



September 5, 2008

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

Budget Message for Fiscal Year 2008-2009

I am pleased to present to you a balanced and comprehensive operating budget for fiscal year 2008-2009. 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, together serving as the foundation upon which the budget has been developed. This budget, through its allocation of resources, communicates and defines your priorities for the ensuing year while simultaneously insuring sufficient reserves for future needs of local government operations.

Our community, along with much of Southern Oregon, is experiencing many changes as a result of having been “discovered.” Conveniently situated on the I-5 Corridor, Grants Pass provides superior access to dozens of natural amenities from Crater Lake to the Pacific coast, attracting young families and retirees alike.

While growth has slowed in Grants Pass, as it has across the nation, we continue to see some activity that is generating new jobs, business opportunities and continued interest in commercial development. The slowing economy, along with somewhat static revenues, requires a conservative and efficient approach to the use of available resources. The City’s need to “catch up” with growth while adequately preparing for the future continues to demand additional municipal services. Our challenge is to maintain the “livability” of our community while meeting these demands within the context of current economic conditions and a declining growth rate. Adaptability, sustainability, and working smarter in a changing environment are themes that have provided guidance for this budget.

The 2008-2009 adopted budget for capital and operations totals \$90,713,558. This is down from last year's revised budget total of \$103,069,887 because of the reduction in budgeted capital expenditures. Last year's combined Capital Budget totaled \$44,077,207 while this year's Capital Budget totals only \$29,863,063. A significant portion of this difference is explained by last year's construction of the two new public safety facilities which were funded by the public safety bond levy.

CITY COUNCIL GOALS

During the January, 2008 City Council retreat, elected officials revisited, refined, and reaffirmed the following goals.

I. GROWTH MANAGEMENT

We are responsible for managing our growth, keeping the sense of hometown, protecting our natural resources and enhancing our community improvements.

II. ECONOMIC DEVELOPMENT

With emphasis on small business, we diversify the local economy and create quality jobs for our residents.

III. 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.

IV. ENVIRONMENT

We protect and enhance the natural environment of our valley, the air, and land, hillsides, trees and the Rogue River and its tributaries.

V. PARKS AND RECREATION

We provide outstanding park facilities throughout the community and facilitate recreation programs for all ages.

VI. MANAGEMENT

The City is an efficient and effective organization, which fosters open and positive dialogue among citizens, elected officials and Staff. The Council and Staff of the City of Grants Pass foster user-friendly services, emphasizing a "how can we help" spirit. We are innovative and creative, finding solutions to strengthen our long-term financial position.

These important goals are consistently reflected throughout this budget document. The City's goals and its adopted work plan not only guide the budget process but remain a focal point throughout the year.

PREPARING FOR TODAY AND THE FUTURE

The construction of new fire and police facilities is nearing completion and will help provide more effective and efficient public safety services to our community. This \$9.8 million project approved by the voters in November, 2006, will begin serving the City early in fiscal year 2008-2009, and will provide the means to achieve emergency response times that meet national standards, particularly in the

southern sectors of our community. This project, coupled with the fourth and final year of a four-year Public Safety Local Option Levy, 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. With the addition of .51/\$1,000 property tax levy for the bonded debt, the total FY'08 property tax rate for city residents was \$6.1332/\$1,000 and that rate is anticipated to remain relatively unchanged at \$6.1332/\$1,000 in FY'09. Continued public safety funding will be a key focal point this year. The City Council has passed a resolution that seeks another four year Public Safety Local Option Levy at a rate of \$1.89 per \$1,000 of assessed valuation, and that question will be before the electorate on the November 4th ballot.

Public Safety is supported 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, public safety does not draw on other general fund resources; and, second, all property taxes continue to be dedicated to public safety services.

Grants Pass, like other regions throughout Oregon, has experienced a decline in building activity. Calendar year-to-date permit activity, for single family dwellings, is at the lowest level in ten years. The Building Division issued only 47 permits (January – June) as compared to the ten-year average of 118 permits for the same period. Construction values for commercial and industrial permits are also low compared to prior years.

The Building and Safety Division wisely maintained dedicated reserves from prior years and is thus able to manage the temporary decline in revenues from permit activity. 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 eight positions that are authorized but that we are not filling due to both declining service demand and revenues in the Community Development Department. These prompt actions will help ensure that dedicated reserves last as long as possible during this period of the building cycle and that management can respond quickly when service demands return to historical levels.

System Development Charge (SDC) revenues generated through growth have followed the decline in residential building activity. Water, Wastewater, and Parks SDCs all appear likely to fall short of their respective estimated projections. Revenue projections for FY'09 have been formulated to reflect the reduction in development activity by forecasting only 100 single family dwelling units for the year (as compared to 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.

Capital project funding remains an essential item in advancing the Council's goals for the community. The recommended 2008-2009 budget has a general fund contingency of \$500,000 which, along with another \$215,392 in contingencies from Development and Transportation, totals approximately 3.39% of the City's \$21.09 million Governmental Fund operations (Policy and Legislation, Public Safety, Parks, Development, and Transportation). This contingency is lower than a more typical 5.0% contingency, but should be sufficient to meet unanticipated events in 2009. The proposed budget provides \$1,000,000 from the General fund for investment in capital projects. Increasing the contingency would most likely have a direct effect of reducing the resources available for capital projects. Addressing financial policies relating to ending fund balances and contingencies will be one of the topics to be brought to the City Council for consideration in the next budget cycle. It will be my recommendation that the City gradually move toward maintaining slightly higher cash reserves throughout the organization.

STAFFING CHANGES

The Public Safety Department and Public Works Department are the only two departments receiving authorization for additional staff (totaling 5 FTE's) in this budget. Consistent with the strategic plan developed for the Public Safety Department, three of these positions are for Public Safety. There is also one full time position in streets and another position, with duties split between water and wastewater, in Public Works. The additions include:

Summary of FY'09 Personnel Additions			
Fund	Activity	Title	# of Positions
General	Public Safety-Field	Public Safety Officer	3.0
	Public Safety – Field	Conversion of full time CSO to 2 part-time CSO	-
Transportation	Streets	Municipal Service Worker	1.0
Wastewater	Wastewater Treatment	½ to full-time position*	.5
Water	Water Treatment	½ to full-time position*	.5
		Total	5.0

* This is a full time position with duties in both funds. An additional position is being proposed making a full FTE available to each fund.

As a result of reductions in revenue, staff reductions include:

Summary of FY'09 Personnel Reductions			
Fund	Activity	Title	# of Positions
General	Public Safety-Support	Dispatchers	4.0
Community Development	Support	Dept. Support Tech	1.0
		Total	5.0

The number of dispatchers was reduced as a direct result of the County Sheriffs Office withdrawing from the 911 Dispatch Center and the corresponding loss of approximately \$427,500 that they would have contributed had they continued dispatch services with the City of Grants Pass.

There are also a total of six authorized positions in building (3) and planning (3) that are not funded for the 2008-2009 budget year. As activity returns to normal levels in future years, it is anticipated that these positions will again be funded.

CHALLENGES AHEAD

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. The County has informed the City that jail space will continue to be available and that the Juvenile Justice Center will remain open. Dispatch services, provided under contract by the City, have been discontinued as of June 30, 2008 resulting in the layoff of four employees.

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 begun discussions of 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 major 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

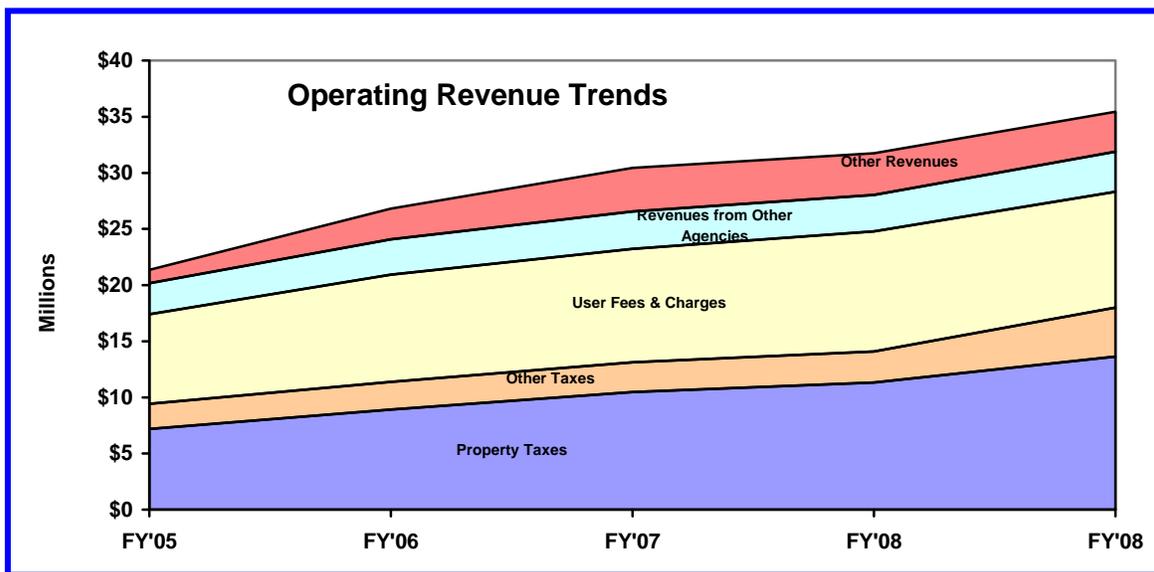
1/Tier 2 has declined due to retirements, the financial impact of liabilities produced staggering rates for these two classes of employees. Government agencies have found these impacts more manageable by allocating a portion of the liabilities across all groups of employees.

Despite successful efforts with the Teamsters, Grants Pass Employees Association, and management groups to increase employee contributions on health insurance premiums from 7.5% to 10.0% in January, 2006, the police and fire unions, during labor negotiations that finalized December, 2006, would not concede on this issue. Hence, all employees continue to pay 7.5% of monthly premium costs. Nevertheless, management worked through the Insurance Committee and the City's Agents of Record, to introduce a choice of two health care packages effective January, 2007. Employees could select a continuation of the existing 2006 plan or a lower premium plan in association with an HRA/VEBA account funded by the City. Approximately 43% of eligible employees are taking advantage of the opportunity to have monies placed in a tax-deferred account for future out-of-pocket costs and assume a greater share of co-pays and expenses. This move, approved by the Council, should save the City money compared to traditional taxable benefits and strengthens management's goal of achieving greater employee ownership in managing health care costs.

The Classification and Compensation Study has been completed. The Council has accepted the report and resources have been made available within each fund's contingency in the 2008-2009 budget. This provides the resources to implement a salary structure model that reflects both external parity and the internal relationships established using the tools provided in the compensation study.

OPERATING REVENUE TRENDS

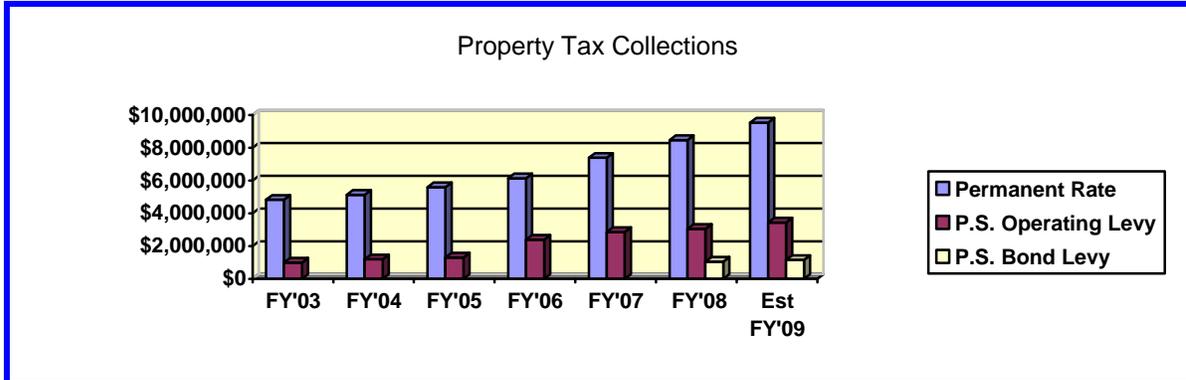
Financial Overview for FY'09



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, together with our permanent property tax rate, is anticipated to fund the entire Public Safety program without any reliance on the General Fund through FY'09, the last year of the levy. These sources comprise a total tax rate of \$5.6235 per \$1,000/assessed value for the years 2006 through 2009.



Grants Pass' total taxable values continue to increase as a result of some new construction. Values will also increase in 2008-2009 as a result of the Downtown Redevelopment Agency having completed its term and purpose. Assessed values rose 6.86% in FY'08 and are estimated to increase another 4.53% in FY'09. With the dissolution of the Agency, an additional \$159,849,000 in valuation will be transferred from the Agency back to the City's taxable base. The resulting increase in property tax resources from the combined levies will be approximately \$1,373,686. 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 lower estimate in assessed values was prompted by the decline in commercial development and average home sales, along with the slump in residential construction.

The absence of new annexations that negatively impacted the property tax base for FY'08 will also impact FY'09 and future years. 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

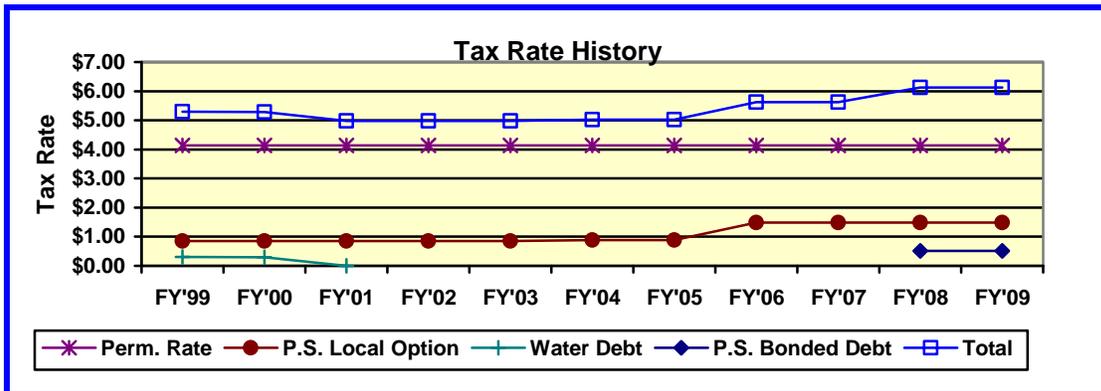
to begin at 51¢/\$1,000 of assessed value and for the first two years and dropping to 40¢/\$1,000 of assessed value in 2010 through the term ending in 2019.

Property Taxes – Future Public Safety Local Option Levy

In November, 2008, the City Council will place another four-year Public Safety Local Option Levy before Grants Pass voters. The levy, if approved, will provide funding for the Public Safety Department for the fiscal years 2010 through 2013. Having completed the Public Safety Strategic Plan early in 2008, there are important recommendations that the City must consider. The 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 this year. 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¢.

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 \$1.89 per \$1,000 of assessed valuation. Implementing the Public Safety Strategic Plan on the schedule recommended by our consultants would have required a levy of \$2.04. The \$1.89 levy proposal was achieved by extending the Strategic Plan implementation from 2010 out to 2013 and by making significant cuts to proposed capital expenditures within the Public Safety Department. While a 40¢ 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.

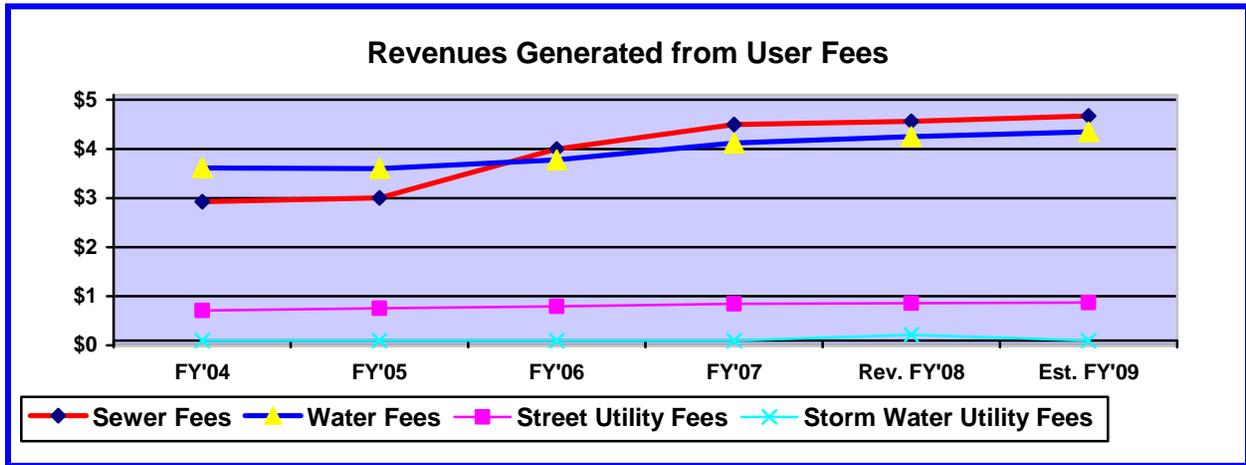


Taxes Other than Property

Franchise fees received from each of the private utilities providing service to municipal residents are estimated to total \$2.84 million in FY'09. If the City were to annex properties, there would be new revenues from electric, gas, garbage, and

cable television services. However, diminished growth in land based telephones compared to cell phones has resulted in an adverse impact on telecommunications fees. Historical trends, proposed rate increases by utility firms, and additional consumers, are taken into consideration when estimating franchise fee revenues. The power company was projecting an average 2.5% rate increase effective June, 2008. Garbage service is expected to remain unchanged, while a 3% increase is expected for natural gas in mid 2008. Annual cost of living adjustments in water and sewer rates take effect each January with the most recent adjustment at +2.54%.

User Fees and Charges



Revenue estimates for FY 2008-09

	Sewer	Water	Street	Storm Water
Revised '08	\$4,462,750	\$4,147,990	\$759,450	\$114,556
Estimated '09	4,569,180	4,245,920	767,032	0

The foregoing chart reflects revenue estimates for sewer, water, street, and storm water funds. Water and sewer revenues have been positively impacted by annual cost of living adjustments. The Street Utility fee has remained unchanged at \$3.00 per month since its adoption and its value continues to diminish due to inflation. Residential growth is largely occurring in 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 increases 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 to 650 cubic feet of water per month.

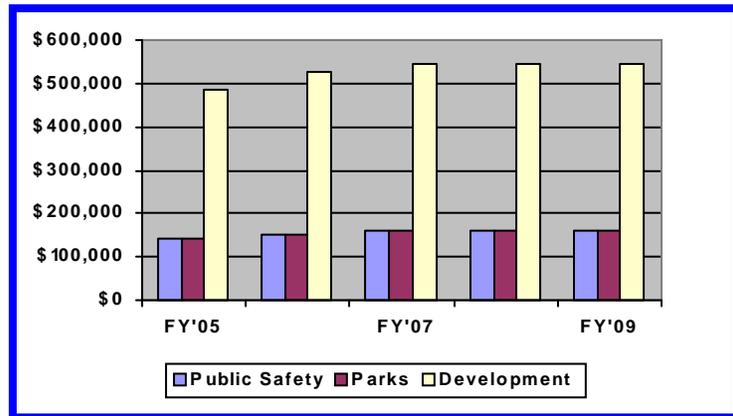
No revenues are anticipated in the yet to be adopted Storm Water Utility. Historical housing and commercial development were considered in developing the Street Utility revenue estimates.

Revenues from Other Agencies

Revenues are on track with estimates for FY’08 and some small increases are projected for FY’09. 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 increase only \$31,960 in the next fiscal year. Combined, they will contribute \$2.1 million of the \$3.5 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 \$337,074. Wastewater treatment services provided to the Redwood Sanitary Sewer Service District will generate \$249,200, an estimate based upon historical flows.

Transfers In

Transient Room Tax revenues are distributed among Public Safety, Parks, Development, Tourism and Lands & Buildings programs. The operating transfer of the tax is anticipated to provide \$862,152 in FY’09 and the transfer for Capital should provide \$158,630. The combined total is relatively



unchanged from FY’08. 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 thrive in spite of significantly higher gasoline prices and projections of slowing tourism nationwide. Our tourism is supported by growing out-of-town participation in community events like “Boatnik”, “Back to the 50’s”, “Art Along The Rogue”, and perhaps by our proximity to California tourists that elect to visit our region instead of more distant destinations. Transfers also include \$60,000 allocated to the Code Enforcement division in recognition of services it provides; and, \$38,000 to Solid Waste from the Land Fill to support operations.

Other Revenues

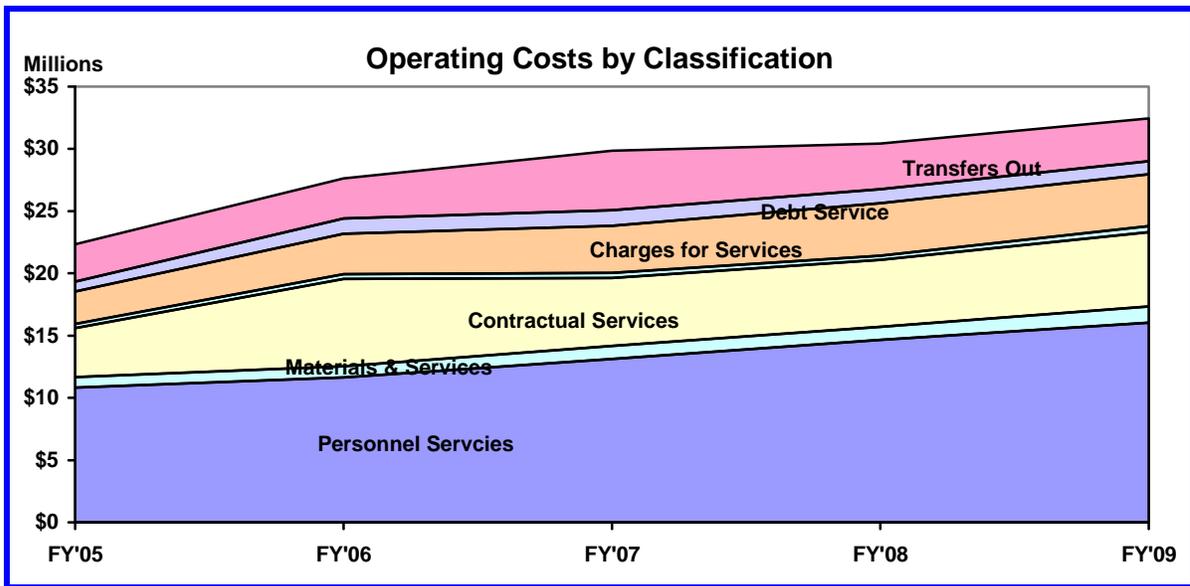
In the General Fund, license and permit revenues generated from building activity are anticipated to produce \$434,700, down from last year’s estimate of \$706,600. District Court fines from traffic violations are estimated to produce revenues of \$270,000, up from last year’s estimate of \$208,000, while interest investment earnings are anticipated to generate \$268,850, down from last years estimate of

\$357,000. Unspent contingencies, formerly found in each of the operating funds, are now shown in the beginning balance instead of being shown as “Other Revenues”.

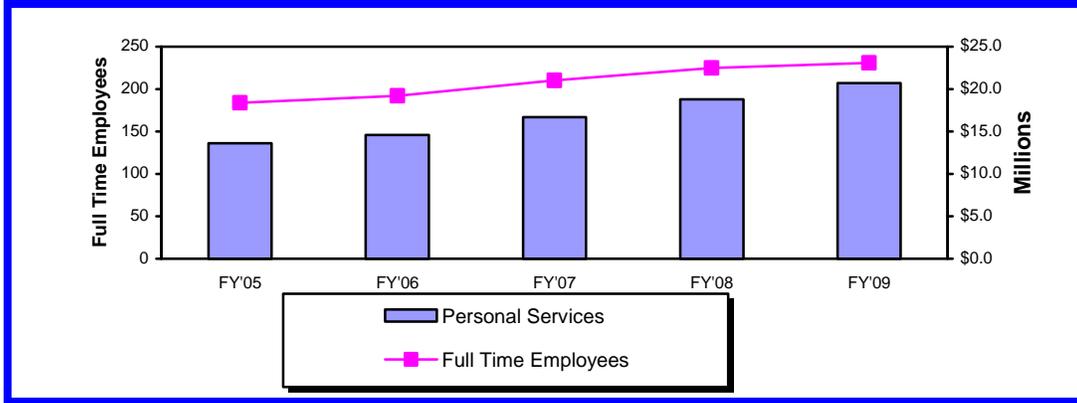
Operating Cost Trends

By Classification Category

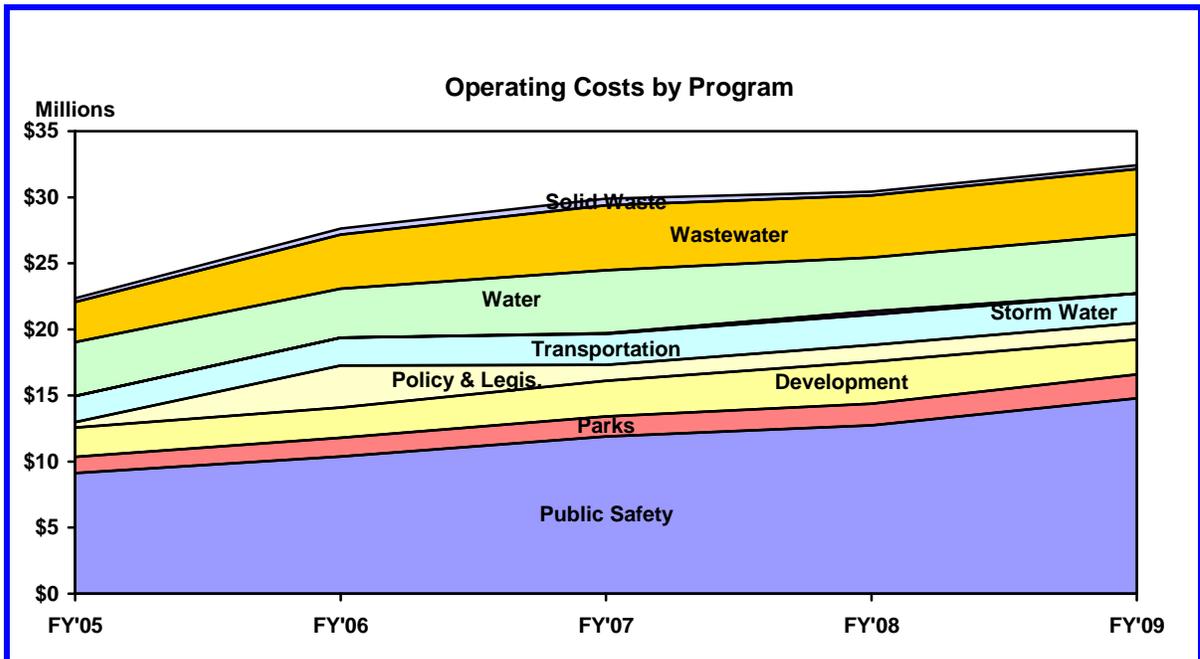
The graph below illustrates increased operating costs to meet service delivery expectations of our community. Personnel Services, showing an increase of \$1.40 million, are largely the result of cost of living adjustments, step increases, increases in the cost of benefits, and the adjustment to the total number of employees. Employees hired partway through 2008 will also contribute to the increase noted above. Materials & Services are budgeted to increase by \$229,918 and contractual charges are budgeted to increase by \$603,290. The capital outlay classification has increased by \$146,000. There are budget reductions anticipated in the categories of: charges for services, debt service, and transfers. 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, administrative services (covering services like management, legal, general accounting, accounts payable and receivables, utilities receivable, payroll, human resources, code enforcement, 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 costs.



Public Safety

Two new public safety officers have been included in the budget as contemplated under the current public safety levy. This budget also provides for a third public safety officer as recommended in the department's Strategic Plan. These additions

will allow the department to improve traffic safety operations to address unusually high crash rates and traffic related complaints within the community.

Parks

The new development of Redwood Park has resulted in incremental increases for operating supplies, grounds repair and maintenance items, and utilities. The City intends to fill the Urban Forester position in 2009, following unsuccessful attempts to do so earlier this year. The person hired for this position will develop an Urban Forestry program for our community, interacting with utility companies to establish trimming protocols that meet their safety needs while maintaining an aesthetically pleasing appearance along municipal roadways. 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 two-year project is to be completed in the fall of 2008. The Division has also been working with a citizen's task force in developing the Downtown River District Plan and preparing data for potential annexations, all requiring staff time in addition to daily tasks of reviewing plans and providing excellent 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 second 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 are managed by the Parks and Community Services Director. This facilitates 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 continuing the flower basket program, encouraging facade renovations, and completing historic lighting installations throughout areas of downtown.

Marketing support to attract new business opportunities for economic development will continue to be provided through the City's partnership with SOREDI (Southern Oregon Regional Economic Development Incorporated).

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 \$1,388,630 which is an increase of only \$5,400 over the current year. The decision to forgo planned annexations negatively impacts revenues from State Gas Tax receipts. 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 net margin between revenues and expenses, \$501,406 for FY'09, will be transferred for investment in capital projects. The assignment of the streets program to the Public Works Director effective January, 2007 has resulted in some savings in the distribution of personnel costs associated with transportation. This program includes the addition of one Municipal Service Worker. The reallocation of billing and mailing costs between all utilities benefiting from the issuance of a single utility bill has resulted in a greater share of customer service costs being billed to the Street Utility.

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. It is expected that the Council will address this issue in early 2009. An internal loan of approximately \$80,000, in addition to last year's \$55,000 loan, will be needed to cover start-up costs pending completion of work and implementation of this program. If the program is not implemented, because the costs and functions intended to be served by this fund are similar to the street fund, the costs incurred will most likely fall to the Street fund causing a one-time expense of approximately \$135,000.

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. This budget includes a proposal to add a maintenance position that will be shared between the Water Treatment Plant and the Wastewater Treatment Plant in FY'09. Federal and state mandates requiring additional testing of both water and waste water are a driving influence for the need to hire an additional employee. A portion of the net margin between revenues and expenses, totaling \$728,557 for FY'09, will be transferred for investment in capital projects.

Wastewater

Sewer collection, wastewater treatment, and the JO-GRO™ activities are designed to protect the public's health and the environment. In FY'09, \$1,056,644 has been budgeted for capital projects from the net margin between operating revenues and expenses among these programs. Wastewater revenues will be affected by the

reduction of sewer flow from the average customer. The winter average consumption for water/sewer customers during 2007-2008 declined by one-half unit, from 7 units to 6.5 units. Sewer utility bills are based partially upon the winter average consumption of each customer. Declining revenues from water sales will be partially offset by the annual COLA (cost of living adjustment) increase implemented each January. The cost of providing service continues to climb. The Wastewater Collection Division will maintain its program of cleaning sanitary sewer lines while installing two new manholes to improve access for cleaning and TV inspection. Wastewater Treatment does not anticipate any significant changes to operational costs other than the addition of a shared municipal services worker. With two "shared" employees, the duties will be separated and one municipal service worker will be assigned to Sewer while the other will be assigned to Water. Planned capital projects, such as the Bridge Street Pump station will add pumping capacity and help with efficiency of overall processes. The most significant item at the JO-GRO™ facility will be the planned purchase of an articulated loader to replace an eighteen year old unit currently in service.

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%. 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. Funds like Community Development Support, 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

Billable rates for engineering services had not been reflective of actual costs; hence an average rate increase was approved effective July 1, 2007 and will be annually indexed with inflation. Engineering is funded through an internal service fund generating revenues necessary to cover operating expenses. The rate increase and greater diligence in billing has provided Engineering with the resources to retire an internal loan made in FY'07. 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 private developers, City staff assigned to municipal projects, as well as all operating divisions that utilize the Geographic Information System (GIS) as a major resource in their work.

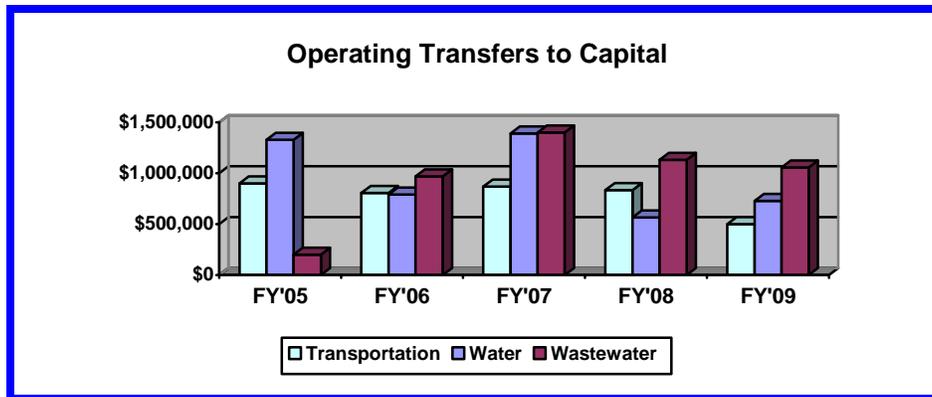
Other Rates

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 being consumed and that the 8% charge is no longer sustainable to provide for services that have necessarily expanded in scope over the last twenty years. The fund can not continue to provide the existing level of service in 2010 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 1st. Estimates were applied to wages in FY'09 for budgetary purposes.

Property Management's billable rate was increased from \$1.30 per square foot to \$1.41 per square foot per year. The rate is anticipated to remain the same for both FY'09 and FY'10.

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'05	FY'06	FY'07	FY'08	FY'09
Transportation	898,921	805,000	869,606	835,000	501,406
Water	1,327,000	790,000	1,390,000	565,000	728,557
Wastewater	200,000	969,000	1,400,000	1,130,000	1,056,644

Another major source of funding for capital improvements is a transfer from the General Fund in the sum of \$1.0 million.

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.

Additional personnel were planned and budgeted beginning in FY'07 to staff two new public safety stations currently under construction. In FY'08 there were additional hires, and though not directly related, there are three positions proposed for 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 have budget needs for: 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 currently operated by the City, was used as a basis for this year's budget projections. Just over \$56,500 in operating costs were added to the budget for the two new facilities. These operating projections will be refined each year as actual costs will improve subsequent projections. Operating costs will continue to be incurred every year as a result of having 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.

A FY'08 appropriation of \$200,000 was adopted to establish a building fund for eventual replacement of the municipal building to address space needs for the municipality. While the amount is insignificant compared to the cost of acquiring sufficient land and constructing a facility, it recognizes the importance and need of planning for the future. In the interim, some offices presently housed at City Hall will be relocated to off-site city owned locations.

Improvements to restroom facilities and playground upgrades at Riverside Park will enhance the user-friendly atmosphere of this popular regional park while reducing liability and safety risk to the City.

Each of the foregoing capital expenditures will have an impact on future budgets and service requirements. However, this budget was developed with analysis, discussion, and cooperation 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.

Conclusion

The City of Grants Pass is an innovative organization that is focused on value. Our employees demonstrate a willingness to seek and create alternative solutions to problems. City staff value teamwork while honoring the individual contributions of fellow employees, volunteers and our governing body. Through this budget we are recognizing the needs of today as well as the future by planning strategically and implementing measurable objectives of our work plan to "honor the past while building a hometown for our children's children."

This budget enhances the efficiency of City operations, evolving to support the vision created by our elected officials as our City continues to change. 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 Council 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.

Sincerely;

A handwritten signature in black ink that reads "David W. Frasher". The signature is written in a cursive, flowing style.

David W. Frasher
City Manager

WHERE THE ROGUE RIVER RUNS



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