

Budget Message

April 30, 2019

Citizens of Grants Pass
Mayor Roy Lindsay and City Council Members
Budget Committee Members
City Staff



Budget Message for Fiscal Year 2019-20

BUDGET OVERVIEW

I am pleased to present to you the balanced recommended budget for the Fiscal Year 2019-20 (FY'20). Our budget and strategic planning process allows Citizens, Elected Officials, Committee and Commission members, and Staff an opportunity to contribute to defining our goals. 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 for allocating the budget 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 83. 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.

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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 2019-2020 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 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’20 budget. With limited growth in resources and expected cost inflation pressures in personnel and many of the most routine operational expenditures, general directions included the need to hold the line where possible on personnel and other expenditures.

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 34 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 29% of the City’s FY’20 recommended budget. The General Fund is made up primarily of property tax, state-shared revenue, franchise (right-of-way) taxes on utilities, and various licenses, permits, and fines. 66% 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

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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 \$5.5 million (19% of General Fund Revenue) that are shared by all General Fund programs.

Close to 32% of the City's total FY'20 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 14% 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, Lodging Taxes, and others account for approximately 8% 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 recommended 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 to provide efficient services include: 1) creation of the Student firefighter 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 and Police Cadets 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; 9) 2 FTE reduction in department head administrative staff; 10) creation of a PERS reserve to help offset increases in PERS rates in the future. 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.

The City works hard to protect the financial health of City operating funds in compliance with financial policies in order to provide financial flexibility for operations and capital projects and to achieve attractive interest rates when large infrastructure projects require external borrowing. The City currently has three "once in a generation" large infrastructure projects ongoing or in the planning stages and internal funds are directed to these large projects to limit borrowing amounts to the extent possible. Internal resources of close to \$12 million were directed to the \$30 million total cost for Phase 1 and Phase 2 of the

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Wastewater Plant Expansion to be completed in the summer of 2019. Approximately \$17 million of internal resources will have been directed to the estimated cost of \$80 million for the new Water Plant project by the time it begins construction in 2-3 years. Internal resources of \$3.1 million have been dedicated to the \$9 million Public Safety and 9-1-1 Headquarters facility project and Public Safety will be moved into the new headquarters facility before November of 2019. The more we can limit debt and achieve low interest rates to tackle these necessary infrastructure projects, the lesser the long-term impact to the City residents and City ratepayers.

The last bond payment on the Public Safety Facility General Obligation bonds will be made in the current fiscal year, resulting in a slightly lower City property tax rate in future years. Due to heightened criminal justice financial challenges affecting City Public Safety services in recent years and the need for sustainable funding for City Public Safety services, the City is currently on track to bring forward a measure to voters in November of 2019 that would create a new independent district for Fire Rescue services in Grants Pass. The initial district boundaries would be the City of Grants Pass and all properties currently receiving Police and Fire Rescue services from the City.

Upon voter approval of the district, the City of Grants Pass would terminate the current Police and Fire Rescue local option levy in the same year that the new district begins operations. While this recommended budget shows the current voter-approved \$1.79 levy going through FY'21, the following chart shows the total current and projected property tax rates for Police and Fire Rescue services in Grants Pass if the new district is approved.

Current and Projected Tax Rates for Police and Fire Rescue Services in Grants Pass

	FY18 Property Tax Rates	FY19 Property Tax Rates	FY20 Projected Property Tax Rates	FY21 Projected Property Tax Rates
City Perm. Tax Rate	\$ 4.1335	\$ 4.1335	\$ 4.1335	\$ 4.1335
Public Safety (Police and Fire Rescue) Levy	\$ 1.79	\$ 1.79	\$ 1.79	0
Police and Fire Rescue Facilities Bond Levy	\$ 0.3827	\$ 0.2283	0	0
Grants Pass Fire Rescue District	0	0	0	\$ 2.03
TOTAL TAX RATE	\$6.3062	\$6.1518	\$5.9235	\$6.1635

Voter approved levy

This budget document includes the voter authorized resources through passage of the \$1.79 Three-Year Public Safety Levy renewal in November of 2017. The approved levy provides an estimated \$5.8 million in FY'20 for City Public Safety operations which includes City Police, City Fire Rescue, and City Public Safety Support services.

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With other discretionary General Fund support revenues assigned to Public Safety, the budget for FY'20 continues the same level of City Public Safety services. The three-year levy starting in FY'19 was set at the same rate as the previous four-year levy. At the end of this current levy period, the City will have operated at the same Public Safety levy rate for a period of twelve years. The resources provided by the levy should be sufficient to maintain current services through Fiscal 2021 in combination with reductions to capital project transfers from the General Fund during the current levy term. However, inflation pressure is building on Public Safety and other General Fund divisions that rely on General Fund discretionary revenues and it's not likely that this same tax rate can be continued past FY'21 without decreases to level of services or new revenue sources to support these operations.

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. Public forums on specific topics such as law enforcement in the downtown area also 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'21 are incorporated into the budget book for informational purposes and to help plan for operations beyond FY'20.

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'17 and FY'20.

The total recommended budget, which includes all internal service funds, carry-over balances, contingency balances, and capital project resources, is \$137,763,933, an increase to the current year's \$136,838,298 total budget. Of the \$0.9 million total budget increase, there were modest increases to the total budgets in the General Fund and Internal Service Funds offset by modest decreases in Capital Construction Funds and Enterprise Funds. 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.

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The FY'20 Recommended Operating Budget, which excludes contingencies, debt service, and transfers out to capital projects totals \$42,658,309. This is up approximately \$2.7 million from the current year's \$39,960,577 Operating Budget total. This increase is primarily due to inflation on routine expenditures, bargaining unit salary schedule adjustments as a result of new labor contracts and competitive wage studies, and new staff positions recommended in this budget. 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. Management also works with the labor groups to contain health insurance costs each year.

The General Fund programs' average expenditure 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 recommended budget won't take place as shown in the "full capacity" budget. Assuming a savings rate in the next year close to the 6% average, the General Fund balance should end FY'20 with a fund balance of about 32% of annual operating expenditures and within the financial policy range of 30-40% of annual operating expenditures.

Josephine County's criminal justice system in years before FY'18 had been unable to provide appropriate service levels to the City's Public Safety Department in order to operate effectively. However, with the County voters' approval of a five-year levy for Jail and Juvenile Justice Services, the City was able to sunset its Jail Service Utility at the start of FY'18. Discontinuing the Jail Services Contract with Josephine County and the Jail Services Utility Fee reduced the operating budget by almost \$1 million per year beginning in FY'18.

One additional change in the operating budgets that began in FY'19 is in the Storm Water utility fund. The City is required to meet more stringent permitting requirements for storm water management and implemented a new Storm Water utility in FY'19. A rate study covering Water, Wastewater, and Storm Water was completed in the last year and reviewed the capital and operating needs for all three utilities 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. Changes to Storm Water, Wastewater, and Water utility rates are being phased in over multiple years in order to meet infrastructure demands.

Staffing Levels

With a growing City, the same level of service often requires additional staffing in certain years to keep up with the workload. While the FY'19 budget resulted in a net reduction of 1.5 FTE (Full Time Equivalent) staffing positions, the recommended FY'20 budget includes

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7.06 FTE additional staffing positions including one new grant funded position. The additional recommended funded positions include a new Cadet program (2.02 total FTE) within the Police division, an additional Police Officer, two new positions within the Fire Rescue division (one is grant funded through the Firewise program), a new Urban Forester position that will be shared by Parks and Public Works, and net increases to hours for certain seasonal or part-time staff that total close to one FTE for all City programs combined.

Due in part to the slight reduction in net funded positions last year and the minor department restructuring in the last year, the Administrative Services Fund, which provides the services of Management, Finance, Legal, and Human Resources, was able to lower its indirect fee rate to operating departments. The rate changed from 7.6% to 7.1% in FY'19 and this recommended budget includes an additional rate reduction to 6.8% in FY'20.

PREPARING FOR TODAY AND THE FUTURE

Public Safety

In Fiscal 2019, the Public Safety Facility General Obligation Bond will be paid in full. The property tax bond rate of about \$0.38/\$1,000 two years ago went down to approximately \$0.23 in FY'19 and will be eliminated starting in FY'20. 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 without the need to fully fund the project with external debt. For more than 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.

After spending a significant amount of time reviewing options for a new City Public Safety and 9-1-1 Headquarters facility, in 2017 the City finalized the purchase of a large single story facility near City Hall that used to be leased out by a State DHS program. Major renovations and a seismic retrofit to the facility will be done in FY'19/FY'20 and the facility is scheduled for move in during the fall of 2019. Staff is working to arrange external financing for the balance of the project on a 10-year term with Public Safety paying interest in FY'20 with the first annual principal payment due in early FY'21. 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. There will be a long-term savings to the City for this project versus continuing to lease a large amount of space in the County building and Public Safety will have a seismically sound facility that meets the Public Safety space and operating needs for many years to come.

Public Safety programs are primarily supported by property taxes, dedicated revenues, and in certain years 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 fiscal years before 2020, General Fund discretionary resources, in addition to property taxes, must be directed to Public Safety programs to

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continue the current level of services. Without redirecting approximately \$1.8 million of General Fund resources to Public Safety functions, there would have been cuts roughly equivalent to at least 12 police officer or firefighter equivalent positions. While the recommended budget shows more general fund resources given to Public Safety than this \$1.2 million figure, Public Safety like all operating divisions works to achieve savings throughout the year and \$1.8 is the estimated General Fund resource use after accounting for the average 6% savings compared to full capacity budgets.

In 2017 voters overwhelmingly renewed the Police and Fire local option levy at the same rate of \$1.79 per \$1000 of assessed value for three more years beginning in FY'19. This term provided the proper timeframe to continue investigating the possibility of an independent Fire District to serve Grants Pass in a manner very similar to how Public Safety's Fire Rescue division serves the City today. Should voters approve the Grants Pass Fire Rescue district ballot measure in November of 2019, both Police and Fire Rescue services in Grants Pass would have sustainable funding sources rather than temporary funding sources.

Parks & Community Development Department Remains Busy

The City has realized a significant increase in development activity in the last several years. Development divisions such as Building Services and Planning Services continue to budget for levels of activity to remain relatively high as both residential and commercial development activity has picked up significantly over the last five years. Based on the number and size of new applications and developments coming forward, the relatively high level of activity projected in the current fiscal year budget is expected to mostly continue into FY'20. The FY'20 budget continues to assume somewhat conservative revenues for development sensitive revenue sources in the Building and Planning departments and similar amounts as compared to the current fiscal year.

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'20 with a very healthy fund balance just over \$1.3 million. Inspection revenues within the Building Division and this carryover balance cannot be used for any purpose except for the provision of Building inspection services. Building and Planning utilize both temporary and contractual staffing arrangements to help meet increasing development levels in recent years.

The staffing increase recommendations needed to keep up with higher levels of development activity were mostly made in the FY'18 budget process. Beginning in FY'18 one additional assistant planner in the planning division and one additional inspector in the building division were funded to maintain current level of services. In 2017 Community Development divisions also participated in a City PAVE Committee (Performance Audit Visioning and Enhancement) project and development staffing recommendations for FY'18 were in line with recommendations from this project. As the Parks division also remains very busy with the addition of additional new parks reserve development projects, the Urban Forester position recommended in the PAVE project has also been recommended for funding in FY'20. This position will help both the Parks division and the Streets maintenance

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division in Public Works. In FY'18 the Parks and Community Development (PCD) Department took over the oversight of the Economic Development, Downtown Development, Tourism, and Property Management Divisions. During FY'19, Public Works took over oversight of the GIS (Geographic Information System) and Engineering divisions that used to be under Parks and Community Development.

Public Works

In FY'19 the Storm Water, Water, and Wastewater utilities completed the remainder of the rate study that reviewed rates to ensure the utility rate structure could accommodate operational and infrastructure needs for many years to come. Incremental phased-in rate increases go into effect on January 1st of each of the next few years. Wastewater rate changes began on January 1 of 2018 while Water and Storm Water utility rate changes began on January 1 of 2019. The revenues for each of these utilities will show increasing amounts in FY'20 and FY'21 and rate changes are projected to be sufficient to cover operational, capital project, and debt service needs for many years to come. Major critical infrastructure projects such as the Wastewater Plant expansion project and the planned new Water Plant project rely on the new rate structure to be able to issue utility revenue bonds at efficient interest rates.

There is a new internal service fund within the Support Services section of the budget called the Public Works Administration Fund. This Fund will account for the central Public Works staff such as the Director, Assistant Director, the GIS division, and other central administrative Public Works staff. The Fund will be self-supporting by direct charges to all the Public Works divisions that use the Public Works central administrative services rather than the previous practice of allocating percentages of these central staff directly to those operating divisions. And as previously mentioned, during FY'19 Public Works took over oversight of the GIS (Geographic Information System) and Engineering divisions that used to be under Parks and Community Development.

Financial policies incorporated into the Budget

The FY'20 recommended budget has a General Fund contingency of \$2,000,000 excluding Building's restricted resources / requirements, which is almost 7% of the annual General Fund operating budget to allow the Council the flexibility to respond to unplanned service or other emergencies during the year. Best practice is to have a General Fund contingency of at least 5% of the General Fund operating budget. This 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

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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.

Financial policies for beginning and ending fund balances for certain funds, 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 policies also provide 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.

For this reason, most resources in excess of the utility's financial policies recommended 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. The recently completed utility rate study will help the utilities meet these financial policies for many years to come.

Long-range financial plans incorporated into the Budget

Long-range financial planning often happens outside this annual budget process in different ways for governmental operations and for City utility operations. And there are key policy decisions that typically go with long-range financial planning processes that tie into the strategic plan and budget projections.

For the General Fund and Public Safety operations, almost a quarter of the funding for these operations comes from a temporary local option property tax levy that needs to be renewed or changed every few years through a vote of the Grants Pass electorate. Key policy decisions are made by the City Council as to the term and rate and multi-year financial projections are established for the General Fund. This budget is the second year of the next voter approved Public Safety levy that has a term of three years and a rate of \$1.79 per \$1000 of assessed value.

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Long-term financial planning for the City's Public Works and Utility Operations rely on master plans and rate studies that are typically updated once every 5-10 years. Many of the priorities that come out of the master plans are also found as priorities in the City's strategic plan. After completing master plans for all utility operations (except for Transportation), the City recently completed a formal rate study for the Water, Wastewater, and Storm Water utilities. And the rate studies factor in both long-term operating and capital expenditure needs for the next 15-20 years. And the City is currently working with the State of Oregon this year on updates to the Transportation Master Plan. Please contact Administration for additional detail on any of City's master plans or long-term rate and financial plans.

CHALLENGES AHEAD

Staffing and financial resources for an expanding Park System

Significant parks infrastructure projects have been done at Riverside Park and Reinhart Volunteer Park over the last two years and Parks is now turning its attention to developing certain parks reserve properties and tackling deferred maintenance on existing parks infrastructure. The City will be seeking grants to replace play structures in certain parks and to begin developing the new 440 acre Dollar Mountain park reserve property. Parks also expects to move forward in the next year on the design of the Hillcrest park reserve property. Developing a fuels reduction and recreation use plan for Dollar Mountain is the highest priority project in the Strategic Plan this year and Hillcrest is also a high priority in the plan. Pressure is building on the Parks staff to maintain a larger acreage of parks property needed in a growing City and the new Urban Forester position recommended in this budget will certainly help with the development and maintenance of parks properties.

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 (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). The old plant also has a limited life span even if these significant and costly improvements were made. In the last year the City hired an owner's agent (engineering firm) to guide the City through the very complex process of building a new Water plant and the intended design-build procurement process.

The Phase II expansion of the Wastewater Plant is underway and routine maintenance and upgrades to aging Wastewater, Street, Storm Water and Water infrastructure systems are necessary regardless of the level of growth in the community. 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.

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Due to many years in the past of not collecting enough resources to replace aging infrastructure, utility rates have been 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 lower 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. The Wastewater Plant expansion required two bond issues and the Water plant capital project coming up will require significant 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.

Personnel Services

The City is largely a service organization and therefore personnel expenditures make up the largest single share of operating expenditure categories. Personnel services expenditures, which are comprised primarily of wages and fringe benefits, account for 57% of operating expenditures in the total City budget and 66% 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 recommended budget. Appendix N in this budget book quantifies the significant benefit costs such as PERS and health insurance by program area.

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 is paying a significantly higher rate into the PERS system as a percent of employee salaries and wages beginning July 1, 2019. Rates are expected to rise again on 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 higher 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 five 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

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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 had a choice of two health care packages since 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.

In recent years the annual health insurance renewals have resulted in relatively minimal changes in premium costs due to relatively favorable claims history for all staff on the City's plan. However, medical specific cost inflation on average remains high and the budget must allow for potential premium increases. In the future budget periods, presented in this budget, rate increases of 7% per calendar year have been factored in for periods after calendar 2019 in order to prepare for potential 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. However, for plans of this size the main factor in the year to year premium changes is the medical cost experience from the previous year and staff continues to work hard in wellness efforts and encouraging employee ownership in managing health care costs.

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. 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) almost two years ago that changed the comparisons used for Police and impacts the personnel forecast for the Police division. 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 and General Fund budget beginning in FY'18 and beyond. The contract with IAFF (International Association of Firefighters) goes through the end of 2020 and the new contract should be completed next year. Contracts with Teamsters and GPEA end on December 31, 2019, and the City will be in negotiations for these two contracts this year.

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While changes to salary schedules have been close to nationally reported inflation figures on average 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 in recent years and in this budget 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 has delivered a large Wastewater Plant expansion 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 also use this in preparation for the building of the new Water Treatment Plant in coming years.

Staff also embraced two minor department reorganizations in the last two years that will help operations be more efficient and effective. Due in part to this reorganization, the administrative services fund was able to lower the indirect fee rate to operating departments from 7.6% to 7.1% beginning in FY'19 and down to 6.8% in FY'20, saving costs for all operating departments of the City.

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

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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 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 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

