



June 20, 2007

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

Fiscal Year 2007-2008 Budget Message

Overview

I am pleased to present to you a balanced and comprehensive operating budget for fiscal year 2007-2008. 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 comparison to recent history, it continues to generate new jobs, business opportunities and renewed interest in commercial development. The City’s need to “catch up” with growth while adequately preparing for the future continues to demand additional municipal services. Our challenge then is to maintain the “livability” of our community while meeting the demands of development and associated infrastructure needs driven by the market. This challenge has impacted virtually every department and division of the corporate municipality of Grants Pass, compelling us to increase service capacity as we remain committed to fiscal responsibility and the sustainability of essential government services and programs.

CITY COUNCIL GOALS

During the January, 2007 City Council retreat, elected officials reaffirmed the importance of maintaining “a home town feel” to the community, a community that:

- ▶ Feels safe and IS safe
- ▶ Places emphasis on the central role of the Rogue River
- ▶ Protects our natural environment
- ▶ Enhances and expands parks and recreation opportunities
- ▶ Upgrades our ability to respond to growth, and to effectively manage the impact of growth
- ▶ Assures the opportunity for economic development
- ▶ Provides local government services that are effective and efficient

These important goals are consistently reflected throughout this budget document.

PREPARING FOR TODAY AND THE FUTURE

We are excited about the construction of two new fire and police facilities to help provide more effective and efficient public safety services to our community. This \$9.8 million project approved by the voters in November, 2006, should be ready for service in July, 2008 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 third-year of a four-year Public Safety Local Option Levy, demonstrates the importance 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 will be \$6.1335/\$1,000.

Grants Pass, like other regions throughout Oregon, has experienced a decline in building activity. While permits for fiscal year to date are higher than FY'06 in number for commercial and industrial development, construction values total only 85% of last year. On the other hand, residential construction activity has declined markedly with only 195 permits issued year-to-date representing 216 units with a construction value of \$31 million, compared to FY'06 activity of 427 permits for 508 units with a construction value of \$81 million.

The Building and Safety Division wisely maintained dedicated reserves from prior years and is thus able to financially weather the temporary slowdown in revenues from permit activity. This allows the Division to focus on recruitment and retention of quality staff, which has been a difficult challenge for the City over the past several years. With one approved position vacant and the recent resignation of the

Building Official, it is prudent to avoid any immediate changes to Division staffing levels. The situation will be closely monitored as we move through the next fiscal year.

System Development Charge (SDC) revenues generated through growth have been impacted less than expected by the decline in residential building activity when compared to budgeted projections for FY'07. Water and Parks SDCs appear likely to meet their respective estimated projections of \$518,100 and \$300,000. Wastewater SDCs are currently at 65% of their \$780,900 budget and will likely fall short of expectations. Projections for FY'08 have been formulated to reflect the reduction in development activity. The recently approved Parks SDC for park land development, to be implemented effective July 1, 2007, is estimated to generate \$300,000 in FY'08. Transportation SDC revenues appear on target largely due to the disproportionate contributions of brisk commercial development activity to this revenue source. Transportation SDCs have generated \$1.2 million to date of the \$1.4 million budgeted for FY'07. Projects for FY'08 call for \$2.3 million in revenues, anticipating a dramatic upswing in commercial activity.

Work is well underway to prepare a Storm Water SDC and Storm Water Utility Fee for Council adoption later this fall. Providing the financial basis from which to address collection, retention, and treatment of storm water run-off in the community addresses the Council's growing concern about water quality, the environment, and the need to mitigate flooding and drainage problems.

With the elimination of Public Safety's dependency on General Support Revenues, contingency has been increased to 5% of anticipated operating expenses, a more comfortable reserve given the City's \$20 million General Fund operations. Additionally, more monies are now available for investment in capital projects and the past trend of expending unrestricted ending fund balance will be reversed. In FY'08 another \$500,000 has been added to the contingency fund to safeguard against unknown variables that could impact the delivery of Public Safety services.

STAFFING CHANGES

While each department director requested additional staff in the development of this budget, as a group they established priorities giving careful consideration to both financial and political realities. The result is the addition of fifteen positions in FY'08, eight of which were identified in last year's projections. Some requests from department directors have been deferred pending the completion of the classification and compensation study currently underway. The study will evaluate and classify both union and non-union employment positions through analysis of job descriptions, supervisory responsibility, interpersonal skills, education, training, physical demands and overall responsibility to determine the most appropriate competitive wage and benefits for each position.

Summary of FY'08 Personnel Additions			
Fund	Activity	Title	# of Positions
General	Public Safety-Field	* Battalion Commander	2.0
	Public Safety – Field	* Firefighter	6.0
General	Parks	Municipal Specialist	.5
General	Planning	Planner III	1.0
Transportation	Streets	Municipal Specialist	.5
Water	Water Treatment	Municipal Specialist	.6
Wastewater	Wastewater Treatment	Municipal Specialist	.4
Support Services	Garage Maintenance	Mechanic	1.0
Support Services	Information Technology	Computer Technician	1.0
Administrative Svcs.	Admin. Services	Dept. Support Specialist	1.0
Administrative Svcs.	Admin. Services	** Accounting Clerk	1.0
		Total	15.0

* Denotes position was included in the Projected 4-year Public Safety Levy
 ** Denotes was a part-time position being converted to a full-time position

CHALLENGES AHEAD

The potential loss of O & C funding to Josephine County and the associated decisions to reduce and/or eliminate services, most notably in the law enforcement arena, was deferred for a year with emergency federal funding renewed at the eleventh hour. Jail space will continue to be available and the juvenile justice center will remain open. Dispatch services, currently provided under contract with the City, will not face any layoffs. However, revenue sources for FY'09 and beyond remain uncertain and questionable.

Other potential impacts from future reduction in County services may be difficult to quantify but 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. Staff is proceeding to develop contingency plans, identify all potential impacts on the delivery of services and to mitigate these impacts as much as possible for the citizens of our community, should a similar situation arise in June, 2008.

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.

For the City, the composite rate for Tier1/Tier2 employees will benefit from a slight decrease, to 15.02% from 16.05%. Rates for Oregon Public Services Retirement Plan (OPSRP) groups, however, will increase dramatically as they begin to bear a portion of the liability burden. The rate for sworn personnel will increase from 14.45% to 17.76% while non-sworn positions will see a rate of 14.49%, up from 10.84%. Anticipating this change, the City has been charging, and continues to self-assess, PERS rates for Tier 1/Tier 2 employees based on classification rather than applying the composite rate. The amount accumulating in an insurance fund is the differential between the self-assessment, based on PERS class, and the amount due PERS, based upon a composite rate. These monies are now augmenting the bi-weekly payment to PERS.

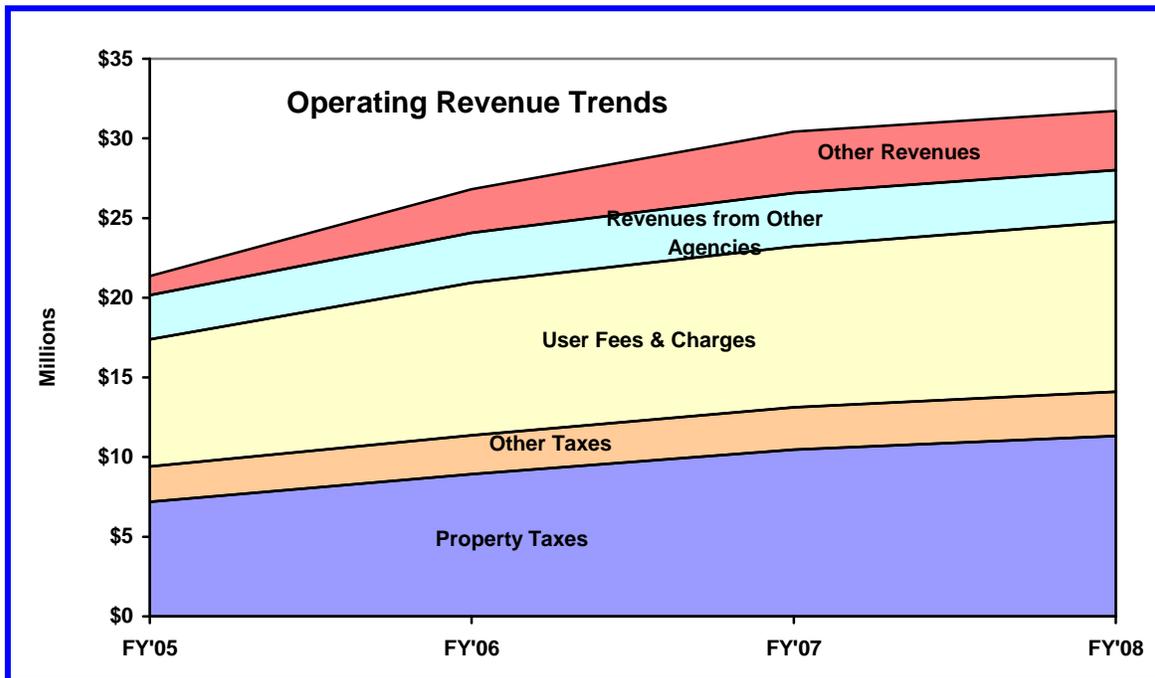
Despite successful efforts with the Teamsters, Grants Pass Employees Association, and management groups to increase employee contributions on health insurance premiums from 7.5% to 10.0% in January, 2006, the police and fire unions, during labor negotiations that finalized December, 2006, would not concede 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.

Senior staff continues to grapple with the need for additional space outside of the municipal building. Several options have been explored and presented to Council, including "filling in" the entry way off "A" Street, and building a three-story structure at the corner of "A" and 5th Streets. Unfortunately, these short-term solutions did not appear cost-effective over the long haul. Accordingly, management has resumed seeking off-site space as a short-term remedy. Management will then have sufficient time to develop and present to Council long-term solutions that will serve the community for years to come.

The Classification and Compensation Study currently underway is to be completed December, 2007. The Advisory Committee for this project is expected to present their recommendations to Council at the close of the project. Since the variables are many at this time and could impact a broad spectrum of financial and operational topics, including the reopening of labor contracts, no consideration on this issue was included in FY'08 personnel services. Contingencies budgeted in each fund are available for Council appropriation at a future date as necessary.

OPERATING REVENUE TRENDS

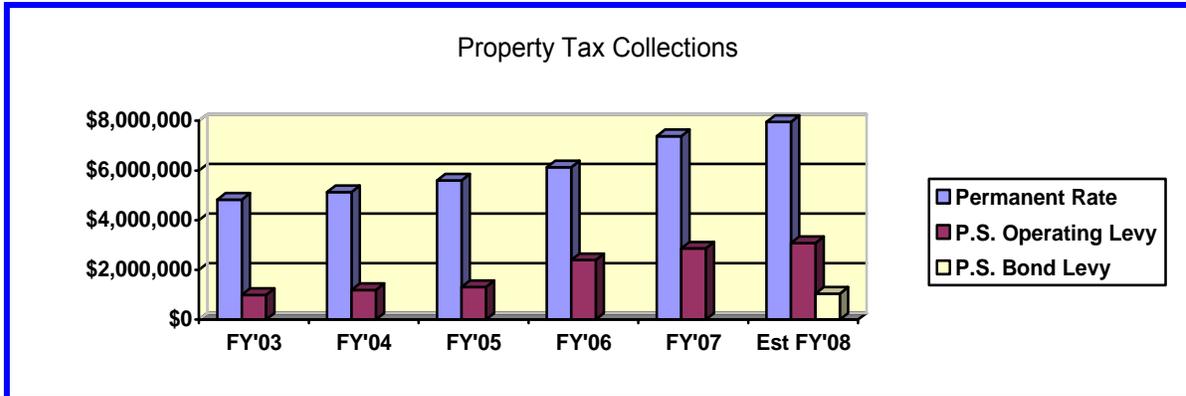
Financial Overview for FY'08



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 third and 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.

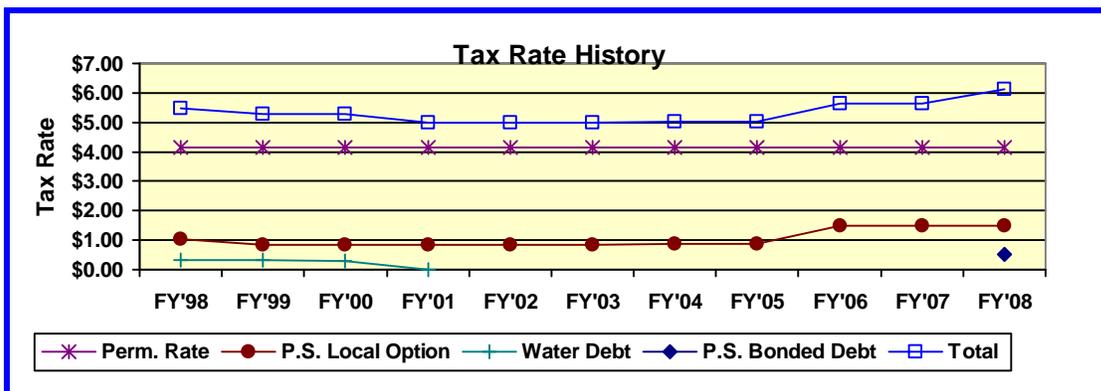


Grants Pass' total taxable values continue to increase as a result of new construction and annexations. Assessed values increased 19.5% in FY'07 and are estimated to increase 7.7% in FY'08, resulting in an increase in the property tax levy of \$847,000. Historical trends together with updated data furnished by the Josephine County Assessor's office are used to project assessed values. Number of building permits and respective valuations along with local housing market conditions are factored into the equation. While commercial development has remained strong, the slump in residential building and decline in average home sales prompted a lower estimate used to develop assessed values.

The absence of new annexations will negatively impact the property tax base for FY'08. An annexation measure to be considered for placement on the November, 2007 ballot was denied by Council. This is a first-time occurrence since a Charter amendment in 2000 requiring a voter approval of all annexations. Council's action will require staff to seek more input and direction about whether the City should provide services outside the corporate limits within the Urban Growth Boundary.

Property Taxes – Public Safety Bonded Debt

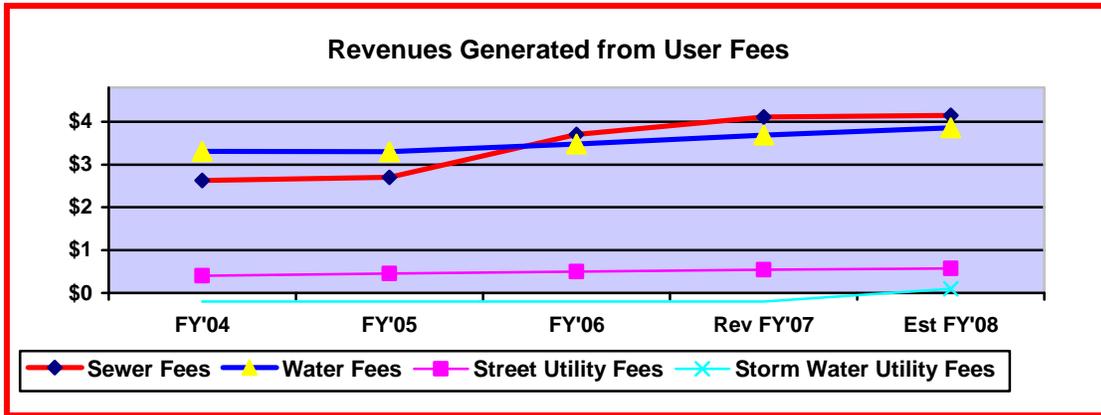
In November, 2006, Grants Pass voters approved a bond measure to fund construction of two new public safety facilities and purchase equipment for each through the sale of bonds prior to the close of fiscal year 2007. The approved debt of \$9,875,000 is a twelve-year bond issue funded by a property tax levy estimated at 51¢/\$1,000 of assessed value.



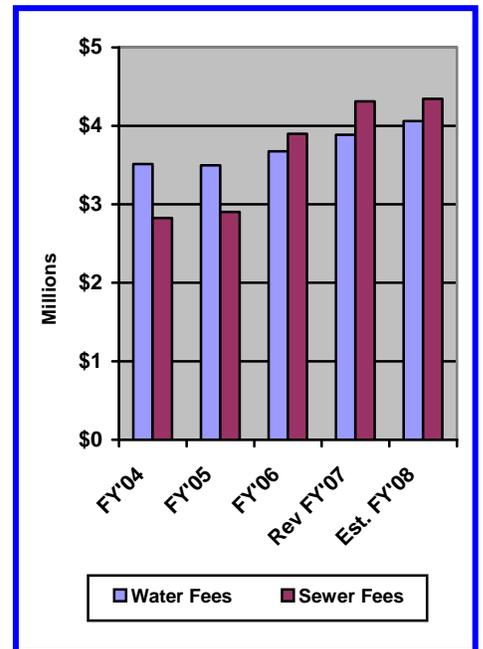
Taxes Other than Property

Franchise fees received from each of the private utilities providing exclusive service to municipal residents are estimated to total \$2.8 million in FY'08. The addition of annexed properties generates 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 5.25% rate increase effective January, 2007. Garbage service is expected to increase 3% effective October, 2007 while 5% increases are expected for natural gas in October, 2007 and October, 2008 based on past history of rate hikes.

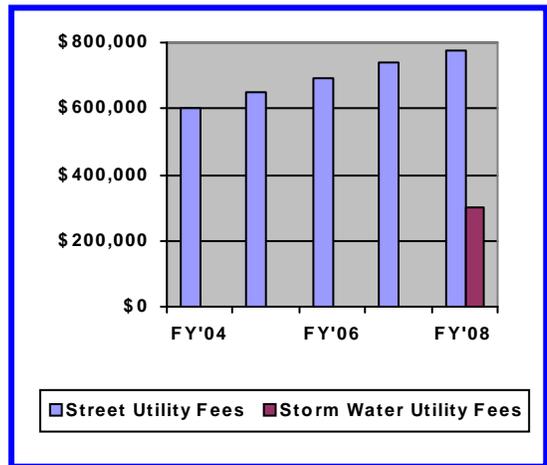
User Fees and Charges



The Water Utility anticipated revenues of \$4.2 million. The rate increase implemented February, 2006, together with annual cost of living adjustments applied each January, contribute to the dramatic change as depicted in the chart. New customers, based upon historical trends, together with a 3.5% cost of living index anticipated for January, 2008 were used to develop estimated revenues. Wastewater fees are anticipated to generate \$4.3 million in FY'08. A 48% rate increase implemented October, 2005, together with cost of living adjustments initiated annually beginning January, 2007, explain the dramatic change. 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.



Street Utility fees are expected to generate \$774,000 while the anticipated Storm Water Utility fee has been estimated to generate \$300,000. Like the other utilities, these fees will be adjusted for inflation on January 1, 2008, consistent with Council authorization in 2006. Historical housing and commercial development were considered in developing the Street Utility revenue estimates while the Storm Water revenues were based upon data from the consultant preparing the implementation plan and assuming a January, 2008 implementation date.

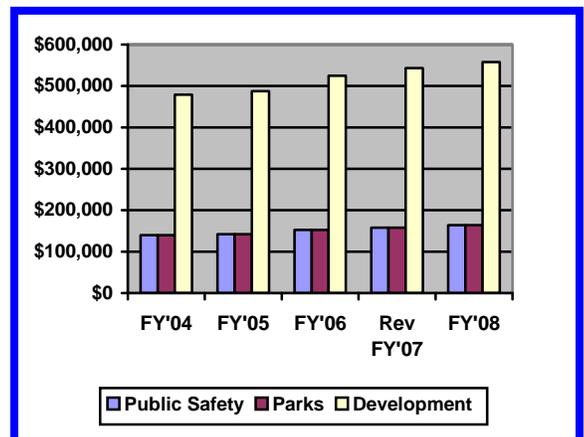


Revenues from Other Agencies

Revenues received from the State of Oregon for Gas Tax, Liquor Tax, Cigarette Tax, and Revenue Sharing comprise \$2.1 million of the \$3.3 million anticipated. These per capita estimates are provided by the State through the League of Oregon Cities. Revenues received by Public Safety for services provided to the Josephine County Sheriff's Department and 911 Agency for dispatching services total \$781,466, as defined by contract, while wastewater treatment services provided to the Redwood Sanitary Sewer Service District will generate \$240,000, an estimate based upon historical flows.

Transfers In

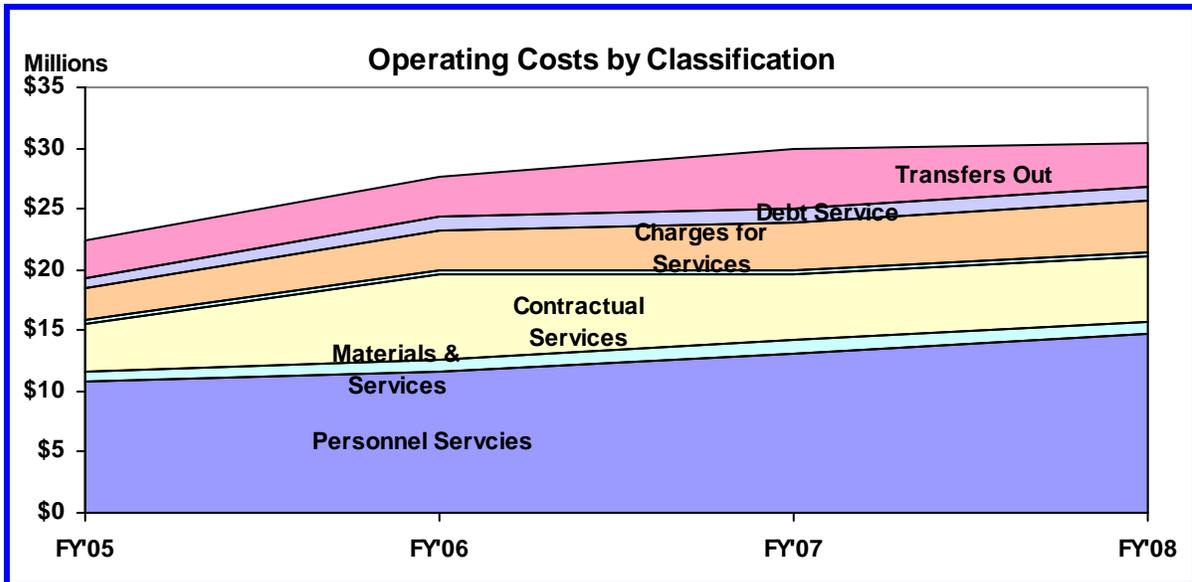
An allocation of Transient Room Tax revenues to the Public Safety, Parks and Development programs is anticipated to provide \$1.0 million in FY'08. With no new facilities being added and the demolition of approximately 49 rooms in 2007 for other development, lodging revenues are estimated to increase 3% in FY'08. Using historical data, fluctuations that may result from higher gasoline prices are anticipated to be offset by growing out-of-town participation in community events like Boatnik, "Back to the 50's", and "Art Along The Rogue".



Other Revenues

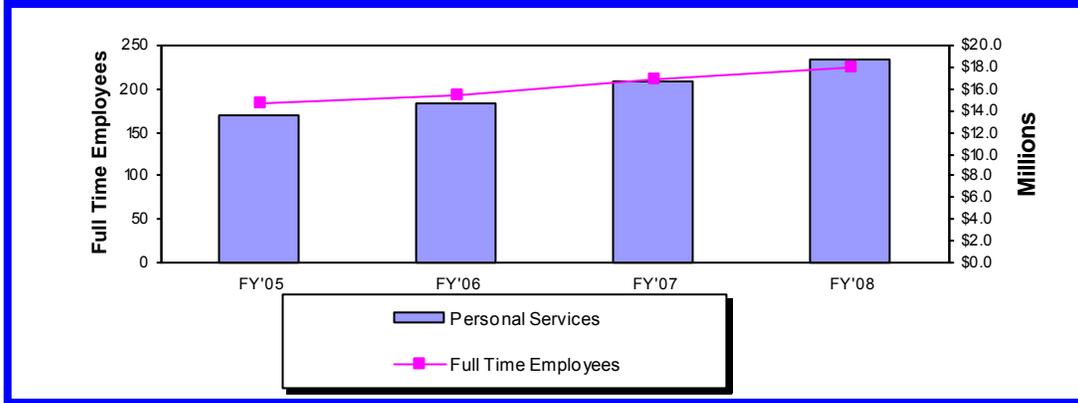
In the General Fund, license and permit revenues generated from Building activity are anticipated to produce \$706,600. District Court Fines from traffic violations are estimated to produce revenues of \$208,000, while interest investment earnings total \$357,000. Unspent Contingencies, found in each of the operating funds, comprise the balance of the total \$2.7 million shown as Other Revenues.

Operating Cost Trends

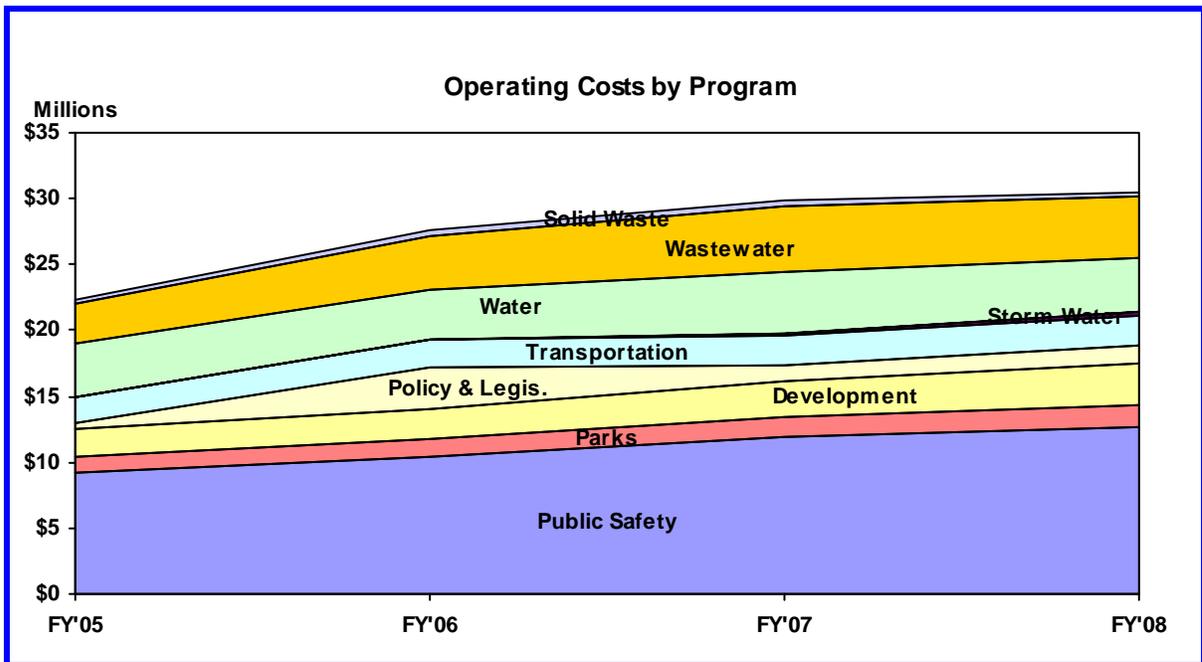


By Classification Category

The foregoing graph illustrates increased operating costs to meet service delivery expectations of our growing community. Personnel Services, showing an increase of \$1.52 million, are largely the result of adding eleven positions while meeting the obligations of the City's labor contracts. The Cost of Living adjustments slated for January 1, 2008, in accord with labor contracts, call for a minimum increase of 3.5% that have been included along with scheduled July 1, 2007 increases in employer rates by PERS. With the reallocation of Tier1/Tier 2 unfunded liabilities across all retirement classifications by PERS, rates for OPSRP covered employees, those employees entering the retirement system since August, 2003, are increasing an average of 3.5% while Tier1/Tier 2 rates are showing a slight decline from 16.05% to 15.02%. Over time, Tier1/Tier2 employees with longevity will be retiring. However, declines in PERS rates will not be experienced until unfunded liabilities are extinguished. The City has implemented a long-term strategy to control a major benefit cost by offering a dual choice health insurance plan to employees, combined with an HRA/VEBA contribution, effective January 1, 2007.



The City has increased utilization of internal service funds for property management, vehicle usage, and engineering for site plan review and customer service. These funds are reflected in the \$440,400 increase in Charges for Services. In anticipation of additional space needs, operating divisions saw increases in their property management charges of \$84,410. While no decision has been reached about which divisions may move or where, several recent workshop discussions have kept Council apprised of the current space issues. Vehicle rents are increasing \$127,184, the result of adjustments to amortization schedules on equipment, rising fuel costs, and the City assuming vehicle maintenance operations effective July 1, 2007.



Public Safety

In accord with FY'08 projections presented a year ago, eight new positions are being added to the Fire Division to adequately staff the new stations slated to open June, 2008. These positions will be filled at staggered times over the course of the year. They account for \$393,325 of the total \$829,000 increase in Public Safety operating costs. Salary/benefit costs and vehicle charges are the major contributors to program increases in Public Safety.

Parks

The new development of Redwood Park has resulted in incremental increases for operating supplies, grounds repair and maintenance items, and utilities. Included in the Adopted FY'08 Budget is the hiring of an additional person to meet the growing demands for proper management of the City's urban forestry program. Costs for this position are to be shared equally between Parks and Street Maintenance. The person hired for this position will develop a forestation 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 this coming season and with Recreation Northwest to administer the City's year-round recreation program.

Development

While issued permits are down from the prior year, there has been little decrease in the work load for the Planning Division. The Division has been extremely busy 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 proposed annexations, all requiring staff time in addition to daily tasks of reviewing plans and providing excellent service to our customers. A new position, identified as Planner III, is being recommended to accommodate the long-range work load while simultaneously providing a career path to better attract and retain talent.

Revenues from construction permits have fallen below expenses for the first time since FY'00, primarily the result of reduced activity in single family home development. As a result the Building and Safety division will draw upon reserves to support operating costs for the time being.

Tourism and Downtown activities have been reassigned to the Parks and Community Services Director. This move is anticipated to continue improvements in communication and relationships with the downtown business community. Transient Room Tax revenues are expected to increase by 3% and 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 extending historic lighting 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). Recruitment efforts to fill the vacant coordinator position were unsuccessful this winter and the position is being re-advertised following a review of compensation and job duties.

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 \$1,440,000, a 4% increase over the current year. 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, \$835,000 for FY'08, 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 an Urban Forester, shared with Parks Maintenance, to oversee the urban tree program. 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 for billing of the street utility fee.

Storm Water and Open Space

The City's new storm water program will maintain systems related to the collection, conveyance and enhancement of water quality related to storm water runoff. The Council appointed a citizen's advisory committee to work with a contractor in developing the adoption and implementation of a Storm Water System Development Charge and a monthly Storm Water Utility fee. These funding mechanisms should be ready for Council adoption in FY'08. An internal loan of \$55,000 will cover start-up costs pending completion of work needed to complete full implementation of this program.

Water

FY'08 is anticipated to be a record year for the City's water services, pumping more than 2.0 billion gallons of water to customers throughout the system. This equates to an 11% increase within a twenty-four month period. As a result, the plant will initiate a 24/7 schedule this summer to manage 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 damage to fish or their habitat. The City will continue exploring options to deal with solid materials filtered from drinking water in an effort to mitigate related overtime costs. This has prompted the proposal to add a maintenance position that will be shared between the Water Treatment Plant and the Wastewater Treatment Plant in FY'08. Fund balance carryovers from FY'06

provide the means for a planned transfer of \$1,375,000 from operations to capital projects in Revised FY'07. This transfer will return to normal levels in FY'08 and is estimated at \$550,000.

Wastewater

Sewer Collection, Wastewater Treatment, and the JO-GRO™ activities are designed to protect the public's health and the environment. In FY'08, more than one million dollars has been budgeted for capital projects from the net margin between operating revenues and expenses. Program costs, less transfers and debt reserves, are increasing only 1% from the Revised FY'07 Budget. Increases in salary and benefit costs are being offset by the redistribution of costs for the Director and support staff resulting from reorganization and creation of the Public Works Department. The Wastewater Collection Division will continue 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 Municipal Services Worker, the costs of which will be shared with the Water Treatment Plant. Planned capital projects, such as installation of a filter screen to the wastewater headworks, adds redundancy which helps with efficiency of overall processes. Minor site improvements planned at the JO-GRO™ facility include installation of a septic tank and cleaning apparatus to provide improved separation between raw and finished product.

Solid Waste

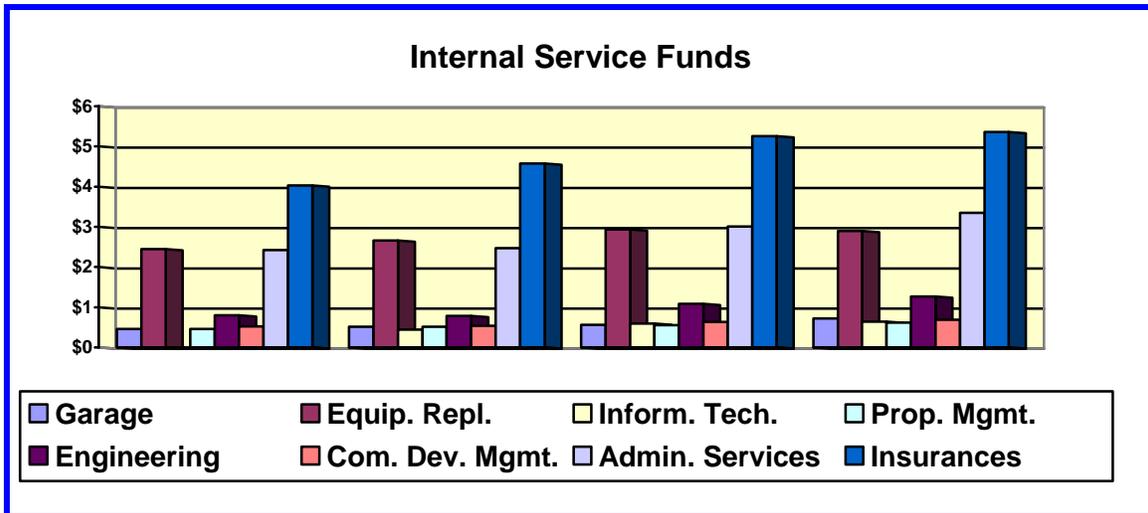
The City continues maintenance activities and monitoring of ground water, surface water, and the landfill cap at the Landfill site. The abandonment of ground water recovery wells and acquisition of an adjacent land parcel are contemplated in the FY'08 capital project budget for this program.

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 service they fund covers 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; and general overhead for management, finance, personnel, and information technology is a fixed percentage.

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

Current billable rates for engineering services are not reflective of actual costs; hence an average rate increase of 11.3% was approved effective July 1, 2007 and will be annually indexed with inflation. Engineering is funded by an Internal Service Fund designed to be self-sufficient, generating revenues necessary to cover operating expenses. Engineering will be using an internal loan in FY'07 to cover a deficit in fund balance that is to be corrected through new Division procedures targeted to bill 90% of time expended by Division employees. 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 planned and financed infrastructure projects, as well as all operating divisions that utilize the Geographic Information System (GIS) as a major resource for their projects.

Other Rates

No changes are proposed to the fixed rate of 8% applied to all operating costs for Administration since the mid-eighties or to the 2% rate charged to cover Information Technology costs. 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 for FY'08 for budgetary purposes. Property Management's billable rate of \$1.30 per square foot established last year remains the same for both FY'07 and FY'08. However, in anticipation of the impending necessity to rent space off-site to accommodate staff, additional square footage was added to the division currently housed in the municipal building. This resulted in additional expenses of \$16,200 to the General Fund, \$17,000 to Administrative Services Fund, and \$1,650 to Engineering.

CAPITAL INVESTMENTS

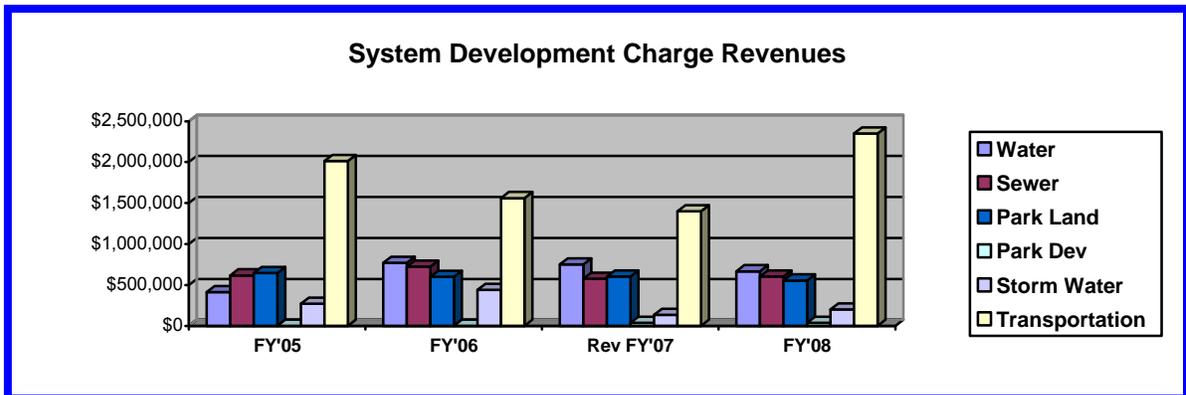
As a thriving and growing community, Grants Pass develops a multi-year investment strategy for its enterprise and General Fund activities. New project requests and updates to the status of existing projects are developed by each department and presented for review by the Management Team during the budget review process. Each year the needs are evaluated and revised with options provided to the Budget Committee for consideration. Some were represented in the previous year's budget deliberation and were modified during the public hearings.

On-going operating revenues from the water and sewer utilities, System Development Charges, Gas Tax, and support from the General Fund provide the consistent and stable funding for a majority of the capital projects. Grants together with proceeds from sale of general obligation bonds and properties generate revenues for unique projects, such as the construction of two new fire/police facilities.

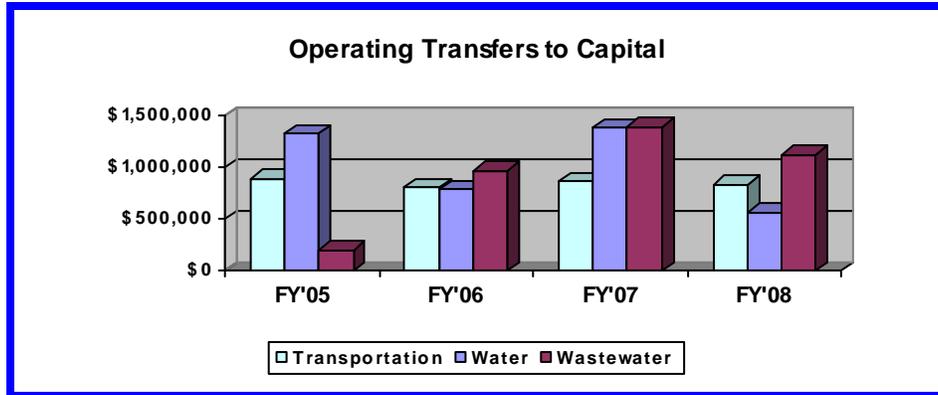
System Development Charge (SDC) Revenue Collections

A major source of funding restricted by State statute to finance the construction, extension, or enlargement of a street, community water supply, storm water or sewage disposal system, or public park, System Development Charges are collected and allocated to specific projects annually by the Budget Committee. The Parks Development SDC, implemented April, 2007, was newly established to generate funding for development of the park and trail system as defined in the master plan.

While a decline in housing starts has reduced water and sewer SDC revenues, transportation and parks SDCs continue to be healthy, indicative of the continuing commercial development which is occurring. Though revenues may be less in any particular year, carryovers from previous years provide funding to proceed with planned projects.



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. Estimates for 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.



Other major sources of funding for capital improvements include transfers from the General Fund and grants. Of the budgeted \$1.0 million general fund transfer, \$645,000 is appropriated to Lands and Buildings Capital Projects and \$355,000 to Transportation Projects. Transportation related projects are budgeted to receive \$815,000 in grant funds, while lands and building projects will receive \$420,000.

Impact of Capital Projects on Operations

In anticipation of constructing two police/fire facilities, one a replacement and the other new, additional personnel have been budgeted and planned for three consecutive years beginning in FY'07. Salary and benefits together with the associated costs of equipment, uniforms, and operating supplies have been incorporated into the operating budget for Public Safety.

Realizing unforeseen expenses will emerge, a natural consequence of this \$10M undertaking, the Public Safety divisions have set aside any monies unspent in their annual budgetary appropriations. Beginning with \$256,000 set aside in FY'06, the trust fund is anticipated to have \$700,000 added in FY'07. This cushion will also be available to supplement operating expenses in FY'09, the last year of the Local Option Levy.

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 highly used regional park while reducing liability and safety risk to the City.

The budget also includes a permanent solids handling solution at the Water Treatment Plant. This \$2.5M project will dramatically impact plant production. With less solids in sedimentation basins, down time to clean filters will be reduced and organic material in the water being treated will be decreased. Cost savings will be realized from reduced overtime and elimination of supplies, specifically the geo tubes. Current solutions, while positive in reducing down time, have simultaneously been labor intensive and costly.

The upgrade of pumps and installation of a backup emergency power generator at the Starlite Pump Station will reduce maintenance costs and bring the facility into compliance with current water standards. Upgrades to the Hilltop Pump Station for fire pumping capacity will likewise bring the station up to code, provide redundant power which it currently does not have, and provide the capacity to upgrade the fire flow for future development in the area.

Upgrading the four influent pumps at the Water Treatment Plant will maximize plant efficiency to consistently operate at system demands. The flow needs generated by customer demand will be better met and electrical costs could also be reduced.

The most significant sewer capital project is the Pine Street/Booth Sewer Replacement, a \$5.1M project ranked as a top priority in the Wastewater Collection System Master Plan. Improvements to this significant conveyance line will eliminate surcharging during winter storm events and mitigate sink holes in Pine Street. Simultaneously, upgrades to the influent pump and the addition of a second bar screen at the restoration plant are in design phase. When this \$5.1M project is completed in the winter of 2007, maintenance costs will be reduced while capacity will be expanded from 30 to 38 million gallons per day.

The widening of West Park Street to Ringuette, adding sidewalks, bike lanes and two travel lanes at an estimated cost of \$1.7 million, is addressing capacity and safety issues for both vehicular and pedestrian traffic. An appropriation of \$415,000 for the paving of unpaved alleyways in the community will contribute to reducing air quality problems and simultaneously improve access and visibility for Public Safety personnel. Other Transportation projects include the acquisition of three hybrid vehicles through a grant program, thereby improving air quality and reducing fuel costs.

Local Improvement Districts (LIDs) are anticipated as a funding mechanism for a number of roadway projects. Usually initiated by property owners desiring infrastructure improvements such as street, curb, gutter, sidewalk, water or sewer lines, LIDs' provide the financing tool for property owners to repay the City over a period of 10 to 20 years for the improvements made. Projects anticipated for the FY'08 period Include:

- Major widening with a third turn lane and installation of curb, gutter and sidewalk along Redwood Avenue from Redwood Circle to Dowell Lane at a cost of \$3.0 million.
- Widening on Darneille Lane from Redwood Avenue and Leonard Road with installation of bike lanes, sidewalks, and planter strips at a cost of \$1.1 million.
- Widening of Redwood Avenue from Dowell Lane to Hubbard at a cost of \$4.7 million.
- Installation of sidewalks in designated safety zone areas such as Foothill Blvd., Cottonwood Drive, Midland Avenue, and Hawthorne Avenue.

The largest Lands & Building project being undertaken is the construction of fire/police facilities. As noted earlier in this report, additional staff, together with supplies, materials, and operating costs were well planned and incorporated into the current four-year Local Option Levy.

Park Maintenance responsibilities are increasing with expansion of Tussing Park and implementation of Phase 2 at the neighborhood Redwood Park. Both were anticipated in FY'07 with the addition of a Parks Worker added to the division. Utilities and other operating supplies have been incorporated into the Parks operating budget for FY'08. While technical work and evaluation of growth scenarios for an amendment to the urban growth boundary is being completed by consultants, the dependency on the knowledge and resources of City staff has necessitated the assignment of a long-range planner to this project. As a result of the reassignment, an additional person is needed to backfill current planning demands.

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 operating budget adds capacity to the City organization, 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 Budget Committee members and City staff in the preparation of this budget document. In particular, special appreciation is warranted for Administrative Services Director, Joanne Stumpf, whose tireless dedication and professionalism has helped garner Grants Pass an impressive record of multiple awards from the Government Finance Officers Association for outstanding budget preparation.

Sincerely,

David W. Frasher
City Manager