

July 26, 2010

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



Budget Message for Fiscal Year 2010-2011

I am pleased to present to you the balanced budget for the Fiscal Year 2010-2011 (FY'11). This budget represents the combined efforts of the City Council, the Budget Committee, staff, advisory boards, and the citizens of Grants Pass.

The City of Grants Pass is in the enviable position of being able to continue to provide similar service level without increasing its tax levy in the projected FY'12 budget. We owe this in part to previous Councils and staff who have prepared for the future. A few examples of the actions taken include: 1) creation of the intern program which provides college interns to assist firefighters; 2) the layoff of eight employees at the beginning of the construction industry downturn; 3) use of Community Service Officers to relieve police officers of more routine duties; 4) staff participation in health insurance planning and cost sharing; 5) no cost of living increases in January 2009 for all managers, supervisors, and Grants Pass Employee Association employees; 5) no cost of living increases in January 2010 for all managers, supervisors, Fire, and Teamster employees. These actions and sacrifices have allowed the City to contain costs, and we anticipate being able to offer similar level of services through FY'14 with no increase in the Public Safety levy.

This budget document 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 \$4,191,516 in FY'11 for City Public Safety operations. The prior levy expired June 30, 2009. The overwhelming support for the Public Safety Levy in 2009 demonstrates the community's desire for quality services. The budget for FY'11 and projected budget for FY'12 continue the high level of Public Safety services and other government services our citizens expect and have received over the period covered by the current levy. As the current two-year levy expires in the coming year, the FY'12 projections also show a continuation of the Public Safety Levy at the same rate that was approved by voters during the current period.

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 79% of the respondents give Grants Pass a rating of Good or Excellent. 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 provide the high quality services the City has delivered over the years while acknowledging the more fiscally conservative stance that the local economy demands.

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. These goals are used to formulate a work plan with corresponding performance measurements, serving as the foundation upon which the budget is developed. The City Council recently completed the 2010-2011 Strategic Goals and Work Plan in December of 2009, and identified a number of projects that are to be considered both in the short-term and longer-term. 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 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 wastewater systems. The City’s nationally accredited Police and Communications operations are among the best in the country and many of the City’s other activities have received national recognition for their performance.

Grants Pass, along with every city in the nation, is coping with the lingering effects of a world-wide economic downturn, particularly in the housing market. However, while our community’s construction growth rate has slowed from the rapid pace of just a few years ago, our City’s population continues to grow as estimated by Portland State University’s (PSU) Population Research Center. Higher volume of demands for service, particularly in the City’s Public Safety services, has accompanied the City’s population growth in recent years. Between the three years of July 1, 2006 and July 1, 2009, PSU has estimated a total population growth of 3.6% in Oregon, 3.1% for Josephine County, and 7.4% in the City of Grants Pass. In the most recent year ending June 30, 2009, PSU estimates the City added an additional 965 residents to bring our estimated population to 33,225. Grants Pass now ranks as the 15th largest city in Oregon. We believe we have met the challenge to maintain the “livability” of our community while facing the broad economic realities head on.

The executive team and staff were given some specific guidelines for preparing the FY’11 budget. With limited growth in resources and expected cost inflation pressures in many of the most routine operational expenditures, general directions included the need to cut non-personnel budgets from the prior budget period by between one and three percent. These cuts would create the most fiscally responsible budgets that should avoid compromising the City’s current level of service. It has been recognized that a higher level of cuts after the relatively larger advised cuts in FY’10 would adversely affect the City’s ability to maintain the same level of services. Further instructions included:

- *Limit Discretionary Expenditures: Except where necessary, the proposed FY’11 budget must limit or reduce discretionary spending across most programs in order to accommodate the current financial environment and slowed or relatively non-existent 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.*
- *Cut non-personnel budget totals by 1% to 3%: Recognizing that certain areas of operational revenue growth will not keep up with contractual increases in personnel*

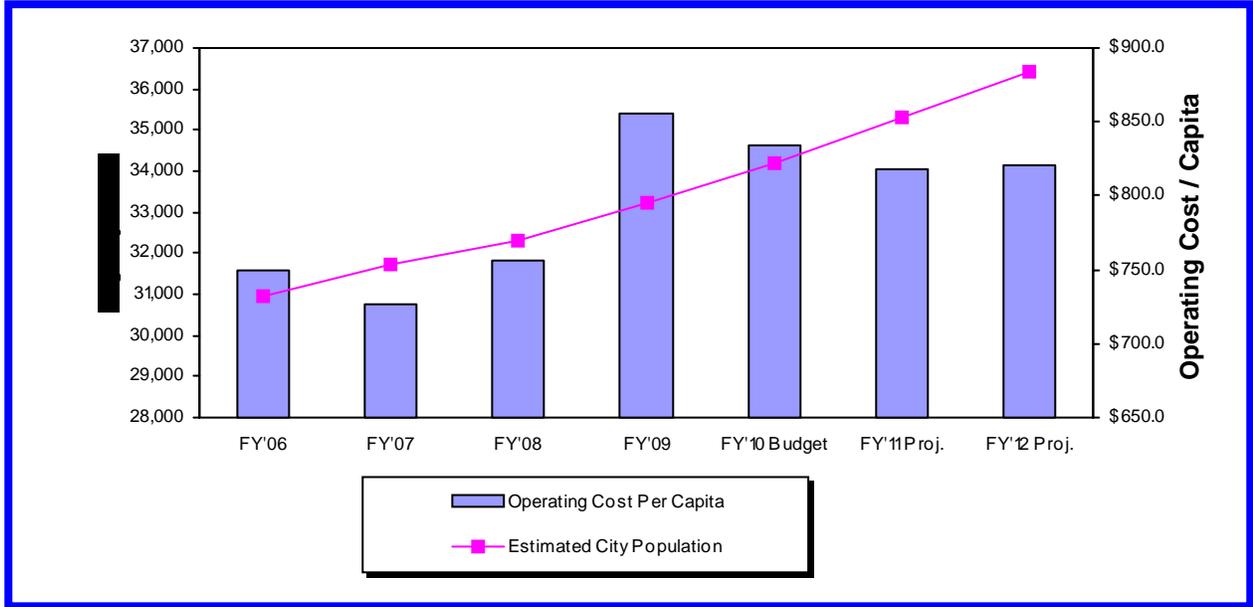
costs, limiting non-personnel discretionary expenditures will allow the level of services to be similar and will enhance the sustainability of program budgets.

The FY'11 operating budget, excluding contingencies, debt service, and transfers out, totals \$28,884,851. This is up less than \$400,000 from last year's Revised Budget total of \$28,537,782 because of reductions in contractual services and, in part, because of the reduction in routine capital needs as a result of two new Public Safety stations. Public Safety accounts for a little more than half of the total operating costs for the City, and its budget increased approximately \$500,000 due largely to the need for two new positions to fill existing service gaps and contractual labor agreement cost of living adjustments. The other operational departments of the City decreased operating expenses by more than \$100,000 in total compared to last year.

The elimination of the Capital Transfers from the General Fund to Capital projects that was implemented in FY'10 makes it possible for the City to continue providing services at levels similar to prior years. Public Safety will continue to use approximately the same amount of General Fund support from non-dedicated resources as compared to FY'10 (\$399,000 in FY'11 versus \$435,000 in FY'10). The total budget, including Capital and unappropriated amounts, is \$89,408,798. This is slightly higher than last year's total budget of \$86,416,355 due largely to the expectation of starting FY'11 with a higher budgetary fund balance in the General Fund. Wrapping up a large part of the Redevelopment Agency will bring some one-time resource benefits including paying back the City's General Fund for the bulk of the loan extended to the Agency in 2008.

The decision to eliminate Capital Transfers from the General Fund may have long-term implications as the City defers capital investments. The executive team and I will strongly advise the City Council to restore funding for Capital Investments once the recession subsides to avoid the inefficiencies and exponential costs of deferred maintenance. Over the next year Council should discuss this former \$1,000,000 annual contribution to capital and consider restoring part of the General Fund transfer in FY'12. Delaying needed purchases and improvements 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. However, there are certain capital requirements, particularly in Public Safety, that cannot be deferred much longer. Under proper financial and budgeting policies of matching one-time resources with one-time expenditures to maintain a sustainable budget, the budget allocates capital to certain Public Safety projects. One time resources related to winding up the Redevelopment Agency will provide approximately \$531,000 in one-time property tax revenue and a smaller amount of additional one-time resources in future years as the Redevelopment Agency pays off the short-term loan from the General Fund. Following the City's long-time policy of using all property taxes for Public Safety, the one-time property taxes that will arrive at the end of Fiscal 2010 have been allocated to Public Safety projects in the next fiscal year. The majority of the \$935,000 transfer out of the General Fund in this year's budget is addressing overdue projects such as the City's share of the Computer Aided Dispatch (CAD) system upgrade in the 9-1-1 call center and Mobile Data Terminals for Public Safety vehicles.

Despite very modest growth in the total operational budget this year, City stakeholders should be aware that the City continues to grow, and the total dollar amount to serve a larger community will also grow over time as long as the City keeps level of service at similar levels. The recession being experienced in the country and region has not slowed the City’s estimated population growth as measured by Portland State University’s Population Research Center. In fact, the FY’09 population growth as measured by PSU was higher than both FY’07 and FY’08.



Over a longer time period, it is important to manage expenses and ensure the cost per capita of operations, for a full service City such as Grants Pass, do not increase more than the rate of inflation. This ensures growth is being managed appropriately and within reasonable resources. The total cost per citizen of providing all the critical services (Police, Fire, Water, Wastewater, Transportation, Legislation, Parks, Development, and Other Services) has not exceeded inflation as measured by the national CPI index between FY’06 and the FY’11 budget and FY’12 projection provided in this budget. Using the average inflation rate of 2.54% in the last decade and using FY ’06 as the base year, the FY’11 budget and projected budget for FY’12 estimated operating costs per capita are significantly under the compounded effect of inflation since 2006.

	<u>FY'06</u>	<u>FY'07</u>	<u>FY'08</u>	<u>FY'09</u>	<u>FY'10 Budget</u>	<u>FY'11 Budget</u>	<u>FY'12 Proj.</u>
Estimated City Population	30,930	31,740	32,290	33,225	34,125	35,025	35,925
Operating Cost	\$23,172,859	\$23,070,007	\$24,401,413	\$28,446,551	\$28,537,782	\$28,884,851	\$29,884,548
Actual Op. Cost / Capita	\$749	\$727	\$756	\$856	\$836	\$825	\$832
Cost / Capita If Matched Avg. Inflation (CPI)		\$768	\$788	\$808	\$828	\$849	\$871

CITY COUNCIL GOALS

The City Council completed the most recent Goals Statement and Work Plan with adoption on December 2, 2009. The City Council adopted a work plan for 2009-2011 that includes both short-term projects and longer-term priorities. The goal setting process is a critical element in determining the short and long-term direction of the City.

These important goals provide the constant standard that is typically reflected throughout the budget document and are heavily considered in creating a sustainable budget that carries out these goals. 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. The next annual goal setting session is expected to take place late in calendar 2010 and will guide the 2011-2012 budgeting and City operations.

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'10 property tax rate for City residents was \$6.3225/\$1,000. In the second year of the \$1.79 two-year Public Safety Levy, the tax rate for FY'11 is estimated to be almost exactly the same as FY'10 including the bonded debt. Continuing public safety funding will be a key focal point this year as the next levy measure will be brought to voters in November of 2010. The goal adopted by 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.*" will need to continue to be supported and promoted by the community.

Public Safety programs have been supported in the past entirely by property taxes, dedicated revenues, and through the 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, similar to FY'10, other General Fund resources are being directed to Public Safety programs. Without redirecting approximately \$399,000 of General Fund resources to Public Safety functions, there would have been cuts roughly equivalent to three to four police officers. Two items on the Council's Work Plan are "Secure funding for Public Safety through the approval of a serial levy in the November, 2010 election" to be done in 2010 and "Explore the option to substitute a monthly fee for the public safety tax levy" as a project to be worked in the years 2011-2012.

Grants Pass, like other regions throughout Oregon, has experienced a severe 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 36 permits in this period, which is expected to end the fiscal year significantly down from last fiscal year's decade low of 75 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. The layoffs of 8 employees throughout the Community Development activities last fiscal year (4 of which were in Building), 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 16 positions that are authorized but not funded due to both declining service demand and revenues in the four programs managed by the Community Development Department (Building, Planning, Engineering, and CD Management). 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.

However, at current run rates the Building department will deplete its restricted reserves held in the General Fund in a little over two years. The 2011 budget has a \$50,000 transfer from General Fund resources to the Building department in case activity does not pick up in coming years. Existing reserves and the new reserves would give the Building department nearly three years of operating reserves at current historically low levels of permit activity. Shutting down the Building and Safety department and turning this required program over to the state would be a decision that by law could not be reversed in short order if activity picked up, and it will be important for many efficiency reasons to keep this activity operated by the City if possible.

System Development Charge (SDC) revenues generated through growth have declined along with residential building activity. All types of SDCs appear likely to fall short of their respective projections. Revenue projections for FY'11 have been estimated at even lower levels to reflect the reduction in development activity by forecasting only 40 single family dwelling units for the year (as compared to 75 last year or the average of more than 200), and forecasting a reduced level of activity for commercial and industrial permits. These conservative estimates will help ensure that spending does not exceed resources for these activities.

Work had been completed for the preparation of a Storm Water Utility Fee in 2007 for Council consideration. However, following no formal adoption by Council at that time, this project has been put on hold in order to work through some issues with the Grants Pass Irrigation District. Because of the delay in approving the fee, it is anticipated that the proposed fee will need to be reviewed prior to being brought back to Council. When the City is ready to proceed, this project will provide the financial basis from which to address collection, system maintenance, storm water retention, and treatment of storm water run-off in the community. It will also address concerns about water quality, the environment, and the need to mitigate flooding and drainage problems.

The FY'11 budget has General Fund contingency of \$1,000,000 excluding Building's restricted resources / requirements, which is approximately 5.1% of the City's \$19.5 million General Fund operational budget (Policy and Legislation, Public Safety, Parks, and Development). This contingency is in the range of a typical 5.0% to 10% contingency and should provide Council with the resources to deal with emergencies.

While Council adopted a new financial policy target for the proper range of beginning fund balances for the General Fund, addressing financial policies regarding ending fund balances in other funds and the use of 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 and contingencies throughout the organization. A higher level of contingencies does not mean a higher level of spending, it merely means a higher level of financial flexibility for Council in dealing with unexpected events. 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.

STAFFING CHANGES

There are 5.5 additional funded positions by Full Time Equivalent (FTE) in the FY'11 budget. This is offset by the elimination of funding for 3.75 positions that are not funded in the current FY'11 budget. In fact, many of the positions previously authorized by the City Council are not funded this year. The total number of approved but unfunded positions has increased from 18.0 in FY'10 to 19.75 in FY'11.



Three of the new positions are within the Public Safety department and includes two Police Officer positions. One Police Officer position brings new funding resources at Step 1 for three years through a new three-year Officer grant. The other new Officer position is intended to provide time working with the "Southern Oregon High-Tech Crimes Task Force." Almost all major crimes have technology analysis needs, and Grants Pass is among the top users of this state-of-the-art, high-tech crime lab. A partnership with this Task Force also now brings a benefit of vehicle needs for the additional employee and overtime use being reimbursed by the FBI for the new Officer. To read more about this Task Force please visit the web site at <http://www.hightechcops.com> which provides a history of the success of this program.

The FY'11 budget also includes an additional dispatcher in the Public Safety department, which management believes is the most critical new personnel need in the organization in order to accommodate additional call volumes and remain within the proper response times for all types of calls.

This budget also funds one additional position in the Information Technology (IT) division as all departments of the City are relying on technology to a much greater degree than years ago. IT security and network needs, the maintenance of both new and old systems, and integrating multiple uses of technology within specialized departments such as Public Safety, are all uses of IT services that in the last 5 years have grown beyond the City's ability to properly service each of these needs with existing staff levels.

There is also a new funded position within Property Management, however this position is merely replacing a similar dollar amount of part-time contractual work that has already been in previous budgets. The additional property management position working full-time for the City creates certain efficiencies through not having to constantly train temporary workers on how to maintain various City properties, and the dollar difference between our existing contract work and the new employee is minimal.

And finally, this budget also includes an additional half-time Office Assistant in the Human Resources Department in order to keep up with the myriad of filing and recordkeeping associated with managing four recognized bargaining units, 250+ permanent and seasonal/temporary employees, and administering various benefits. The new half-time position within Administrative Services is offset by the elimination of funding for 0.75 FTE's within other departments of Administrative Services. Starting in FY'11, an additional 0.5 FTE in Finance and another 0.25 FTE in Management are not being funded.

There are a total of 19.75 unfunded positions throughout the various City programs this year, versus 18 unfunded positions in the FY'10 budget. As a result of reductions in revenue, positions that do not have funding in this Operations Budget include the following:

Summary of FY'11 Unfunded Personnel Positions			
Activity	Program	Title	# of Positions
Finance	Administrative Services	Accounting Tech	1.00
		Office Assistant I	0.50
Management	Administrative Services	Office Assistant I	0.25
Community Development	Support	Office Assistant	1.00
Planning	Development	Senior Planner Associate Planner (3) Assistant Planner (3)	7.00
Building	Development	Residential Building Insp Plans Examiner II (2) Office Assistant II Building Inspector I	5.00
Engineering	Support	Utility Engineer Project Specialist (2)	3.00
Parks	Parks	Parks Maint Worker Urban Forester	1.50
Streets	Transportation	Urban Forester	0.50
		Total	19.75

New positions that are unfunded starting in FY'11 include 0.5 FTE in Finance, 0.25 FTE in Management (1 FTE offset by some new part-time hours in Management), an additional 1.0 FTE in Planning, and another 1.0 FTE in Engineering. However, Information Technology is removing the one unfunded position from last year. Should activity significantly increase during the fiscal year, a supplemental budget could be brought before the Council that would recognize the staffing needs for 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.

The City is falling further behind in addressing the staffing need of the Police Division. We are unable to fund positions recommended by a staffing study completed in 2000, as well as the Strategic Plan adopted by Council in 2008. A recent report distributed by the Oregon Association of Chiefs of Police, identifies Grants Pass as the most understaffed (police officers) small city in Oregon. In order to respond to the urgent calls for service, the proactive work cannot be addressed. In addition, as work load continues to increase, our officers find themselves in the precarious position of balancing officer safety with the need to respond to a high risk call with inadequate resources. This issue cannot wait much longer to be addressed.

Public Safety concerns are also affected by the County. The loss of O & C funding to Josephine County and the failure of their last levy request resulted in decisions to use the full diminishing three year federal allocation over two years and make an effort to replace those funds sooner rather than later. 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 and will be completely used up by the County within two years unless lobbying efforts renew the funding, 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. Fortunately, Library services have been restored largely through volunteer efforts, at least on a temporary basis, although there are concerns about the sustainability of this funding.

OTHER CHALLENGES

Staffing for an expanding Park System

Over the last five years, park acreage and developed park sites have increased substantially. While park and trail maintenance responsibilities are increasing, the Parks Division eliminated one full-time position in 2010 due to the economic climate. The 2011 budget increased funding for additional contractual labor to maintain the expanded park system but did not add any employees.

Currently, we maintain approximately 195 acres of developed park land. This is up from 160 acres in 2006. Newer park maintenance responsibilities include: Morrison Centennial, River Vista at Reinhart Park, Redwood Park Phase II, Fruitdale Park phase II, and various new trail links. Completion of Tussing Park and the Parkway Park property will push the total to over 200 developed acres in 2011. In total, there are 507 acres of designated park land including River Road Reserve and other future park sites.

Preparing for development turnaround

The City has responded to the downturn in the construction industry appropriately with a reduction of staff. It will be a challenge to be able to respond quickly when the industry turns around. The City experienced a number of problems during the building boom with limited staff and high turnover. This hampered service delivery. The City will need to monitor this and be prepared to move back into the market.

Addressing PERS funding

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 to the Public Employees Retirement System (PERS) effective July 1, 2009. Nearly seven years ago 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.

PERS rate changes are largely and directly correlated to the broad performance of financial markets, and rate changes tend to lag the actual performance of financial markets by nearly two years. The FY'10 and FY'11 rates billed by PERS were reduced because of financial market performance that was healthy prior to 2008. However, knowing that 2008 was one of the worst financial market performances in many years, the City billed all departments at the same PERS rates as the previous two-year cycle and set a small amount of reserves aside in the Benefits Administration program (Insurance Fund) in preparation for rates that are certain to be higher in the next two-year cycle.

Due to the historic losses in financial markets in 2008, it is currently expected that at least 3% increases will be implemented by the state PERS program every two years until the losses are recovered and the retirement assets equal the actuarial liabilities. Over the next two years, the City will bill all departments at slightly higher rates each year and actuarial liabilities compared to growth in assets for the state system will have to be monitored to predict the impact of future rate setting cycles. Ultimately the move to create a small amount of City PERS reserves will lessen the future impact of PERS rate hikes towards the end of the rate increase cycle and will help smooth the potential volatility of City personnel costs and related benefit costs.

Managing health care costs

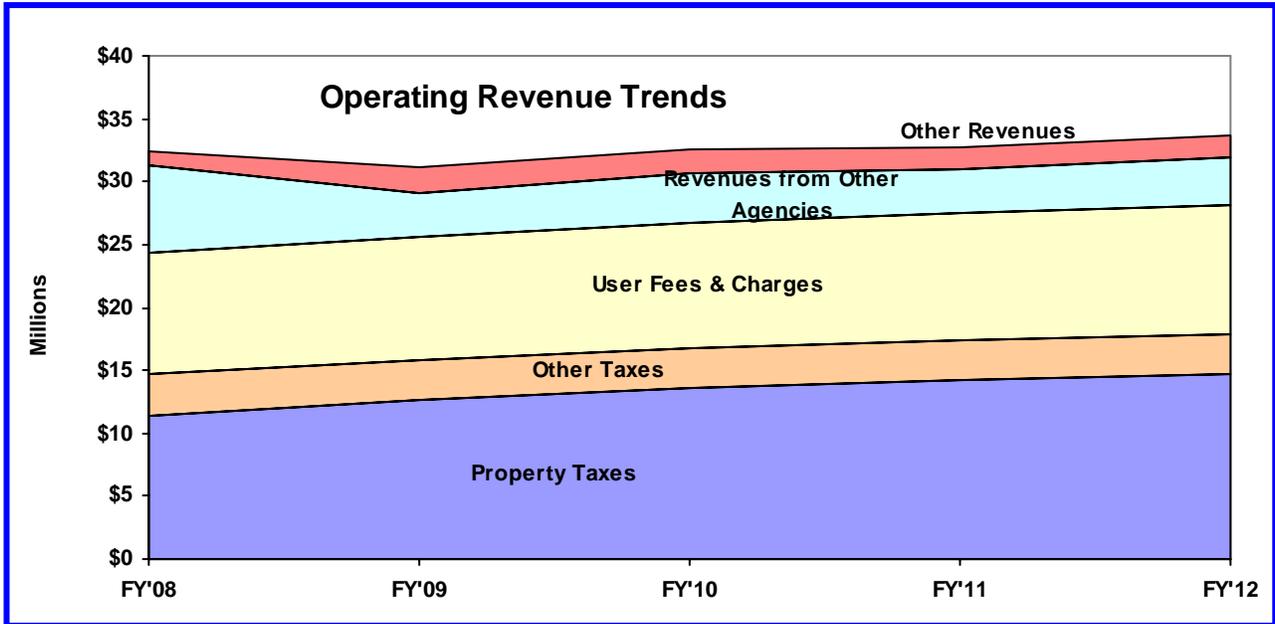
The City has a choice of two health care packages effective January, 2007. Employees can select either a standard existing plan or a lower premium plan in association with an HRA/VEBA account funded by the City. There was a significant increase in the number of participants in the HRA/VEBA plan in the last two years, with approximately 79% 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.

Negotiating with labor organizations

Just prior to the end of Fiscal 2010, the City was negotiating with three of the four unions, including a new union contract in process as the Grants Pass Employees Association (GPEA) was affiliated with the American Federation of State, County and Municipal Employees (AFSCME). This coming year we will be working on contracts with: Teamsters (wages only), International Association of Fire Fighters (IAFF) for wages only, and on the new contract with GPEA. The City's contract with the Police bargaining unit remains in effect through the year.

OPERATING REVENUE TRENDS

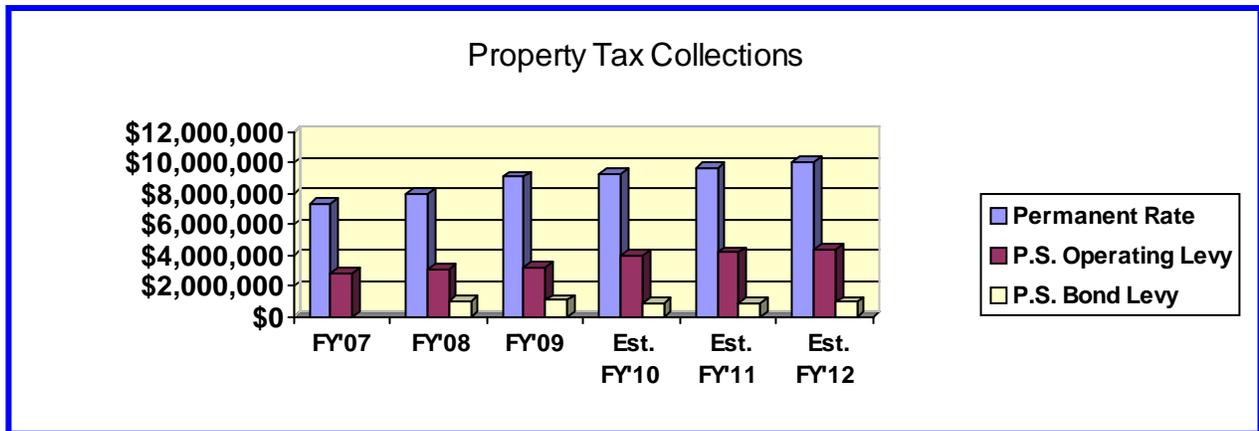
Financial Overview for FY'11



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

Property Taxes – Permanent Rate and Public Safety Local Option Levy

FY'11 will be the second year of the two-year Public Safety Local Option Levy which will end June 30, 2011. That levy resulted in an assessment of \$4,313,211 in the 2009-10 fiscal year. The newly adopted levy, at \$1.79 per \$1,000 assessed valuation, is anticipated to provide approximately \$130,000 to \$150,000 in additional resources in FY'11 due to growth in assessed values and small amounts of new construction. 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 \$398,681). 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 Bonded Debt will be approximately the same as Fiscal 2010 at \$6.3225/\$1000 assessed valuation. It is noteworthy that the tax rate for Public Safety Debt declined by approximately \$.10 per \$1,000 assessed valuation from the 2009 rate of approximately \$.50 to approximately \$.40/\$1,000 during FY'10.



Grants Pass' total taxable values continue to increase as a result of relatively small amounts of new construction. Assessed values will also increase in FY'11 and FY'12 as a result of 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% per year, the ratio of total assessed value to total market value, while varying from property to property, is expected to be closer to 75% for the next fiscal year.

Assessed values rose 3.93% in FY'10 and are estimated to increase another 3.9% in FY'11 and FY'12. 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 in recent years, will also impact FY'11 and perhaps FY'12. Bringing in the additional valuation from these properties that the City already serves would increase 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. These questions become even more critical to address over the next year as the City is currently in the process of redefining and finalizing the new UGB borders in the next fiscal year.

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 FY '07. The approved debt of \$9,875,000 is a twelve-year bond issue funded by a property tax levy which began at approximately \$.51/\$1,000 of assessed value for the first two years and dropped to approximately \$.40/\$1,000 of

assessed value in 2010. The current year debt levy, near \$.40, will remain at approximately the same rate until the last year of the Public Safety debt levy.

Property Taxes – Future Public Safety Local Option Levy

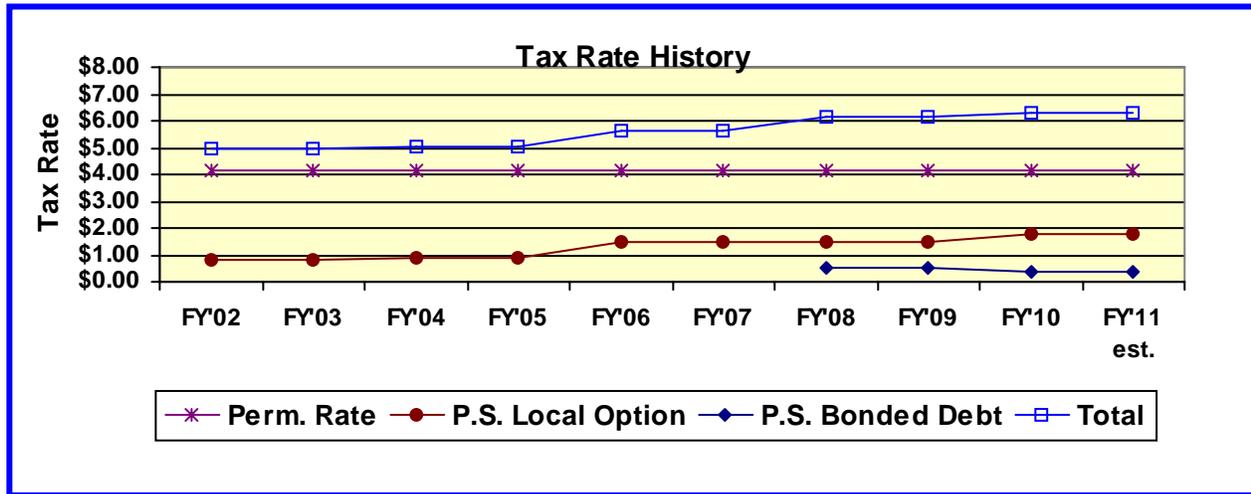
On May 19, 2009, the voters overwhelmingly supported the proposed two-year Public Safety Local Option Levy. The levy will provide funding for the Public Safety Department for FY'10 and FY'11. Having completed the Public Safety Strategic Plan early in 2008, there are important recommendations that the 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 eventual implementation of the Public Safety Strategic Plan adopted by Council in FY '08. Historically, prior Public Safety levies have increased over previous levies to address inflationary impacts and to meet the additional needs of the community. For example, the current Public Safety operations levy is \$1.79 per \$1,000 of assessed value while the preceding levy was \$1.49. 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. However, due to the recession and having some new Public Safety facilities and related equipment, the impact of inflation in the Public Safety departments has been muted in 2009-2010 and is expected to stay relatively low for the next two years.

The Budget Committee met twice during February of 2010 to hear an overview of the budget process and updated fiscal/operating information for the current year. During these meetings staff also asked the Committee to provide some input on the next Public Safety Local Option Levy to come before voters in November of 2010. Of those Committee members and Citizens that provided an opinion, the opinions were diverse in reasoning but yet unanimous to create this budget projection based on a new three-year Public Safety Local Option Levy at the same rate of \$1.79. Reasons cited included (but were not limited to) providing enough time to study alternatives to the Local Option Levy, the current recession, taking the City out of the same voting cycle as the state and county, and a new state law implemented in 2010 governing ballot language for replacement of local option levies which allows the use of the word "renewal." Council authorized these same levy terms in June of 2010 for the November 2010 general election.

While recognizing that the levy must increase if most aspects of the Public Safety Strategic Plan are implemented, 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 2015, and by making significant cuts to proposed non-personnel expenditures within the Public Safety Department and throughout the General Fund. It should be adequate to maintain reasonable levels of safety for our citizens and Public Safety personnel for the duration of the levy. The largest

difference between current levels of service and the Strategic Plan are that the Public Safety department is currently without a dedicated Traffic Team and the number of officers is too low.

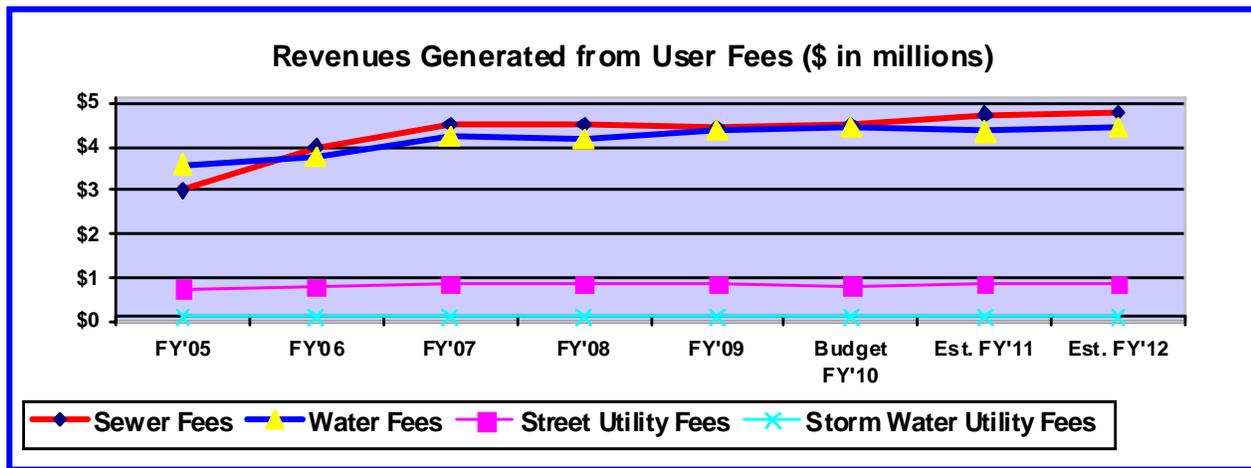


Taxes Other than Property

ROW/Franchise fees received from each of the private utilities providing service to municipal residents are estimated to total \$2.359 million in FY'11. This amount is relatively stable from year to year, but due to both the recession and less use of traditional utilities such as land-based phone lines, the current projection suggests that 2012 City ROW/Franchise Tax revenue will be approximately 5% less than the amounts received five years prior in FY'08. 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 ROW/franchise fees. Historical trends, proposed rate increases or decreases by utility firms, and additional consumers, are taken into consideration when estimating ROW/franchise fee revenues.

Of the two largest private utilities in Grants Pass, Pacific Power has been implementing rate increases and has asked for another significant increase with the Utility Commission, while Avista has been decreasing rates due to lower market prices for natural gas. Garbage service and Cable ROW/franchise taxes in total are expected to remain close to unchanged. Annual cost of living adjustments for water and wastewater rates usually take effect each January based on the October CPI change in the previous year.

User Fees and Charges



Revenue estimates for Utility fees:

	Wastewater	Water	Street	Storm Water
Budget FY'10	\$4,383,052	\$4,330,091	\$726,200	\$0
Estimated FY'11	\$4,639,030	\$4,244,708	\$781,800	\$0
Projected FY'12	\$4,688,310	\$4,326,500	\$781,800	\$0

The foregoing chart reflects revenue estimates for wastewater, water, street, and storm water funds. Water and wastewater revenues have been negatively impacted by the March 2009 Council repeal of the annual cost of living adjustments (COLA). However, the Wastewater COLA was reinstated in February 2010 after the financial performance of the Wastewater Utility was reviewed by Council in more detail. 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 wastewater services are provided by the Redwood Sanitary Sewer Service District (RSSSD). Thus, the growth rate estimated for City wastewater accounts is slightly less than the growth rate anticipated for City water service accounts. City wastewater does, however, charge fees to RSSSD for certain services, and over the next few years management will be evaluating the process of consolidating the District into City operations. The City's utility billing department already processes and collects RSSSD utility bills and the District is also managed by the City.

Significant decreases in growth and development have resulted in either flat or slightly lower projected revenues in Water, Wastewater, and Transportation funds. However the reinstatement of the Wastewater COLA has been factored into projections. Water and wastewater are also affected by successful conservation programs, as demonstrated by the reduction in the winter water average consumption (WAC) from 700 cubic feet of water per month two years ago to 650 cubic feet of water per month for both last year and the current year (residential WAC).

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

Revenues from Other Agencies

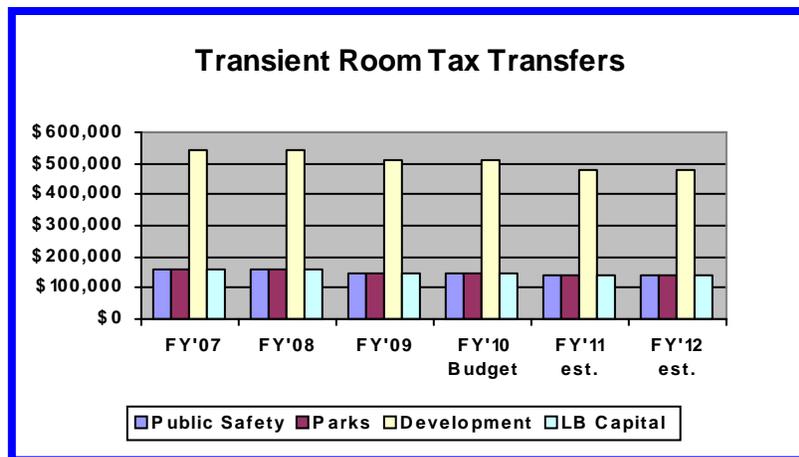
Revenues are on track with estimates for FY'10 and some small increases are projected for FY'11. Revenues from the State of Oregon for Liquor Tax, Cigarette Tax, and Revenue Sharing, which make up the largest share of revenue from other agencies in the General Fund, are projected to increase by \$86,281 in the next fiscal year.

State Gas Tax is projected to provide intergovernmental revenue of \$1.663 million in FY'11 and \$1.957 million in FY'12 due to a state gas tax increase of \$.06 per gallon that is expected to be implemented by January 1, 2011. This increase is projected to provide nearly an additional \$600,000 per year once fully implemented (assuming statewide gasoline sales do not decrease due to improving fuel consumption in new vehicle and reduced driving). Therefore, half of the effect of the increase in the City's share of the tax increase will be felt in FY'11 and the increase will be fully implemented by FY'12. Per capita estimates are provided by the state through the League of Oregon Cities and are the basis for projections of revenue sharing amounts and gas tax projections.

Revenues from the 911 Agency for dispatching services are anticipated to total approximately \$349,000. Wastewater treatment services provided to the Redwood Sanitary Sewer Service District will generate \$236,000, an estimate based upon historical flows and the actual treatment costs realized by the City.

Transfers In

Transient Room Tax revenues are distributed among Development (which includes Tourism), Public Safety, and Parks as well as the Lands and Building program. Collections from Transient Room Tax are projected at approximately \$902,000, of which approximately \$762,000 will be directed to operations and \$140,000 will be



directed to Capital. The combined total is lower than last year's forecast by nearly \$73,000 due to the recession's impact on travel to our area. 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 compared to peers 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, \$24,000 from the Solid Waste Fund for Code

Enforcement. Beginning FY'11, Code Enforcement will fall under Public Safety's Field Services for its administration and budget.

Other Resources

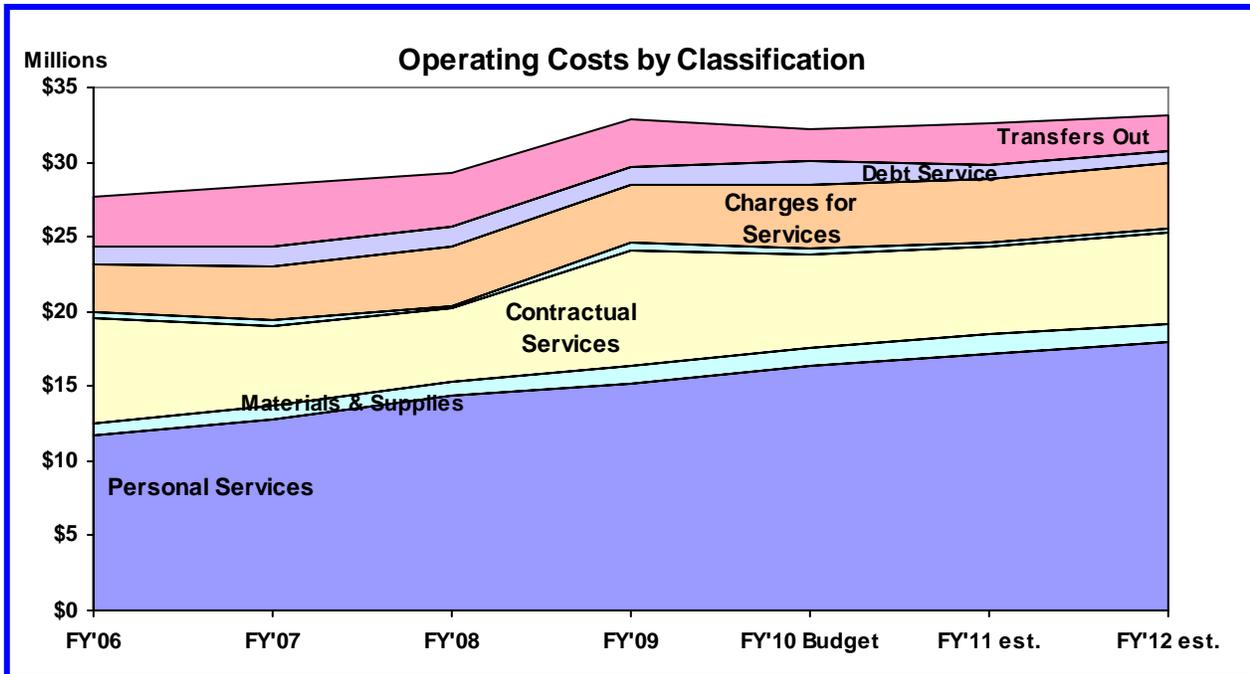
In the General Fund, license and permit revenues generated from building activity are anticipated to produce \$191,000, down from this year's conservative estimate of \$220,000. Circuit Court fines from traffic violations are estimated to produce revenues of approximately \$200,000 which is relatively flat and in line with historical averages in recent years. Unspent contingencies are combined with the estimated beginning fund balances to show total beginning resources available for the upcoming budget year.

OPERATING COST TRENDS

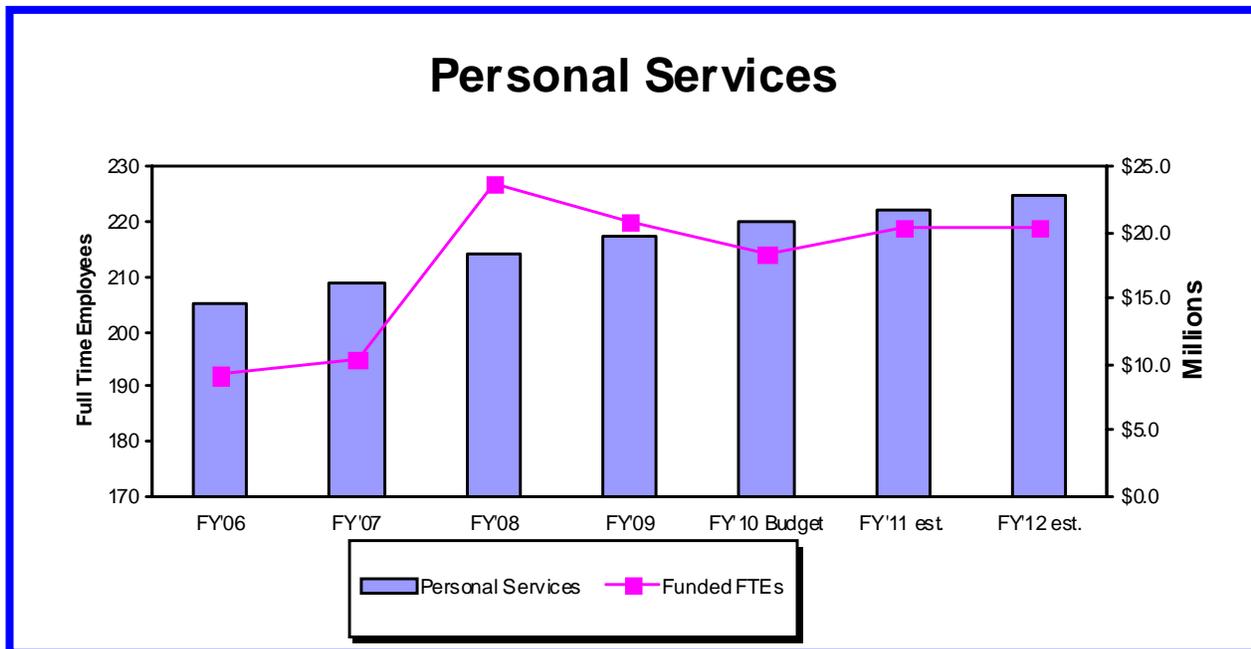
By Classification Category

The following graph illustrates increased operating costs over time to meet service delivery expectations of our community. Personnel Services is showing an increase of \$791,697. This increase is due to 3.75 net additional funded positions (one of which replaces contract work and one of which is funded through a grant), contractual cost of living adjustments, step increases, and increases in the cost of benefits such as PERS billings by the state and health insurance premium increases. The impact of every 3% increase to PERS rates, as discussed earlier, equates to almost \$400,000 per year for the City. Materials & Supplies are budgeted to increase by \$54,941 and contractual services are budgeted to decrease by \$240,842. The capital outlay classification within operating budgets has decreased by \$283,953. There are minor budget changes anticipated in the categories of direct charges for services and indirect charges for services which both come mainly from Internal Service Funds that provide services and pay for certain costs that apply to many (if not all) operational programs.

Transfers out of the General Fund to Capital funds are increasing for FY'11 only due to the allocation of one-time General Fund resources to one-time Capital projects. Wastewater transfers to Capital projects have decreased substantially compared to recent years and are no longer sufficient to keep up with the cost of infrastructure depreciation. Water transfers to Capital are similar to the previous year, however the total is also slightly less than the annual cost of depreciation on water system infrastructure. Transportation capital transfers are increasing in each of the next two years due to expected increases in gas tax distributions to the City. The financial tables and charts at the beginning of the budget book provide an excellent reference for operational activity should you desire more detail.

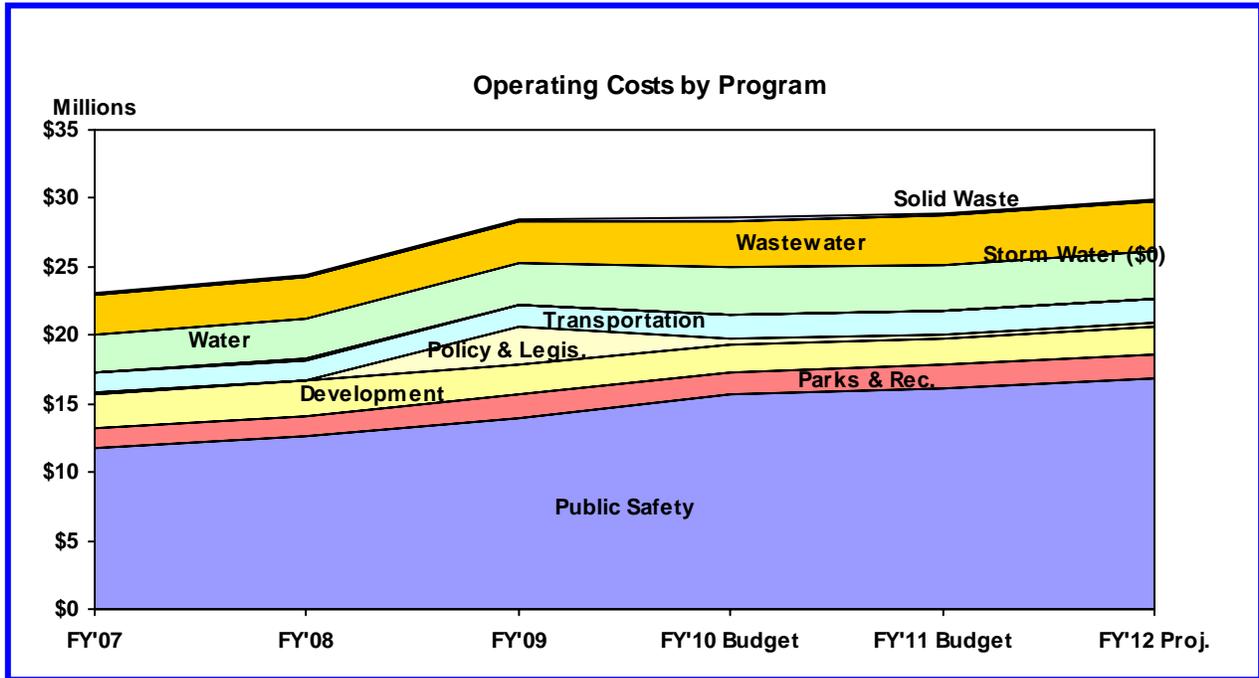


The following chart illustrates the cost of “Personal Services”, a state classification designated for employee and employee benefit related costs, and the number of approved and funded full time equivalent positions in Grants Pass by year.



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 Billing, 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 and increase efficiencies.



Public Safety

Public Safety has been the focus of this year’s budget preparation. The significant impact the local option levy has 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, Public Safety 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 finally complete 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 potentially again with Recreation Northwest to administer the City’s year-round recreation program. Preliminary and potential development options for the River Road Reserve property will be drafted during the next year.

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 slightly longer than forecasted last year as there were several issues Council wanted to review. The Division has also been working with the Urban Tree Committee to address goals of the Urban Forestry Framework Plan, in addition to text amendments 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 division 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 eliminating funding for an additional planner and engineering technician, the Building and Safety Division will draw upon reserves to support operating costs for another year.

This budget also allows the City to update and maintain the Geographic Information System. This system is used extensively throughout the organization. The City is currently using a version of the software that is no longer supported by the manufacturer. However, the City does not have the expertise on staff to make the transition to the current version of software. This budget provides for a contractor to work with the City staff to make the upgrade and provide the support needed for the upgraded software. The funding for this new contract will be shared by departments throughout the organization, reflecting the integral part it plays in the operations.

Tourism and Downtown

Tourism and Downtown activities have been managed by the Parks and Community Services Director since a minor reorganization three years ago. This has resulted in improved communication and relationships with the downtown business community. Transient Room Tax revenues, the primary source of resources for these programs, are expected to decline slightly in FY'11 before stabilizing in FY'12. In addition to room tax revenues, downtown derives a small amount of income from parking programs. 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) and the funding for this partnership was restored in the FY'11 budget.

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 \$500,000 to \$600,000 more per year once the new \$.06 per gallon increase takes effect (no later than January 1, 2011). 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 majority of the balance of transportation revenues and are dedicated specifically for roadway maintenance and safety enhancements such as sidewalks, traffic signals, traffic signage and markings and clearing hazardous sight obstructions within the right of way.

The costs for transportation improvements and related services continue to climb; however, the Street Utility fee has not been adjusted since implementation in 2001. Review of this fee is included in the current work plan. The new Transportation SDC Task Force will also have to study the effect of the General Fund no longer contributing capital to Transportation projects starting in FY'10.

Storm Water and Open Space

The City's storm water program, designed for collection system maintenance, storm water retention, and treatment of storm water run-off in the community, has not yet been adopted. The funding mechanisms are ready for deliberation if Council desires to consider this issue in the next year. Internal loans of approximately \$146,000 in total will need to be addressed to cover the startup costs that have already been incurred. 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 will operate on a 24/7 schedule again 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 resources and requirements, totaling a little more than \$650,000 for FY'11 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 water rates effective in March, 2009. Despite the rate increase reversal, a significant power rate increase in January 2010 and an even larger pending power rate increase in 2011, the Water Department has been able to maintain and operate the system within the available revenues. However, funds available to transfer to Capital are projected to decline significantly in FY'12 without a rate adjustment which exceeds the anticipated COLA.

Wastewater

Wastewater collection, wastewater treatment, and the JO-GRO™ activities are designed to protect the public's health and the environment. In FY'11, \$378,206 has been

budgeted for transfers to capital projects from the net margin between resources and total requirements among these programs. This transfer to capital is down significantly from recent years. Wastewater revenues have been affected by the reduction of sewer flow from the average customer. Residential wastewater utility bills are based upon the winter average water consumption of each customer. Declining revenues from water sales will be partially offset by the reinstatement of the annual COLA increase in February of 2010; however, the Wastewater fund has been negatively impacted by the temporary roll back and inflationary pressures. The cost of providing service continues to climb as wastewater treatment is impacted by the increasing power rates just as the water system is impacted. Additionally, federal and state regulations continue to dictate additional monitoring and testing for contaminants being introduced into the system beyond the control of the City. The Wastewater Collection Division will maintain its program of cleaning sanitary wastewater lines and inspecting for system failures and blockages. An additional rate increase may need to be considered to keep up with the increasing cost of power, new and expensive monitoring, infrastructure depreciation over time, and plant expansion needs.

Solid Waste

The City continues maintenance activities and monitoring of greenhouse gas emissions, ground water, surface water, and the landfill cap at the Merlin Landfill site. The primary issues in the Solid Waste fund will be: continuation of the required remediation and monitoring actions at the Merlin Landfill pursuant to the final Record of Decision, reforestation and fuels reduction on the landfill property.

Internal Service Funds

Independent funds have been established to provide an array of specialized services to the operational programs of the City and ensure that the program costs accurately reflect the resources needed to provide the program services. 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 actual costs incurred for repairs 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 Rates

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 may fall below the requirements in this fund within a little more than two years 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 such as streets, water, and wastewater fund capital projects as well as day-to-day operations; 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

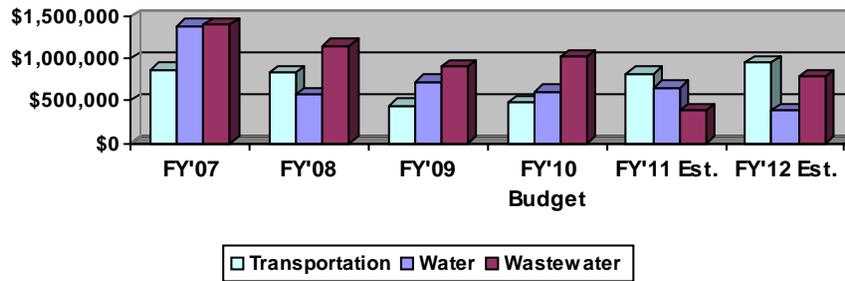
No change has been made to the fixed rate of 8% applied to all operating costs for Administration since the mid-eighties. It is important to recognize that the fund balance for Administrative Services is slowly being consumed and that the 8% charge is no longer sustainable to provide services that have necessarily expanded in scope and complexity over the last twenty years. These new services include active management of property acquisition, disposition and recordkeeping, grant procurement and management. The fund may not be able to 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'11 for internal billing and budgetary purposes.

Property Management's billable rate has been changed from \$1.41 per square foot to \$1.35 per square foot per year in FY'10. It now must be increased to \$1.43 per square foot in FY'11 to keep this Internal Service Fund from being in a deficit position.

For the utilities, the difference between operating resources and operating requirements, which is annually transferred to capital projects, serves as a key element in determining revenue available for improvements. The water and wastewater 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 were estimated to cost \$33.5M while the upgrades, expansion and structural repairs to the wastewater system, will require \$33.7M.

Operating Transfers to Capital



	FY'07	FY'08	FY'09	FY'10 Budget	FY'11 Est.	FY'12 Est.
Transportation	869,606	831,096	443,387	483,065	818,584	956,057
Water	1,390,000	576,000	723,725	605,166	655,531	385,102
Wastewater	1,400,000	1,150,000	896,664	1,017,834	378,206	788,939

A major source of funding for capital improvements in the past has been a transfer from the General fund. That transfer, usually in the range of \$300,000 to \$400,000 annually to Transportation projects, is not included in this budget after it was eliminated in FY'10.

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 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 FY'10's projections but the City has more operational data now that the Stations have been in service. Additional operating costs like higher utility costs were 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 be dramatically different if those resources are not renewed.

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
Public Safety Stations	This year will mark the completion of all the projects funded by the public safety bond, including the Parkway and Redwood Stations and the Training Tower.	<ul style="list-style-type: none"> •Building Maintenance Costs-\$95,000/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.
Public Safety Computer Aided Dispatch	The CAD System, the central computer system that integrates with most operations and other IT systems of Public Safety and the 911 Agency, will need an upgrade within 2 years.	<ul style="list-style-type: none"> •City's share of multi-agency cost is estimated to be \$900,000 to \$1,000,000 •Equipment Depreciation •Newer system will create significant staffing efficiencies 	<ul style="list-style-type: none"> •Response times may be improved •Improved Public Safety staff efficiencies •Potentially less maintenance costs
River Road Reserve	250 acre site for recreation and public use.	<ul style="list-style-type: none"> •Grounds Maintenance-\$20,000/yr •Future Development Costs-unknown •Interest Costs-\$10,000/yr 	N/A
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-\$8,000/yr •Site work & Development-unknown 	<ul style="list-style-type: none"> •With outside funding, future needs for Museum or Historical properties may be reduced.

Hubbard Lane Widening	Widening, sidewalk, bike lanes, and water line upgrade. Prepares Hubbard for new state signal at Hwy 199 and Hubbard.	<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 significantly 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.
Highway 199 Expressway Upgrade	Includes “Match” requirements for this ODOT project. Will cover pedestrian and bike improvements on Phase 2 of the project and allow the City to additional funding for the next phase.	<ul style="list-style-type: none"> •No significant anticipated change from current maintenance costs, although may incur minor irrigation costs for future phases of the project. 	<ul style="list-style-type: none"> •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 \$14,000/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, solids dewatering, and chemical feed equipment.	<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.
5 th Street Sewer Main Replacement	Replaces approximately 1300 linear feet of deteriorated sewer line after TV inspection revealed problems.	<ul style="list-style-type: none"> •No known increases in cost. 	<ul style="list-style-type: none"> •Safety is increased •Potential environmental problem decreased •Long-term maintenance cost will be reduced for this area
Wastewater Phase 2 Expansion	Expands capacity and meets new regulatory requirements	<ul style="list-style-type: none"> •Additional utility consumption expected. 	<ul style="list-style-type: none"> •Future expansion costs avoided. •Prepares to meet future regulatory costs.

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. With adopted Council goals and work plan, staff will be able to 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.

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.

I feel compelled to provide a cautionary note. The level of service that can be provided through this budget is not sustainable. Throughout the organization the pressure is growing as demand for services is outstripping our ability to safely respond. The next three years of flat funding will provide the time to explore alternatives to stabilize funding and evaluate whether to reduce service levels or increase funding.

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 Interim Finance Director, Jay Meredith, and his 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,



Laurel Samson, City Manager