

December 12, 2022

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John Day City Council
c/o Corum Ketchum, Interim City Manager
City of John Day
450 E. Main Street
John Day, OR 97845

RE: Capital Projects and Financial Summary for the City of John Day

Dear Mr. Kethcum and Council Members:

This document is intended to serve as a capital project playbook and financial guide for the current and future city councilors and city administrators. It contains a summary of the City's grants, loans, contracts, capital projects, property transactions, and other financial obligations that make up the City's financial portfolio, along with recommendations for future actions to maintain compliance with the City's ongoing commitments.

I. Current Financial Instruments

Since 2016, the City has received 52 financial awards totaling \$35,490,600 for various capital projects (**Exhibit A**). These awards fall into one of three categories: (1) Direct Grants; (2) Externally-administered Grants; and (3) Loans. In a few cases, the award consists of both a grant and a loan. The City has ongoing commitments for financial instruments in all three categories, as described below.

A. Direct Grants

The City has received 40 direct grant awards totaling just over \$19.2 million (**Exhibit B**). Of these, one grant was declined (DOJ COPS grant), and 22 are completed (**Exhibit C**). 17 grants are under active management or pending agreements (**Exhibit D**). The grants in progress total \$16,711,723.

The three most recent grant awards are still pending agreements. They are:

- Department of Administrative Services (DAS) grant for the aquatics center;
- Oregon Department of Energy (ODE) grant for the community renewable energy project (CREP); and
- Oregon Department of Transportation Award for the small cities allotment (SCA) to complete improvements to 7th Street.



At the time of this report, the council has made motions to accept all three grants by unanimous consent or, in the case of the aquatics center grant, by previous resolutions.

One grant application for the USDA has been submitted but is still pending a decision. This combination grant-loan is discussed in further detail in the Loan section.

No other grant applications are outstanding. However, a few grant agreements, like the Main Street Revitalization grants and EDA grant award, require reporting for up to five years after project completion.

B. Externally-Administered Grants

There are five externally-managed grant awards totaling just over \$9 million in funding (**Exhibit E**). The City has financial obligations associated with each award. They are:

- USDA ReConnect (\$6 million): Grant County Digital and the City of John Day signed an intergovernmental agreement with Ortelco for 20 years of internet service in exchange for \$1 million in grant funds contributed to their fiber optic expansion. The agreement outlines the ongoing commitments for all parties. As of this date, none of these internet assets are in service. The 20-year agreement takes effect upon the City and Grant County Digital accepting the lit fiber service and verifying a one Gbps service connection is active in Seneca, Long Creek, Monument, and John Day.
- 395S Sidewalk Project: The City received a Multimodal Transportation Enhance Project (MTEP) grant as part of the Statewide Transportation Improvements Program (STIP) in 2016 (Agreement No. 31224). The City deposited \$15,504.62 in 2016 and \$65,728 in 2019 as matching funds required for the project. The City also agreed to provide utility relocations and design engineering for the water lines, which ODOT will reimburse. Finally, as part of the right-of-way and stormwater management agreements, the City will accept operations and maintenance responsibility for all associated improvements, including all surface improvements, sub-surface utilities, water retention ponds, drainage swales, culverts, and pipe systems. This includes new infrastructure at the intersection of Blue Gulch Road and Grant Union High School, SW 6th Avenue, and the real property acquired by ODOT for stormwater retention, which ODOT will deed to the City upon completion of the project.
- Rural Transportation Equity Project: Like the TGM grant, the Rural Transportation Equity Project consists of a third-party (DLCD) administered grant agreement to provide technical assistance to the City. The City will participate actively in the process but not directly manage the funding. That said, the City must acquire certain rights-of-way from the School District to complete this and associated street improvements for 7th Street, which are currently part of the District's 7th Street complex. Staff will present this to the School District in January 2023.

C. Loans

The City has six loan obligations and one loan application pending. These loans totaled just under \$8 million at the time they originated. Five of the six loans are with Business Oregon, and one is with WaFd bank. After the December payments are accrued, the City’s loan balance will be \$5,950,544.49 (**Exhibit F**).

Payments for the Business Oregon loans are due on December 1 of each year. Projects in progress do not have payments due until they are complete. Business Oregon will issue amortization schedules once these projects are finalized and in service. Table 1 summarizes the interest rates and payments for the current loan portfolio.

Table 1. City of John Day Loan Obligations (see Exhibit F for detailed reports)

Loan	Interest Rate	Semi-annual Payment	Annual Payment	Payment Source/Fund
L17011	3.78%		\$31,793.65	Sewer Fund
L18006	3.43%		\$21,074.90	Comm. Dev. Fund
Y12006	1%		[Construction in Progress]	Sewer Fund
L22013	2.41%		[Construction in Progress]	URA Fund
N21005	2%		\$32,700	Water Fund
WaFD	4.42%	[Update pending]	[Update pending]	Water/Sewer/General
USDA WEP	TBD		[Award Pending]	Sewer Fund

Only a de minimis portion of this debt is paid from the City’s General Fund for tenant improvements at the Fire Hall. This debt is partially offset by rental income from the Grant County Emergency Communications Agency, which is the City’s tenant. The remainder of the debt is paid from enterprise funds or is otherwise restricted for a specific project or use.

The City has applied for a grant and loan for the new wastewater treatment plant through USDA Rural Development’s Water and Environmental Program (WEP). This application is currently under review. The WEP program will provide the balance of the City’s funding to complete the wastewater treatment plant project. The WEP award will also assume Loan L17011, which was used to purchase the Oregon Pine property for the new treatment plant. As a result, once this loan is originated, the City will still only have six loans in its portfolio.

The USDA WEP loan will require interim financing before the loan is originated. The City passed a resolution authorizing D.A. Davidson to act as the City’s placement agent and Hawkins, Delafield and Wood as the City’s bond counsel for this borrowing. Their work will begin once USDA issues it’s eligibility letter for the project financing.

In 2016, the City’s long-term liabilities were \$2,591,659. Compared to the City’s long-term liabilities of just over \$6 million today, the City’s debt has increased by \$3.5 million over the past six and a half years. Total grant funding received for City projects during this timeframe, including externally administered awards, increased by \$28,241,852. As a result, the City has received eight dollars in external funding for every dollar borrowed: a leverage ratio of 1:8.

D. Inter-fund Loans

Inter-fund activity is reported on the City’s financial statements as loans, service provided, reimbursements or transfers. Loans are reported as inter-fund receivables or payables, as appropriate.

Loans are due from the General Fund and Fire Department to the Water Fund for their portion of the WaFd consolidation loan payment, and from the Rural Fire Protection District to the City for their portion of the WaFD loan payment, as shown in table 2.

Table 2. Inter-Fund Loan Obligations

Due To	Due From	Loan Amount	Interest Rate	Maturity Date	Authorizing Resolution
Water Fund	General Fund, Fire Department (Stella Lang Note)	\$60,994.59	3.34%	12/01/2027	18-794-18
Water Fund	General Fund, Fire Department (Fire Hall Renovation)	\$306,345.97	3.34%	12/01/2027	19-800-01
General Fund	John Day Rural Fire Protection District	\$168,976.66	1.5%	12/01/2037	19-801-02
<i>Water Fund</i>	<i>Urban Renewal Fund</i>	<i>\$587,326</i>	<i>3.1%</i>	<i>12/01/2032</i>	<i>22-900-21</i>
<i>General Fund</i>	<i>Community Development Fund</i>	<i>\$464,000</i>	<i>TBD</i>	<i>TBD</i>	<i>22-901-22</i>

Two new inter-fund loans will be needed to cover the pre-agreement expenditures and to document cash flow payments from the City to project-specific funds for the Urban Renewal Agency and Aquatics Center. These inter-fund transfers are shown in italics in Table 2. Inter-fund capital loans may be issued for up to 10 years for public improvements. Operating loans may be issued for up to 12 months for operating expenses as authorized by Oregon Revised Statutes 294.468.

E. Bonds

On February 18, 2015, the City issued \$655,000 in voter-approved bonds for the Fire Hall construction. The bond rate is fixed at 3.07%. Interest payments are made semiannually on

June 1 and December 1. Principal payments began June 1, 2016 and will continue through June 30, 2030.

Recommendations:

- (1) Create a summary of ongoing grant reporting requirements for the City to maintain compliance with its grant obligations;
- (2) Annually review the interfund loan obligations to ensure compliance and reporting between funds and agencies;
- (3) Coordinate with Grant County Digital as the lead agency for the broadband initiative to ensure the ReConnect grant obligations are understood and met;
- (4) Coordinate with ODOT as the lead agency for the 395S Sidewalk Project to ensure the City's obligations are understood and met;
- (5) Should you decline the DAS grant agreement, pass a new resolution documenting the council's decision and rescind the prior resolutions' commitments for the council's official records.

II. Contracts

The City has 24 active contracts with a total award value of \$3,941,091 (**Exhibit G**). Each contract is associated with a specific public improvement and funding source. These contracts cannot be rescinded, canceled, or amended without significant financial consequences for the projects and the City.

Two contracts are currently past their deadlines:

- KFR-7thStreet-092822: The Knife River award for 7th Street Improvements delays resulted from change orders issued by city staff and were anticipated. We will update this and extend the project completion deadline through June 30, 2023.
- TDW-SW4thAve-081022: Tidewater's failure to meet its award deadline for SW 4th Avenue was not the result of change orders issued by the City. Their performance obligations are currently under review by the city attorney to determine if liquidated damages or other remediations are warranted.

Recommendation: The incoming council should review and discuss any changes to the contracts portfolio with the city attorney if any changes are anticipated. Otherwise, the contracts portfolio should remain unchanged, and the contracts should be allowed to continue as awarded until their completion deadlines.

III. Capital Projects

The City currently has \$26,380,508 appropriated for 34 capital projects (**Exhibit H**). Projects with a numbered funding source are paid for through special-purpose grants and loans

that are restricted for those projects. Projects without a numbered funding source are paid for through the City's funds or through unrestricted grants.

Recommendation: As with the City's contracts portfolio, the incoming council should review and discuss any changes to the capital projects portfolio with the city attorney if any changes are anticipated.

IV. Property Transactions

The City has completed 41 property transactions with a transaction value of \$4.3 million since 2016 (**Exhibit I**). Some of these transactions have ongoing financial obligations. They are:

- Hill Family Park and Gleason Park and Pool. The purchase of the Hill Family Park and Sale of Gleason Park and Pool both contained specific provisions related to the property management and land sale proceeds. The Hill Family Park purchase and sale agreement obligated the City to donate the land proceeds toward the new pool if a pool is built within five years of the sale (by July 24, 2023). Otherwise, the city council may repurpose these funds at its discretion. The Gleason Park and Pool sale required the City to erect a historical marker for the pool at the former Gleason site upon completion of the new Kam Wah Chung interpretive center.
- Grant County Library Parking Lot. The City's purchase of the Grant County Library's parking lot on NW Canton Street required the City to apply for a Community Development Block Grant for the Library. This application was submitted in the fall of 2022 but was not awarded due to USDA's matching funds being uncommitted at the time of application. A second round will open in the Spring and the City may reapply if additional funds are committed for the project. The sale agreement also requires the City to provide improved access via 7th Street to the new library site.
- Culley Property Line Adjustment. The Culley PLA required the City to grant access to the new 7th Street upon completion of the improvements within five years of closing (by October 14, 2026). It is at the Public Works Director's discretion where to grant the driveway access. This agreement does not require the City to improve 7th Street but does require the City to grant access to the nearest right of way in the event 7th Street is unimproved. This agreement must still adhere to the requirements of the John Day Development Code, specifically Article 5-3 Community Design Standards.
- Airport Industrial Park Land Sales. The City is negotiating with Benjamin Ariff and Benjamin Gates for the sale of Lot 20 of the Airport Industrial Park based on a letter of intent submitted in June 2022. The negotiations are pending approval of the code amendment allowing residential dwellings in industrial zones that the city council will review on December 29.
- Business Park Land Sales. The City has been discussing with several interested parties their interest in land at the Innovation Gateway business park. No part has submitted a letter of intent as we are waiting to record the

final plat and the contaminated media management plant (CMMP), which will apply to Lot 11 retained by the City for the community solar project.

- Greenhouse Lease Agreement. The city attorney is drafting the lease agreement for the greenhouse. We have not yet recorded this agreement. We are waiting for the final plat to be approved to place the greenhouse on its loan lot. Business Oregon also has to approve the lease agreement and land partition. The lease will be retroactive to October 1, 2022, once approved.
- Urban Renewal Joint Developments. See notes in URA Section V.

Recommendation: The City should maintain a compliance checklist for these agreements, as each has specific terms and conditions.

V. John Day Urban Renewal Agency Financial Obligations

The John Day URA is a separate legal entity from the City. Its financials are recorded in the City's budget as a blended component unit. Still, as a separate entity, its budget must be approved through its budget hearings process with the URA board of directors. The URA's financials are also audited both as a blended component unit in the City's financial statements and independently as part of the URA's annual audit. Finally, a yearly report of the URA's financials is required by Oregon Revised Statute 457 and the Oregon Department of Revenue, which must be published in the Blue Mountain Eagle and sent to each affected tax jurisdiction.

In addition to these core management responsibilities, the URA has primary financial responsibility for the East Charolais Heights capital improvement project at Holmstrom Heights and the incentive payments for the joint development agreements with Ironwood Estates and The Ridge.

All three joint development agreements contain extensive legal obligations on the City and the developers' part, including future platting requirements, reimbursements and grantee obligations, and right-of-way dedications. A full assessment is beyond this summary's scope.

Recommendation: The council should coordinate closely with the city attorney and city manager to ensure the conditions of the three joint development agreements are satisfied, and the City can meet its ongoing reporting obligations for the URA.

VI. Transient Lodging Tax Administration

The City contracts with the Department of Revenue to manage its Transient Lodging Tax (TLT) receipts. TLT revenues are co-mingled with the Community Development Fund receipts in Fund 10. Oregon Revised Statutes 294.468(4) authorizes the commingling of cash balances of funds so long as all such fund moneys are segregated in the budget and accounting records.

The Department of Revenue provides a quarterly TLT report to the City's TLT administrator. The report identifies total returns filed, failure to return file assessments, rental types, collector types, and local tax information, including dollars directed to the local

government. The Department's cost per quarterly is \$110 to administer these funds, which is a great value for the City.

Recommendations: The City will need to designate a new TLT administrator, which may be the City Manager. The City should continue to use the Department of Revenue's services. The city council should not outsource this function to a third party as it would require significantly more cost than \$110 per quarter and would likely result in accounting and compliance issues with the City's budget that could put these funds at risk.

VII. Summary

Though John Day is a small city with only 14 paid staff, it manages a highly complex financial and capital projects portfolio. The incoming city council should consider hiring a full-time community development director, planning official, or another role to manage and oversee these funds. The city council may also want to consider contracting with a private company to assist with the financial and planning processes to ensure the City maintains compliance with its financial, economic, and land use obligations in the future.