



To: John Day Budget Committee  
From: Nicholas Green, City Manager  
Date: 05/21/2020  
Re: FY21 Budget Message

This is a year of unprecedented changes for our community.

Over the past four 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 (Tab 2).

Since our last budget committee meeting, we have also expanded our land acquisitions to increase downtown parking and to create a new 14-acre industrial 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 (Tab 3).

We have proven to be highly adept at financing our investment strategy. To date, we have been awarded 25 grants valued at \$12.6 million. We have raised \$3.5 million to invest in projects at the Innovation Gateway. An additional \$7 million in private funding and more than \$20 million in public expenditures are planned over the next four years. These capital improvement projects directly or indirectly support our residents, businesses and our tourism-related facilities (Tab 4).

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 playground and splashpad at 7<sup>th</sup> Street Sports Complex and plan for the new aquatics center; Grant County Digital and Oregon Telephone Corporation to raise funding for broadband, and; the Grant County Court to increase entrepreneurial activity and tourism through Oregon RAIN and the Fairground Master Plan.

While we will continue to fund and invest in these projects, we must also be cautious about overextending our budgets as we move into FY21. As a result of COVID-19 and the devastating economic impacts that came from the economic shutdown, the State is forecasting a \$3 billion



budget deficit. These deficits could impact several aspects of our budget, including our General Fund due to reduced state shared revenue and our Street Fund due to reduced fuel tax receipts.

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 FY21 even as we plan to increase *capital expenditures* for our public works projects.

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 FY21 while our cost of capital (interest rates and fees) will likely decrease due to state and federal stimulus. We are well-positioned to take advantage of these optimal conditions for financing our capital improvement projects. Therefore, my budget proposal for FY21 has a net increase for capital outlay, while keeping operating costs at FY19 levels. City staff will not receive a cost of living increase for FY21. I am also reducing staff levels and hours in departments that are expected to see revenue declines to ensure we are lean enough going into FY21 that we do not experience operating budget deficits.

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. We are also hoping for a federal or state stimulus package similar to the CARES act that will allow all our cities to sustain the level of service our residents have come to expect. In other words, we will plan for the worst, and hope for the best. 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 document presents this information for the City of John Day for the fiscal year beginning July 1, 2020 and ending June 30, 2021 (Tab 5).

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 FY18 and FY19. The third column reflects the adopted budget figures for FY20. The last two columns pertain to the upcoming FY21 budget. The column titled “proposed” contains the budget that I am submitting to the John Day Budget Committee for review. These data are 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 FY20-21 appointed budget committee members.



Table 1. FY20 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
Robert Raschio	2017	2019	Resigned
Darin Toy	2017		2019
Vincent Maurer	2018		2020
Katrina Randleas	2018		2020
Beth Spell	2018		2020

Included in your budget packets is the *Budgeting Basics* article (Tab 6) 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, city 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 FY19 audit report, available on the Oregon Secretary of State website.

## BUDGET DETAIL

### *Basis for Determining Property Taxes*

The proposed property tax revenue is based on estimated FY20 assessed valuation of \$108,480,758 times our permanent tax rate of .0029915 of assessed value, giving us a total of \$316,326.50. When we subtract loss due to Measure 5 compression (-\$200); Gain/loss from Ext (\$0.63); the Grant County Assessor estimates total taxes to be received for the City of John Day at \$318,571.36. We estimated uncollectable at 11%, leaving a total budgeted property tax of \$283,530.

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 four outstanding debt obligations and one new obligation for FY21.

**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.

**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.

**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 26 payments remaining.

**Greenhouse loan.** The City originated a \$350,000 loan to construct the greenhouse, also through Business Oregon. Annual payments are \$21,074.90, with 22 payments remaining.

**Brownfield Redevelopment Loan.** The city council approved a new loan commitment this year for \$595,000 through Business Oregon's Brownfield Redevelopment Fund. This loan, of which \$60,000 is forgivable, will allow the city to purchase 16 acres of underutilized land from Iron Triangle and Russ & Tara Young to build the new Government Entry Road and Innovation Gateway Industrial Park (Figure 1, see also Tab 7).



Figure 1. Oregon Pine & City property (Pink); future industrial land (green); Ironwood Estates Phase 2/3 (yellow)



### *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 audit expenses to cover single audit (required for federal funding)
- 10% increase in electricity
- 15% increase in insurance
- \$25,000 reduction in legal expenditures due to fewer General Fund-financed projects
- \$52,905 transfer to Community Development Fund to offset operating expenditures

***Police (Fund 01; Dept. 030).*** City intends to keep a four-man police department plus volunteer reserves.

Changes to the Police Department as follows:

- 10% increase in electricity
- 1% increase in insurance
- Revenue of \$45,000 from SRO position
- Transfer of \$9,941 from Fund 32 to zero out the fund

***Fire (Fund 01; Dept. 050).*** City will maintain a full-time employee as Fire Chief / part-time public works employee for FY20.

Changes to the Fire Department as follows:

- 10% increase in electricity
- 10% increase in insurance
- \$5,000 for building improvements in case needed
- Revenue of \$10,835 from 9-1-1 tenant at fire station (\$750 per month + \$130/mo elec.)

***Main Street Revitalization (Fund 01; Department 090).*** City applied for \$292,000 in Main Street Revitalization grants for 1188 Brewing and Len's Drug. City will continue to invest in downtown and Main Street as funding allows.

Changes to Main Street Revitalization as follows:

- No expenditures planned for Main Street
- Len's drug Main Street Revitalization grant revenues of \$200,000/equivalent expenditures are pass-through costs that may need to be budgeted for in this department; we are checking with the auditors on this



### *Water – Fund 02*

We are continuing to budget in the Water Fund for future replacement of our water meters. We are also budgeting a savings line item 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 of the Iron Triangle property this fiscal year.

Changes to the Water Fund as follows:

- \$4,200 chlorinator injector maintenance
- 10% increase in electricity
- 10% increase in insurance
- \$7,000 for lab tests (\$3,000 increase over FY20)
- \$14,000 for new operations and maintenance manual (required update)
- \$3,000 radio software update
- \$1,000 new radio install
- \$100,000 land purchase/legal/closing and environmental cost (\$60,000 is forgivable)
- \$23,000 estimate for Iron Triangle (433 Patterson) property purchase debt service (new)
- \$13,000 estimate for Iron Triangle (433 Patterson) property loan interest (new)
- \$540,000 in unappropriated for WaFd loan payoff (loan costs shown as DEBT REFINANCE line item)
- Revenue of \$590,000 in Water Sales (conservative estimate)

### *Sewer – Fund 03*

The 2019 waste water facilities master plan update has been adopted by resolution and we will begin engineering for the new facility this year.

Changes to the Sewer fund as follows:

- 10% increase in electricity
- 10% increase in insurance
- 15% increase in insurance
- \$1,800 lab tests
- \$1,000 decrease for lift station cleaner
- Greenhouse loan moved to Community Development Fund (Fund 10)
- \$68,488 in unappropriated (savings account for WaFed final payment)
- Revenue of \$670,000 in Sewer Fees (based on new rate of \$60/mo effective Jan 1, 2021)
- Revenue of \$34,000 (transfer from Agribusiness to Sewer for asset recovery)





*Agribusiness Department (Fund 03; Department 111).*

- Moved to Community Development Fund 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 \$11.2 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 FY20 is budgeted at \$290,077. These operating costs have remained stable over the years. Fund 04 does not include capital improvements as future expenditures will be made toward the new treatment plant from the Sewer Fund (Fund 03).

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. New projects for this year include the Integrated Park System, 4<sup>th</sup> Street Repairs, Canton paving and Main Street parking improvements. Charolais Heights will be budgeted for based on results of 2020 BUILD grant but is not included in this year's budget due to 4<sup>th</sup> Street repairs and concerns about declining fuel tax receipts.

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.



With these changes, the Street Fund is projected to have a net working capital balance of \$204,972 for FY20. The fund has \$100,000 for operating contingency and \$42,631 for street maintenance and repairs for unanticipated expenses. An additional \$100,000 from ODOT special cities allotment grant (awarded in 2019) is available for Charolais Heights but is currently unbudgeted and will carry forward to FY22 for project completion.

Additional changes to the Street Fund as follows:

- 10% increase for electricity
- 10% increase for insurance
- \$2,000 for weed control at city parks/trails
- \$5,000 for downtown parking signage
- \$467,000 for 4<sup>th</sup> Street Repairs
- \$35,000 for Canton Street paving
- Revenue of \$134,000 from fuel tax receipts
- Revenue of \$157,346 from forest receipts
- Revenue of \$252,16 from OPRD large government grant (awarded in 2019)
- Revenue of \$427,500 from FEMA for 4<sup>th</sup> Street Repairs
- Revenue (unbudgeted) from future BUILD grants will accrue to the Street Fund and will be appropriated by resolution of the city council if awarded.

#### *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 \$1.3M in this fund for capital outlay in FY21 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 EDA grant is awarded).

#### *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 \$57,000 for FY21 are offset by \$57,000 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. We budgeted to



extend a line of credit to the URA in FY20 to allow them to make SDC and housing incentive rebate payments until the URA has enough tax increment financing revenues to be self-sustaining. The URA expects to finance future incentives on a line of credit we are requesting through Old West Federal Credit Union. Details of the administration of that program will be provided in the John Day URA budget meeting. This fund will also manage greenhouse revenues and expenditures moving forward for the Agribusiness department.

Several community partners, including the Grant County Community Health Improvement Coalition, Hope 4 Paws, and CASA have made funding requests to the city (Tab 8). This fund may be able to accommodate those requests later in the fiscal year. However, they are not budgeted at this time due to concerns about declining state shared revenue. Staff hours that were allocated to this fund from the City Planner position have been reduced and that position has been converted to Part-time (20 hrs per week).

Changes to the CD Fund as follows:

- \$20,000 revenue from URA as debt proceeds from loan repayment
- \$52,905 transfer from General Fund for operating expenditures
- \$80,000 revenue from Community Development Fee
- \$113,072 for contingency expenses

*Agribusiness Department (Fund 10; Department 111).*

- Moved from Sewer Fund at request of Business Oregon loan officer (needed dedicated fund, not tied to enterprise fund for Sewer account)
- Includes \$34,000 transfer to Sewer for capital investment
- \$22,000 for debt service on Business Oregon loan
- \$26,400 in unappropriated (one-year debt service as required by Business Oregon loan)
- \$101,300 estimated revenue from produce sales (\$388/week day)

The Agribusiness Department is expected to generate \$200-300 per weekday in direct to consumer sales through the new e-commerce platform. Business-to-Business sales to restaurants and Chesters should make up the balance of the estimated revenue.

*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:

- 10% increase in insurance, heating and electrical



- \$12,300 for annual payment on 5-year lease for police vehicle
- \$30,000 transfer from General Fund for operating expenses
- \$61,846 all other capital outlay (no specific needs identified)
- Revenue of \$115,000 via interfund transfers from four departments

#### *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 \$9,941 will transfer to Police Department. 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 \$131,426 in net working capital for FY21.

#### *Safe Communities Coalition – Fund 100*

The City of John Day no longer serves as the fiscal agent for the Grant County Safe Communities Coalition. This fund will remain in our budget for one more year to report historical data only.

### **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 is contracting 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 \$18,287,761 for the city’s operating budget, which is up from the current year budget of \$5,221,056. The projected increase is the result of the \$11-12 million treatment plant construction project and the broadband project, plus the street improvement projects, all of which are funded through revenue increases and/or grant and loan proceeds dedicated for these capital improvement projects.



This budget is a continuation of our Strategy for Growth and the city council's strong desire to revitalize our economy while preserving our high quality of life. The budget is another step on a path that will allow us to fundamentally restructure our economy and place the city's finances and services on a stable financial base.

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