

## Budget Message

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June 30, 2017

Citizens of Grants Pass  
Mayor Darin Fowler and City Council Members  
Budget Committee Members  
City Staff



## Budget Message for Fiscal Year 2017-18

### **BUDGET OVERVIEW**

I am pleased to present to you the balanced budget for the Fiscal Year 2017-18 (FY'18). Our budget and strategic planning process allows Citizens, Elected Officials, Committee and Commission members, and Staff an opportunity to contribute to the goal setting and strategic planning process. The Budget process starts with Council listening to the community, gathering their goals and desires and placing prioritized items in the Strategic Plan. A Work Plan is then developed that helps define the necessary resources to accomplish Council's Strategic Plan. These documents form the foundation allocating of resources to accomplish Council's goals. Operating resources have been assigned to maintain the level of City services that our residents and visitors expect. Capital project resources have been assigned to address the highest priority Strategic Plan and Work Plan items.

In an effort to make the budget a more effective communication and planning tool, this message provides a broad overview of this year's budget considerations. Followed by this message is a section that contains a funding matrix that describes how each City department and division is funded. The City's operating divisions in the General Fund such as Public Safety, Parks, and Community Development programs use a variety of both restricted and discretionary General Fund revenues. Each independent fund outside the General Fund contains unique revenue sources that legally can only be used for specific purposes. Each separate fund is an accounting mechanism to precisely track each restricted resource and to provide an accurate accounting of each operation as a cost center. The section of the budget book that follows this message also shows key financial budget summaries and some more detail on the key financial factors affecting this year's budget. The budget assembly process, format, financial policies, and how to read the budget, can be found in section "Budget Process & Financial Policies" that starts on page 87. Throughout the program budget narratives you will see a uniform format for the reporting of performance measures in each of the operating departments as the budget is much more than just a financial summary of operations.

## **Budget Message**

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### **Setting Direction**

Grants Pass is a strategically motivated municipality, whose direction is annually defined and affirmed by the Governing Body through a series of goal statements that reflect the values of the community. Council establishes the goals used to formulate the Strategic Plan. This year “Keep Citizens Safe” remained as the first goal on the Strategic Plan list as it has been and continues to be the City’s top priority.

The Strategic Plan serves as the foundation upon which the budget is developed. Through the Strategic Planning process, Council prioritized the potential work plan items that will help the City make those goals and objectives a reality. This operating and capital budget places an emphasis on the higher priority work plan items in the 2017-2018 Strategic Plan as prioritized by the City Council. Financial resources, if needed, are provided to projects and objectives identified as high priorities by the City Council and resources are assigned to operating divisions based on service level expectations communicated by our citizens and City Council. Staffing recommendations also closely follow these service level expectations.

### **Budget guidelines**

Thanks in part to Citizens’ support and successful past financial planning, Council directed Staff to present a budget that will provide the same level of service for all operating divisions. The Executive Team and Staff were given some specific guidelines for preparing the FY’18 budget. With limited growth in resources and expected cost inflation pressures in many of the most routine operational expenditures, general directions included the need to hold the line where possible on personnel and other expenditures. After a number of years of minimal changes to total staffing levels, this year’s budget does include additional staff in a few operating divisions in order to maintain current level of services while keeping up with the growth in the City and related demand for services in a growing City.

The City of Grants Pass budget document is prepared in accordance with best practices established by the Government Finance Officers Association (GFOA) to receive their Distinguished Budget Presentation Award. The City’s budget document has received this award for the past 32 years. This award program is considered the gold standard for budget reporting and the City of Grants Pass has a longer history of participating in this budget award program than just about any other public agency in Oregon.

### **Revenue overview**

Our City budget is primarily made up of three main pieces: General Fund, Enterprise Funds and Capital Improvement Funds. There are also some special revenue funds that collect certain restricted revenues and some internal service funds that provide support services to City operating and capital programs.

The General Fund makes up 27% of the City’s FY’18 budget. The General Fund is made up primarily of property tax, state-shared revenue, franchise (right-of-way) taxes on utilities,

## **Budget Message**

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and various licenses, permits, and fines. 61% of the General Fund revenue comes from property tax revenue, made up of both a permanent rate and a local option levy, and all of which is dedicated exclusively to Public Safety divisions. The General Fund finances many other basic services, including Parks and Recreation, Development, and others. The General Fund has the City's only discretionary revenue sources, which currently account for annual revenues of approximately \$5.1 million that are shared by all General Fund programs.

Close to 36% of the City's total FY'18 budget comes from Enterprise Funds, which include the Water and Wastewater Utilities. Almost no tax dollars support the Enterprise Funds because they are designed to be self-supporting through user fees. Users of these programs pay fees that support all the costs associated with delivering these services, and these fees cannot be used for any other purpose.

Capital Construction Funds account for approximately 15% of the total budget. This primarily represents the Lands & Buildings Capital Projects Fund and the Transportation Capital Projects Fund.

Special revenue funds such as Transportation, Transient Room Taxes, and others account for approximately 7% of the budget, and the remainder of the total budget comes from Debt Service Funds, Internal Service Funds, and the Trust Fund. The charts and graphs between pages 25 and 33 of the Financial Summary section show some more detail on the breakdown between revenues and expenditures of the general fund, enterprise funds, and other types of funds in this budget.

Our history of sound fiscal policy and management is attributed to the leadership of City Council, community engagement and professional Staff. A few examples of the actions taken include: 1) creation of the intern program which provides college interns to assist firefighters; 2) the layoff of eight employees at the beginning of the construction industry downturn to extend the life of development services reserves; 3) use of Community Service Officers to relieve police officers of more routine duties; 4) Staff participation in health insurance planning and cost sharing; 5) responsible wage and salary changes in recent years for managers, supervisors, and the City's four unions in line with the City's peers through the use of compensation studies; 6) Staff working hard to turn back budgetary savings from operating budgets each year; 7) a successful annexation to recognize areas in the City's Urban Growth Boundary already being served by City services; 8) a continual and ongoing effort to assess and ensure operations are effective and efficient. Without these past actions, the City would not be able to continue to provide the same level of services in coming years without significant adjustments to annual revenue sources.

Some large capital projects are ahead for different City departments in the next year, particularly in Public Safety and in the Wastewater Utility. Thanks to many years of financial planning and prudent fiscal policies in the past, these major projects that only come along once every 20-30 years to meet the demands of a growing City will be tackled with limited use of external debt financing. The major Public Safety facility capital project should be accomplished without any external debt and the Phase Two Wastewater Plant expansion will use close to \$10 million of internal resources in combination with close to \$14 million of

## **Budget Message**

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bond financing resources. The more we can limit debt to tackle these necessary infrastructure projects, the lesser the long-term impact to the City residents and City ratepayers.

### **Voter approved levy**

This budget document includes the resources that the voters authorized through passage of the Four-Year Public Safety Levy in November of 2013. The approved levy provides an estimated \$5.3 million in FY'18 for City Public Safety operations which includes City Police, City Fire Rescue, and City Public Safety Support services. The current four year levy is set to expire June 30, 2018. The overwhelming support for the Public Safety Levy in the 2013 City Public Safety election demonstrates the community's desire for quality services.

With other discretionary General Fund support revenues assigned to Public Safety, the budget for FY'18 continues the same level of City Public Safety services. The four-year levy starting in FY'15 was set at the same rate as the previous three-year levy. At the end of this levy period, the City will have operated at the same Public Safety levy rate for a period of nine years. The resources provided by the levy should be sufficient to maintain current services through Fiscal 2018 in combination with a drawdown of General Fund reserves. If General Fund operations, including Public Safety divisions, continue working hard to return savings back to the General Fund each year, the drawdown won't be overly severe and the General Fund will continue to be within the City's financial policy guidelines at the end of the current four year levy.

### **Residents appreciate City services**

The empirical and statistical data gathered from the citizens of Grants Pass indicate that the residents appreciate the services provided by the City. Both the last vote for City Public Safety Funding and past annual citizen surveys demonstrated the community's desire to have City services maintained at the current service level. Phone surveys have been completed in recent years and show similar satisfaction results, and public forums on specific topics such as law enforcement in the downtown area point to satisfaction with current level of City services.

This budget has been prepared with an eye toward continuing to provide the high quality services the City has delivered over the years while acknowledging the more fiscally conservative stance that the local economy demands. Inflationary pressures on operations will not always match up evenly each year with revenue growth. The continuation of long-term financial planning is key to maintaining the services our Citizens expect today and in keeping the City's funds within established financial policy guidelines. Budget projections for the second year in FY'19 are incorporated into the budget book for informational purposes and to help plan for operations beyond FY'18.

## **Budget Message**

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### **Budget changes overview**

The budget book presents the last two years of actual budget results, the current fiscal year revised budget, the budget for the next fiscal year, and the fiscal year projection two years from now. For review of this budget it's important to understand the major budget or operational changes that occurred or that have been recommended between the fiscal years of FY'15 and FY'18.

The total adopted budget, which includes all internal service funds, carry-over balances, contingency balances, and capital project resources, is \$145,023,578, an increase to the current year's \$128,678,568 total budget. Of the \$16.3 million total budget increase, almost the entire amount is due to higher Capital Construction activity going on in the Water and Wastewater Enterprise funds in the next year. Construction on the Phase Two Wastewater Plant Expansion is expected to begin early in FY'18 (summer of 2017) and the projected bond offering for this project is approximately \$14 million, adding to total resources and the total budget for the Enterprise Funds this year. Extra resources are also being carried over in the Water Utility Capital Projects fund to begin the procurement and design process for the new Water Treatment Plant. The budgeted capital outlay in the Enterprise Funds in the adopted FY'18 budget is \$18.1 million higher than the current fiscal year's budget. Total Fund budget tables can be found in the appendix of the budget book, while operating budget summaries and other total budget summaries can be found in the financial summary section following this message.

The FY'18 Adopted Operating Budget, excluding contingencies, debt service, and transfers out to capital projects, totals \$39,317,635. This is up approximately \$2.0 million from the current year's \$37,342,159 Revised Operating Budget total. This increase is primarily due to the Police officer additions in Public Safety, bargaining unit salary schedule adjustments as a result of competitive wage studies, a new labor contract with the Grants Pass Police Association, and a few staffing additions in Community Development and Public Works divisions that are necessary to maintain current level of services for a growing City. Detail on staffing changes can be found on the following pages in this message.

The City of Grants Pass presents its annual budgets on the basis of calculating the cost of full capacity and full service for the whole year. In other words, personnel budgets, by far the largest expenditure category in the budget, assume that funded staffing positions are filled 100% throughout the year. Ultimately there is some staff turnover throughout the year as retirements happen or as staff leave service of the City. And management with the labor groups work hard to contain health insurance costs each year.

The General Fund programs average savings of 6% each year is a tribute to Staff's focus on keeping expenditures down. Extended financial projections for the General Fund assume this same rate of 6% expenditure savings each year, therefore the drawdown shown for the General Fund in this budget won't be as severe as shown. After the General Fund provides \$3 million in one-time capital project resources to a high priority Public Safety Headquarters and 9-1-1 facility capital project during FY'17 and FY'18, the General Fund should end next

## **Budget Message**

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fiscal year with a Fund Balance of between 30% and 31% of annual General Fund operating expenditures and at the low end of the Financial Policy range of 30% to 40%.

Josephine County's criminal justice system in recent years has been unable to provide services to the City's Public Safety Department at a level that the City's Police Division requires in order to operate effectively. In response to the County's service level, the City entered into a one-year contract with the County in each of the last four fiscal years for the exclusive rental of 28 jail beds in the County's adult jail. County voters recently approved a levy measure on the ballot in May of 2017 to provide for the operations of the County Adult Jail and County Juvenile Justice detention building, therefore this jail services contract will cease beginning in Fiscal 2018. The contract was funded through a temporary Jail Services Utility Fee, and that utility fee will no longer be on City utility bills beginning in July of 2017.

One additional change in the operating budgets this year is in the Storm Water utility fund. The City is required to meet more stringent permitting requirements for storm water management and is undergoing a rate study for a new Storm Water utility as well as a rate study for the Wastewater and Water utilities as part of one combined rate study project. This rate study is reviewing the capital and operating needs for all three utilities well into the future in order to maintain and expand utility infrastructure and provide the necessary resources for major capital projects ahead such as the expansion of the Wastewater Treatment Plant and the new Water Treatment Plant. While the rate study may not be finalized by the end of this fiscal year, a small amount of new Storm Water utility revenues have been placed in this adopted budget as it is anticipated the new Utility Rates will be partially implemented during FY'18. Modest rate changes will also be necessary for the Water and Wastewater Utilities in coming years in order to maintain the legally required financial operating ratios to service the bond offerings for major upcoming plant projects.

### **Staffing Levels**

With a growing City, the same level of service often requires additional staffing in certain years to keep up with the workload. This year, there are staffing additions in Parks and Community Development, Property Management/Downtown, Public Works, and Public Safety.

Similar to previous years, this year's budget continues to show a number of approved but unfunded staff positions that mostly date back to staffing reductions that took place between 2008 and 2011. Unfunded positions allow the City to more quickly react to demand for additional services throughout the year if additional funding and staffing levels are approved by the City Council. Compared to peak staffing levels in different City departments a number of years ago, there remains to be 17 approved but unfunded staffing positions in this year's budget. In the current fiscal year there are 19.5 unfunded positions in the budget, therefore 2.5 of the newly funded positions in the adopted budget are from positions that were approved in previous years but previously not funded. As an example, funding has been restored for an assistant planner position and a building inspector in order to maintain current service levels in a very active and busy development environment. There remain 12 unfunded positions throughout Engineering, Planning, Building, and PCD

## **Budget Message**

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Management compared to the peak approved staffing levels of a number of years ago. For more details on staffing histories in recent years and unfunded positions, please see pages 51-53 of the financial summary section that follows this section of the budget book.

## **PREPARING FOR TODAY AND THE FUTURE**

### **Public Safety**

In Fiscal 2019, the Public Safety Facility General Obligation Bond will be paid in full. This will represent a property tax reduction of \$.3866/\$1,000. For the last 10 years Public Safety built a modest amount of reserves in the General Fund to tackle the next major Public Safety facility need while minimizing the use of external debt. For nearly 40 years, the City Public Safety and 9-1-1 Headquarters has been maintained via a lease of space in the Justice Building attached to the County Courthouse. This space has now reached the end of its useful life to the City due to size, parking constraints, and seismic stability. Josephine County also has an interest in moving certain County operations into this space formerly used by City Public Safety and the County Sheriff.

After spending a significant amount of time reviewing options for a new City Public Safety and 9-1-1 Headquarters facility, the City is finalizing the purchase of a large single story facility near City Hall that used to be leased out by a State DHS program. The City's managed 9-1-1 call taking and dispatch operations will be the first to move into the new facility in order to help qualify for a large seismic grant renovation program and to increase the safety of 9-1-1 facilities as soon as possible. Major renovations to the facility will be done beginning in FY'18 and then other parts of the Public Safety headquarters operations will transition to the new facility. The Public Safety designated reserves in the General Fund will contribute \$3.0 million toward the facility and renovation cost; while the remainder of the facility cost will be provided by a mix of seismic grant funds and internal loans. Internal loans will be paid back over a period of no more than 10 years and after the loan payback period the City's Public Safety budget will benefit from operating out of an owned facility rather than a leased facility.

Public Safety programs are primarily supported by property taxes, dedicated revenues, and through the use of resources set aside in reserve. Property taxes have historically and continue to provide 80-90% of the budget for Public Safety. This practice assigns the most predictable and stable City revenue source to the highest priority City operating department. As with most years before 2016, General Fund discretionary resources, in addition to property taxes, must be directed to Public Safety programs to continue the current level of services. Without redirecting approximately \$1.3 million of General Fund resources to Public Safety functions, there would have been cuts roughly equivalent to at least eight police officer or firefighter equivalent positions from the FY'18 adopted Public Safety staffing levels. While the budget shows more general fund resources given to Public Safety than this \$1.3 million figure, Public Safety like all operating divisions works to achieve savings throughout the year and \$1.3 is the estimated General Fund resource use after accounting for the average 6% savings compared to full capacity budgets.

## **Budget Message**

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With the desire to ensure effectiveness and efficiencies in Public Safety operations, the City Council in FY'14 approved a PAVE (Performance Audit, Visioning and Enhancement Committee) project for all of Public Safety. Managed by the Council's PAVE Committee, the project provided a comprehensive analysis of the City's Public Safety operations today. This study and resulting prioritized recommendations, operations plan, became the basis for some high priority City Work Plan items in recent years. FY'16 two Police Officers, one Sergeant and two Dispatch positions were added and for FY'17 two additional Police Officer positions were included in the budget. Also part way during FY'17 the Council approved the addition of two supervisory officer positions to complete the staffing changes necessary to satisfy most of the data driven audit recommendations. In the FY'18 budget, the only new Public Safety staffing change is the addition of one Fire Inspector.

Three of the City Council's top 12 priorities for the 2017-2018 Strategic Plan relate to City Public Safety or County Criminal Justice operations funding. The primary near-term budgetary and operational consideration for the Grants Pass Department of Public Safety will be to renew the temporary local option Public Safety levy and to evaluate the City's interaction with the County's criminal justice system based on pending changes to County Justice program service levels. The current Public Safety Levy will provide funding for the City's Public Safety divisions through Fiscal 2018. The normal renewal schedule the levy renewal measure would be brought forward to City voters in November of 2017.

The City's Police division relies heavily on the Josephine County criminal justice system as do the rest of the Public Safety agencies in Josephine County. Any change in County Criminal justice funding and service levels will have a direct effect on the City's ongoing Public Safety planning efforts. As of the date of this letter, Federal Funding used to support Josephine County's criminal justice programs has expired and the County's justice programs are facing significant additional cuts to services starting in the summer of 2017 if no additional revenues are approved by County voters. This may have a detrimental impact on City operations, communities' quality of life, and economic development.

### **Parks & Community Development Department Remains Busy**

The City has realized a significant increase in development activity in the last few years. Development divisions such as Building Services and Planning Services continue to budget for increasing levels of activity. Both residential and commercial development activity has picked up significantly. Based on the numbers of new applications and pre-application meetings, this higher level of activity is expected to mostly continue into FY'18. The calendar year 2016 rate of inspections to building staff is higher than at any point in the last 10 years. The same can be said for the planning division where the 2016 level of planning applications per staff is much higher than any other year in the last 10 years and double the average ratio seen in the last 10 years.

While probably overdue based on busy development stats, this adopted budget includes funding for one additional assistant planner in the planning division and one additional inspector in the building division to maintain current level of services. Both positions were



## **Budget Message**

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unfunded in previous years and as previously stated the total staffing levels are still on the conservative side with 12 unfunded positions remaining throughout Community Development divisions compared to peak staffing levels many years ago. Community Development divisions also participated in the most recent City PAVE Committee (Performance Audit Visioning and Enhancement) project and staffing changes for the FY'18 adopted budget agree with recommendations from this project.

The Building and Safety Division maintains a restricted fund balance within the General Fund as under State law building permit revenues may only be used for the operations of the building division. Building will begin FY'18 with a healthy fund balance just over \$1.0 million and if there came a time where one of the unfunded positions in Building or another division needed to be filled to maintain service levels, the City Council could easily vote to fill and fund the position as needed if the timing of the need fell outside the normal annual budget process. Building and Planning have both also used a mix of temporary and contractual staffing arrangements to help meet increasing development levels in recent years.

### **Financial policies incorporated into the Budget**

The FY'18 budget has a General Fund contingency of \$3,000,000 excluding Building's restricted resources / requirements, which is a little more than 10% of the annual General Fund operating budget to allow the Council the flexibility to respond to unplanned service or other emergencies during the year. This larger contingency should provide Council with the resources to deal with emergencies in combination with contingencies available in other funds. The contingency is a portion of the ending fund balance that is meant to be carried over from year to year and if any significant amount of it is used for emergency or other purposes, the General Fund would have to find a way to replace those resources to remain in compliance with the City's financial policies.

In the case of the Water, Wastewater and most internal service funds their entire ending fund balances are placed into the contingency category to give the City the highest amount of flexibility to use the funds as needed to respond to emergencies or other unplanned needs. A slightly higher amount allocated to the contingency category provides the City with additional financial flexibility throughout the year and doesn't imply higher planned spending throughout the year. Like in the General Fund, the contingency in all funds is meant to be carried forward from year to year without being used.

Contingency funds are used to measure the adequacy of a beginning and ending fund balance as shown in the budget to ensure each of the funds are meeting the City's internal financial policy requirements. Contingency is a designation of ending fund balance or planned carryover balances into the following fiscal year, but can be used in the case of an emergency or unplanned need. Contingencies can only be appropriated for use by the City upon approval by the City Council, and are one-time reserves that cannot be repeatedly used without building them up again.

In FY'10 Council adopted a new financial policy target for the proper range of beginning fund balances for the General Fund, and the Council acted in FY'12 to address financial policies

## **Budget Message**

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regarding contingencies and ending fund balances in the utility operating funds and certain other funds. These financial policies, along with other financial policies can be found in the Budget Process and Financial Policies section towards the beginning of the budget book. These financial policies are key to understanding the financial management of the City and the resulting budget.

Financial policy updates that went into effect five years ago also included the policy revision that governmental operations should strive to contribute resources to equipment replacement funds over time for major capital assets; and that the City's utility funds should be setting aside at least enough resources per year (at a minimum) to match depreciation costs as measured in the City's annual financial report. Depreciation is not recorded as a budgetary transaction, but it is a true cost of doing business that must be recognized through transfers out of utility operating funds to utility capital project funds. A number of years ago the utilities were not setting aside quite enough funds from operations to cover the cost of infrastructure depreciation over time, which may result in higher unexpected infrastructure projects and higher utility fee/rate changes in the future. For this reason, all resources in excess of the utility's financial policies minimum 25% contingency balance are being transferred to the utility's capital projects fund each year. Any extra savings or extra net revenue amounts retained above 25% fund balance in the utilities are moved over to the highest priority utility capital projects in the following annual budget process.

## **CHALLENGES AHEAD**

### **Public Safety challenges and General Fund fiscal health**

One of the most significant challenges facing Grants Pass is the need for a secure financial funding resource for Public Safety services. While a local option tax can provide secure funding after it is approved; the time, effort, and the uncertainty of it passing all have costs to the City and impacts on retention, recruitment, and stability within a department. The need for Fire and Police services is constant and it is a far better practice to ensure that funding of the services is more secure as well. In the last year the City reviewed some significant funding alternatives for Public Safety and will continue reviewing options over the next year according to this year's high priority work plan items.

As previously stated, Public Safety services are directly affected by the County's level of Criminal Justice Services. The County's federal funding continues to decline and is not sufficient to provide adequate jail services, District Attorney, rural patrol nor is it sufficient to reopen the County's Juvenile Justice shelter and detention facility. The County has cut back criminal justice program services significantly during 2012 as a result of lower federal funding levels and the County residents turned down a property tax levy in each of the last four years for these services. However, County voters recently approved a 5-year levy measure on the ballot in May of 2017 to provide for the operations of the County Adult Jail and County Juvenile Justice detention building so the pressures and financial challenges from the rest of the justice system won't be quite as acute in the next few years. As all parts

## **Budget Message**

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of the City and County rely on services such as the Adult Jail, the District Attorney, and Juvenile Justice, the future local, state, and federal funding decisions that affect the County will continue to affect the City's Public Safety department in a significant way.

### **Staffing and financial resources for an expanding Park System**

One of the highest needs in the parks system of the City is additional soccer fields as discussed when the City completed its Parks Master Plan over five years ago. The proposed budget represents a reallocation of capital resources in order to complete a new turf soccer field in Reinhart Volunteer Park. Significant improvements are also ahead for Riverside Park in the next year with a grant funded project to build additional facilities to serve festivals and large public gatherings in the park as well as a new spray park and a new community gathering building. As predicted last year, after many years of maintaining a growing parks system without changing parks maintenance staffing levels, this year the budget includes one additional parks maintenance staff position.

### **Utility Infrastructure**

Significant upgrades to utility infrastructure are ahead for all the City's utility systems. In the last three years, the City officially began planning for the replacement of the aging Water Treatment Plant facility. The facility is the sole source of water for most of the City. For long-term cost effectiveness and other reasons; the new water plant will be built at a new location within approximately a half of a mile from the current water plant (final site still to be determined). Part of the challenge was that upgrades that are needed at the old Water Plant today can't proceed without significant investments in the seismic protection built into the facility (under current commercial building codes). And the old plant would have a limited lifetime even if these significant and costly improvements were made.

There is an expansion necessary to the Wastewater Restoration Plant on the short-term horizon and routine maintenance and upgrades to an aging Water, Wastewater, Street, and Water infrastructure systems are necessary regardless of the level of growth in the community. Construction for the next phase of the Wastewater Plant expansion is currently set to begin in the summer of 2017. Accompanying an aging utility infrastructure is a significant financial obligation to replace the pipes, streets, pump stations, reservoirs, and plants that serve the City's basic water and transportation needs. Due to many years in the past of not collecting enough resources to replace aging infrastructure, utility rates are being reviewed through a formal rate study so that they will keep up with the City's infrastructure needs without relying too heavily on costly long-term borrowing. The City is a highly rated bond issuer, but even low bond interest rates in today's low interest environment add significant costs to utility capital projects over time. We will continue to balance the need for maintaining the infrastructure while limiting debt amounts and costs as much as possible. Larger than normal plant capital projects coming up will require bond financings to spread the costs of these major projects over a longer periods of time and limit the near-term impact to the City's ratepayers.

## **Budget Message**

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### **Personnel Services**

The City is largely a service organization and therefore personnel expenditures make up the largest single share of operating expenditure categories. Personnel service's expenditures, which are comprised primarily of wages and fringe benefits, account for 56% of operating expenditures in the total City budget and 64% in the General Fund operating budget. The charts and graphs between pages 25 and 33 of the financial summary section show some more detail on the breakdown between types of revenues and expenditures of the general fund, enterprise funds, and other types of funds in this adopted budget.

### **Addressing PERS funding**

As anticipated, employee benefit costs continue to be a large factor in operating expenses. Like other Oregon public agencies, the City of Grants Pass will pay a significantly higher rate into the PERS system as a percent of employee salaries and wages beginning July 1, 2017. Rates are expected to rise again on July 1, 2019 and July 1, 2021, and remain at a relatively high rate for many years after 2021. There is little the State Legislature can do to avoid changing these rates in coming years because most of the State's retirement system liability is the result of contractual benefits to classes of public employees that have already retired or will retire soon. The Oregon Supreme Court has ruled that these contractual benefits cannot be changed for service periods in the past, only service periods going forward. For the most part, the high rate necessary to pay for the contractual liabilities is not the result of current employees but the rate impact is managed by spreading the cost over all classes of current public employees.

The City has limited options to deal with its required participation in this state retirement system, but has taken certain actions to manage the impact of PERS. As PERS is a hot topic for almost all public agencies in Oregon, City Staff developed a PERS section for the budget book three years ago for the Public, the Budget Committee, and the Council to see more closely how PERS rates affect the City's operating budgets and the basics on how the PERS system works. More details on how the City is using the PERS reserve to manage coming rate increases can be found in this section towards the end of the budget book located right before the appendix section.

### **Managing health care costs**

The City has a choice of two health care packages effective January 2007. Employees (except the Teamsters union) can select either a standard existing plan or a plan in association with an HRA/VEBA account funded by the City. There was a significant increase in the number of participants in the HRA/VEBA plan since 2007, with most of eligible employees taking advantage of the opportunity to have monies placed in a tax-deferred account for future out-of-pocket costs, assuming a greater share of co-pays and expenses. This move, approved by the Council, saves the City money compared to traditional taxable benefits and strengthens management's goal of achieving greater employee ownership in managing health care costs.

## **Budget Message**

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In FY'14 and FY'15 the City was originally facing significant annual increase to health insurance premiums for calendar year 2014 and 2015. The City's health insurance agent, in combination with annually working with the City's Health Insurance Committee (staffed by management and union representatives), was able to negotiate the rate changes down, and within budget parameters, to slightly less 7% increases. For the 2016 and 2017 calendar years, the City was able to negotiate a rate hold for the main plan due to better medical cost experience for all participants on average in the last two years.

The typical experience in the City and most other major public and private businesses is an average annual rate increase of a little less than 10% each year in the last decade. In recent years, plan changes have been made and Staff has worked hard with the City's agent to target changes to rates that are more affordable and sustainable. In the future budget periods, presented in this budget, rate increases of 10% per calendar year have been factored in for periods after calendar 2017 in order to prepare for potential continued increases in the cost of medical services and the resulting health insurance premium increases. Like in past years, City Staff and the City's insurance agent will work hard to make sure the plans are affordable and sustainable by shopping out the plan to other providers and considering plan changes if needed.

### **Negotiating with labor organizations**

Staff and Council continue to work hard in negotiations when it comes to changes to salary and benefit schedules with the four bargaining units. A change made to the City's main insurance plans in January 1, 2013 and saved the City over \$200,000 per year as compared to the rate increase without the plan change. Additionally, in the last four years all bargaining units accepted a cost sharing agreement to future increases in health insurance.

Some salary schedule changes have been made to keep the City's compensation levels competitive with market salaries for these specific positions. The City's wage and salary schedules must be competitive with the market in order to recruit and retain high quality professional employees. There was a union arbitration award for the Grants Pass Police Association (and against the City) in the last year that changed the comparisons used for Police comparables. Many of the comparables used in that arbitration award were similar sized cities in the Portland Metro area that have drastically different tax bases than Grants Pass. This arbitration award has put significant additional pressure on the Public Safety budget in FY'18 and beyond and may not be sustainable without cuts to General Fund programs or changes to tax rates in future years after FY'18.

In the next year, the City will be negotiating with one of the four unions/bargaining groups for a new contract. The contract with IAFF (International Association of Firefighters) goes through the end of 2017 and new contract negotiations will begin soon. In addition to the Police Association, in the last year the City completed contracts with Teamsters and the Grants Pass Employee Association (GPEA).

## **Budget Message**

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While changes to salary schedules have been mostly within nationally reported inflation figures in recent years, costs impacting all union negotiations are the rising costs of PERS rates and health insurance rates. During periods where PERS rates are rising, costs for each employee group are rising an estimated 2% to 3% on average each year even before a cost of living adjustment or market adjustment is considered for salary schedules. As these increases to PERS rates and health insurance rates are expected to continue many years into the future, wage negotiations that affect future costs will need to factor in PERS and health insurance rate considerations. In summary, salary schedule adjustments, insurance, and PERS are the primary reason for changes to operating budgets for all departments as personnel makes up the largest category of operating expenses for a service organization like the City of Grants Pass.

It will be important to continue working hard at successful negotiations with the bargaining units and to provide competitive compensation packages to attract and retain qualified and motivated employees. We must also ensure total operational costs per capita don't increase faster than acceptable inflation rates and must keep a well balanced budget that doesn't sacrifice service levels our citizens demand.

## **CONCLUSION**

The City of Grants Pass is an innovative organization that is focused on value. Our elected officials and employees demonstrate a willingness to seek and create alternative solutions to problems. Staff is embracing changes to systems in order to provide services to our citizens in the most effective and efficient manner. For example Public Works just embarked on a construction procurement process that hasn't been done before in Grants Pass for any large capital project. The wastewater plant expansion has moved forward under a design-build model where the same firm both designs and builds the expansion. This typically saves time and money compared to the traditional capital project process and we'll use this in preparation for the building of the new Water Treatment Plant in coming years.

The knowledge and years of experience of our employees will continue to help Grants Pass succeed. Through this budget, we are recognizing the needs of today and of the future by planning strategically and implementing measurable objectives. With the Council adopted and prioritized Strategic Plan, Staff will be able to direct their energies, skills, and talents, in applying the budgeted financial resources to make measurable progress toward achieving those goals.

Throughout the narrative pages of the operating divisions presented in this budget, you will see a uniform format of presenting some of these performance measures. There is much more to the budget than just the financial figures associated with maintaining the level of services our citizens expect. In each operating division, you will see at least one output measure, one efficiency measure, and one effectiveness measure that helps describe some of the operating conditions that affect the budget. These measures are important to monitor over time and important to achieving our goals. You will see examples of the City's

## **Budget Message**

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Strategic Plan and resulting Work Plan items in the narrative text of operating divisions for specific goals and objectives that will be the responsibility of that department or division.

In closing, I would like to acknowledge the teamwork, commitment, and assistance of all of our elected officials and Budget Committee members, City Staff, and participating members of our community in the preparation of both the City's Strategic Plan and this budget document. I am particularly grateful to Jay Meredith, Finance Director and the entire Finance Staff for their continuing commitment to excellence in municipal finance and budgeting for the benefit of our community. Creating and maintaining a sustainable, balanced budget helps the community provide its critical and quality services for many years to come.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Aaron K. Cubic". The signature is fluid and cursive, with the first name "Aaron" and last name "Cubic" clearly distinguishable.

Aaron K. Cubic, City Manager

