

July 24, 2012

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



Budget Message for Fiscal Year 2012-13

BUDGET OVERVIEW

I am pleased to present to you the balanced budget for the Fiscal Year 2012-13 (FY'13). This budget represents the combined efforts of the City Council, the Budget Committee, staff, advisory boards, and the citizens of Grants Pass.

Similar service without increasing tax levy

Citizens showed overwhelming support for the Public Safety Local Option levy in the November 2010 vote which will allow the City to continue to provide similar service levels without increasing its tax levy in FY'13 and FY'14. Thanks in part to this support and successful past financial planning, Council directed staff to present a budget that will provide the same level of service for all operating divisions.

We owe this responsible budget and proactive financial planning in part to previous Councils and staff who 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) minimal cost of living increases in recent years for managers, supervisors, and the City's four unions; 6) minimal insurance losses in the areas of workers compensation and general insurance to lower rates for current and future years. Many cost saving measures taken in recent years will be detailed throughout this message and were discussed in Budget Committee presentations this year.

Voter approved levy

This budget document includes the resources that the voters authorized through passage of the Three-Year Public Safety Levy in November of 2010. The approved levy provides an estimated \$4.3 million in FY'13 for City Public Safety operations. While all property taxes are dedicated to Public Safety, the temporary local option levy will expire June 30, 2014. The overwhelming support for the Public Safety Levy in 2010 demonstrates the community's desire for quality services. The budget for FY'13 continues the high level of Public Safety services and other government

services our citizens have received and expect to receive over the period covered by the current levy. The three-year levy starting in FY'12 is set at the same rate as the previous two-year levy. While conservative projections through FY'14 show that significant General Fund savings will have to be used towards the end of the levy period, the resources provided by the levy should be sufficient to maintain current services through the current three year levy time period.

Residents appreciate City services

The empirical and statistical data gathered from the citizens of Grants Pass indicate that the residents appreciate the services provided by the City. Both the recent vote for General Fund Public Safety Funding and past annual surveys demonstrated the community's desire to have City services maintained at the current service level. While the typical phone survey was not completed in 2011, it will be completed again in 2012 along with the potential for a supplemental online survey customized by Council.

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. However, inflationary pressures on operations will not always match up with revenue growth. The difference between revenue growth and actual operational inflation is expected to be unusually heightened in coming years causing budgets for various City operations to be under more pressure in the future. The continuation of longer-term financial planning will be key to maintaining the services our Citizens expect today. While this annual budget process only results in a budget approved and adopted for FY'13, the budget projection for the second year in FY'14 has also been incorporated into the budget book for informational purposes and to help plan for operations beyond FY'13.

Budget based on Council goals

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 normal day to day duties and budgets required to maintain operations do not change a great deal from year to year. However, the City Council recently completed the 2012-13 Strategic Goals and Work Plan 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 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.

Impact of population growth

Grants Pass, along with most places and regions in the nation, is still coping with the lingering effects of a world-wide economic downturn, particularly in the housing market. However, while the community's growth rate has slowed from the rapid pace of just a few years ago, the City's population continues to grow as estimated by Portland State University's (PSU) Population Research Center and the recently completed national census data. Higher volume of demands for certain services, particularly in the City's Public Safety services, has accompanied the City's population growth in recent years. In recent years the City's population growth has been significantly higher than the County's growth and the State's growth rates. The 2010 census shows a City population of 34,533 versus the previous year's population estimate by PSU of 33,225. The most recent certified population estimate as of July 1, 2011, is a population of 34,660. Grants Pass continues to rank 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.

Budget guidelines

The executive team and staff were given some specific guidelines for preparing the FY'13 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 hold the line where possible on personnel and other expenditures. While there are some cost increases such as the cost of chemicals or electricity and gasoline that cannot be avoided, staff was instructed to continue to look for any operating efficiencies available. With the exception of the highest priority needs in the area of Information Technology (an area that can help all other departments hold down costs and be more effective), staffing levels were not to be increased in recommended operational budgets this year. The Budget Committee did approve two additional positions that were not included in the recommended budget for FY'13, but the number of unfunded positions throughout City departments is nearly the same as the previous year.

After numerous cuts in certain division expenditure budgets in recent years and a focus on cuts in non-personnel expenditures in order to maintain services, any further budget cuts are expected to result in a cut in services offered to the public. However, like last year, decision packages were presented to the Council and the Budget Committee to show the service effect if funding is reallocated among the various operational divisions. While there is not a present need to make further cuts based on short-term revenue forecasts, the presentation of the service level effect for funding reallocations has assisted the financial planning process and helped the Budget Committee in deliberations.

Budget changes overview

The FY'13 Operating Budget, excluding contingencies, debt service, and transfers out to capital projects, totals \$31,482,255. This is up approximately \$1.0 million from the current year's Operating Budget total of \$30,459,323, or a 3.4% increase year over year. This is close to the national CPI-U average change for the 2011 calendar year, the same index measure used to adjust City utility and other user or fee rates each year. This CPI in-line increase is due in part to minimal staffing changes in main operating divisions, relatively small changes in health insurance rates for the 2012 calendar year, and lower insurance costs. Some factors heavily impacting inflation increases to the adopted budget this year include higher fuel costs, higher PERS rates and higher electricity costs. However, excluding some "one time" contractual operating costs built into the General Fund for FY'13, the actual operating budget increase this year is 2.7% and slightly less than the nationally reported inflation figures in the last year. Public Safety accounts for a little more than half of the total operating costs for the City, and its operating budget increased approximately 2.1% due largely to the increases in billed PERS rates, a modest COLA granted to the Fire union, offset by health insurance rates for calendar 2012 coming in lower than FY'12 budget expectations.

Excluding Public Safety and Policy and Legislation, the other operational departments of the City increased operating expenses by approximately \$427,000 (or 3.3%) in total compared to the current year budget due mostly to increases to PERS rates and higher energy or chemicals rates. Pacific Power increased electric rates another 4-6% in 2012 on top of a significant electric rate increase of nearly 20% in 2011. Electricity is used heavily in the City's Water and Wastewater utilities in the plants and in various pump stations. The City's total annual budget for electricity across utilities and all other operations is now well in excess of \$1 million and recent changes to electricity rates is having a significant impact on the current year budget and the FY'13 adopted budget. As with any major expenditure, the City will continue to look for energy and other cost efficiencies.

Capital allocations

Annual transfers from the General Fund to capital projects of nearly \$1 million per year to transportation and other high priority projects were eliminated three years ago. This elimination helped to ensure the City could continue to provide operating services at levels similar to prior years. While this certainly didn't reduce the City's need to maintain or upgrade equipment and infrastructure, the General Fund FY'13 adopted capital transfer allocation follows the same methodology used in the previous year budget recommendations. What follows is a brief description of this capital project funding allocation method.

In Fiscal 2010, the General Fund achieved the targeted budgetary fund balance policy of 30% to 40% of annual expenditures by ending the year near the middle of that target range. This range was set to avoid having to borrow funds between July and November each fiscal year before the bulk of property taxes are received by the General Fund. This also gives the General Fund the proper contingency and reserves to respond to potential emergencies or other unanticipated financial needs

throughout City governmental and utility operations. By continuing to target the middle end of that range at 35%, any one time savings whether through revenue or expenditure differences to budget could then be allocated to the highest priority capital projects. This leaves the General Fund with a 5% contingency and the necessary 30% minimum carryover balance from year to year.

Once those savings are identified and in the bank, they could then be appropriated for the highest priority capital purposes or partially saved for future periods to reduce the potential need to increase property tax or other fees in the future. The Council, Budget Committee, and Citizens can continue to help prioritize these capital expenditures after the fiscal year is closed and the actual savings amounts (if any) are known. Therefore, the bulk of the amount recommended to be transferred to high priority capital projects in the FY'12 budget related to the actual savings in FY10 and the bulk of the General Fund capital transfers in this adopted budget relate to actual General Fund savings in FY'11.

The bulk of the savings experienced each year will likely be recommended to be transferred to priority capital projects because the decision to eliminate regularly scheduled capital transfers from the General Fund may have negative long-term implications as the City defers capital investments. In addition, there are some potential information technology and other investments that can directly lower operating costs through efficiencies or defer expensive maintenance costs in the future.

As long as General Fund operating divisions continue to spend 4-6% less than adopted operating budgets each year on average, the General Fund should end FY'13 with a budgetary fund balance slightly more than 40% of annual operating expenditures and should end FY'14 slightly less than 40% of annual operating expenditures, a balance in line with the City's Financial Policies. Assuming the City's real estate market values don't decline significantly from where they are today, this should be a General Fund balance sufficient to keep the same property tax rates and similar operating service levels for at least the next 2-4 years after FY'13.

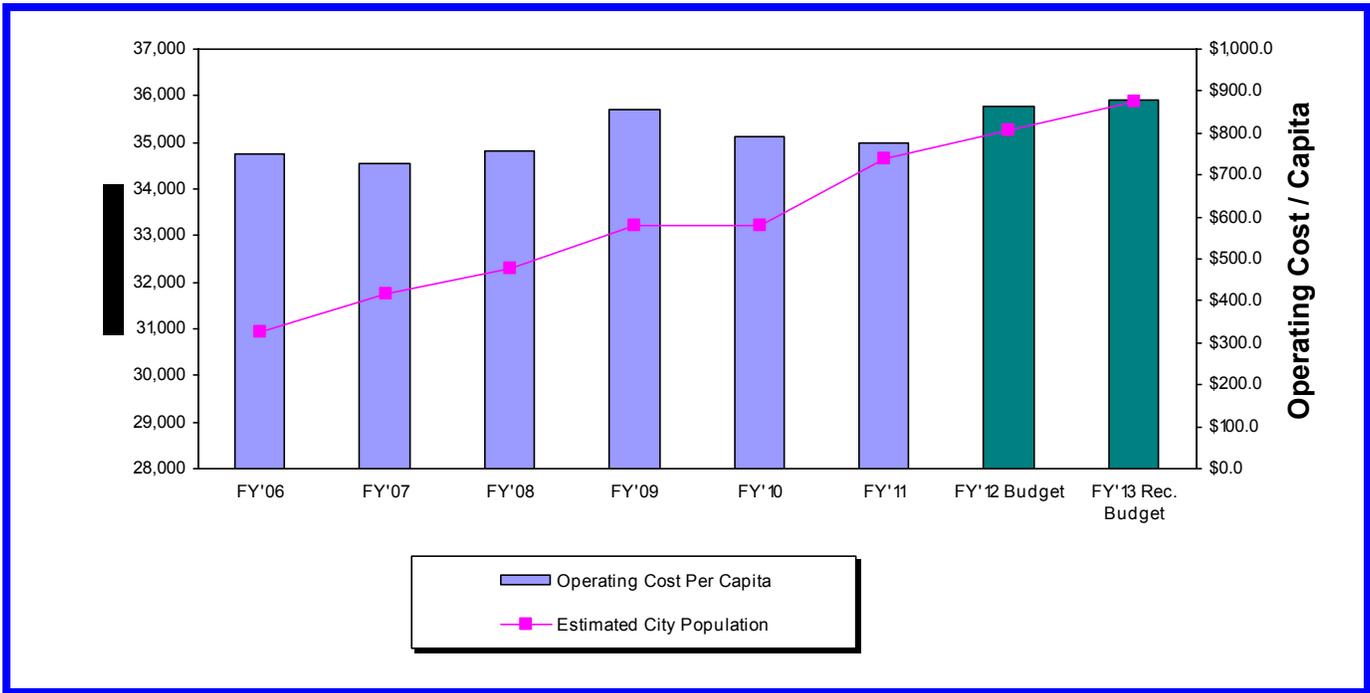
Under proper financial and budgeting policies of matching one-time resources with one-time expenditures to maintain a sustainable budget, the adopted budget allocates capital to certain Public Safety, Public Works and City-wide information technology, and other high-priority Parks and other projects found in the Council's adopted Work Plan for 2012-2013. This year, close to \$0.5 million was recommended to be transferred to Transportation Capital, Water Capital, a Downtown Infrastructure project, and other Public Works related project needs. Slightly less than \$0.2 million is recommended to be transferred to City-wide technology related projects, Public Safety related capital project needs will be covered from a return of over \$400,000 from the nearly completed major CAD/MDT capital project, while the balance of capital transfers are for miscellaneous high priority Parks and UGB related project needs. While most of the Parks related capital facility needs will be accommodated by restricted funding sources such as grants and the Transient Room Tax-LB capital allocation, smaller parks projects such as working with School District 7 to construct school/parks projects has been included in General Fund capital transfers.

Real efficiencies and effectiveness measures will be impacted by information technology projects ongoing today and proposed in the FY'13 budget. One-time savings in recent years have been recommended to be used for overdue projects such as the phone system, connectivity among City operating locations, the financial software system, the CAD/MDT project, a Microsoft upgrade, Police In Car Cameras, and a Police E-Ticketing project, among other technology intensive capital projects. In addition to having more efficient operating systems, projects such as connectivity and replacing the phone system will save money on telecom expenses each and every year in the future once they are completed. Projects such as the CAD/MDT systems and the proposed E-ticketing project will directly reduce future costs by significantly increasing efficiencies and reducing the need to increase staff in the future to keep up with work loads. The use of technology across various operations to increase efficiencies was a big theme in the budgets in the last two years and continues to be a prominent consideration in the adopted FY'13 budget.

Operating costs per capita less than inflation

Despite modest growth in the total adopted operational budget this year, the increase in budget is less than inflation and much less than the combined increase of inflation plus growth. 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 strives to keep the current level of services.

Over a longer time period, it is important to manage expenses to 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 charts on the following page show representation of operating costs per capita, including budget numbers for FY'12 and FY'13.



Using Fiscal 2006 as the base year, the total cost per citizen of providing all the basic City services (Police, Fire, Water, Wastewater, Transportation, Legislation, Parks, Development, and Other Services) has not exceeded inflation as measured by the national CPI index 10-year average through the FY'13 adopted budget. Using the average inflation rate of 2.48% in the last decade and using FY'06 as the base year, the adopted FY'13 budget estimated operating costs per capita are under the compounded effect of inflation since 2006. While budgets will never be fully spent unless there are unanticipated events, even the budgeted expenditures are still projected to be under nationally reported inflation averages.

	<u>FY'06</u>	<u>FY'07</u>	<u>FY'08</u>	<u>FY'09</u>	<u>FY'10</u>	<u>FY'11</u>	<u>FY'12 Budget</u>	<u>FY'13 Budget</u>
Estimated City Population	30,930	31,740	32,290	33,225	33,225	34,660	35,260	35,860
Operating Cost	\$23,172,859	\$23,070,007	\$24,401,413	\$28,446,551	\$26,344,157	\$26,907,928	\$30,459,323	\$31,482,255
Actual Op. Cost / Capita	\$749	\$727	\$756	\$856	\$793	\$776	\$864	\$878
Cost / Capita If Matched Avg. Inflation (CPI)		\$768	\$787	\$806	\$826	\$847	\$868	\$889

However, there is a growing strain on the City's operational budgets as actual inflation for operations is starting to outpace growth in revenues in the short-term. Growth in revenues and expenditures per capita will never exactly match the national or regional consumer price index, however there is a growing gap between actual operating inflation and the total operational revenue growth.

In some cases, such as in the City operated Water and Wastewater utilities, certain major expenses such as electricity are rising significantly faster than nationally reported inflation figures. Increased mandated and contractual obligations for personnel costs and items such as energy costs are having an effect on budgets throughout City governmental and utility operations. While nationally reported CPI changes remain relatively muted, the cost of electricity has increased nearly 50% in the last six years. Other types of energy costs such as fuel are also rising significantly and the state mandated costs of the PERS system are increasing. Without revenue increases to match the increased costs of providing services, these budget pressures are going to grow more acute and while the City of Grants Pass is not unique in this regard, the further out we look at our budget forecast in coming years the more limited our financial flexibility becomes.

Revenues relatively stagnant

A large part of increasing limitations on the City's budgetary flexibility also relates to the revenue side of the equation. Growth for most of the major revenue sources for City operations are directly tied to the performance of the housing market. Growth in property taxes (the primary resource for Public Safety and the General Fund) is limited to either 3% per year on existing properties or market value changes, whichever is less. Annual changes to City utility user rates are directly tied to the national CPI-U changes, and the largest component of determining CPI is housing costs. The City's largest Transportation funding source (gas tax) is not tied to a CPI index and until 2011 had remained relatively stagnant. The State's gas tax (shared with the City) has increased in the last year which will contribute more funding to Transportation projects, but other major Transportation funding sources have not kept up with inflation.

This is one reason the Council took the Transportation SDC Task Force's recommendation of a modest increase to the Transportation Utility Fee and also linking this annual fee change to the CPI index. While a modest rate increase was made to Wastewater rates at the end of FY'11, the adequacy of both Water and Wastewater rates continued to be a topic of discussion with Council and the Budget Committee on a regular basis. While all City utility rates are now tied to the CPI index and will be updated each January 1st based on the index, Water and Wastewater rates continue to be insufficient to keep up with depreciation costs of utility infrastructure over time. Rate studies are proposed to be performed within the next two years.

All property taxes recorded as revenue for the General Fund are dedicated to Public Safety each year. In the FY'12 budget nearly 85% of the resources dedicated to Public Safety came from property taxes and Public Safety is by far the largest operating division of the City. Due to the decline in the housing market and significantly lower property tax growth rates, Public Safety will have to use more General Fund support from non-dedicated resources in coming years as compared to recent years. Limited growth in revenues coupled with cost increases largely out of our control will cause significant pressure on the General Fund in coming years. On the positive side, the General Fund and Public Safety will have slightly higher property tax revenues (in FY'13 only) due to expected final tax turnovers from the

Redevelopment Agency. The City's share of final turnover amounts is budgeted to be additional revenue of \$477,967 in FY'13 for the General Fund and Public Safety, which will help limit Public Safety's use of general support resources in the FY'13 budget.

Having many major revenues so directly tied to growth or declines in the housing market is a significant financial risk for the City especially during times of extended downturns in the housing market such as the one we are experiencing today. Real estate and housing markets are a very large component of the nationally reported CPI figures. Cost increases, many of which are largely out of our control without service level changes, are becoming more detached in the near term from changes to revenues and resources required to maintain those operations.

The total adopted budget, including Capital and unappropriated (or carryover) amounts, is \$100,871,860. This is significantly higher than the current year's total budget of \$91,933,258 due to a number of capital projects that have not yet begun the expenditure phase and modest operational budgetary increases. In addition, the FY'13 budget reflects a planned bond offering of more than \$5 million that will provide the resources to replace and expand Water reservoir #3, one of the City's largest reservoirs. The total balanced budget figure includes internal service funds, debt funds, and all auxiliary funds that have unique or restricted resources. Total operational budgets previously mentioned includes costs for many of these stand alone internal service funds and total changes to the operational budget may be a more meaningful representation of changes to the City's annual expenditure budget (rather than the change to the total budget figures). Budgeted resources available to capital projects this year are shown by the four major capital programs: Lands and Buildings, Transportation, Water, and Wastewater in those respective program sections in the budget book.

PREPARING FOR TODAY AND THE FUTURE

Public Safety

The construction of new fire and police facilities has been executed with foresight and efficiency and completed during early FY'11. 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. Including the property tax levy for the bonded debt, the total FY'12 property tax rate for City residents was relatively unchanged and will remain nearly flat for the next two years with the renewal of the existing levy for the same rate of \$1.79 per \$1,000 of assessed value through FY'14. The permanent property tax rate of \$4.1335 cannot be increased under current State law and for the near-term the local option levy and permanent property tax rate will continue to provide the majority of the funding needed for Public Safety.

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 significantly 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. This year, similar to FY'12, Other General Fund resources are being directed to Public Safety programs. Without redirecting approximately \$920,000 of General Fund resources to Public Safety functions, there would have been cuts roughly equivalent to at least four to five police officer equivalent positions from the FY'13 adopted staffing levels. These positions would not use the whole \$920,000 General Fund resource allocation, but rather reflect approximately how many positions would have to be eliminated to avoid drawing down the General Fund ending balance in a typical year. Budgets are never fully spent unless unplanned needs surface throughout the year. City officers are already so busy that last year's budget process approved three additional officers, two of which will eventually be dedicated to a traffic team. Looking out to FY'13 and FY'14, Public Safety's draw on other General Fund resources and reserves increases significantly each year due to relatively minimal growth in property tax revenues and the absence of the one-time Redevelopment Agency property tax turnover (a revenue only in FY'13 and not future years).

Community Development responds to development downturn

Grants Pass, like other regions throughout Oregon, has experienced a severe decline in building activity in the last five years. Community Development departments such as Building Services and Planning Services continue to budget for extremely low levels of activity and low levels of staffing compared to previous years. While there has been a very small uptick in commercial building activity, residential building activity remains near the lowest level in the last 10 years. On the plus side for new construction, Home Depot completed construction and opened for business in FY'12. This combined with some commercial plan check and permit fees for projects such as the Women's Health Center, Washington Medical Park and work on Industry Drive have brought most Building, Planning, and SDC revenues in over conservative budget expectations in the current year.

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 two years ago (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 management sees either a decline in service demand and/or revenues. There are currently 17 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 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 pick up.

However, if building activity returns to low levels seen at times in recent years, without supplementary funding, the Building department will deplete its restricted reserves held in the General Fund in approximately two years. This budget continues a \$50,000 annual General Fund transfer per year into the Building department in case activity does not pick up in coming years. This annual transfer began in FY'11 and the goal is to make sure there is closer to three years of operating reserves available to the Building department for maintaining services during 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. It is important for many efficiency and service delivery reasons to keep this activity efficiently operated and funded by the City. There would be other costs associated with turning over or fully outsourcing the Building department that would have to be evaluated prior to considering other options of service delivery. Currently, this division of the Community Development department remains with only two full-time funded employees and uses contractors to help meet service demands.

System Development Charge (SDC) revenues generated through growth have declined along with residential building activity. In a significant change from FY'11, Transportation SDCs will be coming in well in excess of projections for FY'12 due to some commercial building activity. However, revenue projections for FY'13 continue to be estimated at extremely low levels to reflect the reduction in development activity and the Council's actions to decrease the Transportation and Parks SDCs. These conservative estimates will help ensure that spending does not exceed revenues for transportation and other projects. Other SDC forecasts for systems such as Water and Wastewater also remain relatively low in this year's budget and capital project resources across the board will have to be heavily focused on maintaining or upgrading existing infrastructure in the near-term.

Financial policies incorporated into the Budget

The adopted FY'13 budget has General Fund contingency of \$1,100,000 excluding Building's restricted resources / requirements, which is approximately 5% of the City's General Fund expenditure budget (Policy and Legislation, Public Safety, Parks, and Development). This contingency is in the range of a typical 5% to 10% contingency and should provide Council with the resources to deal with emergencies in combination with contingencies available in other funds. Contingencies cannot be transferred to other appropriation categories in any dollar amount without Council's approval in a budget adjustment.

In FY'10 Council adopted a new financial policy target for the proper range of beginning fund balances for the General Fund, and the Council acted in FY'12 to address financial policies regarding contingencies and ending fund balances in the Utilities and certain other funds. These new financial policies, along with the other financial policies can be found in the appendix of the budget book.

When reviewing contingency balances, it's important to remember that a higher or different level of contingencies does not mean a higher level of spending, it merely

means a higher level of financial protection and 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.

New financial policy updates also included the recommendation that governmental operations strive to contribute resources to equipment replacement funds over time for major capital assets and that the City's utility funds should be setting aside at least enough resources per year (at a minimum) to match depreciation costs as measured in the City's annual financial report. Depreciation is not recorded as a budgetary transaction, but it is a true cost of doing business that must be recognized through transfers out of utility operating funds to utility capital project funds. Currently the utilities are not setting aside enough funds from operations to cover the cost of infrastructure depreciation over time (with the potential exception of the Street Utility now that the State's gas tax has increased), which may result in higher unexpected infrastructure projects in the future. For this reason, resources in excess of the utility's recommended minimum 25% contingency balance are being transferred to the utility's capital projects fund.

STAFFING CHANGES

There are three additional funded positions by Full Time Equivalent (FTE) for the adopted FY'13 budget. One position addresses the Council's and community's desire to ensure the efficiency and effectiveness of all City operations. It was recommended that one Computer Services Technician be added and funded for the Information Technology division. 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, and a very long list of special project needs for coming years 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. One position is being added to Parks to replace ongoing contractual work, and one additional dispatcher position was added to address the highest priority need in the City's Public Safety divisions.

These additions are partially offset by the elimination of funding for 0.25 FTE of a position in Administrative Services and an increase of 0.15 FTE in another position in Administrative Services. Many of the positions previously authorized by the City Council continue to be unfunded this year. The number of total approved but unfunded positions has decreased from 23.05 in FY'12 to 22.30 in FY'13. This change in staffing addresses the perceived highest operational risks and matches the present and expected future service needs with the staffing needs. As directed by Council, this also allows the IT and many other departments to continue the current level of services. It is estimated that this investment in technology services and systems will pay for itself many times over now and many years into the future through either operating efficiencies or direct cost reductions.

As a result of reductions in revenue, reduction in service needs, or efficiencies found through regular operational reviews, positions that do not have funding included in the Adopted Budget are shown below.

Summary of FY'13 Unfunded Personnel Positions			
Activity	Program	Title	# of Positions
Finance	Administrative Services	Accounting Tech Assistant Finance Director Senior Financial Analyst	2.50
Management	Administrative Services	Office Assistant I	0.50
Wastewater	Wastewater Treatment / JO-GRO	Utility Worker	1.00
Community Development	Support	Office Assistant	1.00
Planning	Development	Planner III Department Support Tech Associate Planner (3) Assistant Planner (3)	8.00
Building	Development	Residential Building Insp Plans Examiner II (2) Office Assistant I Building Inspector I	5.00
Engineering	Support	Utility Engineer Project Specialist (2)	3.00
Parks & Community Services	Fleet, Parks & Recreation, Property Management, Information Technology	Urban Forester (0.5) Office Assistant II (0.1) Admin Support Spec (0.1) Dept Support Tech (0.1)	0.80
Streets	Transportation	Urban Forester	0.50
		Total	22.30

New positions that are unfunded starting in FY'13 include 0.25 FTE in Management, a division of Administrative Services. Should activity significantly increase during the fiscal year in any of the City's departments, a supplemental budget could be brought before the Council that would recognize the staffing needs for the unanticipated increase in service demand and/or revenues.

CHALLENGES AHEAD

Public Safety faces staffing challenges

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 a department that is already significantly understaffed compared to the service needs and calls for service. For example, it takes nearly 5 years for a new officer to become trained and sufficiently experienced on the job. 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.

In the last year Council held various workshops and discussions on alternative funding sources available and whether to begin to take public input on funding alternatives. In the end, Council decided that the current use of the local option levy for City Public Safety services is still the preferred funding method. In the budget meetings to take place one year from now in the spring of 2013, the terms of the next local option levy will need to be decided. Typically the Council has asked the Budget Committee to weigh in on this decision in an advisory capacity to the Council and in the coming year the ballot measure for the next levy will need to be drafted for the November 2014 general election.

While the City continues to struggle in addressing the staffing need of the Police and Fire Divisions, the implementation of the new Computer Aided Dispatch system and new Mobile Data Terminals is expected to bring certain operational efficiencies to Public Safety in coming years. Other technology projects such as E-ticketing that have been included in the adopted budget can benefit operational efficiencies to a smaller degree. Public Safety is unable to fund positions recommended by a staffing study completed in 2000 as well as the Strategic Plan adopted by Council in 2008. And turnover in the current year has prevented a timely implementation of the dedicated traffic team. However, the new positions approved in last year's budget process should be filled over the next year and efficiencies created by the implementation of certain IT systems will be studied further before the recommendation of additional staffing in Public Safety.

As discussed in the last year, a number of external reports have now all shown similar results – the Grants Pass Police department is one of the most understaffed agencies in Oregon compared to the service need. In order to respond to the urgent calls for service, some of 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.

In the last year, staff also reported on a new multi-agency report on crime rates in Oregon cities. The 2009 based report - Oregon Anti-Crime Alliance (of 107 Small Oregon Cities) calls Grants Pass, "the most understaffed small city in Oregon" and shows Grants Pass as the highest per capita for Property Crime, Motor Vehicle Theft,

Larceny/Theft, Burglary, and Robbery. While these crimes are not the most serious types of crimes that can be committed, this is a problem and is exactly what has been keeping our officers so busy in the last two years. This speaks to both the population surge that Grants Pass experiences during a typical day and the need to boost staffing to be able to handle the relatively high calls for service. While many citizens may not be aware of how busy our Police force actually is today because they may not have been personally affected yet, we look forward to working with the Council and community on addressing these challenges before they get too far out of control. While Grants Pass still feels safe and is safe, it's not prudent to breeze over this risk to our residential and business community.

Public Safety concerns are also affected by the County. The County's federal funding continues to decline and will be nearly used up by the County in the coming fiscal year unless federal lobbying efforts to renew part of the funding are successful. The County has already cut back criminal justice program services significantly during May and June of 2012 as a result of lower federal funding levels and the County residents turned down a property tax levy for these services. As the City relies on the County for services such as the Adult Jail, the District Attorney, and Juvenile Justice, the future local, state and federal funding decisions that affect the County will also affect the City.

Staffing for an expanding Park System

Over the last 5-10 years, park acreage and developed park sites have increased substantially to match a larger City. While park and trail maintenance responsibilities are increasing, the Parks Division eliminated one full-time position in 2010 due to the economic climate and has not had significant changes to in-house staffing levels in the last 10 years. The 2011 budget slightly increased funding for additional contractual labor to maintain the expanded park system and the position added to the FY'13 budget for the most part is just replacing ongoing contractual work.

Addressing PERS funding

As anticipated, employee benefit costs continue to be a factor in operating expenses. Like other Oregon public agencies, the City of Grants Pass experienced an increase in rates paid to the Public Employees Retirement System (PERS) effective July 1, 2011 and another large rate increase will occur July 1, 2013. 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 and financial market losses in 2008 produced staggering rate projections for these employees. Government agencies have found these impacts more manageable by allocating a portion of the liabilities across all groups of employees. It is noteworthy that the State has addressed the issue of Tier1/Tier2 benefits in that since 2003 new public employees do not have the same defined benefits.

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 aside additional reserves in the Benefits Administration program (Insurance Fund). Reserves have been set aside for many years by charging slightly different rates to operating departments as compared to the PERS system payment requirements and at the peak of the PERS rate setting cycle these reserves will be used to lessen the impact of higher rates and limiting the potential negative impact to the services that can be delivered to the public.

Due to the historic losses in financial markets in 2008 and limited returns in calendar 2011, 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 and related benefit costs. While the City cannot control these rates, the City has taken steps to prepare for future PERS cost increases. Starting July 1, 2013, the rates are expected to increase by another 3-5% for the various classes of PERS employees.

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 three to four years, with approximately 80% 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. The annual increase to health insurance premiums in calendar year 2012 was less than 1%, but typical experience in the City and most other major public and private businesses is an average annual rate increase of almost 10% each year in the last 10 years. In the future budget periods presented in this budget, rate increases of 10% per year have been factored in for periods after calendar 2012.

Negotiating with labor organizations

In the next year the City will be negotiating with all four unions/bargaining groups. The Grants Pass Employees Association (GPEA) is now considered an official bargaining unit within the City effective in 2010. GPEA makes up most non-supervisory employees that are not part of another union and in the last year the first contract with GPEA was completed with the option to talk about either wages or insurance benefits in certain years covered by the new three-year contract.

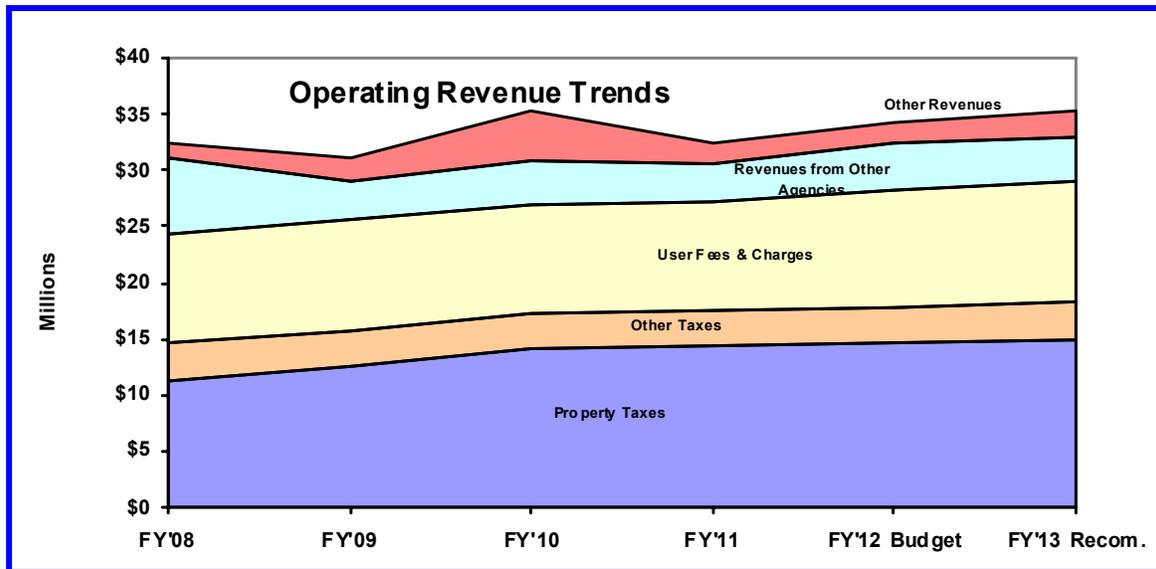
All four unions/bargaining units are set for negotiations in the next year for at least wages. The Police contract term, along with the contract terms for Fire and Teamsters, are all up at the end of calendar 2012. GPEA is expected to open for wage discussions for the 2013 calendar year.

Supervisors, Directors, Classified, and GPEA employees had not received or requested a COLA (Cost-Of-Living Adjustment) salary schedule adjustment for three straight years beginning in 2009 but were granted a 1% COLA in 2012. The Fire union accepted no COLA for 2010 and 2011, along with a 1.5% COLA effective January 1, 2012, and another 1.5% effective July 1, 2012. After a couple years of 2% COLAs each year, the Police Union agreed to no change in wages for 2012. After a 4.45% COLA in 2009, Teamsters has had no changes to the basic salary schedule since that date.

However, costs impacting all union negotiations are the rising costs of PERS rates and health insurance rates. Costs for each employee group are rising an estimated 2% to 3% on average each year even before a COLA is considered. As these increases to PERS rates and health insurance rates are expected to continue many years into the future, wage negotiations that also affect costs many years into the future will need to factor in PERS and health insurance rate considerations.

OPERATING REVENUE TRENDS

Financial Overview for FY'08 to FY'13



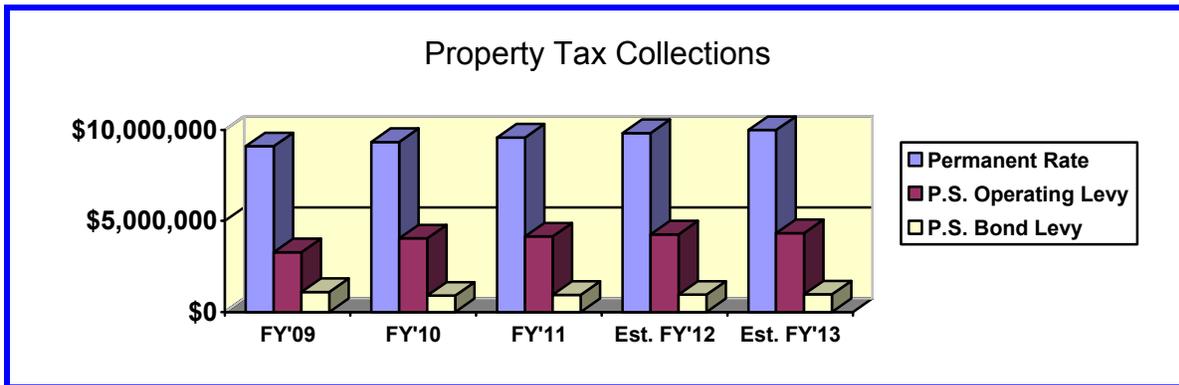
The compilation of this one-year operating budget and second year budget projection reflects key revenue sources and adopted fee changes outlined below:

Property Taxes – Permanent Rate and Public Safety Local Option Levy

FY'12 was the first year of the three-year Public Safety Local Option Levy which will end June 30, 2014. The levy was renewed at the same rate of \$1.79 per \$1,000 of assessed valuation and is estimated to be a total levy of approximately \$4.54 million for FY'13. The levy for FY'13 is anticipated to provide approximately \$50,000 in additional resources in FY'13 as compared to FY'12 due to small amounts of new construction. In time, slightly more than 97% of property tax levies are collected due to discounts available for paying the tax in a timely manner. The FY'13 levy will provide about \$4.25 million in revenue next year and approximately \$4.4 million in total revenue in coming years. That resource, along with the permanent property tax rate and other restricted or dedicated Public Safety resources, is anticipated to fund the majority of the City's Public Safety program with an additional reliance on the General Fund budgeted at \$920,000 this year.

This budget reflects the use of resources other than property taxes to support Public Safety for the short-term, a necessity in order to provide a similar level of service as directed by the City Council. 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 FY'12 at close to \$6.33/\$1,000 assessed valuation. It is noteworthy that the tax rate for the Public Safety Bond declined by approximately \$.10 per \$1,000 assessed valuation from the 2009 rate of approximately \$.50 to approximately \$.40/\$1,000 during FY'10. The bond levy rate in the last year of the Public Safety Bond payment (2019) will also be less than originally estimated due to

money left over at the end of the construction that was used to pay off a small portion of the 2019 bond maturity.



Grants Pass' total taxable values continue to increase as a result of relatively small amounts of new construction. Increases in assessed valuation on existing properties is generally capped at 3% per year, but due to significant declines in real market values and in some cases assessed values, certain properties could see assessments increase more than 3% in a given year when the property market increases in the future. This 3% annual restriction in the past has resulted in assessed valuations being significantly lower than true market value, and on average they are still below total market values. With market values still declining slightly and the assessed value increasing by 3% or less, more and more properties have an assessed value that has reached the market value. Annual property tax revenue increases in the next couple years on existing properties will be extremely limited compared to the last 10 years.

Total assessed values rose approximately 1.2% in FY'12 and are estimated to increase about 1.1% in FY'13 due entirely to new construction. In FY'12 almost the entire amount of the increase was due to new construction. Historical trends together with updated data furnished by the Josephine County Assessor's office and construction valuation reports from the previous calendar year are used to project assessed values. The number of building permits and respective valuations along with local housing market conditions are also factored into the equation.

The absence of new annexations, which could have had a positive impact on the property tax base in recent years, will also impact FY'13. 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 bond levy, near \$.40, will remain at approximately the same rate until the final year of the Public Safety Bond Levy.

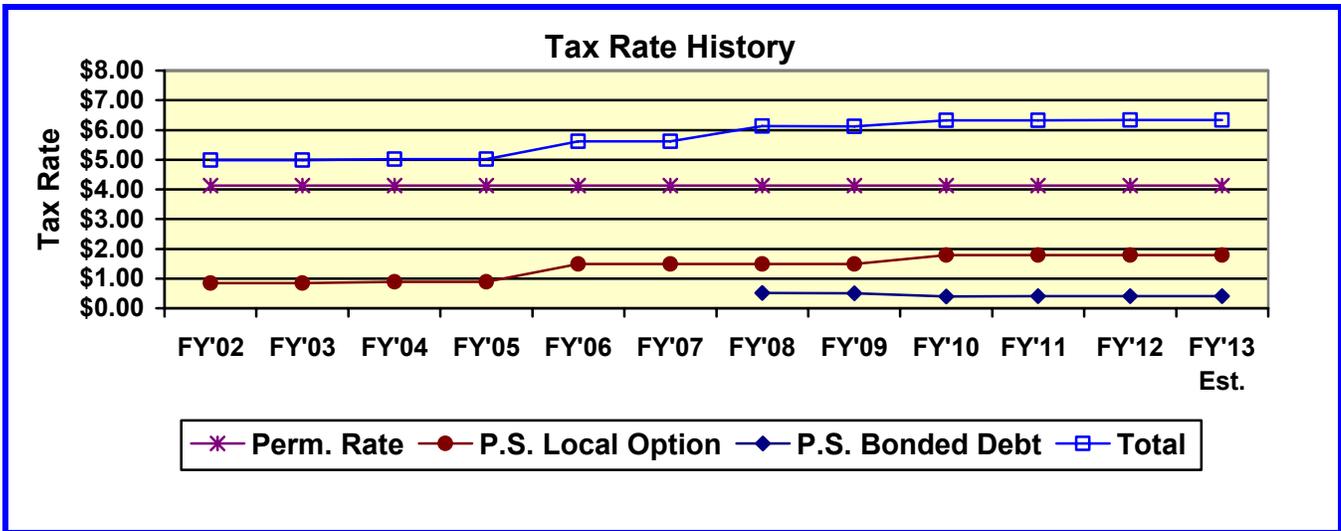
Property Taxes – Future Public Safety Local Option Levy

In November of 2010, the voters overwhelmingly supported the three-year renewal of the Public Safety Local Option Levy. The levy will provide funding for the Public Safety Department for FY'12 through FY'14. 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.

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. However, even under this adopted budget, Public Safety still has significant hurdles to meet the plan's targets. 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 may have to increase in the future to provide sufficient resource to keep up with the combined impact of growth and inflation. The more people that visit our community, the better it is for business but the more it places a burden on existing City property owners as Public Safety relies almost exclusively on property taxes to cover program costs. Grants Pass is an exceptional hub for both business and travel. However, due to sufficient reserves maintained in the General Fund and savings by Public Safety in recent years, it may be possible to design the terms of the next levy at the same rate of \$1.79 by using savings to "buy down" what the rate may have had to be set at otherwise.

The Budget Committee members have started to meet with the Council in work shops on a nearly quarterly basis, with the most recent meeting in January of 2012 to hear an overview of the budget process and review year-to-date financials half way through FY'12. In recent years Council has also asked the Budget Committee to act in an advisory capacity for the Public Safety levy and for Public Safety funding options in general. 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 a budget that targets the highest operational risk areas with the same continuing local option levy rate of \$1.79 per \$1,000 of assessed valuation.

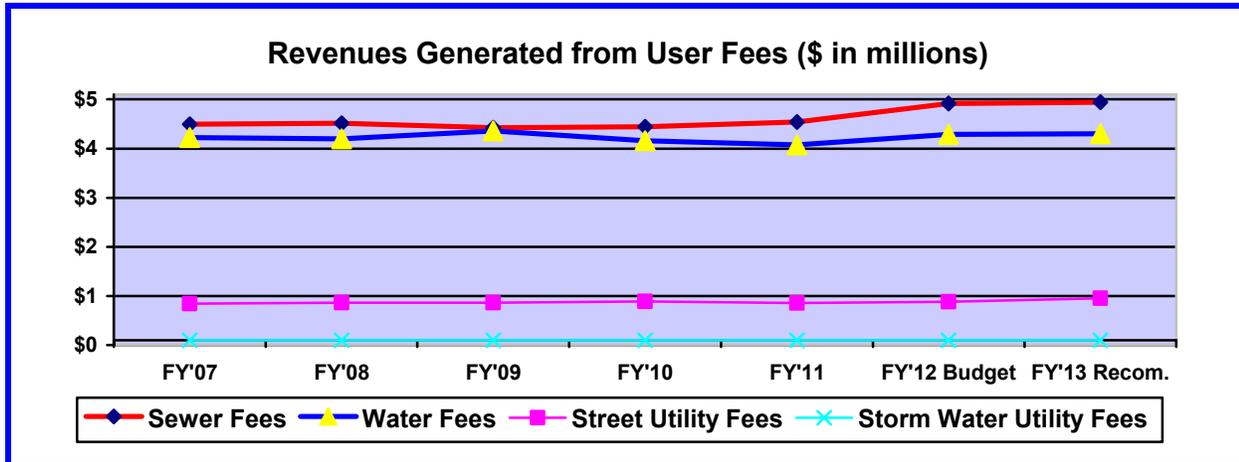
Implementing the Public Safety Strategic Plan on the schedule recommended by our consultants would have required a levy in the amount of nearly \$2.25/\$1,000. The \$1.79 levy proposal was achieved by delaying certain elements of the Strategic Plan implementation to future years after FY'14, and by making significant cuts to proposed non-personnel expenditures within the Public Safety Department and throughout the General Fund. A variety of external reports suggest that Grants Pass needs at least 7 more officers if not more, and we are only able to fill 3 of those in the near-term. Understaffing is also becoming more apparent when looking at the number of traffic crashes or crime rates in our City.



Taxes Other than Property

Franchise fees (Right of Way Privilege Taxes) received from each of the private utilities providing service to municipal residents are estimated to total \$2.733 million in FY'13 and this is the second largest revenue source for the General Fund. This amount is relatively stable from year to year, but due to the recession and less use of traditional utilities such as land-based phone lines, the revenue projection is built around flat local economic growth to be conservative. 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 and other state revenue sharing amounts. Diminished growth in land based telephones compared to cell phones has resulted in an adverse impact on telecommunications franchise fees, but most other franchise revenue sources are relatively stable and in many cases increasing slightly. Historical trends, proposed rate increases or decreases by utility firms, and additional consumers, are taken into consideration when estimating franchise fee revenues. Fee changes such as the rate increases recently implemented by Pacific Power is the primary reason franchise revenues are projected to be nearly 6% higher than in the FY'12 budget estimate.

User Fees and Charges



Revenue estimates for Utility user fees:

	Wastewater	Water	Street	Storm Water
Actual FY'11	\$4,441,798	\$3,972,271	\$758,790	\$0
Budget FY'12	\$4,820,600	\$4,189,400	\$781,500	\$0
Budget FY'13	\$4,847,493	\$4,201,969	\$857,130	\$0

The foregoing chart reflects revenue estimates for wastewater, water, street, and storm water funds. Water revenues have been negatively impacted by the March 2009 Council repeal of the annual cost of living adjustments (COLA) and a Water rate discussion is set for a Council hearing in September of 2012. However, the Wastewater COLA was reinstated in February 2010 after the financial performance of the Wastewater Utility was reviewed by Council in more detail and the Council made an additional 5% increase in 2011 to make sure the Wastewater utility was better prepared to keep up with infrastructure replacement needs.

The Street Utility fee had remained unchanged at \$3 per month (single family residence) since its adoption nearly 10 years ago and its value has diminished due to inflation over that time period. Council took action in 2011 to make a slight increase to the Street Utility fee and index the fee to the CPI index for future years like the other utility rates. The current Street Utility fee for a single family residence is \$3.29 per month. The ever so slight residential growth is largely expected to be 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.

Significant decreases in growth, development, and general economic activity have resulted in either flat or slightly lower projected revenues for the Water utility. Water usage is highly vulnerable to weather patterns, especially during the warmer irrigation months. Water estimates in the budget are generally on the conservative side to make sure the City does not plan on unpredictable weather patterns. While City

water users pay lower rates than almost all other major cities in Oregon, the COLA reversed in 2009 will have to be reinstated and an additional increase in the range of at least 14% will have to be considered in the near-term or phased in over the next 1-2 years. This appears to be the minimum rate action that will have to be considered in coming months in order to ensure the Water utility can keep up with infrastructure depreciation costs as measured by annual reports and follow the City's financial policies. These Water rate increases have yet to be acted on and built into the budget, therefore the Water transfer to capital projects in the FY'13 adopted budget is significantly less than it should be according to financial policies. No revenues are anticipated in the yet to be adopted Storm Water Utility.

Revenues from Other Agencies

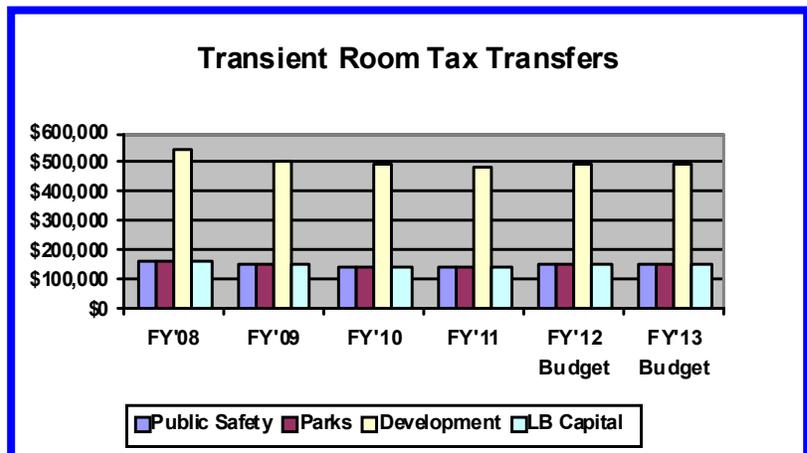
Revenues from other agencies are generally on track with estimates for FY'12 and a slight decrease is projected for operating revenues in FY'13 due to differences in grant funding estimates. Revenues from the State of Oregon for Liquor Tax, Cigarette Tax, and Revenue Sharing, which make up the largest share of revenue from other agencies in the General Fund, are projected to increase about 1% from FY'12 to FY'13.

State Gas Tax is projected to provide intergovernmental revenue of \$1.945 million in FY'13, almost exactly flat as compared to FY'12 estimates. A state gas tax increase of \$.06 per gallon was implemented halfway through FY'11 on January 1, 2011, and FY'12 is the first full fiscal year of shared revenues under the new rate. This increase is providing slightly less than \$600,000 per year to transportation infrastructure needs. 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. The increase in gas tax revenues has been dedicated to transportation capital projects.

Revenues from the 911 Agency for dispatching and management services are set for a small COLA increase by contract and will be similar to last year. Wastewater treatment services provided to the Redwood Sanitary Sewer Service District will generate \$238,000, 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 Capital program for use in parks projects. Percentage distributions from the Transient Room Tax Fund are projected at



approximately \$935,000, of which approximately \$790,000 will be directed to operations and approximately \$145,000 will be directed to Capital. The combined total is flat from FY'12 estimates but nearly 3.7% higher than total actual revenues transferred in FY'11. 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 limited growth in 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, 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 in FY'11, Code Enforcement was integrated into Public Safety's Field Services for its administration and budget. The General Fund will also have approximately \$427,000 transferred back into it from the Lands and Buildings Capital fund from the Public Safety CAD/MDT project coming in under budget and from the project receiving a significant CMAQ grant in FY'12 that was not expected to be received at the start of the project.

Other Resources

In the General Fund, license and permit revenues generated from building activity are anticipated to produce \$212,000, nearly flat from this year's very conservative estimate of \$196,000. Percentages of court fines from traffic violations are estimated to produce revenues of approximately \$250,000, which is up from the current year budget but in line with historical averages in recent years. Public Safety will also have dedicated revenue of slightly more than \$200,000 each year from current service and annexation agreement fees until such time as the next annexation occurs and replaces these agreements with City property tax levies in the same amounts. 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

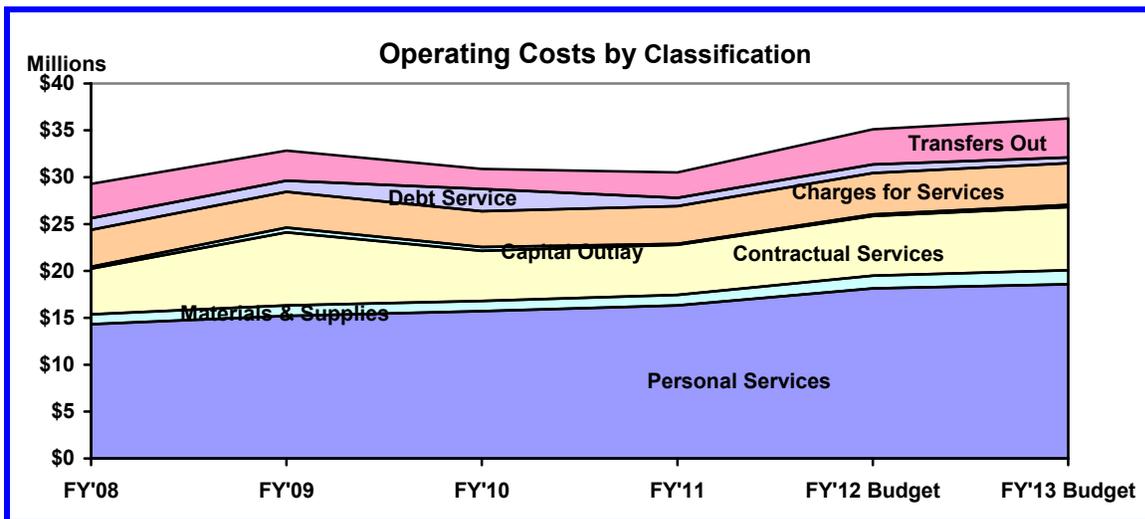
The following graph illustrates increased operating costs over time to meet service delivery expectations of our community. Personnel services is showing an increase of approximately \$449,000, largely due to the new positions, administrative leave time granted to the former City Manager, slightly higher PERS rates charged out for FY'13, and steps due to certain employees that have not yet reached the maximum step in various employee group salary schedules. The number of funded employees by FTE increased by two positions in the main operating budget this year, and one of these positions is replacing contractual work. The only additional funded position for the adopted budget in total is in Information Technology, an internal service fund that is reflected as a charge for service in the operating budget. Health Insurance rates for calendar 2012 came in at nearly the same rates as calendar 2011 for both Teamsters and the main City plans, helping to limit total personnel cost increases across the board when comparing the FY'13 adopted budget to the FY'12 budget.

The impact of every 3% increase to PERS rates equates to between \$350,000 and \$400,000 per year in benefit costs for the City, and PERS rates are expected to increase at least 3% every two years until the PERS system is fully funded again. PERS rates billed out to departments are increased each year to approximately match the expected actual PERS rate change every two years. A City PERS reserve has been created over many past budget years by a slight difference between department charges and actual payments into the PERS system and this reserve will be drawn down starting a few years from now when actual PERS rates are expected to be even higher than they will be in FY'13. Almost all non supervisory employees are now either part of a union or an officially recognized bargaining unit. Little can be changed about these mandated or contractual amounts without the legal bargaining process and Council will continue to direct the negotiation process as they have always done over the years.

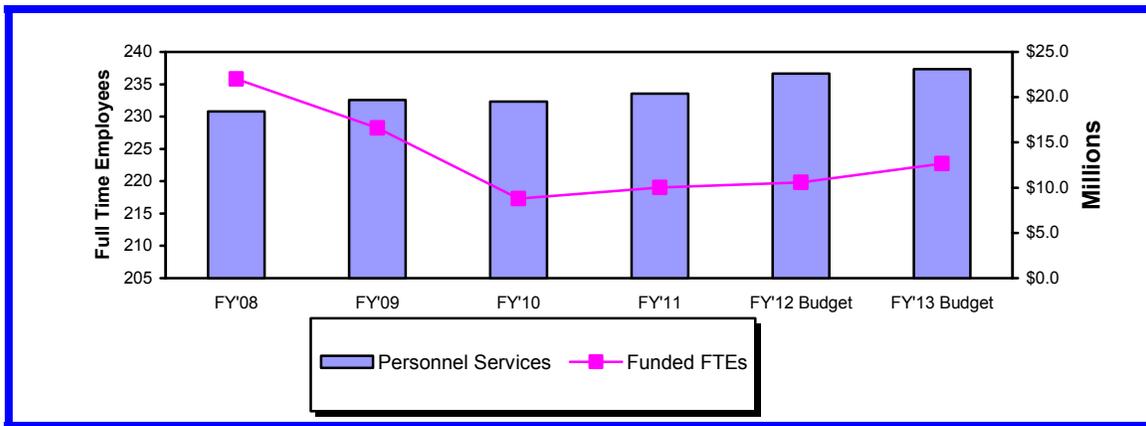
Materials & supplies are budgeted to increase by \$131,000 due mostly to increases in chemical budgets and the goal of equipping additional Public Safety reserve personnel. Contractual services are budgeted to increase \$368,000 due mostly to increased rates for electricity, natural gas, and other utility rates. The capital outlay classification within operating budgets is minimal as compared to capital project fund appropriations and is \$239,000 for the adopted FY'13 budget. There are minor budget increases of about \$22,000 in total, 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 all operational programs. Internal Service Funds include Fleet, Engineering, Property Management, Information Technology, Administrative Services, and others.

Transfers out of the General Fund to Capital funds are increasing by \$485,000 in this budget due using some of the one time savings in recent years. The transfers are directed to the highest one time capital project needs such as Water Reservoir #3 and certain Transportation projects. As discussed previously, it is recommended that savings in the previously closed fiscal year be allocated in part or in full to one time

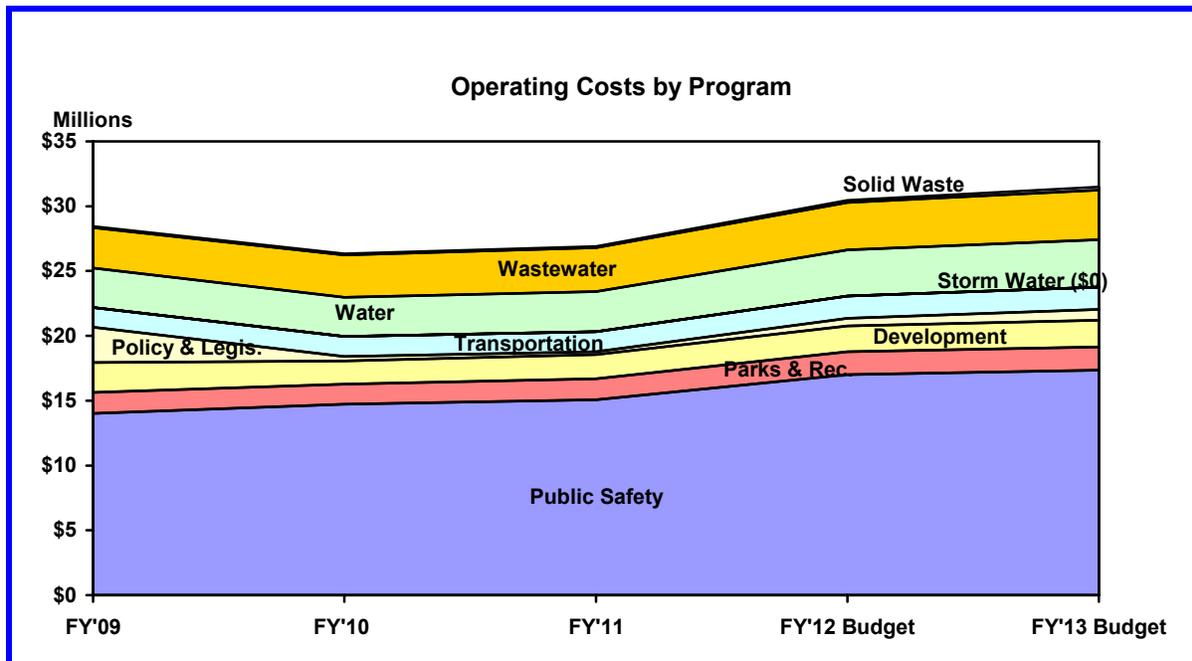
high priority capital project needs in the next budget year. Wastewater transfers to Capital projects have increased slightly due to higher expected revenues (recent 5% rate increase) and finally reaching a safe fund balance (contingency) in the Wastewater operations fund. Water transfers to Capital are slightly lower than FY'12 due to rolling back of the COLA in 2009, flat revenues, and increasing costs such as power costs. Water and Wastewater are not able to transfer an annual amount to capital projects in a sufficient dollar amount to cover annual depreciation costs. While Wastewater is much closer to the minimum required transfer, the Water fund needs to increase its transfer to capital by at least \$600,000 per year to keep up with expected future debt service needs and annual depreciation costs. Capital transfers from the Transportation Utility fund are decreasing slightly compared to FY'12; however, the transfers to Transportation Capital in total are just above absolute minimum capital transfer needs under the City's financial policies due to the modest contribution from the General Fund this year. 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 total cost of "Personnel Services," a state classification designated for employee, employee benefit, and employment tax related costs. It also shows the total number of approved and funded full time equivalent positions in the City by year. This chart shows all employee costs, including Internal Service Fund personnel expenditures.



The City utilizes internal service funds for: Property Management, Vehicle Maintenance, 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 is generally one of the main focus areas for 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 are not

sufficient new resources to do that in a significant way and won't be unless alternative or supplemental revenue sources are implemented. 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 or high crime rates. Two of the three new officer positions approved in the FY'12 budget will still be dedicated to starting a traffic team as recommended by the strategic plan (once current year vacancies and turnover have been addressed). Staff will continue to work with the Council on addressing the other recommendations from the strategic plan and the continuing recommendations from Council's Goals and Work Plan.

Parks

The "River Vista" addition at Reinhart Volunteer Park has provided new opportunities for parks users and special events. One of the newer parks, Redwood Park, continues to be used very heavily. The City will continue contracting with the local YMCA to operate Caveman Pool and again with Recreation Northwest to administer the City's year-round recreation and downtown programs. A long-term lease with the Josephine County Food Bank has been completed for a small portion of the River Road Reserve property and the bulk of the remaining property will be maintained, used, and cleaned up in the coming years through an agreement with a local farm. A Water Spray Park is being considered in Reinhart Volunteer Park and a grant request has been submitted to the State for assistance in building that facility. The portion of Baker Park to the east of the Grants Pass Parkway, one of the last projects to be completed from Redevelopment Agency funding, will be developed in the next year. And a capital project to design a park plan for a future park in the Allen Dale school area has been included in this adopted budget.

Development

While issued permits still remain near 10-year lows for residential building, there remains a significant work load in the Planning and Building Divisions with a much smaller staff than the departments had a few years ago. Planning 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 and many steps required to be taken before adoption. The Division has also been working on 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. All Community Development related activities are working on streamlining processes to make the customer service aspects as convenient as possible.

A modest pickup in commercial development activity has also begun in the last year. Revenues from construction permits are below expenses for the fifth year in a row for the Building division, but the drawdown in restricted Building resources should be less severe in the current fiscal year. Revenue budgets continue to be very

conservative and unless activity picks up significantly the Building and Safety Division will draw upon reserves to support operating costs for another year. The General Fund contribution of \$50,000 to Building that started two years ago should be continued in order to make sure the department still has nearly three years of resources to draw on at current conservative revenue estimates.

This budget also allows the City to continue updating and maintaining the Geographic Information System (GIS). This system is used extensively throughout almost all departments in the City. The City was using a very old version of the software which was no longer supported by the manufacturer, but an enterprise agreement for the current version was recently purchased in order to avoid losing data and to take advantage of the system capabilities. The funding for this new contract has been shared by departments throughout the organization, reflecting the integral part it plays in the operations. GIS is now accounted for and managed in the Community Development Management Fund, while before FY'12 it was accounted for as an activity of the Engineering division.

Tourism / Downtown / Economic Development

Tourism and Downtown activities are managed by the Parks and Community Services Director. This allows improved communication and relationships with the downtown business community. Transient Room Tax revenues, the primary source of resources for these programs, are budgeted to be relatively flat in FY'13 compared to the current year. In addition to room tax revenues, downtown derives a small amount of income from parking programs. Downtown 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). The SOREDI partnership has been successful for Grants Pass and for other regional agencies.

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 as compared to 2010 after the new \$.06 per gallon increase was implemented effective January of 2011. Delaying 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, prior to 2011 the Street Utility fee had not been adjusted since implementation in 2001. Review of this fee was performed in 2011 with a slight increase to the base fee and indexing this fee to inflation over time. The Transportation SDC Task Force has also recommended a number of ways to help fund local Transportation projects outlined in an extensive report about SDC and other Transportation funding. However, the Transportation SDC was lowered again recently by Council to make sure Grants Pass stays competitive in the regional development market.

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 were ready for deliberation years ago, but an update to the master plan is on the work list and Council can consider this issue again after an update to the plan and after the new UGB is adopted. Internal loans of approximately \$146,000 in total will need to be addressed upon adoption of the Storm Water Utility Fee 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 in coming years, 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. 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 nearly \$524,000 for FY'13 is anticipated to be available to be transferred for investment in capital projects. However looking out to the FY'14 projection only about \$111,000 would be available to transfer to capital projects in that year because the Water bonds will be paid off in FY'12 and another bond will need to be issued in FY'13 to pay for Water Reservoir #3. This is significantly below the minimum of more than \$950,000 per year that should be transferred from Water operations to the Water Capital Projects fund each year to keep up with infrastructure depreciation.

Water revenues have not kept pace with the increasing cost of delivering this service. After a significant electric power rate increase in January 2010 and an even larger power rate increase in 2011, and another significant increase recently implemented in 2012, the Water Department has been sending declining amounts of resources to capital projects. Therefore, the Water fund is having a harder and harder time keeping up with necessary infrastructure replacement and maintenance needs. A significant rate increase will need to be considered to ensure operations can keep up with infrastructure depreciation, debt service, and general annual operating expenditures.

Current annual depreciation costs for the Water utility are almost \$1 million per year and based on the FY'13 adopted budget, the Water fund will only be able to set aside close to \$200,000 for annual infrastructure upgrades and capital projects when the annual debt payments resume next year. This is an operational deficit of almost \$700,000 per year once the very real depreciation costs are factored into the equation. On the plus side, the Water fund was debt free at the end of FY'12 after making the final annual bond payment and this will provide some financial flexibility to accommodate new debt payments for the planned Water Reservoir #3 project. The City will have to issue a bond in the amount of about \$5.5 million or more in FY'13 replace Water Reservoir #3, which is why the Water Capital projects fund shows a significant increase in budgeted resources and requirements in this adopted budget.

Wastewater

Wastewater collection, wastewater treatment, and the JO-GRO™ activities are designed to protect the public's health and the environment. In FY'13, while nearly \$997,000 is budgeted to be transferred to capital projects, this amount is still slightly short of the nearly \$1.2 million in annual depreciation costs. 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.

Master plan updates and rate studies are planned for Wastewater and Water utilities in the next two years, which will be aided by the final adoption of the new UGB. Wastewater has yet to identify funding for some of the high priority projects which are necessary just to replace old infrastructure and prepare for small amounts of growth. The effect of many years of not setting aside enough money for infrastructure maintenance is most apparent in the Wastewater and Water utilities today and deferring the collection of resources for these projects may result in higher costs in the future.

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 the size of infrastructure capital projects and the time spent in assisting Public Works and other departments with operational service needs; 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 and retain a balanced budget without accumulating significant fund balances.

Engineering Rates

Engineering is funded through an Internal Service fund generating revenues necessary to cover operating expenses. In FY'12, the Council adopted a new fixed fee schedule for various types of services as recommended by the recent performance audit of the Engineering division. Some very minor recommendations of additions to the recently adopted fee structure have been proposed to Council and have been included in this adopted budget in order to make sure Engineering retains a balanced budget under the new fee schedule. A \$30,000 General Fund retainer has been charged in recent years in order to maintain the Engineering fund operations and that will continue in this budget. 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 and external customers such as private developers. At this point in the development cycle, most of the work and the fees generated by Engineering relate to internal capital projects and other internal services. Despite low levels of external customers doing development, projects for City Transportation and the City's other utilities have continued to keep the current level of Engineering staff busy on a day-to-day basis. The performance audit of the division also found the staffing level was appropriate and that eventually the division should add another professional engineering staff position.

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 just barely able 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, active investment management, increased union negotiation activity, and others. However, the 8% of costs recorded as revenue for the Administrative Services Fund has matched up fairly closely with the cost to provide these services as cost changes over time are similar across the organization.

Worker's Compensation rates are determined by the state based upon job classification and the City is self insured for Workers Compensation Insurance. The rates billed out to departments have not changed in the last few years due to sufficient reserves in the fund and low loss rates. In fact, beginning in FY'11 the Workers Compensation Insurance Fund provided a credit back to departments in return for having low loss rates and that credit should continue each year as long as losses remain low. Early in calendar 2012 staff also asked for and received a quote estimate on Worker's Compensation insurance rates if the City was to no longer be self insured, and the Workers Compensation fund is charging lower rates than the external quote and especially in Police and Fire job classifications.

Property Management's billable rate stayed the same per square foot in the FY'13 adopted budget. While the department is no longer paying for certain internet related expenses for departments that operate in City Hall, there have been increases to items such as energy and electricity expenditures.

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 capital 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 Projects

	FY'08	FY'09	FY'10	FY'11	FY'12 Budget	FY'13 Budget
Transportation	831,096	443,387	478,808	818,584	1,366,158	1,195,946
Water	576,000	723,725	605,166	655,531	522,801	524,327
Wastewater	1,150,000	896,664	1,017,834	378,206	900,046	996,750

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, has been partially restored in this budget thanks to exceptional savings in the last completed fiscal year along with revenues coming in on budget for the General Fund. However, the amount contributed to capital this year won't be sustainable in future years unless similar savings amounts are experienced in future years. Each of the three utility systems noted above has annual depreciation costs of nearly \$1 million or more per year, and in the near term only the Transportation Fund is able to transfer enough money to capital projects annually. A 5% rate increase was implemented in Wastewater to begin preparing for a larger increase necessary in the future, and a significant action will need to be made to Water rates in coming months in order for that utility to keep up with operating, debt, and infrastructure obligations.

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.

For example, the two relatively new Public Safety stations built through a general obligation bond a couple years ago have operational impacts that are addressed through the budget process. Beginning in FY'07 additional personnel were planned and budgeted to staff the two new public safety stations. 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. 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 2010 local option 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 in full in the future. But as a result of the new facilities and the levy, Police and Fire can respond to emergencies and many other

non-emergency calls within recommended time frames and can continue to respond to all calls for service.

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 Computer Aided Dispatch and MDTs	The CAD System, the central computer system that integrates with most operations and other IT systems of Public Safety and the 911 Agency, is past due for an upgrade after being in use for nearly 20 years. The Mobile Data Terminals in Public Safety vehicles also need to be upgraded.	<ul style="list-style-type: none"> • City's share of multi-agency cost is estimated to be \$995,000 • Equipment Depreciation • Newer system will create significant staffing efficiencies through avoiding duplicated work on entering call or case information 	<ul style="list-style-type: none"> • Response times may be improved • Improved Public Safety staff efficiencies • Potentially less maintenance costs
HTE (Financial Software) replacement	Upgrade or replace financial software used throughout City departments (current system is 16 years old)	<ul style="list-style-type: none"> • Installation & initial licensing cost estimate \$140,000 • Future annual maintenance cost similar or potentially less than annual cost today on old system of approximately \$50,000 per year 	<ul style="list-style-type: none"> • More staff efficiencies through a better integrated financial system • Less training time required from a more modern web based financial software system
Hillcrest Fire Station Seismic Rehab	Awarded a Grant to upgrade the Hillcrest Fire Station building according to modern seismic standards	<ul style="list-style-type: none"> • Limited additional future costs beyond maintenance of the new generator 	<ul style="list-style-type: none"> • The building will last longer and upgrades could result in less maintenance costs over time
E-Ticketing	Mobile technology for Police writing tickets that integrates with new data systems could reduce paperwork and increase proactive policing time.	<ul style="list-style-type: none"> • Minimal annual fees • Minimal equipment depreciation costs 	<ul style="list-style-type: none"> • Increased productivity and more proactive policing time • Less administrative time requirements for ticket processing

Redwood Avenue - Dowell to Hubbard	Widen Redwood Avenue from Dowell Road to Hubbard Lane to a three lane road	<ul style="list-style-type: none"> • This road serves most of the Redwood area residents • 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"> • Issues of a narrow and old road will be eliminated. • Long-term maintenance costs will be reduced and safety will be increased
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.
Water Reservoir #3 upgrades	After structural assessment, it was determined reservoir #3 would require in-place replacement. Design will be complete soon and the construction of a new reservoir could begin in earnest in the spring of 2013.	<ul style="list-style-type: none"> • Limited additional maintenance costs beyond today's requirements. • Equipment depreciation costs over 60-70 years. 	<ul style="list-style-type: none"> • Avoids potential costly repairs and maintenance to existing infrastructure and avoids having a failure for critical water capacity and infrastructure needs.
Various Sewer Main Structural Repairs	Replaces very old structurally deficient sewer pipe in various streets and alleys.	<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 • Structural defects fixed
Wastewater Phase 2 Expansion	Expands capacity and meets new regulatory requirements	<ul style="list-style-type: none"> • Additional utility/energy consumption expected. 	<ul style="list-style-type: none"> • 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. Because of careful financial planning in the past, the City is not in a position like so many other agencies of having to cut critical services to the public. While decision packages were presented to the Council and Budget Committee for the impacts of changes to services, we can rest relatively easy in that any cuts we may choose to do in services today or even next year would just be to enhance our financial condition and not because we are in a position of forced cuts today. Budgeted investments in technology services and technology related equipment in this budget will continue to reap rewards in efficiencies and in some cases provide direct cost reductions.

However, on a cautionary note, throughout the organization the pressure is growing as demand for services is outstripping our ability to safely respond and resources in the utility funds are not adequate to keep up with infrastructure needs. The Public Safety levy will need to be renewed next year and the City's utility rates will need to be reviewed on a regular basis. We will also have to explore potential changes to employee benefit structures through the bargaining process to make sure we're all on the same page of providing fair wages in combination with a reasonable sharing of benefit costs. We will need to work together to evaluate benefits that are more under our control at the local level such as health insurance costs.

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 Jay Meredith, our Finance Director and the entire Finance staff for their continuing commitment to excellence in municipal finance and budgeting for the benefit of our community. Creating and maintaining a sustainable, balanced budget helps the community provide its critical and quality services for many years to come.

Respectfully submitted,



Aaron K. Cubic, City Manager

WHERE THE ROGUE RIVER RUNS



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