

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

April 25, 2017

Adjourned Meeting

COUNCILORS PRESENT:

Ron Lundbom, Mayor
Paul Smith, Councilor
David Holland, Councilor
Steve Schuette, Council President
Gregg Haberly, Councilor
Donn Willey, Councilor
Lisa Weigum, Councilor

COUNCILORS ABSENT:

STAFF PRESENT:

Nicholas Green, City Manager
Monte Legg, Public Works Director
Janine Weaver, Secretary
Valarie Maynard, Emergency Communications Center Manager
Richard Gray, Chief of Police

GUESTS PRESENT:

Rick Minster, John Day
Michal Madden, Eastern Oregon Realty
Jesse Madden, Blue Mountain Custom Homes
Nick Piazza, John Day
Harmony Piazza, John Day
Louis Provencher, John Day
Rylan Boggs, Blue Mountain Eagle
Joseph Madden, Blue Mountain Custom Homes
Dave Paddock, John Day
Ken Olson, Old West Federal Credit Union
Derek Daly, Blue Mountain Hospital

Agenda Item No. 1 – Open and Note Attendance

The John Day City Council meeting opened at 7:00 p.m. Mayor Lundbom noted all councilors were present.

Agenda Item No. 2 – Approval of City Council Minutes of March 28, 2017

The minutes of the March 28, 2017, City Council meeting were included in the agenda packets and were presented for the Council's approval.

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

Agenda Item No. 3 – Appearance of Interested Citizens

Mayor Lundbom welcomed visitors in the audience.

Agenda Item No. 4 – A Day in the Taxing Life

City Manager Green explained he would like to talk about troubles with housing in our community and our tax base. He is not looking for a decision tonight but wants to begin the discussion. Mr. Olson from Old West Federal Credit Union, Jesse and Joe Madden from Blue Mountain Custom Homes and Michal Madden from Eastern Oregon Realty are all present to represent all aspects of the industry in the discussion.

The two highest revenue sources for the City are water and sewer. Per household, the average annual revenue is \$1305.12. This revenue we control. The council decides every year what to charge for rates. With all the undeveloped property, we are running water and sewer right next to properties without receiving any benefit. The best thing we could do is sell more water and the connection costs for these locations are pennies on the dollar.

The included tax table breaks out revenue for each taxing jurisdiction based on an assessed value of \$150,000. One \$150,000 house would give a net gain of \$2390.61 annually spread across eight tax jurisdictions. State shared revenue (SSR) is worth about \$80 per year in state tax revenue. A student in the local school district is worth an additional \$7,800 in state revenue. As a result, the tax value for families with children is exponentially higher than single person households, and this is the area we have lost a lot of our population.

When averaged over a one to four person household, the expected tax benefit of each new household is \$9,583 per year. The City of John Day would receive 19% of that. If we can create 100 new homes in John Day, there would be an increase of \$1 million dollars in tax revenue across all agencies. City Manager Green believes the most logical way to increase our revenue would be to invest in new homes. There are 1164 acres of undeveloped land in the city limits and urban growth boundary. Not all of this is buildable ground. Jesse Madden said from his perspective there is the ability to build 100 homes in 10 years.

Agenda Item No. 5 – Incentivizing New Home Construction in John Day

City Manager Green proposed to invest in housing through an incentive package, with the idea that the City will provide just enough to get the market to respond and will make a LIFO investment (be the last in and first out with our capital contributions). There are two barriers in our current housing market. The average construction price is about \$150 per square foot, but the average home is only selling for \$88 per square foot. This profitability gap is very large for a builder to overcome especially with the City's system development charges. The second issue is the affordability gap with current residents. Renters who can't afford to buy create a high rental rate and as a result there are no rentals available to new residents. People who have funds or credit to build a new home also struggle to find a builder, or if they can, they know that their home will not value at the amount of their cost of construction. City Manager Green would like to find an incentive package that will help decrease the profitability and affordability gaps by reducing loan-to-value ratios and in the process help kick-start new development.

One factor contributing to depreciated market value is that the average age of a home is 58 years. As a home ages it is worth less and older homes tend to be smaller, leading to lower assessed values. Traci Fraiser put together market data for homes that have sold since 2016, which City Manager Green used to create a preliminary statistical model to predict what a 2017 home would sell for. This model estimated a 1,676 square foot home built in 2017 would sell for \$254,000 (\$152/sq. ft.). When you start adding the cost of land, improvements and system development charges, you are adding another \$15 per square foot to the final price of the home.

City Manager Green read an illustration about a new hospital employee who moves to the area and is looking for a new home. In the illustration, the potential home buyer does not want the maintenance required of a 58-year-old home, plus the home is much smaller than they are used to; while homes of the

right size seem overpriced. The potential buyer decides to look into buying a lot in the county where they can put a new manufactured home. The hospital begins searching for a rental for the new employee and the City suggests to the potential buyer that for only \$7,056 in system development fees, \$32,000 for a lot, and the hope that they can find a builder who is available, they could build a home in John Day.

Green said there are so many roadblocks and hurdles in our market, we cannot entice people to build. We need to create an incentive package that shares some the risk and takes the benefit on the backend.

Mr. Piazza explained that the example is exactly the situation they are in. The decent houses are out of their price range and the others are too small to begin a family. Mr. Provencher explained that this is the same situation John Day has been in since the 1980's. Mr. Daly explained that the hospital has lost two manager candidates after accepting the job because they could not find housing.

City Manager Green stated the City has multiple ways to narrow the gap:

- Consumer preference. Buyers are willing to pay a premium for something that is new and has lower maintenance.
- Reducing regulatory hurdles to increase efficiency in home construction. Too many fees and delays in the permitting process add costs and destroy value. Streamlining our permitting process and working with the County and State could save homebuilders money.
- Providing services to reduce land development costs (i.e. street improvements). If we create a local improvement district where we collateralize some of the developments of the street, sewer and water over an extended time period while the owner meets us half way, it reduces the cost to the land owner for development and reduces the cost of the home to the buyer.
- Cash incentives to new home buyers. We could pay people to build houses. If \$10,000 is given to someone to build a home, it will come back to local tax jurisdictions in 12 months through property taxes and other revenue. \$30,000 would come back in three years. We will get our money back because it is protected by law. The net working capital we have sitting in the bank at half a percent interest is not gaining enough interest to keep pace with inflation. It would be better invested back into our local economy
- Economies of scale. We would do this with the *Test, Validate, Scale* model, where we start small with a couple homes; work out the kinks; coordinate with lenders, builders and buyers; validate the model; and then scale it up. When we get to the *Scale* phase, building costs will come down because more builders are building. Jessie Madden said he knows this to be true with the homes they sold in Canyon City where they were able to pass their savings onto the home buyers.

City Manager Green stated that if we do all of the listed options in combination and tested them to find the right balance where we see a queue of people wanting to build houses in John Day, we can get to 100 houses. The extra revenue created can be put towards things people want like reducing water and sewer bills and plowing streets. We can provide services citizens want by widening our tax base. In the process we will solve problems for business that can't attract or keep employees, let alone builders, real estate agents, and lenders. Councilor Haberly pointed out that the money does circle to everyone. City Manager Green does believe different tax jurisdictions should help out and put money in the investment pool being they will be getting money back. All he can do is suggest and explain that the more money for the program the more incentive packages can be offered, increasing our growth rate.

City Manager Green said he knows there are half a dozen lots currently for sale in the city limits in just one neighborhood. If we create an incentive package, it may entice vacant lot owners to put their lots up for sale to take advantage of the program while it lasts. Councilor Willey asked about lots on Bridge Street that can only be built on the original footprint and wonders if that can be changed. City Manager Green said everything is on the table. If zoning needs to be changed, we need to look at it. The City of

Boardman is waiving their system development charges and the Port of Morrow is paying \$5,000 (as a grant after closing) for building homes in Morrow County. City Manager Green would like to pitch this to Oregon Solutions.

Mrs. Piazza worries about the affordability for current residents on new homes. City Manager Green said our target is increasing population by bringing new residents and targeting current residents who are renting but would like to buy. If current residents who are squatting on rentals begin buying, more rentals will open up as well.

The property behind the LDS Church has already been engineered but the landowner is sitting on it paying property tax because the development costs are too high. If we engaged them with the idea of helping to liquidate the investment, maybe it is enough to tip them over the edge. The City would come in at closing after the process with down payment assistance. Mr. Olson said there are restrictions on gift money. More research would have to be done to find where we would be able to make payment assistance.

Jesse Madden said Blue Mountain Custom Homes prefers to buy a lot, subdivide it and build more than one spec home at a time. Appraisal values are so low they just try to make what they put into their homes. Joe Madden said that a lot of projects with good buyers have been killed because the appraisals do not come through high enough. Jesse stated that the Rural Development Program does not pay until the end. The contractor has all the money out but the home buyer can walk away.

City Manager Green believes if we are smart about building an incentive program, we can get rid of enough barriers for the private sector to take care of the rest. Mr. Provencher said he can support the program but does not support the City giving cash as down payments. City Manager Green feels that just waiving the SDCs will not be enough to incentivize homebuyers. For an empty lot we currently receive \$400 per acre across all tax jurisdictions. With a new home on it, the same lot will generate \$10,000 per household. Over a 20-year period with a \$15,000 incentive, the City gets a 19% internal rate of return. Jessie Madden explained he has never paid System Development Fees because many lots are either grandfathered in or already have them paid. He said that is not what is stopping people from building in John Day. Instead it is the hard cost of building a house versus what it is worth when it is done. If there was \$15,000 coming back on a house they sold, they would be able to break even.

Mr. Piazza explained that they have exhausted their search for an existing house and have been looking into building. He asked U.S. Bank what they would look at. The bank explained they would not take the money as down payment, instead the home buyer would still be required to pay their 10% and the money from the City would then go to the bank. He believes the cash incentive would need to be clearer as to how a cash incentive would be distributed. A cash payment directly to a home buyer may not be the best option because you cannot guarantee the money would go to the new home construction. The other question would be what qualifies as John Day. City Manager Green explained that we would annex lots outside of John Day as a part of the incentive package, but otherwise they would have to be in city limits.

City Manager Green's question for tonight: Is this a big enough problem for the public sector to intervene? Is there enough upside and return for us, and enough upside for the community? Joe Madden believes the property tax is a measurable way to see the upside of new residents but the greater advantage is the benefits from people wanting to come to John Day to live, start a business and spend at local retailers. Michal Madden explained that she shows properties to many hospital employees when they are interviewing and they end up not taking the job because they cannot find a nice home. These are professionals who can afford a higher mortgage and love the community.

Mayor Lundbom agreed that the more desirable development sites are on the north side of town and past reasons for not allowing development has been increasing traffic on Bridge Street. He would like to know how the City would address this issue. Councilor Weigum believes the issue would be addressed in the housing strategy for the incentive package. City Manager Green believes that within a few weeks we will be able to remove that concern and will be in a position to grow.

City Manager Green keeps coming back to “Cash is King”. Cash will entice people to build. Jesse Madden explained that the houses they built in Canyon City were built affordably because they received such a good deal on the lots and were able to pass the savings directly on to the home buyers. The remaining lots have not been developed because the sellers are asking too much for the property. Councilor Weigum pointed out that all of the houses in that development are currently occupied. City Manager Green explained he would be willing to look at giving the cash upfront as long as there was an agreement between the land developer, the builder and the City that no one will increase their prices to try and extort that revenue. That would result in a loss of tax revenue with no house being built. Joe Madden explained they sold the lots previously owned in John Day because of their previous hassle to build in the City. The City was requiring paving which was not financially feasible. City Manager Green explained that this is where a Local Improvement District would come in. The City would provide the capital upfront and the home owner would pay their percentage back over time.

City Manager Green said we will not fix the housing problem tonight. If we decide to move forward we need a tailored plan to fit John Day’s needs. Mr. Provencher explained that any program needs to be able to fit in the City’s overall vision of John Day rather than just being implemented without a vision. Mayor Lundbom explained that the City has not been in a position before to begin programs that are outside the visions of the past. City Manager Green explained there is a bill in the House right now that would provide \$150,000 in grants to communities that receive SRS funds specifically for projects like this. He would love to use someone else’s funds to test the City’s program before investing its own money. This would allow us to prove the program is making it easier for us to invest and hopefully entice other tax entities to invest and make a perpetual program.

City Manager Green would like to vet this program through the State. He said he has discussed it with our bond counsel and she said a program like this will not affect any future bonding. Investors actually find proactive cities as less of a credit risk. After getting feedback from the State, City Manager Green would like to come back to the council with a draft incentive package and housing plan with quick wins identified. Mr. Provencher believes the City needs to go slow and then have public informational meetings. Making it easier to get the information out to the community by putting the agenda on the radio would be helpful. Mr. Olson explained that while Old West Federal Credit Union has about \$145 million more in assets today than in 1999, there are less people working at the John Day office. All because there is not the infrastructure present. Professionals want to move to John Day but there is not housing and amenities. People seem to think we are stepping over dimes to pick up pennies and that needs to be turned around. It’s okay to step over pennies to pick up dimes. The Credit Union would like to help out and is pledging \$10,000 in Community Development Funds to help kick start a program like this, simply to see the betterment of John Day.

Councilor Smith likes the strategy but is a little reserved about cash incentives. He believes we need to have the infrastructure foundations that are not affected by any money that would go into this program. The Council came to the consensus to have City Manager Green move forward on a program to incentivize home building and return to brief them.

Agenda Item No. 6 – Other Business and Upcoming Meetings

City Manager Green explained that we have doubled our RV site sales. There are 12 RV sites left but we will be adding 25 more sites. We will total about \$45,000 in gross revenue, netting about \$35,000 after expenses.

City Manager Green explained that Mr. Paddock would like to use some of the eclipse revenue for a Welcome to John Day sign. He showed the council a replica of a welcome sign which would allow for a lot of the construction in-house. It is made of stone and metal. Rock is readily available in our county which would keep the costs down. He believes placement is very important and thinks the Parks and Recreation Department may let the City put the sign on the corner by Les Schwab's. The corner has water access allowing for a fountain with the sign. The size of the sign would depend upon the size of the rock available. With keeping labor in house the cost would be pennies on the dollar.

City Manager Green explained that if the City is interested in a sign like this, the eclipse money is a good opportunity because it is hard to budget for a welcome sign. Mr. Paddock believes this to be a good investment because people do judge on appearances. Mr. Paddock did not give a cost for this specific sign but said the last sign he presented and was approved was \$37,000. This sign will depend upon the size of the rock. With the City providing the labor for moving and placing the rock, the costs would be for Mr. Paddock to complete the metal work and orchestrate the layout of the sign.

Mayor Lundbom suggested Mr. Paddock attend the Parks and Recreation board meeting about the use of the property with his proposal and bring the information back to the City. Mr. Paddock does not have an exact time frame for the completion because a big factor would be time available for City employees on the rock work. Councilor Weigum believes the City needs a sign like this but does not feel this is the best location. She believes one at the west end of town as you come in from Mount Vernon would be better. Mr. Paddock agrees sign location is very important either just as you enter town or even into town a little.

Mr. Paddock said a lot of people with money will be coming into the community so the more welcoming and nicer we can make our city, the better.

Mayor Lundbom told the council the income survey to determine if we are Community Development Block Grant eligible will begin after the first of July. As of now we are classified as non-Community Block Grant eligible. For \$8,000 we will get an accurate count on our incomes which will hopefully open more federal money to the City.

City Manager Green explained the Senate unanimously passed the Recreational Immunity bill and it is expected to pass the House.

1. May 9th Next City Council Meeting – 7pm at the fire hall.
2. May 11th Oregon Solutions invitation only event. Surveys will go to the public early June.

Adjourn

There being no further business before the Council, Councilor Willey moved to adjourn the meeting. Councilor Weigum seconded and the session was adjourned at 8:40 p.m.

Respectfully Submitted:

Nicholas Green

City Manager

ACCEPTED BY THE CITY COUNCIL MAY 9, 2017

Mayor Ron Lundbom