



August 18, 2009

Citizens of Grants Pass
Mayor Mike Murphy and City Council Members
Budget Committee Members
City Personnel

Budget Message for Fiscal Year 2009-2010

I am pleased to present to you the balanced budget for the fiscal year 2009-2010. This budget represents the combined efforts of the City Council, the Budget Committee, staff, advisory boards, and the citizens of Grants Pass.

This budget includes the resources that the voters authorized through passage of the Two-Year Public Safety Levy on May 19, 2009. The approved levy provides an estimated \$4,023,026 in fiscal year 2009-2010 and an estimated \$4,160,381 in fiscal year 2010-2011 for City Police and Fire operations. The prior levy expired June 30, 2009. The overwhelming support for the Public Safety Levy demonstrates the community's desire for quality services. The adopted budget continues the high level of Public Safety services and other government services our citizens expect and have received over the period covered by the last levy.

The Public, Council, Budget Committee, and all those that participated in the budget this year, truly went the extra mile. The preparation and review of multiple budgets, including Budget 'A' (including voter-approved resources) and Budget 'B' (assumed levy failure) took considerable additional time and was very taxing on all of the participants. There was also a significant increase in the requests for information that resulted in added demands on staff and the requirement to invest more time for the other participants. Everyone is to be commended for their efforts and for the successful adoption of a budget that will be able to provide for the needs of the community.

The empirical and statistical data gathered from the citizens of Grants Pass indicate that the residents appreciate the services provided by the City. As an example, the statistical survey, conducted by Steve Johnson & Associates, points out that 80% of the respondents give Grants Pass a rating of Good or Excellent. This is an even higher rating than last year. We believe this demonstrates the

community's desire to have City services maintained at the current service level. This budget has been prepared with an eye toward continuing to providing the high quality services the City has delivered over the years while acknowledging the more fiscally conservative view of some of our new elected officials.

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. Usually, these goals are used to formulate a work plan with corresponding performance measurements, serving as the foundation upon which the budget is developed. The current City Council, which includes four newly elected members, is still working on the City's strategic goals. Since beginning the budget process they have identified a number of projects and issues that they have included in an adopted work plan. Despite the lack of formal goals, the executive office along with support from City staff has developed a balanced budget that has been reviewed by the Budget Committee and adopted by the City Council that we believe meets the general needs of the community. This budget, through its allocation of resources, communicates and defines priorities we believe will serve the community for the ensuing year while simultaneously insuring sufficient reserves for future needs of local government operations. The formerly adopted 2008-2010 goals have served as a guide for this year's budget until new goals are adopted by Council during fiscal 2010.

The City of Grants Pass enhances the "quality of life" in our community through sound service delivery systems. The City generally offers high quality and well maintained streets, parks, water and sewer systems. The City's nationally accredited Public Safety department is among the best in the country and many of the City's other departments have received national recognition for their performance. We have an educational system we can be proud of, good medical facilities and services, and a climate that many consider to be the best in the entire Pacific Northwest. Our community, conveniently situated on the I-5 Corridor, provides superior access to dozens of natural amenities from Crater Lake to the Pacific Coast, attracting young families and retirees alike.

Grants Pass, along with every city in the nation, is coping with the effects of a world wide economic downturn. Growth has slowed dramatically in Grants Pass and the effect of the declining economy has resulted in lower revenues in the last fiscal year and with the expectation of lower revenues in the fiscal year considered by this budget. This required a conservative and efficient approach to the use of available resources. We believe we have met the challenge to maintain the "livability" of our community while facing these realities head on.

The executive team and staff were given some specific guidelines for preparing the fiscal year 2009-2010 budget. With less available resources, general directions included the need to cut budgets from the prior forecast by six to eight percent. These cuts needed to be made even with the assumption that the Public Safety Levy would be successful. Further instructions included:

- *Limit Discretionary Expenditures: Except where necessary, the proposed 2009-10 budget must limit or reduce discretionary spending across all programs and funds in order to accommodate the current financial environment and slowed growth in general operating revenues. Allowing those resources to be invested in sustaining basic services will ensure consistency with Council's likely priorities for 2010 and beyond.*
- *Reduce Training, Travel, and Meeting Expenditures: The proposed 2009-10 budget must limit these expenses, while keeping in mind the continuing need for some mandatory training, training needed to maintain licenses and certifications, training that will help reduce future legal liabilities, and where justifiable, training that will add to the efficiencies of the City.*

The 2009-2010 adopted Operating Budget totals \$38,984,385. This is down from last year's Revised Budget total of \$40,808,248 because of reductions in contractual services and, in part, because of the reduction in materials and supplies. The elimination of the Capital Transfer from the General Fund makes it possible for the City to continue providing services at levels similar to prior years. The total budget, including Capital and unappropriated amounts, is \$86,416,355. That is also down from \$93,959,524 in last year's budget.

The decision to eliminated Capital Transfers from the General Fund may have long-term implications as the City defers Capital Maintenance. The executive team and I will strongly advise the City Council to restore funding for Capital Maintenance once the recession subsides to avoid the inefficiencies and exponential costs of Deferred Maintenance. Delaying repairs and needed purchases will not save money, but will only postpone those expenses to a later date and perhaps increase those future costs. This short-term response will have to be revisited very soon to make sure that additional real costs are not incurred.

CITY COUNCIL GOALS

The City Council continues to work on their vision and on their goals. On May 20, 2009 the City Council adopted a work plan for 2009-2010 that includes a number of short-term projects and priorities. The goal setting process, typically started in early January, is a critical element in determining the short- and long-term direction of the City. The new Council goals will be included in budget documents as soon as they are approved by the City Council.

These important goals usually provide the constant standard that is typically reflected throughout the budget document. The City's goals and its adopted work plan should not only guide the budget process but they should remain a focal point for the City throughout the year. It is recommended that the City Council take reasonable steps to avoid future delays in the development and approval of Council goals and work plans so that staff can better serve the Council and the budget process in the future.

PREPARING FOR TODAY AND THE FUTURE

The construction of new fire and police facilities has been executed with foresight and efficiency. The voters approved the bond levy that paid for these facilities, a training tower, and three new fire trucks. These resources will help provide more effective and efficient public safety services to our community for decades to come. The City now has the critical tools necessary to achieve emergency response times that meet national standards, particularly in the southern sectors of our community. This project, along with the historic approval of Public Safety Local Option Levies, demonstrates the value that the community continues to place on public safety services. Voters have shown they are willing to increase property taxes to insure fire and police arrive at their door when called. Including the property tax levy for the bonded debt, the total FY'09 property tax rate for city residents was \$6.1238/\$1,000. With approval of the new \$1.79 Public Safety Levy, the tax rate for fiscal year 2009-10 is estimated to be \$6.3235 increasing the overall tax rate less than \$.20 per \$1,000 assessed valuation. Continuing public safety funding was a key focal point this year. The goal adopted by an earlier Council addressing Public Safety, *"Living in Grants Pass feels safe and is safe. Public Safety provides our residents with a sense of well-being and protection at an affordable cost."* was supported and promoted by the community.

Public Safety programs have been supported in the past entirely by property taxes, dedicated revenues, and through use of resources set aside in reserve. There are two noteworthy impacts of this financing practice. First, historically, Public Safety has not drawn on Other General Fund resources that have been used for other public services; and, second, all property taxes will continue to be dedicated to Public Safety services. Property taxes are the most secure financial resource available to the City of Grants Pass. This year, Other General Fund resources are being directed to Public Safety programs. Without redirecting approximately \$435,000 of General Fund resources to Public Safety functions, there would have been cuts roughly equivalent to six police officers. One of the Council's top priorities identified in their adopted work plan is to "take actions to stabilize long-term funding for police, fire and rescue services."

Grants Pass, like other regions throughout Oregon, has experienced a decline in building activity. Fiscal year-to-date permit activity (July 1 through March 31), for single family dwellings, is at the lowest level in ten years. The Building Division issued only 48 permits in this period, which is down from last year's 65 permits. Construction values for commercial and industrial permits are also low compared to prior years.

The Building and Safety Division wisely maintained restricted reserves from prior years and is thus able to manage the temporary decline in revenues from permit activity. Recent layoffs, though unpleasant, were necessary to ensure extended benefits of these reserves. Similarly, the City has acted proactively in choosing to leave positions "unfilled" when we see either a decline in service demand and/or revenues. There are currently twelve positions that are authorized but not filled

due to both declining service demand and revenues in the Community Development Department. These prompt actions will help ensure that restricted reserves last as long as possible during this period of the building cycle and will allow management to respond quickly when service demands return closer to historical levels.

System Development Charge (SDC) revenues generated through growth have declined along with residential building activity. Water, Wastewater, and Parks SDCs all appear likely to fall short of their respective projections. Revenue projections for FY'10 have been estimated at lower levels to reflect the reduction in development activity by forecasting only 60-80 single family dwelling units for the year (as compared to 100 last year or the average of 248), and forecasting a reduced level of activity for commercial and industrial permits. These conservative estimates will help ensure that spending does not exceed revenues for these activities.

Work has been completed for the preparation of a Storm Water SDC and Storm Water Utility Fee for Council consideration. This project has been put on hold in order to work through some issues with the Grants Pass Irrigation District. When the Council is ready to proceed, this project will provide the financial basis from which to address collection, retention, and treatment of storm water run-off in the community. It will also address the Council's growing concern about water quality, the environment, and the need to mitigate flooding and drainage problems.

We do not know what role Capital project funding will have in the Council's goals for the community. Due to the economic conditions, and the decision to reduce the levy requirement below the \$1.89 amount narrowly rejected by voters in the November 2008 election, there is no recommendation to transfer any funds from the General Fund for Capital projects. In recent years, the General Fund has contributed \$1 million to Capital Project Funding each year.

The recommended 2009-2010 budget has General Fund contingency of \$750,000 which, along with another \$186,912 in contingencies from Development and Transportation, totals \$936,912 or approximately 4.37% of the City's \$21.4 million Governmental Fund operations (Policy and Legislation, Public Safety, Parks, Development, and Transportation). This contingency is lower than a more typical 5.0% to 10% contingency, and we are striving to gradually increase the contingency to better protect the City and provide Council with the resources to deal with emergencies. However, the proposed contingency herein should be sufficient to meet most unanticipated events in 2009-10 fiscal year. Addressing financial policies regarding ending fund balances and contingencies will be one of the topics the City Council should consider prior to the next budget cycle. It will be my recommendation that the City gradually move toward maintaining reasonable and slightly higher cash reserves throughout the organization.

STAFFING CHANGES

There have been no additional positions recommended for the FY 2009-10 budget. In fact, many of the positions previously authorized by the City Council are not recommended to be funded this year.



As a result of reductions in revenue, positions that do not have funding included in the adopted Budget include:

Summary of FY 2009-10 Unfunded Personnel Positions			
Fund	Activity	Title	# of Positions
Finance	Administrative Services	Accounting Tech	1.0
Community Development	Support	Office Assistant	1.0
Planning	Development	Senior Planner Associate Planner(2) Assistant Planner(3)	6.0
Building	Development	Residential Building Insp Plans Examiner II(2) Office Assistant II Building Inspector I	5.0
Engineering	Support	Utility Engineer Project Specialist	2.0
Information Tech	Support	Computer Serv Tech	1.0
Parks	Parks	Parks Maint Worker Urban Forester	1.5
Streets	Transportation	Urban Forester	0.5
		Total	18.00

As indicated above, there are a total of eighteen unfunded positions, including twelve authorized and unfunded positions in the Community Development Department [support (1), planning (6), and building (5)] that are not expected to be filled in the 2009-2010 budget year. As activity returns to normal levels in the future, it is anticipated that these and the other unfunded positions will again be funded. Should activity significantly increase during the fiscal year, a supplemental budget could be brought before the Council that would recognize the unanticipated increase in service demand and revenues.

CHALLENGES AHEAD

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 the 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.

Public Safety concerns are also affecting the County. The loss of O & C funding to Josephine County and the failure of their last levy request resulted in decisions to reduce and/or eliminate services including among other cuts: a significant portion of the County's Sheriff Patrol and all of County Library services. While the Library services have been partially restored through volunteer efforts, the future resources for County law enforcement remain in doubt. For now, the County has informed the City that jail space will continue to be available and that the Juvenile Justice Center will remain open. As the O & C funding continues to decline, the burden of providing services will become more acute.

Other potential impacts from future reductions in County services could include: inability to incarcerate offenders; inability to house juvenile offenders when a parent or guardian is unavailable to retrieve them; and the challenge of explaining to county residents calling 9-1-1 for law enforcement services that the Sheriff's Department will not respond. City staff has discussed contingency plans, identifying potential impacts on the delivery of services within the City and we will endeavor to mitigate these impacts as much as possible.

OTHER CHALLENGES

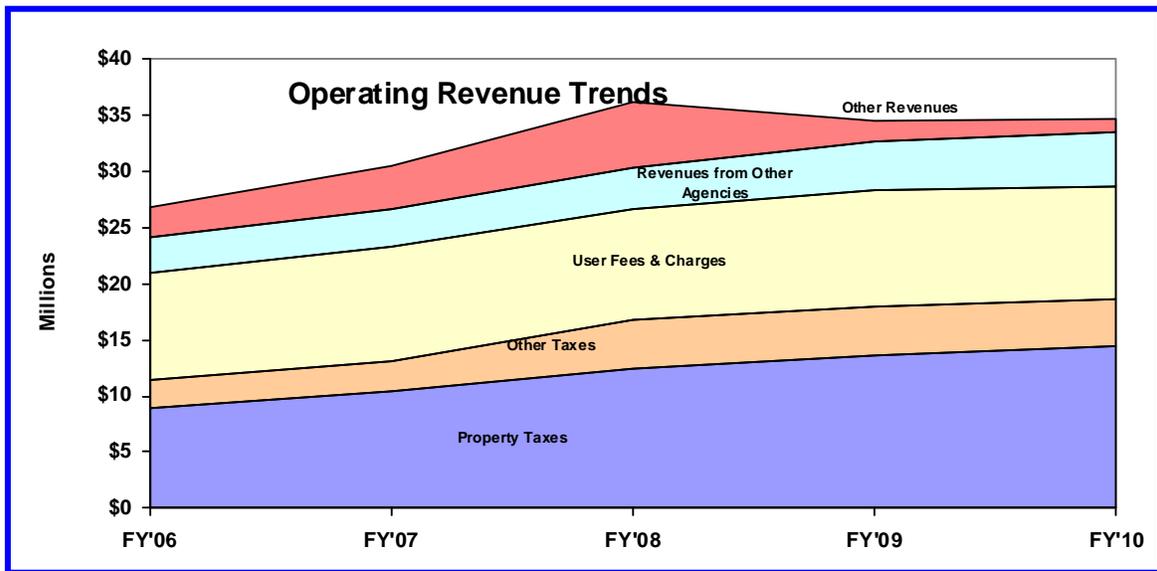
As anticipated, employee benefit costs continue to be a factor in operating expenses. Like other Oregon governmental entities, the City of Grants Pass faces an increase in unfunded liabilities from a change in rates paid the Public Employees Retirement System (PERS) effective July 1, 2007. The PERS Board made a policy decision to spread unfunded liabilities, largely the result of retirement benefits for Tier 1/Tier 2 employees, to all groups. As the membership in Tier 1/Tier 2 has declined due to retirements, the financial impact of liabilities produced staggering rates for these two classes of employees. Government agencies have found these impacts more manageable by allocating a portion of the liabilities across all groups of employees.

The City has a choice of two health care packages effective January, 2007. Employees can select either a standard existing plan or a lower premium 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 in 2009, with approximately 92% 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.

Unfortunately, the City will be negotiating with a new union as the Grants Pass Employees Association is now affiliated with the American Federation of State, County and Municipal Employees (AFSCME). There are now four unions representing employees at the City of Grants Pass. This year we will be working on contracts with: Teamsters, International Association of Fire Fighters (IAFF), and on the new contract with AFSCME. The City's contract with the Police bargaining unit remains in effect through the year.

OPERATING REVENUE TRENDS

Financial Overview for FY'10

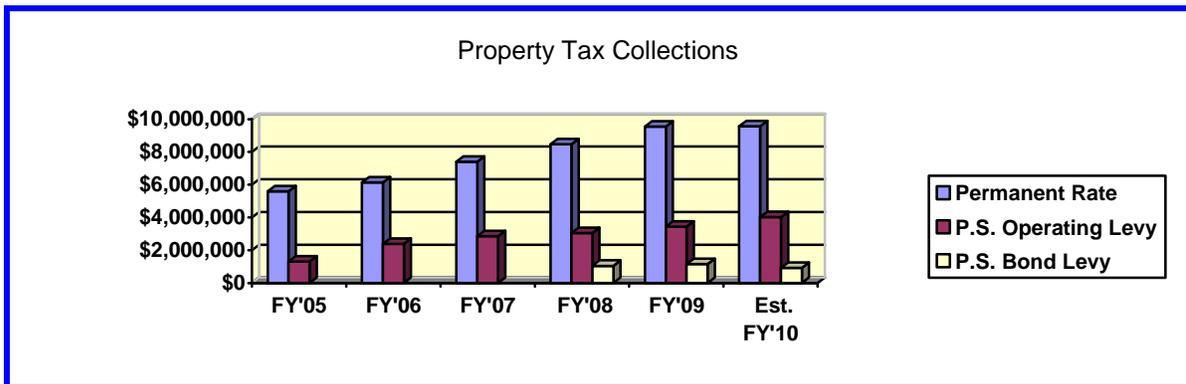


The compilation of this one-year operating budget reflects key revenue sources and adopted fee changes outlined below:

Property Taxes – Permanent Rate and Public Safety Local Option Levy

The fourth year of the four-year Public Safety Local Option Levy ended June 30, 2009. That levy resulted in an assessment of \$3,454,566 in the 2008-09 fiscal year. That levy, together with reserves set aside in prior years in the sum of

\$646,341 provided \$4,100,907 for public safety. The newly adopted levy, at \$1.79 per \$1,000 assessed valuation, is anticipated to provide \$4,023,026 in FY2009-10. That resource, along with our permanent property tax rate, is anticipated to fund the majority of the City's Public Safety program with little reliance on the General Fund (estimated at \$435,329). This budget reflects what we perceive to be the Council's direction in finding resources other than property taxes to support Public Safety. The estimated combined tax rate for the permanent levy, the Public Safety Levy, and the Public Safety Debt will be approximately \$6.3235 per \$1,000 assessed valuation. That is roughly twenty cents more than the \$6.1238 per \$1,000 levied last year. It is noteworthy that the tax rate for Public Safety Debt is estimated to decline by approximately \$.10 per \$1,000 assessed valuation from the current rate of approximately \$.50 to approximately \$.40/\$1,000.



Grants Pass' total taxable values continue to increase as a result of some new construction. Assessed values will also increase in 2009-10 as a result assessment valuation increases. Increases in assessed valuation are generally capped at 3%. This restriction has resulted in assessed valuations being significantly lower than true market value. With market values currently declining and the assessed value increasing by approximately 3%, the ratio of assessed value to market value, while varying from property to property, is expected to be in the range of around 55%. Assessed values rose 5.05% in FY'09 and are estimated to increase another 3.68% in FY'10. Historical trends together with updated data furnished by the Josephine County Assessor's office are used to project assessed values. The number of building permits and respective valuations along with local housing market conditions are factored into the equation. The nominal increase in assessed values is a result of the continued decline in commercial development and average home sales, along with the slump in residential construction.

The absence of new annexations, which could have had a positive impact on the property tax base for FY'08, will also impact FY'09 and FY'10. Bringing in the additional valuation from these properties that the City already serves would bring in additional tax dollars thereby sharing the burden of funding public services. The impact of not annexing properties served by the City is expected to continue to affect resources in future years. The questions surrounding annexations will require staff to seek more firm input and direction from the City Council about

whether the City should provide services outside the corporate limits within the Urban Growth Boundary.

Property Taxes – Public Safety Bonded Debt

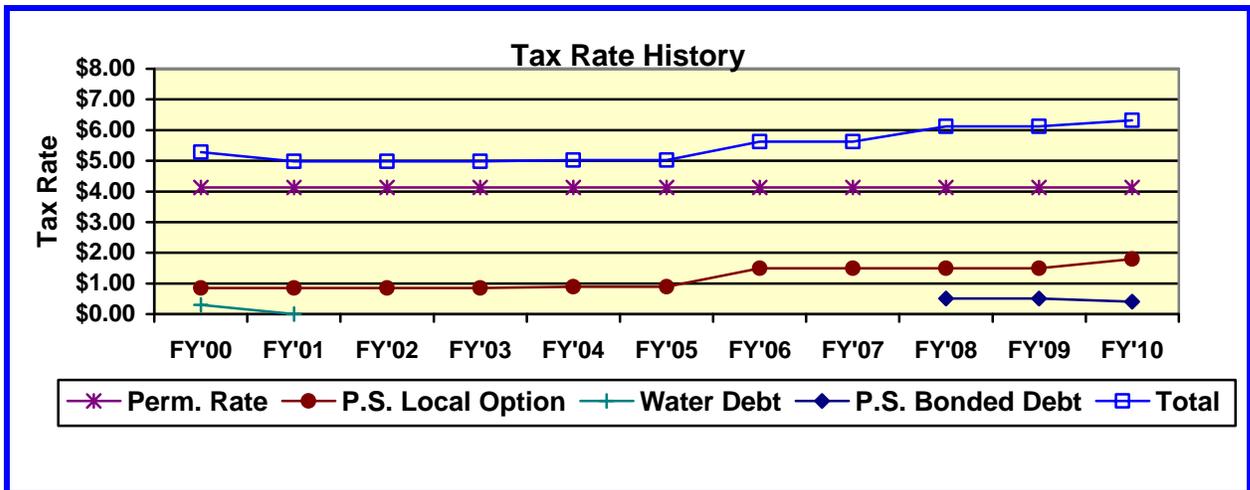
In November, 2006, Grants Pass voters approved a bond measure to fund construction of two new public safety facilities and purchase equipment for each through the sale of bonds prior to the close of fiscal year 2007. The approved debt of \$9,875,000 is a twelve-year bond issue funded by a property tax levy estimated to begin at \$.51/\$1,000 of assessed value and for the first two years and dropping to \$.40/\$1,000 of assessed value in 2010 through the term ending in 2019. This is the year that the tax rate for this bond will drop to around \$.40/\$1,000.

Property Taxes – Future Public Safety Local Option Levy

On May 19, 2009, the voters overwhelmingly supported the proposed two-year Public Safety Local Option Levy. The levy will provide funding for the Public Safety Department for the fiscal years 2010 and 2011. Having completed the Public Safety Strategic Plan early in 2008, there are important recommendations that the City must consider. The future funding available to Public Safety will have the most significant impact on our ability to execute the plan and meet its suggested timelines.

This budget has been prepared with the assumption that the Council intends to strive toward implementation of the Public Safety Strategic Plan adopted by Council in FY 2008. Historically, prior Public Safety levies have increased over previous levies to address inflationary impacts and to meet the needs of the community. For example, the current Public Safety operations levy is \$1.49 per \$1,000 of assessed value while the preceding levy was \$.89. The current levy is now \$1.79. Property values (assessed valuation) have not kept up with the demands of growth and inflation. The tax rate must increase to provide sufficient resource to keep up with the combined impact of growth and inflation.

While recognizing that the levy must increase somewhat if high quality Public Safety services are to continue, Public Safety staff and management have worked diligently to develop this budget with a proposed Public Safety operations levy of \$1.79 per \$1,000 of assessed valuation. Implementing the Public Safety Strategic Plan on the schedule recommended by our consultants would have required a levy in excess of \$2.04/\$1,000. The \$1.79 levy proposal was achieved by delaying many elements of the Strategic Plan implementation from 2010 out to 2013, and by making significant cuts to proposed capital expenditures within the Public Safety Department and throughout the General Fund. While a \$.30 levy increase, particularly when considered proportionally, is much less than the \$.60 increase adopted in 2006. It should be adequate to maintain reasonable levels of safety for our citizens and Public Safety personnel for the duration of the levy.



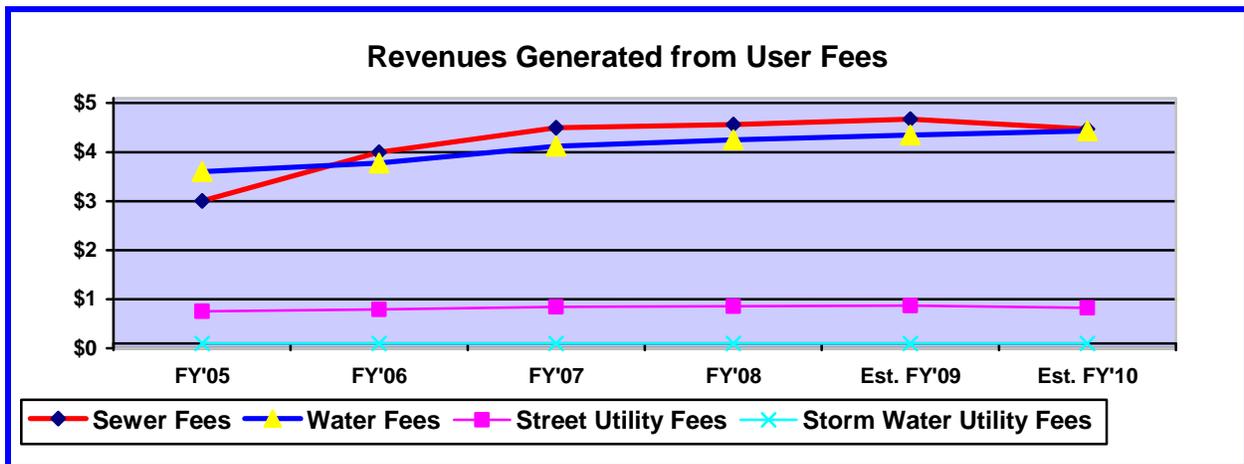
Taxes Other than Property

Franchise fees received from each of the private utilities providing service to municipal residents are estimated to total \$2.429 million in FY'10. If the City were to annex properties, there would be new revenues from telephone, electric, gas, garbage, and cable television services as well as increases from state gas tax revenues. Diminished growth in land based telephones compared to cell phones has resulted in an adverse impact on telecommunications franchise fees. Historical trends, proposed rate increases by utility firms, and additional consumers, are taken into consideration when estimating franchise fee revenues.

Pacific Power has requested utility rate increases ranging from 6.3% to 17.5%. If approved by the Utility Commission, the requested rate increase could become effective February 2010. Potential impacts of this action are not included in this budget due to the long timeline and uncertainty of approval of the increases.

Garbage service is expected to remain unchanged. Annual cost of living adjustments for water and sewer rates usually take effect each January with the most recent adjustment being repealed by the Council effective the first of March 2009.

User Fees and Charges



Revenue estimates for Utility fees.

	Sewer	Water	Street	Storm Water
Budget '09	4,569,180	4,245,920	767,032	0
Estimated '10	4,371,512	4,330,091	726,200	0

The foregoing chart reflects revenue estimates for sewer, water, street, and storm Water funds. Water and sewer revenues have been negatively impacted by the repeal of the annual cost of living adjustments. The Street Utility fee has remained unchanged at \$3 per month since its adoption and its value continues to diminish due to inflation. Current residential growth is largely confined to the southwest sector where sewer services are provided by the Redwood Sanitary Sewer Service District. Thus, the growth rate estimated for City wastewater services is less than the growth rate anticipated for City water service.

Significant decreases in growth and development have resulted in much lower projected revenues in Water, Sewer, and Transportation funds. Water and sewer are also affected by successful conservation programs, as demonstrated by the reduction in the winter water average consumption from 700 cubic feet of water per month just over a year ago to 650 cubic feet of water per month currently.

No revenues are anticipated in the yet to be adopted Storm Water Utility. Historical housing and commercial development were considered in developing the Street Utility revenue estimates.

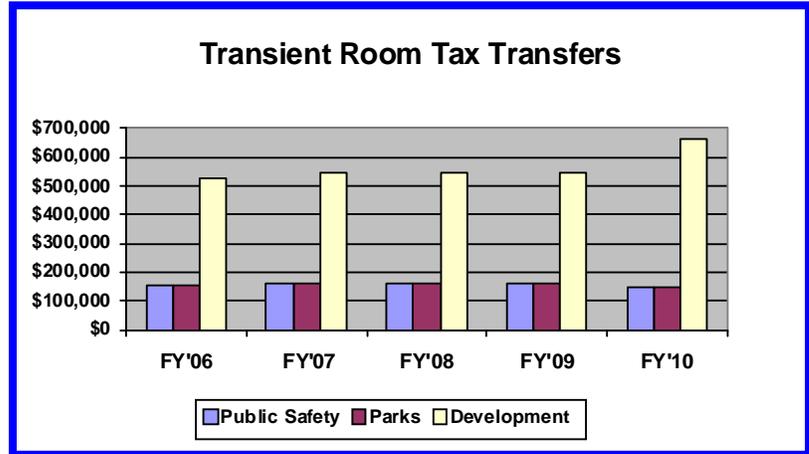
Revenues from Other Agencies

Revenues are on track with estimates for FY'09 and some small increases are projected for FY'10. Revenues from the State of Oregon for Gas Tax, Liquor Tax, Cigarette Tax, and Revenue Sharing, which make up the largest share of revenue

from other agencies, are projected to decrease by \$84,641 in the next fiscal year. Combined, they will contribute \$2.03 million of the \$4.92 million of projected revenue in this category. Per capita estimates are provided by the state through the League of Oregon Cities. Revenues from the 911 Agency for dispatching services are anticipated to total \$341,685. Wastewater treatment services provided to the Redwood Sanitary Sewer Service District will generate \$255,000, an estimate based upon historical flows.

Transfers In

Transient Room Tax revenues are distributed among Public Safety, Parks, Development, Tourism and Lands & Buildings programs. Collections from transient room tax are projected at \$975,002, of which \$809,607 will be directed to operations and \$149,138 will be directed to Capital.



The combined total is lower than last year’s forecast by \$61,558. There are many factors, including weather, the cost of travel, forest fires, etc. that affect tourism in our region. We believe that Grants Pass tourism will continue to hold its own in spite of current economic conditions and projections of slowing tourism nationwide. Our tourism is supported by growing out-of-town participation in community events like “Boatnik”, “Cycle Oregon”, “Back to the 50s”, “Art along the Rogue”, and perhaps by our proximity to California tourists, many of which elect to visit our region instead of more distant destinations. Transfers also include \$5,000 allocated to the Code Enforcement division from Planning, in recognition of services it provides; and, \$30,000 from Solid Waste for Code Enforcement. Beginning this year, Code Enforcement will fall under Public Safety for its administration.

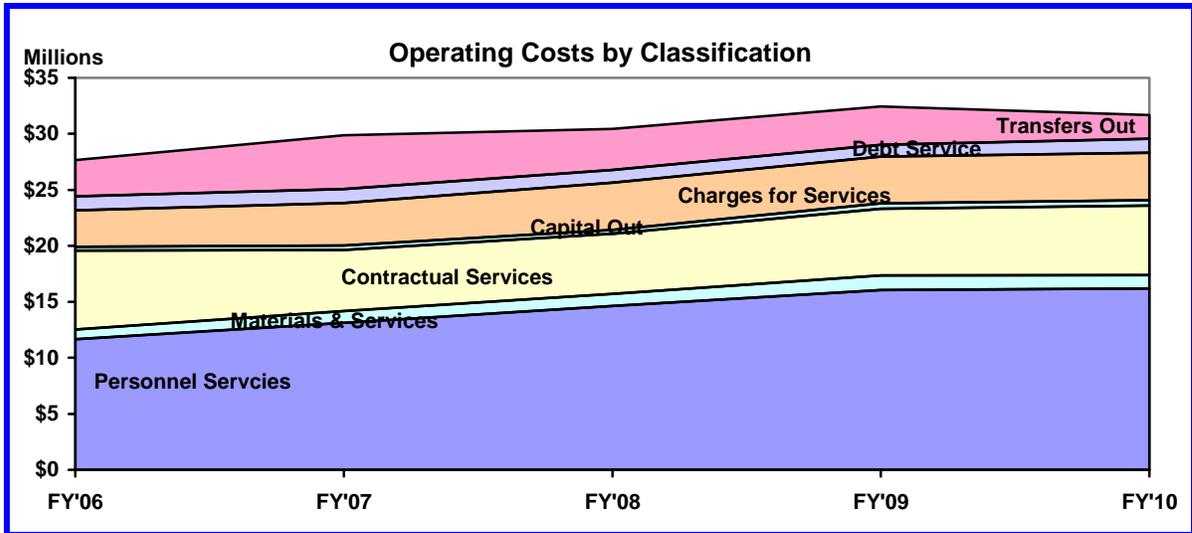
Other Revenues

In the General Fund, license and permit revenues generated from building activity are anticipated to produce \$238,350, down from last year’s estimate of \$434,700. District Court fines from traffic violations are estimated to produce revenues of \$222,144, down from last year’s estimate of \$270,000. Other revenue, which last year included \$646,321 in resources that were budgeted to be moved from a Public Safety Reserve Trust Fund, is declining from \$913,599 to \$269,663, a reduction of \$643,936. Unspent contingencies are combined with the estimated beginning balance to show total resources available for the upcoming budget year.

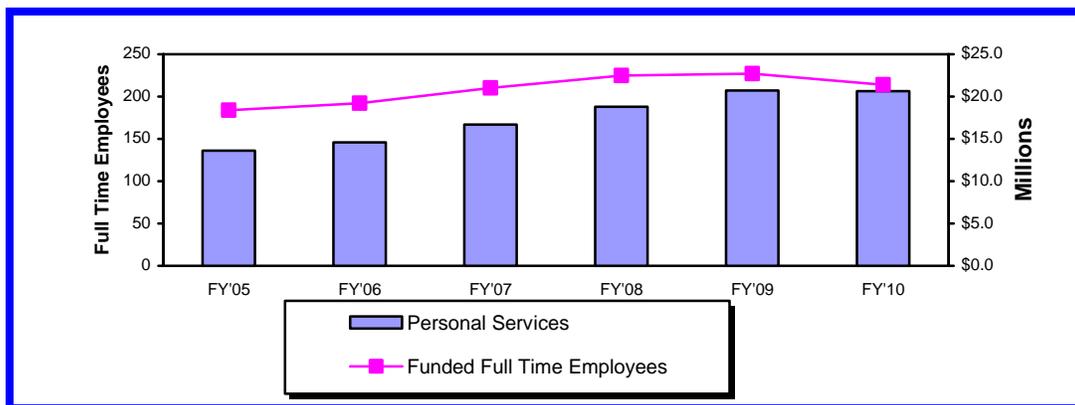
Operating Cost Trends

By Classification Category

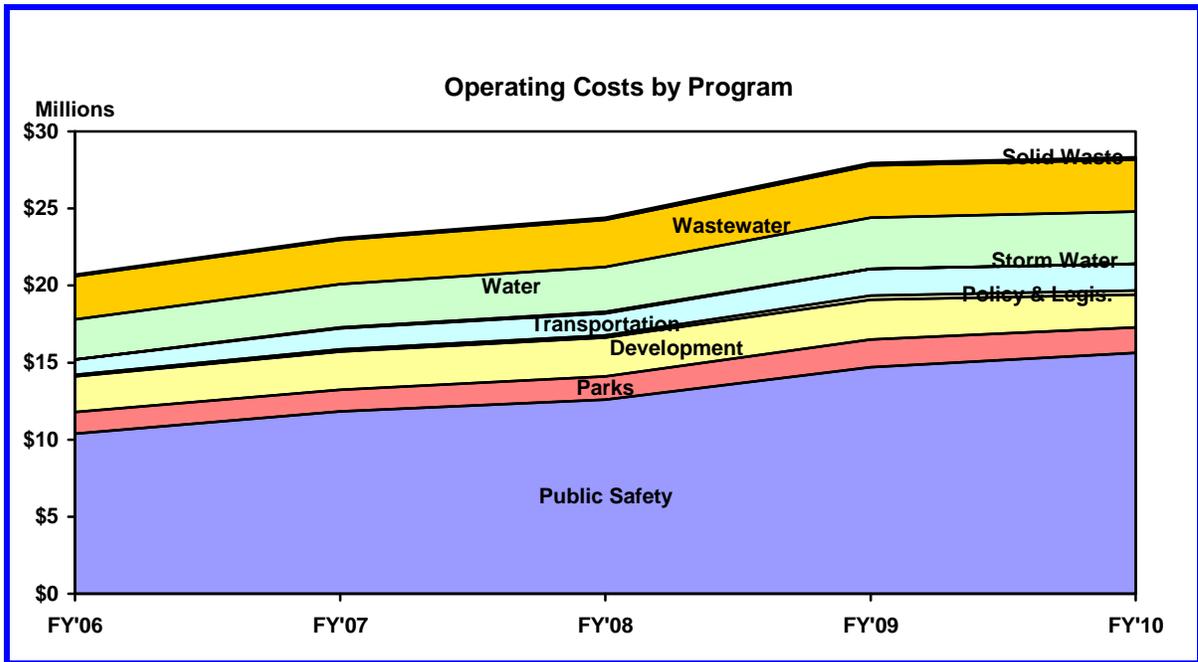
The graph below illustrates increased operating costs to meet service delivery expectations of our community. Personnel Services is showing an increase of \$140,250. This small increase occurs due to cost of living adjustments, step increases, and increases in the cost of benefits. Materials & Services are budgeted to decrease by \$102,950 and contractual charges are budgeted to increase by \$252,906. The capital outlay classification has increased by \$10,676. There are minor budget changes anticipated in the categories of charges for services and debt service. Transfers are decreasing by \$1,309,542, in part because the General Fund is not budgeting the one million dollar transfer to Capital Projects this year. The financial tables and charts provide an excellent reference should you desire more detail.



The following chart illustrates the cost of “Personal Services”, a state classification designated for employee and employee benefit related costs, and the number of approved full time positions in Grants Pass by year.



The City utilizes internal service funds for: Property Management, Vehicle Usage, Vehicle Replacement, Engineering, Community Development Management, Administrative Services (including Management, Legal, General Accounting, Accounts Payable and Receivables, Utilities Receivable, Payroll, Human Resources, and General Programs), Insurance, Benefits, and Information Technology. Use of these funds helps in identifying the true cost of program operations and can centralize specific operations to help reduce expenses.



Public Safety

Public Safety has been the focus of this year’s budget preparation. The significant impact the levy question had on the City cannot be over stated. The adopted budget includes the resources provided by the levy of \$1.79 per \$1,000 of assessed valuation. With these resources, Fire and Police services will continue at levels similar to prior years. While there were discussions about possibly expanding some of the services provided by the Public Safety Department, there is not sufficient new resource to do that. The Council may want to seek additional revenues if the City wants to improve traffic safety operations to address unusually high crash rates and traffic related complaints within the community. The formation of a traffic team is one of the areas addressed by the strategic plan and we believe it should be implemented as soon as funds are available.

Parks

The “River Vista” addition at Reinhart Volunteer Park is under construction and will provide new opportunities for parks users. Further development of Redwood Park has resulted in incremental increases for operating supplies, grounds repair and maintenance items, and utilities. The City will continue contracting with the local YMCA to operate Caveman Pool and with Recreation Northwest to administer the City’s year-round recreation program.

Development

While issued permits are down from the prior year, there remains a significant work load in the Planning Division. The Division has been working on tasks for the evaluation and expansion of the Urban Growth Boundary (UGB). This project is continuing and may take longer than expected as it has become more controversial in recent months. The Division has also been preparing data for potential annexations, and other long-term projects that require staff time. These projects are ongoing in addition to completing daily tasks of reviewing plans and providing high quality service to our customers. The department will renew its focus on long-range planning and preparing for the next development cycle to help the City manage the effects of growth while maintaining our quality of life.

Revenues from construction permits are below expenses for the third year in a row, the result of reduced construction activity in single family homes and related development. Therefore, in addition to staffing reductions, the Building and Safety Division will draw upon reserves to support operating costs for another year.

Tourism and Downtown

Tourism and Downtown activities have been managed by the Parks and Community Services Director since a minor reorganization two years ago. This has resulted in improved communication and relationships with the downtown business community. Transient Room Tax revenues are expected to remain relatively stable and they provide the sole support for the City’s Tourism Program. In addition to room tax revenues, downtown derives a small amount of income from parking citations. Improvement plans include encouraging facade renovations and completing historic lighting installations throughout areas of downtown.

We hope to continue marketing support to attract new business opportunities for economic development through the City’s partnership with SOREDI (Southern Oregon Regional Economic Development Incorporated); however, cuts made by the Budget Committee and the City Council may not permit the City’s continued participation in this program.

Transportation

State Gas Tax provides the primary revenue source for street maintenance and capital projects and is apportioned by the state based upon population. Gas Tax revenues are expected to generate \$1,336,890 which is a decrease of \$51,740 from the current year. The decision to forgo planned annexations also negatively impacts revenues from State Gas Tax receipts. While refusing to annex does not slow growth, it does impede the City's ability to pay for increased service demands and our ability to manage growth impacts. Street Utility Fees provide the balance of transportation revenues and are dedicated specifically for maintenance and safety enhancements such as sidewalks, pedestrian trails, speed bumps and hazardous vision sites. The costs for transportation improvements and related services continue to climb; however, the Street Utility fee has not been reviewed or adjusted since implementation in 2001. Review of this fee may be a project for this year if the Council selects to include transportation among their goals. The net margin between revenues and expenses, estimated to be \$483,065 for FY'10, will be transferred for investment in capital projects. These projects can not be funded by appropriations from the General Fund, as that program has been eliminated from this budget.

Storm Water and Open Space

The City's storm water program, designed to maintain systems for the collection, conveyance and enhancement of water quality related to storm water runoff, has not yet been adopted. The funding mechanisms are ready for Council consideration if Council places it on its agenda this fiscal year. Internal loans of approximately \$146,000 in total will need to be addressed. Payment for interest on the loans has been budgeted in the Street fund. If the program is not implemented soon, the costs incurred will most likely fall to the Street fund causing a one-time expense of approximately \$146,000 to repay the loans.

Water

The Water Plant anticipates using a 24/7 schedule this summer to manage water production at a more consistent pace, thereby reducing stresses on plant equipment and processes. The intake structure upgrade project has been successfully completed allowing for greater intake volume without harm to fish or their habitat. Federal and state mandates requiring additional testing of both water and waste water continue to be a growing cost and concern for the City. A portion of the net margin between revenues and expenses, totaling \$605,166 for FY'10 is anticipated to be available to be transferred for investment in capital projects. Water revenues were affected by the Council's decision to roll-back the annual COLA (cost of living adjustment) step increase in rates. The water fund has not yet been significantly impacted by this decision.

Wastewater

Sewer collection, wastewater treatment, and the JO-GRO™ activities are designed to protect the public's health and the environment. In FY'10, \$1,017,834 has been budgeted for capital projects from the net margin between operating revenues and expenses among these programs. Wastewater revenues have been affected by the reduction of sewer flow from the average customer. Sewer utility bills are based partially upon the winter average consumption of each customer. Declining revenues from water sales would have been partially offset by the annual COLA increase implemented each January; however, the Wastewater fund has been negatively impacted with the roll back. The cost of providing service continues to climb. The Wastewater Collection Division will maintain its program of cleaning sanitary sewer lines. Wastewater Treatment does not anticipate any significant changes to operational costs. An additional rate increase will need to be considered to keep the fund from operating at a deficit.

Solid Waste

The City continues maintenance activities and monitoring of ground water, surface water, and the landfill cap at the landfill site. The primary issues in the Solid Waste fund will be: completion of the required remediation actions at Merlin pursuant to the final Record of Decision, reforestation and land management for the Merlin lands, and payment of debt for the Marlsan Landfill Cover on behalf of the Solid Waste Agency.

Internal Service Funds

Independent funds have been established to provide an array of specialized services to the operational programs of the City. These funds are designed to be financially self-sufficient and the services they provide cover everything from office space to vehicle rental. The basis of billing for these funds vary, depending upon the nature of the service provided. For example, space is based on square footage; vehicle rents are a combination of mileage and depreciation costs; engineering is based upon time consumed; direct overhead is allocated based on personnel, time and materials, direct reimbursement; and, general overhead for management, legal, finance, personnel services and other general government administrative costs are funded on a fixed percentage of 8% of operating costs. Information technology services are also funded on a fixed percentage established at 2%.

For some Internal Service funds, retaining adequate reserves is critical to the purpose of the fund itself. Examples of these include Equipment Replacement, Workers' Compensation, General Liability Insurance, and Benefits. Other funds such as Community Development Management, Engineering, and Property Management need to assess fees more closely with annual operating costs so that they can provide the best possible service without accumulating significant fund balances.

Engineering Rate Increases

Historically, billable rates for engineering services have not been reflective of actual costs; hence an average rate increase was approved effective July 1, 2007 and was intended to be annually indexed with inflation. City Council rolled back the rate increase in reaction to the recession. Engineering is funded through an Internal Service fund generating revenues necessary to cover operating expenses. The anticipated resources will fall below the requirements in this fund if it is not supported from other sources. A \$30,000 retainer is being charged in order to maintain the Engineering fund operations. The Division, under the management of Community Development, assists with orderly development of our community by ensuring compliance with adopted facility plans and development standards. Customers include: internal customers for the streets, water, and sewer fund projects; external customers such as private developers, and all operating divisions that utilize the Geographic Information System (GIS) as a major resource in their work.

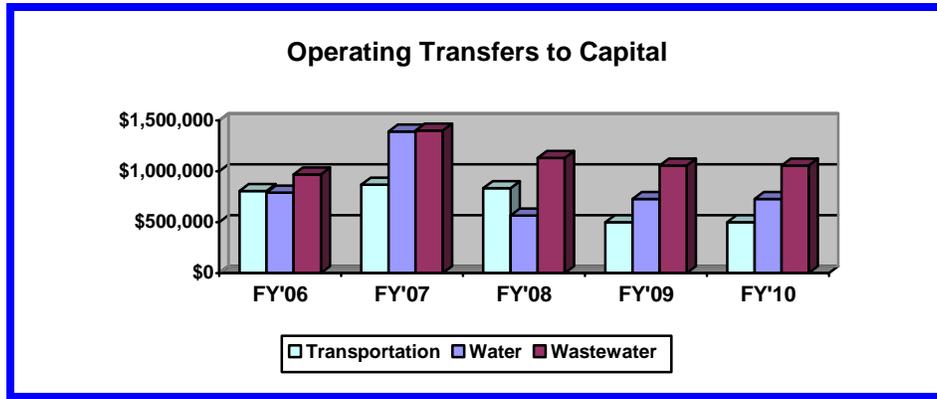
Other Rates

No change has been made to the fixed rate of 8% applied to all operating costs for Administration since the mid-eighties. It is important to recognize that the fund balance for Administrative Services is slowly being consumed and that the 8% charge is no longer sustainable to provide services that have necessarily expanded in scope and complexity over the last twenty years. The fund can not continue to provide the expanding level of service into the future without additional revenue resources. An analysis of options will be undertaken prior to the next budget process.

Worker's Compensation rates are determined by the state based upon job classification. The state publishes new rates in June for implementation effective July 1. Estimates were applied to wages in FY'10 for budgetary purposes.

Property Management's billable rate has been changed from \$1.41 per square foot to \$1.35 per square foot per year.

For the utilities, the difference between operating revenues and operating expenditures, which is annually transferred to capital projects, serves as a key element in determining revenue available for improvements. The water and sewer capital improvement programs, adopted by Council in May, 2005, identified plant upgrades and capacity expansion requirements for both utility systems. Water system improvement needs through 2024 are estimated to cost \$33.5M while the upgrades, expansion and structural repairs to the sewer system, will require \$33.7M.



	FY'06	FY'07	FY'08	FY'09	FY'10
Transportation	805,000	869,606	835,000	501,406	483,065
Water	790,000	1,390,000	565,000	728,557	605,166
Wastewater	969,000	1,400,000	1,130,000	1,056,644	1,017,834

A major source of funding for capital improvements in the past has been a transfer from the General fund. That transfer, usually in the sum of approximately \$1.0 million, is not included in this budget.

Impact of Capital Projects on Operations

Expenditures for capital improvements can have an impact on future operations. Some capital projects will require additional resources to maintain and operate. Others may reduce repairs and maintenance or reduce costs through improved efficiencies. Many capital expenditures will not have significant impacts or the impacts may be offset by increasing resources. The two new Public Safety facilities have operational impacts that are addressed through the budget process.

Beginning in FY'07 additional personnel were planned and budgeted to staff two new public safety stations which recently came on line. In FY'08 there were additional hires, and though not directly related, there were other Public Safety positions approved in the FY'09 budget. Salary and benefits together with the associated costs of equipment, uniforms, and operating supplies have been incorporated into the operating budget for Public Safety each year.



In addition to the staffing needs, the new facilities require: utilities, maintenance, janitorial, landscaping, alarm monitoring and resource needs for basic operations like copiers, office equipment and supplies. The Hillcrest station, the largest and most comparable public safety building operated by the City, was used as a basis for this year's budget projections. Slightly more than \$56,500 in operating costs was added to the budget for the two new facilities. These operating projections will be refined each year as actual costs are applied to subsequent projections. Operating costs will continue to be incurred every year as a result of these facilities. The City weighs the total cost (the capital cost and the on-going operational cost) against the anticipated benefits when evaluating capital projects.

Operating and maintaining all of the City's Public Safety facilities throughout this next fiscal year were among the key purposes of the levy election. The resources historically provided by voter approved levy funds are so significant that the face of Public Safety and of the City as a whole would have been dramatically different if those resources had not been approved.

Each of the foregoing capital expenditures will have an impact on future budgets and service requirements. This budget has been developed following thorough analysis and discussion among staff and management in an effort to ensure that the City can adapt to changing economic conditions, that the services and policies of the City are sustainable, and that careful planning and execution permit the City to operate more effectively than ever before.

The following table identifies the major capital improvements planned for this year and in summary form identifies anticipated future savings and costs.

Project	Description	Future Costs Estimate	Future Savings
River Road Reserve	250 acre site for recreation and public use.	<ul style="list-style-type: none"> •Grounds Maintenance-\$50,000/yr •Future Development Costs-unknown •Interest Costs-\$19,000/yr 	N/A
Public Safety Stations	This year will mark the completion of the projects funded by the public safety bond, including the Parkway and Redwood Stations.	<ul style="list-style-type: none"> •Building Maintenance Costs-\$60,00/yr •Building Depreciation •Allows for growth (Staffing and Equipment) 	<ul style="list-style-type: none"> •Response distance and time will be significantly reduced. •Improved ISO ratings should reduce insurance costs.
Forestry Property	Subject to Grants and other funding, the City would acquire the old Forest Service property.	<ul style="list-style-type: none"> •Grounds Maintenance-\$25,000/yr •Site work & Development-unknown •Utilities & Building Maintenance-\$10,000/yr until development 	<ul style="list-style-type: none"> •With outside funding, future needs for Museum or Historical properties may be reduced.
West Park Widening	Widening, sidewalk, and bike lanes.	<ul style="list-style-type: none"> •No anticipated change from current maintenance costs. 	<ul style="list-style-type: none"> •This is a safety and capacity needed improvement.

Darneille Lane Improvements	Widening, sidewalk, and other road improvements	<ul style="list-style-type: none"> •This road serves the new Redwood Public Safety building. There will be more traffic on this road. •No significant anticipated change from current maintenance costs. •Any added sweeping, patrol, or other related costs will be minimal. 	<ul style="list-style-type: none"> •Grant money will reduce direct costs by about \$735,000 •Issues of a narrow and old road will be eliminated. • Long-term maintenance costs will be reduced.
Other Road Improvements	There are a number of other road improvements in the Capital Budget	<ul style="list-style-type: none"> •No significant anticipated change from current maintenance costs. •Any sweeping, utility, patrol, or other related costs will be minimal. 	<ul style="list-style-type: none"> •Most are on the Transportation Master Plan and are designed to provide for current and future demands. •Long-term maintenance costs will be reduced.
Landscaping Highway 199	Dependant upon Grants, this project will landscape Hwy. 199 (Dowell – RCC)	<ul style="list-style-type: none"> •Water and utilities costs may increase around \$3,000/yr. •Contract maintenance or increases in City maintenance estimated at \$12,000/yr. 	<ul style="list-style-type: none"> •Grant money will reduce direct costs. •A better looking entrance into Grants Pass will have a positive effect.
Tussing Park Development	A phased development of the Park that will include parking and restrooms	<ul style="list-style-type: none"> •Parks Maintenance costs will increase approximately \$12,000/yr 	<ul style="list-style-type: none"> •The level of amenities available will increase to better serve the community. •The pedestrian bridge will serve parks on both sides of the River.
Water Treatment Plant Solids Handling	Sludge collection and solids dewatering.	<ul style="list-style-type: none"> •Minor increase in energy consumption and cost. •Equipment maintenance cost increase of approximately \$2,000/yr. •Equipment depreciation costs. 	<ul style="list-style-type: none"> •Provides permanent solution to solids handling. •Avoids future expansion costs or more costly remodeling.
Water-Hilltop Fire Pump	Provides for adequate fire flows, back-up generator, and future development	<ul style="list-style-type: none"> •As volume and pressures go up, power consumption and cost will increase. •Equipment depreciation costs will increase. 	<ul style="list-style-type: none"> •Safety increased. •Future costs avoided. •Current standards met. •Service failures can be avoided.
Wastewater "I" to "J" Street Relocation	Replaces approximately 900 feet of aging 6" clay pipe with 8" 3034 Sewer pipe.	<ul style="list-style-type: none"> •No known increases in cost. 	<ul style="list-style-type: none"> •Safety is increased •Costs of a creek crossing failure will be avoided. •Inflow and Infiltration costs will be reduced. •Log-term maintenance cost will be reduced.
Wastewater Phase 2 Expansion	Expands capacity and meets new regulatory requirements	<ul style="list-style-type: none"> •Some minor power consumption expected. 	<ul style="list-style-type: none"> •Future expansion costs avoided. •Prepares to meet future regulatory costs.

Redwood Storm Water Project	Work on Existing drainage problems	•Some minimal maintenance oversight with the responsibility of future maintenance falling to home owners and private parties.	•Staff time and costs associated with drainage issues will be reduced.
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Planning for the future is one of the most important responsibilities the City has. It is important to analyze all of the expected costs along with the benefits related to capital expenditures. We believe in preparing for the future.

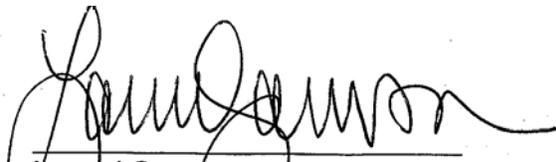
Conclusion

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. The knowledge and years of experience of our employees will help Grants Pass succeed. Through this budget we are recognizing the needs of today and the needs of the future by planning strategically and implementing measurable objectives. When the Council goal’s are adopted and the work plan is prioritized, staff will be able to quickly adapt and direct their energies, skills, and talents, in applying the financial resources which have been approved through the budget process to make measurable progress toward achieving those goals. We strive to “honor the past while building a hometown for our children’s children.”

This budget recognizes the economic reality of today and enhances the efficiency of City operations. The cost reduction efforts are evident throughout the budget and yet the City is still able to offer the high quality services Grants Pass is known for. I am delighted with the continued performance of our organization and I believe that the City offers an exceptional value in the services it provides. The City will remain committed to improving our focus on ethics and to enhancing the reputation of local government through quality service delivery.

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 this budget document. I am particularly grateful to Finance Director, David Reeves, and his staff for their continuing commitment to excellence in municipal finance and budgeting for the benefit of our community.

Respectfully submitted,



 Laurel Samson
 City Manager Pro Tem

WHERE THE ROGUE RIVER RUNS



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