate population decline lose industry until there is nothing left. Mr. Bailey said that Baker City was successful in economic revitalization largely because they thought strategically and were able to build trust with residents for viable projects like their interpretive center, but unfortunately since that project they have lost momentum. He cautioned that as we look at this approach we find a way to continue to invest strategically to get the highest bang for our buck. He also said we may need to involve an engineer to determine what a sufficient water replacement fund balance would be to adequately cover the cost of our water system maintenance.

City Manager Green said he would like to do a return on investment analysis on our capital improvement options, but until we have a reliable revenue source it's just a tabletop exercise. We need to establish a fund in order to have money to invest.

Council discussed and there was a consensus to include the fund as a topic for discussion with the Budget Committee for the FY17-18 budget.

Agenda Item No. 8 – Discuss for adoption Resolution No. 16-763-10, A Resolution Establishing Water Rates, Deposits, and Other Related Charges

The City Manager presented the formal resolution to the Council that puts into effect the budget that was approved for FY16-17. That budget included a \$6.50 rate for bulk water and a \$1 increase to the base rates for water effective January 1st, 2017.

Councilor Willey moved to have the John Day City Council adopt Resolution No. 16-763-10, A Resolution Establishing Water Rates, Deposits, and Other Related Charges. Councilor Provencher seconded and the motion passed unanimously.

Agenda Item No. 9 – Discuss for adoption Resolution No. 16-764-11, A Resolution Establishing Sewer Service and Connection Charges

City Manager Green said this resolution is a change from the approved budget because we have altered the agreement with Canyon City for wastewater treatment. City Recorder Anna Bass said we do not need to do a supplemental budget since this is a decrease in revenue, but that we may want to do one for transparency reasons. City Manager Green said the resolution does allow us to increase the monthly base rate by \$1 for sewer service as planned for in the budget.

Councilor Willey moved to have John Day City Council adopt Resolution No. 16-764-11, A Resolution Establishing Sewer Service and Connection Charges. Councilor Schuette seconded and the motion passed unanimously.

Agenda Item No. 10 – Review and Discuss Oregon Solutions Proposal and Priorities

City Manager Green presented the proposal from the Oregon Solutions team to conduct a community engagement event in our area. He said that the total cost of \$9,800 could be covered in part by a grant from the Ford Family Foundation (up to \$5,000) leaving approximately \$1600 per agency if the City, the County and the School District each contributed equally.

Councilor Smith asked the City Manager for his opinion on the proposal. Green said it is mixed, he thinks we need to do something to bring the community together, but he believes the public agencies are miles apart right now on what that something is. Councilor Smith shared his concerns about these types of engagement events and that they tend to amount to a lot of talk and little action, especially with competing special interests.

Green said that he and the Mayor participated in a call with Curt Shelley, Scott Myers, the Oregon Solutions team and the Regional Solutions team. During that call he suggested that the common interest that binds us all is population growth – if we can make an investment in something that helps us grow we all benefit. The City benefits because it increases our tax base, businesses benefit because it increases their customer base, and the school benefits from the increased enrollment. He said that if we could make an investment that leads to population growth we can probably keep our coalition together.

Green discussed local concerns about population growth and comparisons to cities like Bend and Sisters, but noted that Deschutes County has grown by 8% over the last five years and Grant County has declined by 4% over the same timeframe, so we are a long way from becoming another Bend. Green said the other valuable aspect of this type of process is finding out what the community thinks and what residents' priorities are, particularly with regard to bonding capacity. He said if we can't come to a consensus through a process like this, how do we avoid bonding fratricide as each of these public agencies puts new capital improvement projects on the ballot in the coming years? Councilor Smith said it may be to our advantage to participate in order to gauge community interest and to identify the highest value projects.

Council discussed the pros and cons of the project and agreed to table a decision until we hear from the other public agencies that may participate.

Agenda Item No. 11 – Motion to Approve City Manager Residing Outside of John Day

City Manager Green stated the City Charter requires the City Manager to live within city limits. Green said there are not a lot of homes available for sale and he would like to purchase a home in the area. He requested permission from the Council to look outside of city limits including in our urban growth boundary. Mayor Lundbom stated every city manager he has known has lived outside of John Day.

Councilor Willey moved to allow the city manager to live outside of city limits. Councilor Haberly seconded and the motion passed unanimously.

Agenda Item No. 12 – Other Business and Upcoming Meetings

City Manager Green updated the council on the status of the sale of the fire hall. He said we have the deeds and legal description of the property and we are ready to proceed with the sale in January. He said by the first week in January we will have a terms sheet for the potential offerors posted to the city website, and by the second council meeting we will be able to open those offers and make a decision. He said there is enough interest we should see a competitive range of offers, but if we don't we are not obligated to sell it. City Recorder Bass stated we will need a supplemental budget if we plan to spend the proceeds during this fiscal year. Green said he still has to do an RFP process to solicit bids for completing the new fire station, so we may not need the proceeds from the sale until next fiscal year.

Green also updated the council on the City's digital archiving process, which is now active, and the new city website scheduled to go live on January 1st. Green showed the Council an image of the oldest record in the city archives, City Ordinance No. 1, dated 1900, an ordinance requiring a license to sell liquor in John Day.

Council discussed the following upcoming meetings:

- 12/21/2016 – Holiday Party for City Staff
- 1/10/2017 – Next City Council Meeting.
- 1/24/2017 – Representative Bentz to attend John Day City Council meeting to discuss proposed legislation for transportation taxes and funding

Mayor Lundbom concluded the meeting by thanking Councilor Provencher for his service to the city as a city councilor.

Adjourn

There being no further business before the Council, the session was adjourned at 8:56 p.m.

Respectfully Submitted:

Nicholas Green

City Manager

ACCEPTED BY THE CITY COUNCIL JANUARY 10TH, 2017

Council President Steve Schuette