

City of Grants Pass



June 24, 2005

Citizens of Grants Pass
Mayor Holzinger and Councilors
Budget Committee Members
City Personnel

Fiscal Year 2005-2006 Budget Message

Introduction

I am pleased to present to you a balanced and comprehensive operating budget for the fiscal year 2005-2006. Grants Pass is a strategically motivated municipality, whose direction is annually defined and affirmed by the governing body through goal statements. From these goals a Work Plan is developed and operating performance measurements are defined, both serving as the foundation upon which this budget has been build. Not only balanced but simultaneously insuring reserves to carry forth into the future, this budget, through its allocation of resources, communicates and defines your priorities for the ensuing year.

Originally presented to you in the spring of 2004, as projected costs for the second year of a two-year budget, modifications have been minimized. Generally speaking continued growth and its variety of impacts, from assessed property values to customer service demands, together with personnel costs, are attributable for the predominance of changes in the Adopted FY'06 budget.

Our community is experiencing the phenomenon of having been "discovered", as is the entire Southern Oregon region. We are in a great location, with incredible natural amenities within several hours' drive, that has drawn young and retirees alike. With housing permits continuing to exceed past years record breaking statistics and continued commercial growth, the demands for city services has never been greater. Geographically expanding boundaries add to this influx impacting the ability of many operating divisions to meet performance measurements easily achievable several years ago. Other outside factors, PERS

and health insurance costs, will continue to have significant impacts on the operating budget of the City. While all communities throughout the state have the same employee benefit cost challenges and many, like Grants Pass, are growing, we are only one of eleven municipalities who are not reducing services or personnel, or both. By anticipating financial issues, forecasting revenues and trending operational and maintenance needs over the last ten years, and for the next four years, the City has designed and implemented a fiscal plan that provides for continued progress.

City Council Goals

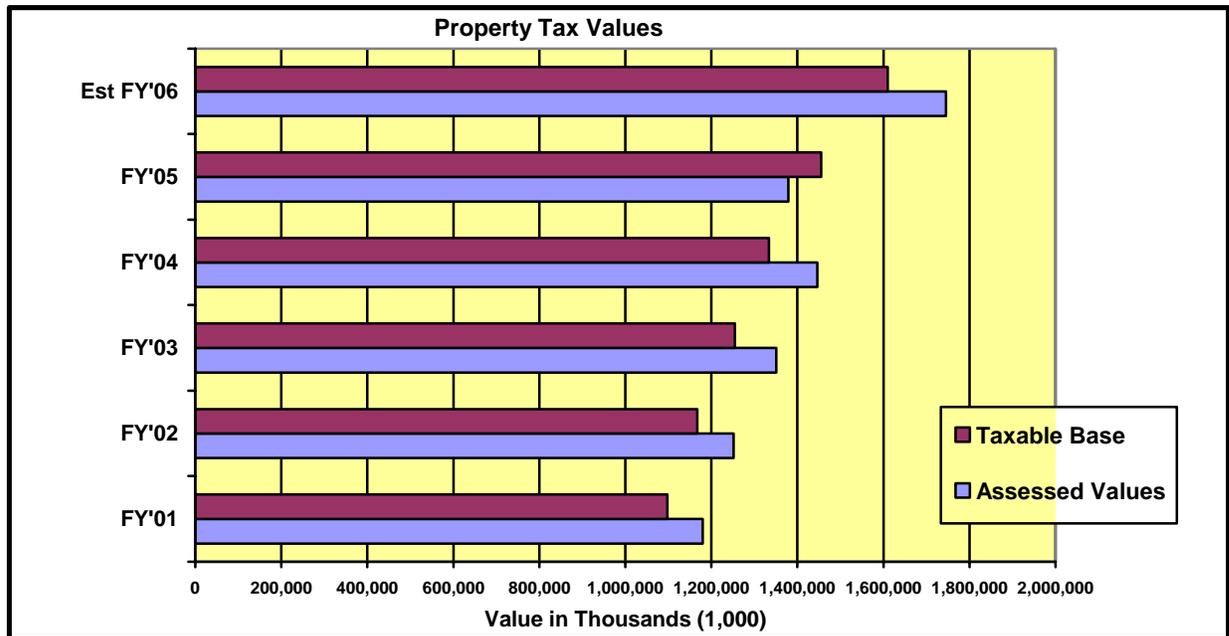
During the Council’s retreat in January 2005, the Council reaffirmed the importance of maintaining “a home town feel” to the community, a community that:

- ▶ Feels safe and IS safe
- ▶ Places emphasis on the central role of the Rogue River
- ▶ Protects our natural environment
- ▶ Enhances and expands parks and recreation opportunities
- ▶ Upgrades our ability to respond to growth, and to effectively manage the impact of growth
- ▶ Assures the opportunity for economic development
- ▶ Assures base services are effective and efficient

It is the themes of these goals that serve as the foundation for this budget.

Overview for FY’06

Assessed Values



Growth, residential, commercial and industrial, resulted in FY'05 assessed value increases of 9.20%, or about \$133M dollars. Construction valuations from 2001 to 2005 rose 150% going from \$41M to \$103M with 60% of that growth taking place in single family valuation. In addition to the number of single family construction permits increasing from 210 to 350 during that period of time, the ratio of construction values changed. In 2001 only 1% of permits issued were valued over \$300,000; that ratio increased to nearly 7% three years later. State property tax regulations mandate that new development to be added to the tax roles based upon the ratio of average assessed value of like properties to the average real market value of those properties. For FY'05 this ratio was 66.1%. This combined with the constitutional limitation of 3% annual assessed value growth on existing values slows the taxable potential for the community.

Despite these limitations, Grants Pass total taxable values have increased as noted; the speed of new construction is the basis for the new values, combining with the annexations. Annexation of 241 acres with a value exceeding \$34M, approved by the voters in November 2003, added to this fluctuation. With the annexation of another 257 acres, valued at \$50M, approved by the voters in November 2004, and assessments estimated to increase a minimum of 7.18% in FY'06, these values are expected to result in an increased tax base levy of \$639,000.

Property Tax Rates				
	<i>Permanent Rate</i>	<i>Public Safety Local Option Levy</i>	<i>Water Debt Levy</i>	<i>Total City Rate</i>
<i>FY'97</i>	4.09		0.29	4.38
<i>FY'98</i>	4.1335	1.03	0.32	5.4835
<i>FY'99</i>	4.1335	0.85	0.31	5.2935
<i>FY'00</i>	4.1335	0.85	0.3	5.2835
<i>FY'01</i>	4.1335	0.85	0	4.9835
<i>FY'02</i>	4.1335	0.85	0	4.9835
<i>FY'03</i>	4.1335	0.85	0	4.9835
<i>FY'04</i>	4.1335	0.89	0	5.0235
<i>FY'05</i>	4.1335	0.89	0	5.0235
<i>FY'06</i>	4.1335	1.49	0	5.6235

This, together with the new 4-year Public Safety Local Option Tax of \$1.49 approved by the voters in November 2004, is estimated to generate a total of \$9.254M in tax revenue, all dedicated to the provision of Public Safety services – Police, Fire, Street Lighting, Crisis Support and Code Enforcement.

Service Challenges

Growth presents challenges. Grants Pass, the predominant commercial and economic base of the county, serves a work day population of over 40,000,

compared to the boundary population of 24,790. This strain, particularly on police and fire resources as documented by increasing call volumes, will continue to be a test of our innovative ability to maintain current service levels. In addition to population, the physical size of our jurisdiction and its extensions into the urban growth boundary continues to expand resulting in greater response times. From Public Safety calls to utility service requests, building construction inspections to site plan inspections, they require more travel time. While each instance may account for only five minutes, when collectively considered they reduce productive time. To date there has been no indication of any slow-down in the expansion we are experiencing.

Throughout the budgeting process management is always challenged to consider alternative ways to more effectively and efficiently deliver services. An example of this is our integrated Public Safety agency where they look forward to having their first cross-trained police officer/fire fighter completing his police field training work by July.

Other examples of strategies and operational policies we have implemented include:

- Cross trained water and wastewater personnel
- Partnership agreements with other governments
- Partnerships with non-profit organizations
- Developing Intergovernmental Agreements
- Private sector contracting
- Extensive use of volunteers
- Innovative financing systems

With these innovations it still takes professionally trained and skilled staff to provide leadership to this multi-million dollar and complex organization, to be able to anticipate and plan for the future while meeting the present demands. To meet demands of growth, the need for additional staffing has arisen.

No part of the organization has been untouched by the impact of growth we are experiencing – from planning services, building and safety inspections, utility customer service, site plan reviews of new subdivisions to traffic issues and the demand to extend facilities.

Originally projected to include three new positions all in Public Safety in the FY'06 budget, the Adopted FY'06 budget calls for a total of eight. With the predominance still in Public Safety, the additions are based upon the increased customer service needs. Development generated service needs and the respective fees support the need and partial cost of the additional position in the Planning division. The additional positions in Administrative Services and Support Services respectively are funded by direct and indirect charges to operating divisions. A detail of full time positions and their respective allocation by division is provided in Appendix M.

Summary of FY'06 Personnel Additions		
General Fund	Public Safety	* Community Service Officer
	Public Safety	Police Officer (School Resource Officer)
	Public Safety	* Fire Prevention Specialist I
	Public Safety	* Public Safety Clerk
	Public Safety	Office Assistant I for Code Enforcement
	Planning	Assistant Planner
Admin. Services	Admin. Services	Office Assistant I
Support Services	Engineering Services	Department Support Technician

* Denotes position was included in the Projected FY'06 budget.

Public Employees Retirement System (PERS)

The City is a Public Employees Retirement System (PERS) member with both the employee and the employer contributing to the plan. Based upon subject wages, the employees contributed a fixed 6%. The individual employer's cost, based on actuarial data prepared by PERS, was last updated in 2002 and resulted in a rate of 11.51% effective July 2003. An updated report, based upon 2003 data together with the impacts of legislative changes, reports a multi-step rate increase, with the first phase effective July 1, 2005. Increasing from the current rate of 11.51% to 16.05%, employer retirement costs by July 1, 2007 are expected to be 20%. Rates for employees hired after August 2003 on a different PERS plan are expected to increase 2%. These adjustments, released by PERS the end of March, have significant cost impacts.

Two years ago when PERS revised their rates downward, in responding to pressure from state legislators and other governmental employers, the City elected to charge itself the higher rate. The difference between the self-imposed rate and the monies due PERS were deposited into a fund as a reserve, recognizing that the rate reduction was simply a Band-Aid to a major system problem. The Adopted FY'06 personnel costs include no change from the self-imposed PERS rates implemented two years ago. Now, faced with this "last minute" announcement by PERS, the City intends to utilize the reserve monies to make up the difference, about \$120,000.

With the ruling from the Oregon Supreme Court announced in March, regarding earlier legislative changes and another case still pending before the Oregon Supreme Court, we anticipate many more modifications to the actuarial studies and possibly more legislative changes which will hopefully result in a smaller rate for July 2007.

Health Insurance Costs

Not unlike other entities, the rising cost of health care premiums has added significant employment costs to the operating budget. Management has developed

an employee insurance committee to work with us to contain the costs of medical insurance. Despite the work of the Insurance Committee, an employee based group comprised of representation from all labor groups as well as management as the City's Agents-of-Record, the City incurred premium increases in excess of 20% in both January 2004 and 2005. Utilization, coupled with higher medical and prescription costs were the causes. We have already been advised to expect a similar increase January 2006. Currently the City pays \$814 per month towards a family coverage plan including medical with prescription, dental and vision. These costs have been and will become an even more important element of compensation discussions as we continue to strive to achieve a health care package that is reasonable in cost and content for both the employer and the employee.

Labor Contracts

At the close of calendar year 2005, the three-year labor contracts with both the Grants Pass Police Association and the I.A.F.F. Firefighters respectively will expire. Negotiations will be underway at the start of the new fiscal year. While each group has actively been part of the Insurance Committee discussions over the past three years, it is a poignant issue, one that resulted in arbitration earlier this year. While Council has been consistent and firm in wishing management to control costs, Oregon labor laws and the potential for binding arbitration taking the final decision from management make it extremely difficult. Dependent upon the respective outcomes of above mentioned agreements, Public Safety costs effective January 2006 will be impacted.

Budget FY'06 Highlights

The Adopted FY'06 Operating Budget is up a net 3.65%, when discounting the impact of ending fund balances, contingencies, and transfers. Originally projected to total \$20,408,363 representing a 5.43% increase from FY'05, the major changes contributing to the additional \$784,397 are outlined below:

Summary of Operating Expenditures				
	Adopted FY'06	Projected FY'06	Change in Dollars	% Change
Total Operating Budget	\$ 29,502,096	\$ 26,990,568	\$ 2,511,528	9.31 %
Less Ending Fund Balance	3,676,784	2,320,402	1,356,382	58.45 %
Less Contingencies	1,019,615	855,000	164,615	19.25 %
Less Transfers Out	2,522,126	2,334,200	187,926	8.05 %
Net Operating Budget	\$ 22,283,571	\$ 21,480,966	\$ 802,605	3.74 %

Factors Contributing to Adopted FY'06 Changes	
•Three additional staff positions, of which one, a Police Officer, is dependent upon funding from a Homeland Security Grant	\$149,884
•Anticipated contracts for Planning work, dependent upon grant funding from State of Oregon, DLCD	\$100,000
•Code Enforcement Program – formerly included as a capital project appropriation	\$ 96,498
• Homeland Security Grant for Public Safety Mobile Data Terminals	\$ 96, 492
•Increased internal Engineer services, the result of customer inquiries and development	\$ 61,196
•Additional administrative overhead charges of 8%, the result of increased appropriations	\$ 83,809

Personal Service increases, aside from the addition of positions, also reflects the Cost-of-Living adjustments (COLA) effective January 1, 2005 and its impact on future compensation. While the current year's budget provided for a 2.0% adjustment, the actual COLA was 3.2%, effective January 1, 2005. For the first half of FY'06, the period July 1 through December 31, 2005, this has an impact of approximately \$115,000. As noted earlier, the renewal of labor contracts will present difficult issues with considerable financial implications.

Summary of FY'06 Operating Expenses				
	Adopted FY'06	Projected FY'06	Change Rec vs. Projected	% Change
Personal Services	\$ 12,000,603	\$ 11,750,022	\$ 250,581	2.13 %
Materials & Supplies	916,646	908,304	8,342	0.92 %
Contractual/Professional Services	4,881,364	4,656,381	224,983	4.83 %
Direct Charges	1,371,374	1,233,407	137,967	11.19 %
Debt Service	1,072,603	1,072,603	-0-	-0-
Capital Outlay	404,860	308,545	96,315	31.22 %
Indirect Charges	1,636,121	1,551,704	84,417	5.40 %
Total	\$ 22,283,571	\$ 21,480,966	\$ 802,605	3.74 %

From a historical perspective Adopted FY'06 operating costs are up 9.10% from Revised FY'05. Of the \$1.9M increase, \$1.3M occurs in the General Fund Public Safety and the Development programs. Personnel costs related to compensation and benefits increased \$673,821 in Public Safety of which \$279,950 is attributable

to new positions, the difference generated by step increases and insurance premiums costs. While \$110,000 of new costs in the Development program are linked to an anticipated DLCD grant and would be consumed for contractual services, \$210,625 of the remaining difference is attributable to salary and benefit costs, of which \$48,500 covers the addition of one Assistant Planner. With the majority of the Development program staff with less than five years of service, their progression through the compensation steps together with guaranteed bonuses have added to the difference.

In the enterprise activities, the largest change has occurred in the Wastewater program. With the completion of the Phase I Secondary Treatment project, annual debt payments of \$395,250 on the \$7.0M Oregon DEQ loan commence in September 2005. A decline of \$189,789 in JO-GRO™ costs, the result of equipment acquisition in FY'05, offset the increase.

Historical Operating Cost Comparisons						
Program	Revised FY'04	Revised FY'05	FY'05 vs. FY'04 % Change	Adopted FY'06	FY'06 vs. FY'05 Dollar Change	FY'06 vs. FY'05 % Change
Public Safety	\$ 8,708,767	\$ 9,434,911	8.34%	\$10,351,095	\$916,184	9.71%
Parks	1,202,745	1,378,988	14.65%	1,441,968	62,980	4.57%
Development	2,104,119	2,388,883	13.53%	2,745,634	356,751	14.93%
Policy & Leg.	274,628	178,669	(34.94%)	176,025	(2,644)	(1.48%)
Sub-Total	\$ 12,290,259	\$13,381,451	8.88%	\$14,714,722	\$1,333,271	9.96%
Transportation	\$ 1,060,021	\$ 1,221,179	15.20%	\$1,266,871	\$45,692	3.74%
Water	2,481,257	2,804,620	13.03%	2,815,986	11,366	0.41%
Wastewater	2,502,849	2,676,588	6.94%	3,144,908	468,320	17.50%
Solid Waste	1,726,259	340,306	(80.29%)	341,084	778	0.23%
Sub-Total	\$ 7,770,386	\$7,042,693	(9.36%)	\$7,568,849	\$526,156	7.47%
Total	\$ 20,060,645	\$ 20,424,144	1.81%	\$22,283,571	\$1,859,427	9.10%

Forecasting Revenues

Various approaches were applied to the forecasting of revenues. For property tax five-year historical trends were considered in addition to the current taxable value of lands newly annexed during the current fiscal year. A practical consideration of lands in the urban growth boundary currently bound by City Service and Annexation agreements and which could become annexed to the City in future years were added to assessed value estimates.

Year	Assessed Value	Value Growth
1999	1,068,703,948	3.50%
2000	1,129,100,398	5.65%
2001	1,180,905,168	4.59%
2002	1,253,169,191	6.12%
2003	1,350,701,461	7.78%
2004	1,446,214,463	7.07%
2005	1,579,322,858	9.20%
2006	1,745,185,040 Est.	10.50%

Other taxes, the predominance of which is Franchise Taxes, are projected on historical trends. License and permit fees were forecast on the preceding year's activities and current year-to-date data. These revenues, largely generated by development, continue to surpass historical trends. Actual terms of contractual agreements, such as with the Josephine County Sheriff's Department for dispatch services, together with estimates generated by the League of Oregon Cities for distribution of Gas Tax revenues, Liquor Tax and Cigarette Tax receipts serve as the basis for determining revenues from other governmental agencies. The substantial change of \$590,906 in Other Agency Revenue from Projected to Adopted FY'06 is attributable to Gas Tax monies, anticipated new grants and a new contract with the 9-1-1 Agency for administration services.

User fees, the major revenue source for the utility funds, are projected utilizing actual histories. In addition, projected housing starts, new commercial and industrial development, as well as actual average water utilization by class are considered in the mix. System Development Charges, revenue that is development driven, are projected based upon current year activity.

Summary of FY'06 Operating Resources				
	Adopted FY'06	Projected FY'06	Change Rec. vs. Projected	% Change
Property Taxes	\$ 8,841,153	\$ 8,432,538	\$408,615	4.85%
Other Taxes	2,431,064	2,309,814	121,250	5.25%
Licenses & Permits	1,018,050	915,900	102,150	11.15%
Fees in Lieu of Franchise	10,000	-0-	10,000	100.00%
Other Agency Revenue	3,052,061	2,461,155	590,906	24.01%
Fees & Charges	8,549,264	8,229,191	320,073	3.89%
Transfers In	841,529	801,529	40,000	4.99%
All Other Revenues	1,265,138	1,413,392	(148,254)	-10.49%
Beginning Balance	3,493,837	2,427,049	1,066,788	43.95%
Total	\$29,502,096	\$ 26,990,568	\$2,511,528	9.31%

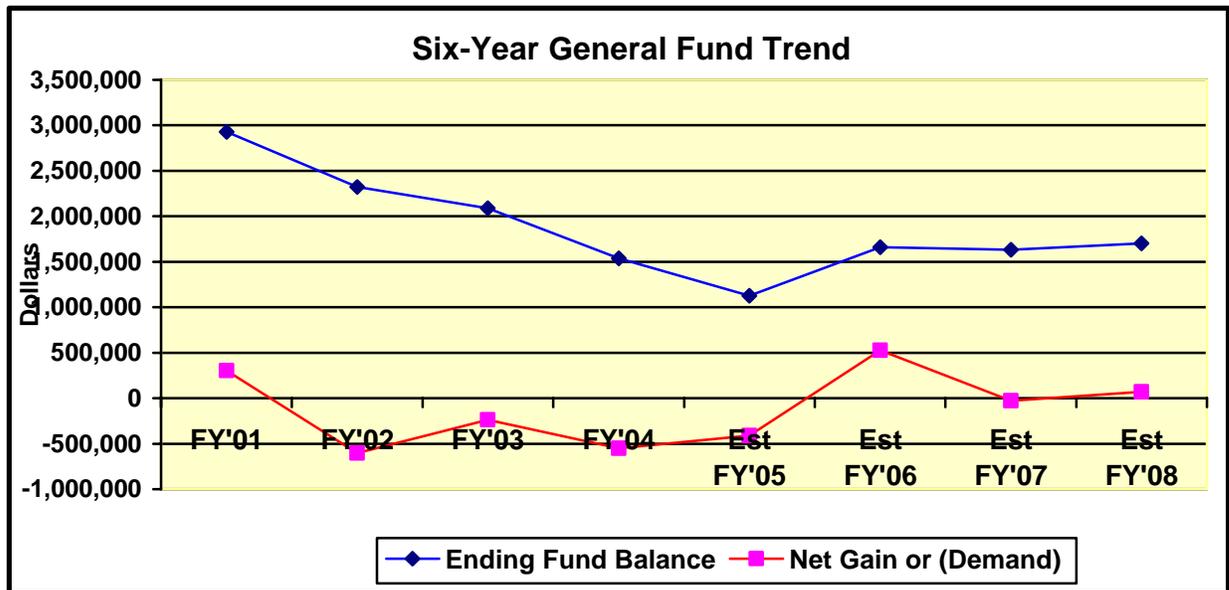
A summary of the City's major revenue sources appears in Appendix L. The nature of the revenue, it's ratio to the total program's resources and the basis of developing that particular revenue is identified.

General Fund

The General Fund comprised 69.3% of the operating budget. Traditionally property taxes serve as the major source of funding for general government services: police, fire, parks, recreation, and planning services. Grants Pass dedication of all property taxes exclusively to the Public Safety program is still insufficient to maintain service levels, requiring funding to be augmented by General Support revenues, largely franchise fees.

After much discussion and several public hearings, including the Budget Committee as well as the governing body in the spring of 2004, a local option levy was put forth to the voters in November. This four-year measure, to commence FY'06, of \$1.49/\$1,000 assessed value was a substantial increase from the previous \$.89/\$1,000 approved in March 2003. Approved by a double-majority of the voters, this funding provides for additional personnel, spaced over the four year period, and meets the Council's objective of maintaining service levels.

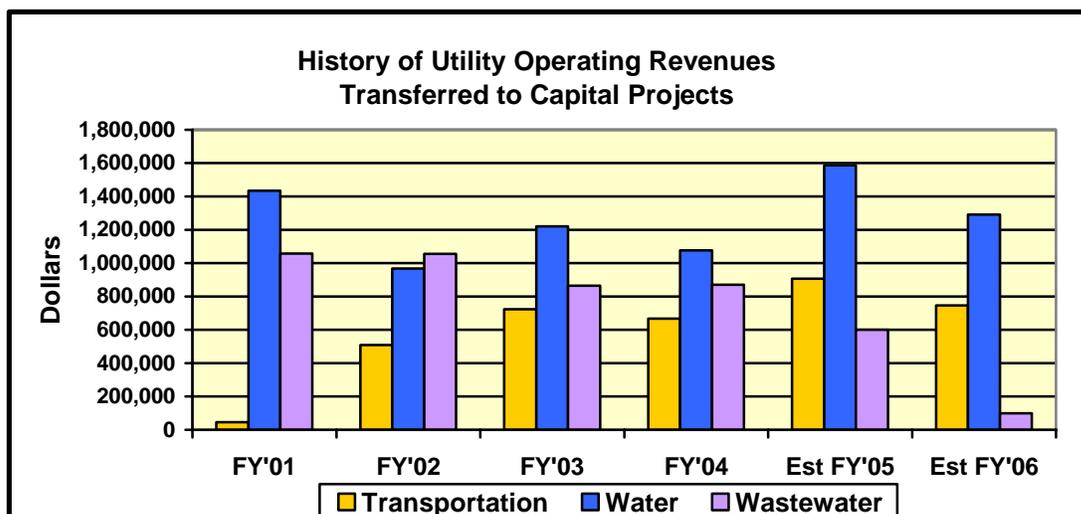
The graph below shows how the General Fund's balance was being quickly depleted. Despite innovations and a significant reduction of General Fund dollars to infrastructure needs, operating expenditures were exceeding revenues. With the new local option tax coupled with a new contract providing administrative services to the 9-1-1- Agency, reserves are showing an increase at the end of FY'06, with a balance of \$1.6M compared to projections of a year ago of \$590,000. It is critical that monies be set aside for the last several years of the local option levy. Pending legislation at the state that could severely hamper any city's ability to annex lands into the corporate boundary, together with a slowing in assessed values, could result in insufficient tax revenue to support Public Safety without sacrificing other General Fund activities.



Other Funds

The “Non-General” or “Other Funds”, comprise 30.7% of the total budget. These funds, Transportation, Water, Wastewater and Solid Waste, have dedicated revenue sources that are tied to their specific programs. While user fees generate the bulk of revenues for water and wastewater, state gas tax coupled with a street utility fee provide the funding for street drainage and maintenance operations. The budget for each of the utilities is designed to transfer the difference between operating revenues and expenses annually to capital projects, making those monies available for reinvest.

Transportation is anticipated to provide nearly \$750,000 in FY’06 to capital projects for major street maintenance and safety improvements such as sidewalks, bike lanes and traffic signals.



Having not had user rates changes in over ten years, the water utility is challenged with increasing operating costs. While water consumption has certainly increased with customer counts, insufficient monies are available for operational improvements and system enhancements. Reservoirs to meet the needs of building in higher elevations, together with pump stations and upsizing on distribution lines, cannot be undertaken without rate changes to both user rates and SDCs.

Wastewater rates, last increased in 1994, generate only sufficient dollars to cover operating costs, leaving essentially nothing for infrastructure improvements. With completion of Phase I of the over \$11M Secondary Treatment improvements in FY’05, the utility commenced making annual debt service payments of \$495,000. Having contracted for a study of user rates as well as SDCs, the Council will be reviewing recommendations and adopting new rates in July for implementation in the fall of 2005. While both of these rate adjustments, and corollary SDC

adjustments, are under consideration, the potential revenue from adjustments is not included in this budget. The uncertainties of timing, hearings, potential adjustments, and similar issues preclude the ability to accurately predict the potential revenue generation.

Noteworthy FY'06 Topics

The Adopted FY'06 Budget includes many projects initiated by the Council during their goal setting process and reaffirmed by inclusion in the 2005-2006 Work Plan. Summarized below are comments on those major items that have the potential for long-range impacts, not just on the upcoming Adopted FY'06 Budget.

Strategic Financing Task Force

Initiated in December 2004, this task force is charged with evaluating alternate methods of financing the services identified by the Council over the next 20 years. They will evaluate potential alternatives and develop recommendations to the City Council for consideration, including the timing for implementation and specific actions. Comprised of 24 members, representing specific interests of the community, their discussions and suggestions would ideally cover a wide range of alternatives, the end result being funding sources linked to dedicated use of monies. It is anticipated that this task force will get underway in the fall of 2005.

Public Safety Station South of the River

Increased call volumes south of the river together with a temporary facility that has exceeded its useful life, has focused attention on planning for replacement. An architectural firm, working with representatives of the governing body as well as Public Safety staff, has prepared preliminary drawings, incorporating work and training space that would be mutually shared by both police and fire personnel. It is critical to the success of this endeavor, since funding will be a bond measure requiring voter approval, that decisions regarding site and extent of building size be addressed by the Council in a timely manner that would allow for a November 2006, general election vote.

Utility Rates and System Development Charges under consideration

During the Council's goal setting session, Council discussed the role of their proposed Strategic Financing Task Force, a volunteer committee charged with the reviewing revenue sources and making recommendations for additional revenue sources and their respective utilization. While the task force will deal with a number of financial issues, the Council directed immediate work to begin on the review of utility rates, water and sewer, as well as their respective System Development Charges (SDCs). In April, proposed rates were presented to Council for their consideration. Public workshops received input when the proposals were presented to Council in June for formal hearing. Staff was directed to prepare the appropriate ordinances and resolution for adoption in July with an effective date of

September for implementation of the new system development charge rates and a November implementation date for sewer charges.

Storm Water Utility/System Development Charge

With the approval of a Storm Water Master plan System Development Charge in 2004, work has commenced on creating a Storm Water Master plan for the entire community. A huge infrastructure obligation for which no current funding exists, storm water, its collection and deposit into water ways is getting increasing attention from regulatory bodies. Upon completion of the Master plan, anticipated in the spring of 2006, Council will receive recommendations regarding the implementation of the Storm Water and Open Space System. The current indications in the study indicate a Storm Water and Open Space Utility fee, similar to the monthly Transportation Street Utility Fee, as well as a System Development Charge, is the likely financial tool.

Code Enforcement Program

Initiated in the spring of 2005, after Council consideration over the last several years of various alternatives, the Code Enforcement Program is budgeted in Public Safety. The program has been designed to utilize a contract coordinator and one full time clerical position to coordinate the activities of current field personnel. The Coordinator, along with the clerical support, processes code activities and provides structure and discipline to the program.

Morrison Centennial Park and Redwood Park

As volunteers complete the creation of Morrison Centennial Park on Rogue River Highway, the City will assume responsibility for the on-going maintenance and upkeep of the 8.37 acre facility. A wonderful tribute and commitment initiated by the three local Rotary clubs, it adds critically needed softball playing fields to the community. Simultaneously it necessitates the City making additional resources available; approximately \$40,000 was added to the Parks budget in FY'06 to cover these new costs. Other community volunteers, interested in the development of the 8.81 acre Redwood Park, have worked with staff to submit a grant to fund the development of the park. If approved construction would most likely occur in FY'07. As growth continues and community members undertake the initiative to build parks, the City becomes the ultimate guardian of those lands.

Continue the Trail and Park System

An active trail system on Allen Creek, to Cathedral Hills, to Overland and Fruitdale Creek could add a total of over 10 miles of additional trails. Significant action toward the acquisition of land for the trail was made in this last year, and additional actions are planned for FY'06. While the major grants we sought for trail construction were not forthcoming, we will be able to proceed with segments of the work. Work on segments of the Rogue River trail will continue over years to complete the eventual total trail. Though the trail system will add maintenance costs to the operating budget for the community, the total community impact on community recreational opportunities will be immense.

Building Space

The municipal building, constructed in 1976, is at capacity. While at one time it provided ample space for staff and allowed for rented space to the Josephine County Housing Council and the State of Oregon Water Master, the building is close to capacity. The pending Public Safety station south of the river will allow space currently occupied by public safety functions to be relocated, permitting some additional time before building issues must be addressed.

Water Filtration Plant Improvements

Design work is currently underway for upgrade and expansion of the raw intake structure at the Water Filtration Plant. Prompted by requirements of the Endangered Species Act, this \$1.6M project will add capacity for future plant expansion. Funded by Water System Development Charge revenues, this project is just the beginning of system improvements necessary to meet the demands, both in terms of volume and distance that growth has placed on the system.

Capital Investments

As a thriving and growing community, Grants Pass develops a multi-year capital investment strategy for its enterprise as well as General Fund activities. New project requests and updates to the status of existing projects are developed by each department and presented for review by the Management Team during the budget review process. Each year the needs are evaluated and revised with options provided to the Budget Committee for consideration. While a majority of the projects for the two-year period FY'05 through FY'06 were represented in the previous year's budget deliberation, some modifications were recommended during the public hearings.

For the utilities the difference between operating revenues and operating expenditures, which is annually transferred to capital projects, serves as a key element in determining the extent that capital improvements can be undertaken. While the growth the community is experiencing has resulted in the receipt of significant System Development Charges fees, these monies by statute are limited for specific purposes.

The water and sewer utility capital improvement programs, adopted by Council in May 2005, identified required plant upgrades and capacity expansion requirements for both utility systems. Estimates for water system improvement needs through 2024 will cost \$33.4M while the upgrades, expansion and structural repairs to the sewer system, will require \$33.7M.

The sewer rate changes, anticipated to be adopted by the Council in July 2005, address the revenues necessary to meet the immediate needs of repairs and upgrades to the collection system as well as Phase II of capacity expansion at the

restoration plant. The rate study on water, anticipated to be completed and brought to Council for consideration the beginning of 2006, will include sufficient resources to meet regulation upgrades to the treatment facility and capacity expansion, both in terms of water lines, reservoirs and pumping.

FY'06 will see the commencement of modification work on the intake structure at the water filtration plant, a \$1.6M project. Other major water projects include the \$1.1M extension of lines in zone 2 to better serve homes in a higher elevation area as well as provide for future industrial development. The most significant sewer capital project is the Pine Street/Booth Sewer Replacement, a \$4.1M project ranked as a top priority in the Wastewater Collection System Master Plan adopted by the Council in September 2004.

The General Fund has the financial ability to commit \$300,000 to Transportation and Lands and Building Capital Project programs, the same as FY'05. This differs significantly from previous years when annual commitments of \$900,000 were the norm. Declining fund balance together with operating costs outpacing available general fund revenues resulted in an extremely conservative obligation to capital projects. Continued enhancements to Riverside Park received \$95,000 of the designation while \$85,900 was dedicated to downtown projects, decorative street lights, alley and parking lot improvements.

System Development Charges, Local Improvement Districts and dedicated capital financing revenues continue to provide the available funds to finance projects in Lands and Buildings and Transportation. Implementing the Council's goal of providing outstanding park facilities throughout the community, FY'06 capital projects emphasize acquisition of future park land, park development through partnerships with non-profit organizations, and river front trail construction.

Implementation of the Street Utility Fee in October 2003, the Storm Drainage System Development Charge in March, 2004 and the newly adopted Redwood Signal System Development Charge in April, 2005 have stimulated the City's ability to address a variety of transportation issues facing the community. This \$789,000, together with Transportation System Development Charges generated by development and contributions from the Redevelopment Agency, will provide a total of \$3.6M for these FY'06 projects:

- Overlay a series of streets through the community with a cost of \$585,600
- Widen and/or extend several roadways including West Harbeck Road, West Park and G.I. Lane with a cost of \$2.2M.
- Make sidewalk and pedestrian friendly improvements for \$393,300
- Commence the design work for a traffic signal at Dowell and Redwood Avenue, a total project cost of \$400,000.

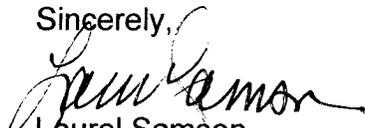
In Conclusion

We have an innovative government that is focused on value. Our employees demonstrate a willingness to create alternative solutions and value teamwork, while honoring the individual contributions of fellow employees, volunteers and our Governing Body. We have a system that believes in the future, planning strategically and working from the plans so that “we honor the past while building a hometown for our children’s children”.

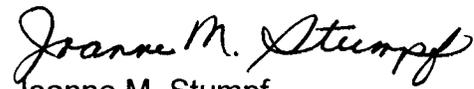
Grants Pass has changed. This operating budget adds capacity to the City organization, evolving to support the vision created by our elected officials.

We are delighted with the continued performance of our organization. Grants Pass provides a good value in the services we offer.

Sincerely,



Laurel Samson
City Manager



Joanne M. Stumpf
Administrative Services Director