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

*Message from the City Manager*

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

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

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

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

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

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

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

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

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

### *New Program Revenue*

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

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

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

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

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

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

### Long-term Debt Consolidation

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

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

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

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

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

### *9-1-1 Center Transition & Public Safety Spending*

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

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

### *2017 Solar Eclipse and Future Event Planning*

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

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

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

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

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

### *SUMMARY*

There is still much work to be done, but our efforts are already beginning to bear fruit. We are stabilizing our finances by addressing long-term budget imbalances. This, in turn, will reduce future tax burden on our residents and ratepayers. A stronger balance sheet will make John Day more attractive to outside investors and more competitive when applying for capital finance for infrastructure projects like: the new wastewater treatment plant, broadband network modernization, new home construction, downtown revitalization, and new recreational amenities. In other words, the financial work we are doing today will enable us to continue fueling our Strategy for Growth and make our city healthier and stronger for tomorrow.