

July 6, 2018

Citizens of Grants Pass  
Mayor Darin Fowler and City Council Members  
Budget Committee Members  
City Staff



### **Budget Message for Fiscal Year 2018-19**

#### **BUDGET OVERVIEW**

I am pleased to present to you the balanced budget for the Fiscal Year 2018-19 (FY'19). Our budget and strategic planning process allows Citizens, Elected Officials, Committee and Commission members, and Staff an opportunity to contribute to defining our goals through our strategic planning process. The Budget process starts with Council listening to the community, gathering their goals and desires and placing prioritized items in the Strategic Plan. A Work Plan is then developed that helps define the necessary resources to accomplish Council's Strategic Plan. These documents form the foundation for allocating the budget resources to accomplish Council's goals. Operating resources have been assigned to maintain the level of City services that our residents and visitors expect. Capital project resources have been assigned to address the highest priority Strategic Plan and Work Plan items.

In an effort to make the budget a more effective communication and planning tool, this message provides a broad overview of this year's budget considerations. Followed by this message is a section that contains a funding matrix that describes how each City department and division is funded. The City's operating divisions in the General Fund such as Public Safety, Parks, and Community Development programs use a variety of both restricted and discretionary General Fund revenues. Each independent fund outside the General Fund contains unique revenue sources that legally can only be used for specific purposes. Each separate fund is an accounting mechanism to precisely track each restricted resource and to provide an accurate accounting of each operation as a cost center. The section of the budget book that follows this message also shows key financial budget summaries and some more detail on the key financial factors affecting this year's budget. The budget assembly process, format, financial policies, and how to read the budget, can be found in section "Budget Process & Financial Policies" that starts on page 83. Throughout the program budget narratives you will see a uniform format for the reporting of performance measures in each of the operating departments as the budget is much more than just a financial summary of operations.

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### **Setting Direction**

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. Council establishes the goals used to formulate the Strategic Plan. This year “Keep Citizens Safe” remained as the first goal on the Strategic Plan list as it has been and continues to be the City’s top priority.

The Strategic Plan serves as the foundation upon which the budget is developed. Through the Strategic Planning process, Council prioritized the potential work plan items that will help the City make those goals and objectives a reality. This operating and capital budget places an emphasis on the higher priority work plan items in the 2018-2019 Strategic Plan as prioritized by the City Council. Financial resources, if needed, are provided to projects and objectives identified as high priorities by the City Council and resources are assigned to operating divisions based on service level expectations communicated by our citizens and City Council. Staffing recommendations also closely follow these service level expectations.

### **Budget guidelines**

Thanks to Citizens’ 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. The Executive Team and Staff were given some specific guidelines for preparing the FY’19 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. Thanks in part to a minor department restructuring in FY’18, this adopted budget provides the same level of services in all operating divisions with 1.5 FTE (Full Time Equivalent) less funded positions as compared to the FY’18 budget.

The City of Grants Pass budget document is prepared in accordance with best practices established by the Government Finance Officers Association (GFOA) to receive their Distinguished Budget Presentation Award. The City’s budget document has received this award for the past 33 years. This award program is considered the gold standard for budget reporting and the City of Grants Pass has a longer history of participating in this budget award program than just about any other public agency in Oregon.

### **Revenue overview**

Our City budget is primarily made up of three main pieces: General Fund, Enterprise Funds and Capital Improvement Funds. There are also some special revenue funds that collect certain restricted revenues and some internal service funds that provide support services to City operating and capital programs.

The General Fund makes up 28% of the City’s FY’19 adopted budget. The General Fund is made up primarily of property tax, state-shared revenue, franchise (right-of-way) taxes on utilities, and various licenses, permits, and fines. 67% of the General Fund revenue comes

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from property tax revenue, made up of both a permanent rate and a local option levy, and all of which is dedicated exclusively to Public Safety divisions. The General Fund finances many other basic services, including Parks and Recreation, Development, and others. The General Fund has the City's only discretionary revenue sources, which currently account for annual revenues of approximately \$5.5 million (20% of General Fund Revenue) that are shared by all General Fund programs.

Close to 32% of the City's total FY'19 budget comes from Enterprise Funds, which include the Water and Wastewater Utilities. Almost no tax dollars support the Enterprise Funds because they are designed to be self-supporting through user fees. Users of these programs pay fees that support all the costs associated with delivering these services, and these fees cannot be used for any other purpose.

Capital Construction Funds account for approximately 15% of the total budget. This primarily represents the Lands & Buildings Capital Projects Fund and the Transportation Capital Projects Fund.

Special revenue funds such as Transportation, Lodging Taxes, and others account for approximately 8% of the budget, and the remainder of the total budget comes from Debt Service Funds, Internal Service Funds, and the Trust Fund. The charts and graphs between pages 23 and 31 of the Financial Summary section show some more detail on the breakdown between revenues and expenditures of the general fund, enterprise funds, and other types of funds in this adopted budget.

Our history of sound fiscal policy and management is attributed to the leadership of City Council, community engagement and professional Staff. 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 to extend the life of development services reserves; 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) responsible wage and salary changes in recent years for managers, supervisors, and the City's four unions in line with the City's peers through the use of compensation studies; 6) Staff working hard to turn back budgetary savings from operating budgets each year; 7) a successful annexation to recognize areas in the City's Urban Growth Boundary already being served by City services; 8) a continual and ongoing effort to assess and ensure operations are effective and efficient; 9) 2 FTE reduction in department head administrative staff; 10) health care cost sharing. Without these past actions, the City would not be able to continue to provide the same level of services in coming years without significant adjustments to annual revenue sources.

Financial planning and prudent fiscal policies are helping the City minimize the use of external debt for future large capital projects. The major Public Safety headquarters and 9-1-1 facility capital project should be accomplished without any external debt and the Phase Two Wastewater Plant expansion is underway and is using close to \$10 million of internal resources in combination with \$18.5 million of bond financing resources. The FY'19 adopted budget represents almost \$12 million of internal resources allocated to the new Water Plant

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capital project. The more we can limit debt to tackle these necessary infrastructure projects, the lesser the long-term impact to the City residents and City ratepayers.

The last bond payment on the Public Safety Facility General Obligation bonds will be made next fiscal year, resulting in debt free general governmental programs. As a result of FY'19 being the last year of paying for the General Obligation bonds, the City's total property tax rate will go down by about \$0.16 per \$1000 of assessed value in FY'19 and down another \$0.22 in FY'20.

### **Voter approved levy**

This budget document includes the voter authorized resources through passage of the \$1.79 Three-Year Public Safety Levy renewal in November of 2017. The approved levy provides an estimated \$5.7 million in FY'19 for City Public Safety operations which includes City Police, City Fire Rescue, and City Public Safety Support services.

With other discretionary General Fund support revenues assigned to Public Safety, the budget for FY'19 continues the same level of City Public Safety services. The three-year levy starting in FY'19 was set at the same rate as the previous four-year levy. At the end of this next levy period, the City will have operated at the same Public Safety levy rate for a period of twelve years. The resources provided by the levy should be sufficient to maintain current services through Fiscal 2021 in combination with reductions to capital project transfers from the General Fund during the next three years. If General Fund operations, including Public Safety divisions, continue working hard to return savings back to the General Fund each year, the General Fund ending balance should remain steady for the next few years and within financial policy targets for the General Fund ending balance.

### **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 last vote for City Public Safety Funding and past annual citizen surveys demonstrated the community's desire to have City services maintained at the current service level. Public forums on specific topics such as law enforcement in the downtown area also point to satisfaction with current level of City services.

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. Inflationary pressures on operations will not always match up evenly each year with revenue growth. The continuation of long-term financial planning is key to maintaining the services our Citizens expect today and in keeping the City's funds within established financial policy guidelines. Budget projections for the second year in FY'20 are incorporated into the budget book for informational purposes and to help plan for operations beyond FY'19.

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### **Budget changes overview**

The budget book presents the last two years of actual budget results, the current fiscal year revised budget, the budget for the next fiscal year, and the fiscal year projection two years from now. For review of this budget it's important to understand the major budget or operational changes that occurred or that have been recommended between the fiscal years of FY'16 and FY'19.

The total adopted budget, which includes all internal service funds, carry-over balances, contingency balances, and capital project resources, is \$136,838,298, a decrease to the current year's \$145,023,578 total budget. Of the \$8.2 million total budget decrease, almost the entire amount is due to lower Capital Construction activity going on in the Wastewater Enterprise fund in the next year. The \$23.5 million phase II expansion of the Wastewater plant began its main construction phase in early FY'18 and bonds were issued to fund the remainder of the project in FY'18. An estimated \$10.9 million of the \$23.5 million total project will carry forward into FY'19. The budgeted capital outlay in the Enterprise Funds in the FY'19 budget is \$7.9 million lower than the current fiscal year's budget, with the Wastewater capital budget decrease of \$10.5 million and an increase in Water capital project resources of \$2.6 million. Total Fund budget tables can be found in the appendix of the budget book, while operating budget summaries and other total budget summaries can be found in the financial summary section following this message.

The FY'19 Adopted Operating Budget, which excludes contingencies, debt service, and transfers out to capital projects totals \$39,960,577. This is up approximately \$0.64 million from the current year's \$39,317,635 Operating Budget total. This increase is primarily due to inflation on routine expenditures and bargaining unit salary schedule adjustments as a result of new labor contracts and competitive wage studies, partially offset by a minor department restructuring during the current fiscal year. Detail on staffing changes can be found on the following pages in this message.

The City of Grants Pass presents its annual budgets on the basis of calculating the cost of full capacity and full service for the whole year. In other words, personnel budgets, by far the largest expenditure category in the budget, assume that funded staffing positions are filled 100% throughout the year. Ultimately there is some staff turnover throughout the year as retirements happen or as staff leave service of the City. Management also works with the labor groups to contain health insurance costs each year.

The General Fund programs' average expenditure savings of 6% each year is a tribute to Staff's focus on keeping expenditures down. Extended financial projections for the General Fund assume this same rate of 6% expenditure savings each year, therefore the drawdown shown for the General Fund in this adopted budget won't take place as shown in the "full capacity" budget. Assuming a savings rate in the next year close to the 6% average, the General Fund balance should be close to unchanged from the start of FY'19 to the end of the fiscal year. And the General Fund balance is projected to start FY'19 with a balance of at least 33% of annual operating expenditures, right in the middle of the financial policy range of 30-40% of annual operating expenditures.

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Josephine County's criminal justice system in years before FY'18 had been unable to provide appropriate service levels to the City's Public Safety Department in order to operate effectively. However, with the County voters' approval of a five-year levy for Jail and Juvenile Justice Services, the City was able to sunset its Jail Service Utility at the start of FY'18. Discontinuing the Jail Services Contract with Josephine County and the Jail Services Utility Fee reduces the FY'19 General Fund operating budget by almost \$1 million per year.

One additional change in the operating budgets this year is in the Storm Water utility fund. The City is required to meet more stringent permitting requirements for storm water management and is finalizing a rate study for a new Storm Water utility as well as a rate study for the Wastewater and Water utilities as part of one combined rate study project. This rate study is reviewing the capital and operating needs for all three utilities in order to maintain and expand utility infrastructure and provide the necessary resources for major capital projects ahead such as the expansion of the Wastewater Treatment Plant and the new Water Treatment Plant. While the rate study may not be finalized in full by the end of this fiscal year, the Storm Water utility revenues have been placed in this budget as it is anticipated the new Storm Water Utility Rates will be implemented early in FY'19. Rate changes for the Wastewater Utility have been implemented in the last year and changes are under consideration for the Water Utility in order to maintain the legally required financial operating ratios to service the eventual bond offering for the new Water Plant.

### **Staffing Levels**

With a growing City, the same level of service often requires additional staffing in certain years to keep up with the workload. However, most of those changes to keep up with current growth were recommended and approved last year and this year there is a net reduction of 1.5 FTE (Full Time Equivalent) staffing positions in the FY'19 budget.

The slight reduction in net funded positions is due to a minor department restructuring in the last year. As the Assistant City Manager retired in 2017, the oversight of the divisions previously under the Assistant City Manager moved under the Parks and Community Development Department with the exception of Information Technology and Emergency Management which moved under the City Manager. There was also a part time position in the legal department that is no longer needed today. Thanks in part to this restructuring, the Administrative Services Fund, which provides the services of Management, Finance, Legal, and Human Resources, was able to lower its indirect fee rate to operating departments from 7.6% to 7.1%.

## **PREPARING FOR TODAY AND THE FUTURE**

### **Public Safety**

In Fiscal 2019, the Public Safety Facility General Obligation Bond will be paid in full. The property tax bond rate of \$.3827/\$1,000 this fiscal year will go down to approximately \$0.22

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in FY'19 and will be eliminated starting in FY'20. For the last 10 years Public Safety built a modest amount of reserves in the General Fund to tackle the next major Public Safety facility need while minimizing the use of external debt. For more than 40 years, the City Public Safety and 9-1-1 Headquarters has been maintained via a lease of space in the Justice Building attached to the County Courthouse. This space has now reached the end of its useful life to the City due to size, parking constraints, and seismic stability. Josephine County also has an interest in moving certain County operations into this space formerly used by City Public Safety and the County Sheriff.

After spending a significant amount of time reviewing options for a new City Public Safety and 9-1-1 Headquarters facility, in 2017 the City finalized the purchase of a large single story facility near City Hall that used to be leased out by a State DHS program. Major renovations and a seismic retrofit to the facility will be done in FY'19 and the facility is scheduled for move in at the end of FY'19. Public Safety's designated reserves contributed \$3.0 million toward the \$7.5 million facility and renovation cost up through FY'18. An additional \$110,000 is scheduled to be transferred from the General Fund to this capital project in FY'19. The remainder of the required resources will be provided by a mix of seismic grant funds (if awarded) and internal loans. Internal loans will be paid back over a period of no more than 10 years. After the loan payback period the City's Public Safety budget will benefit from operating out of an owned facility rather than a leased facility. There will be a long-term savings to the City for this project versus continuing to lease a large amount of space in the County building.

Public Safety programs are primarily supported by property taxes, dedicated revenues, and in certain years through the use of resources set aside in reserve. Property taxes have historically and continue to provide 80-90% of the budget for Public Safety. This practice assigns the most predictable and stable City revenue source to the highest priority City operating department. As with most years before 2019, General Fund discretionary resources, in addition to property taxes, must be directed to Public Safety programs to continue the current level of services. Without redirecting approximately \$1.2 million of General Fund resources to Public Safety functions, there would have been cuts roughly equivalent to at least eight police officer or firefighter equivalent positions. While the adopted budget shows more general fund resources given to Public Safety than this \$1.2 million figure, Public Safety like all operating divisions works to achieve savings throughout the year and \$1.2 is the estimated General Fund resource use after accounting for the average 6% savings compared to full capacity budgets.

In 2017 voters overwhelmingly renewed the Police and Fire local option levy at the same rate of \$1.79 per \$1000 of assessed value for three more years beginning in FY'19. The City now has the proper timeframe to continue investigating the possibility of an independent Fire District to serve Grants Pass in a manner very similar to how Public Safety's Fire Rescue division serves the City today. The process of considering a district takes close to two years from start to finish and the City is currently forming an ad hoc fire district committee to complete the feasibility and revised economic analysis of an independent district. There are a number of potential financial and service advantages that could come with an independent district, which is partially why the majority of Cities in Oregon are now served

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by separate district for Fire Rescue service needs. In coming months the ad hoc committee, comprised of Fire staff, Fire management, two City Councilors, and three public members will gather cost and benefit information about the potential for a Fire District and report the results to the City Council this summer.

## **Parks & Community Development Department Remains Busy**

The City has realized a significant increase in development activity in the last few years. Development divisions such as Building Services and Planning Services continue to budget for slightly increasing levels of activity as both residential and commercial development activity has picked up significantly. Based on the number and size of new applications and developments coming forward, this higher level of activity is expected to mostly continue into FY'19. The FY'19 budget continues to assume somewhat conservative revenues for development sensitive revenue sources in the Building and Planning departments. However, based on current activity levels revenue budgets for these areas are still up approximately 10% in FY'19 compared to the FY'18 adopted budget.

The Building and Safety Division maintains a restricted fund balance within the General Fund as under State law building permit revenues may only be used for the operations of the building division. Building will begin FY'19 with a very healthy fund balance just over \$1.4 million. Inspection revenues within the Building Division and this carryover balance cannot be used for any purpose except for the provision of Building inspection services. Building and Planning utilize both temporary and contractual staffing arrangements to help meet increasing development levels in recent years.

The staffing increase recommendations needed to keep up with higher levels of development activity were made in last year's budget process. Beginning in FY'18 one additional assistant planner in the planning division and one additional inspector in the building division were funded to maintain current level of services. Community Development divisions also participated in the most recent City PAVE Committee (Performance Audit Visioning and Enhancement) project and development staffing recommendations for FY'18 were in line with recommendations from this project. In FY'18 the Parks and Community Development (PCD) Department also took over the oversight of the Economic Development, Downtown Development, Tourism, and Property Management Divisions.

## **Financial policies incorporated into the Budget**

The FY'19 adopted budget has a General Fund contingency of \$2,000,000 excluding Building's restricted resources / requirements, which is approximately 7% of the annual General Fund operating budget to allow the Council the flexibility to respond to unplanned service or other emergencies during the year. Best practice is to have a General Fund contingency of at least 5% of the General Fund operating budget. This contingency should provide Council with the resources to deal with emergencies in combination with contingencies available in other funds. The contingency is a portion of the ending fund balance that is meant to be carried over from year to year and if any significant amount of it

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is used for emergency or other purposes, the General Fund would have to find a way to replace those resources to remain in compliance with the City's financial policies.

In the case of the Water, Wastewater and most internal service funds their entire ending fund balances are placed into the contingency category to give the City the highest amount of flexibility to use the funds as needed to respond to emergencies or other unplanned needs. A slightly higher amount allocated to the contingency category provides the City with additional financial flexibility throughout the year and doesn't imply higher planned spending throughout the year. Like in the General Fund, the contingency in all funds is meant to be carried forward from year to year without being used.

Contingency funds are used to measure the adequacy of a beginning and ending fund balance as shown in the budget to ensure each of the funds are meeting the City's internal financial policy requirements. Contingency is a designation of ending fund balance or planned carryover balances into the following fiscal year, but can be used in the case of an emergency or unplanned need. 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.

Financial policies for beginning and ending fund balances for certain funds, along with other financial policies can be found in the Budget Process and Financial Policies section towards the beginning of the budget book. These financial policies are key to understanding the financial management of the City and the resulting budget.

Financial policies also provide that governmental operations should 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.

For this reason, all resources in excess of the utility's financial policies recommended minimum 25% contingency balance are being transferred to the utility's capital projects fund each year. Any extra savings or extra net revenue amounts retained above 25% fund balance in the utilities are moved over to the highest priority utility capital projects in the following annual budget process. The Water, Wastewater, and Storm Water utilities are also in the process of finalizing a rate and SDC study to ensure the proper resources are available in the future to maintain and upgrade utility infrastructure over time.

### **Long-range financial plans incorporated into the Budget**

Long-range financial planning often happens outside this annual budget process in different ways for governmental operations and for City utility operations. And there are key policy decisions that typically go with long-range financial planning processes that tie into the strategic plan and budget projections.

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For the General Fund and Public Safety operations, almost a quarter of the funding for these operations comes from a temporary local option property tax levy that needs to be renewed or changed every few years through a vote of the Grants Pass electorate. Key policy decisions are made by the City Council as to the term and rate and multi-year financial projections are established for the General Fund. This budget is the first year of the next voter approved Public Safety levy that has a term of three years and same rate of \$1.79 per \$1000 of assessed value. This is the same rate that it has been set at for the previous 9 years.

Long-term financial planning for the City's Public Works and Utility Operations rely on master plans and rate studies that are typically updated once every 5-10 years. Many of the priorities that come out of the master plans are also found as priorities in the City's strategic plan. After recently completing master plans for all utility operations (except for Transportation), the City is nearing completion of a formal rate study for the Water, Wastewater, and Storm Water utilities. And the rate studies factor in both long-term operating and capital expenditure needs for the next 15-20 years. Council has taken action on adjusting the Wastewater rates in a phased approach over the next few years and is expected to take action on the Water and Storm Water rates in the next year to help ensure that the City's operational and infrastructure needs are met in the long-term. And the City is working with the State of Oregon this year on updates to the Transportation Master Plan. Please contact Administration for additional detail on any of City's master plans or long-term rate and financial plans.

## **CHALLENGES AHEAD**

### **Staffing and financial resources for an expanding Park System**

One of the highest needs in the parks system of the City is additional soccer fields as discussed when the City completed its Parks Master Plan over six years ago. In the current year the City completed a new turf soccer field in Reinhart Volunteer Park. Significant improvements are also ahead for Riverside Park in the next year with a grant funded project to build additional facilities to serve festivals and large public gatherings in the park as well as a new spray park and a new community gathering building. A modest amount of additional maintenance and utility costs will be incurred with these new facilities. After many years of maintaining a growing parks system without changing parks maintenance staffing levels, the FY'18 budget added one new parks maintenance position and the staffing levels are remaining the same in the FY'19 budget.

### **Utility Infrastructure**

Significant upgrades to utility infrastructure are ahead for all the City's utility systems. In the last three years, the City officially began planning for the replacement of the aging Water Treatment Plant facility. The facility is the sole source of water for most of the City. For long-term cost effectiveness and other reasons; the new water plant will be built at a new location (final site still to be determined). Part of the challenge was that upgrades that are needed at the old Water Plant today can't proceed without significant investments in the

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seismic protection built into the facility (under current commercial building codes). The old plant also has a limited life span even if these significant and costly improvements were made. In the last year the City hired an owner's agent (engineering firm) to guide the City through the very complex process of building a new Water plant.

The Phase II expansion of the Wastewater Plant is underway and routine maintenance and upgrades to aging Wastewater, Street, Storm Water and Water infrastructure systems are necessary regardless of the level of growth in the community. Accompanying an aging utility infrastructure is a significant financial obligation to replace the pipes, streets, pump stations, reservoirs, and plants that serve the City's basic water and transportation needs. Due to many years in the past of not collecting enough resources to replace aging infrastructure, utility rates are being reviewed through a formal rate study so that they will keep up with the City's infrastructure needs without relying too heavily on costly long-term borrowing. The City is a highly rated bond issuer, but even low bond interest rates in today's lower interest environment add significant costs to utility capital projects over time. We will continue to balance the need for maintaining the infrastructure while limiting debt amounts and costs as much as possible. The Wastewater Plant expansion required two bond issues and the Water plant capital project coming up will require significant bond financings to spread the costs of these major projects over a longer periods of time and limit the near-term impact to the City's ratepayers.

### **Personnel Services**

The City is largely a service organization and therefore personnel expenditures make up the largest single share of operating expenditure categories. Personnel services expenditures, which are comprised primarily of wages and fringe benefits, account for 57% of operating expenditures in the total City budget and 66% in the General Fund operating budget. The charts and graphs between pages 23 and 31 of the financial summary section show some more detail on the breakdown between types of revenues and expenditures of the general fund, enterprise funds, and other types of funds in this adopted budget. Appendix N in this budget book quantifies the significant benefit costs such as PERS and health insurance by program area.

### **Addressing PERS funding**

As anticipated, employee benefit costs continue to be a large factor in operating expenses. Like other Oregon public agencies, the City of Grants Pass is paying a significantly higher rate into the PERS system as a percent of employee salaries and wages beginning July 1, 2017. Rates are expected to rise again on July 1, 2019 and July 1, 2021, and remain at a relatively high rate for many years after 2021. There is little the State Legislature can do to avoid changing these rates in coming years because most of the State's retirement system liability is the result of contractual benefits to classes of public employees that have already retired or will retire soon. The Oregon Supreme Court has ruled that these contractual benefits cannot be changed for service periods in the past, only service periods going forward. For the most part, the high rate necessary to pay for the contractual liabilities is not the result of current employees but the rate impact is managed by spreading the cost over all classes of current public employees.

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The City has limited options to deal with its required participation in this state retirement system, but has taken certain actions to manage the impact of PERS. As PERS is a hot topic for almost all public agencies in Oregon, City Staff developed a PERS section for the budget book four years ago for the Public, the Budget Committee, and the Council to see more closely how PERS rates affect the City's operating budgets and the basics on how the PERS system works. More details on how the City is using the PERS reserve to manage coming rate increases can be found in this section towards the end of the budget book located right before the appendix section.

### **Managing health care costs**

The City has had a choice of two health care packages since January 2007. Employees (except the Teamsters union) can select either a standard existing plan or a 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 since 2007, with most 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.

In FY'14 and FY'15 the City was originally facing significant annual increase to health insurance premiums for calendar year 2014 and 2015. The City's health insurance agent, in combination with annually working with the City's Health Insurance Committee (staffed by management and union representatives), was able to negotiate the rate changes down, and within budget parameters, to slightly less than 7% increases. For the 2016, 2017, and 2018 calendar years, the City was able to negotiate a rate hold for the main plan due to better medical cost experience for all participants on average in the last three years.

In the future budget periods, presented in this budget, rate increases of 10% per calendar year have been factored in for periods after calendar 2018 in order to prepare for potential increases in the cost of medical services and the resulting health insurance premium increases. Like in past years, City Staff and the City's insurance agent will work hard to make sure the plans are affordable and sustainable by shopping out the plan to other providers and considering plan changes if needed. However, for plans of this size the main factor in the year to year premium changes is the medical cost experience from the previous year and staff continues to work hard in wellness efforts and encouraging employee ownership in managing health care costs.

### **Negotiating with labor organizations**

Staff and Council continue to work hard in negotiations when it comes to changes to salary and benefit schedules with the four bargaining units. Some salary schedule changes have been made to keep the City's compensation levels competitive with market salaries for these specific positions. The City's wage and salary schedules must be competitive with the market in order to recruit and retain high quality professional employees.

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There was a union arbitration award for the Grants Pass Police Association (and against the City) in the last year that changed the comparisons used for Police comparables. Many of the comparables used in that arbitration award were similar sized cities in the Portland Metro area that have drastically different tax bases than Grants Pass. This arbitration award has put significant additional pressure on the Public Safety budget beginning in FY'18 and beyond. The contract with IAFF (International Association of Firefighters) goes through the end of 2017 and the new contract should be completed before the end of the current fiscal year. In the next fiscal year, the City will be negotiating with one of the four unions/bargaining groups for a new contract.

While changes to salary schedules have been mostly within nationally reported inflation figures in recent years, costs impacting all union negotiations are the rising costs of PERS rates and health insurance rates. During periods where PERS rates are rising, costs for each employee group are rising an estimated 2% to 3% on average each year even before a cost of living adjustment or market adjustment is considered for salary schedules. As these increases to PERS rates and health insurance rates are expected to continue many years into the future, wage negotiations that affect future costs will need to factor in PERS and health insurance rate considerations. In summary, salary schedule adjustments, insurance, and PERS are the primary reason for changes to operating budgets for all departments as personnel makes up the largest category of operating expenses for a service organization like the City of Grants Pass.

It will be important to continue working hard at successful negotiations with the bargaining units and to provide competitive compensation packages to attract and retain qualified and motivated employees. We must also ensure total operational costs per capita don't increase faster than acceptable inflation rates and must keep a well balanced budget that doesn't sacrifice service levels our citizens' demand.

## **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. Staff is embracing changes to systems in order to provide services to our citizens in the most effective and efficient manner. For example, last year Public Works began a construction procurement process that hasn't been done before in Grants Pass for any large capital project. The wastewater plant expansion has moved forward under a design-build model where the same firm both designs and builds the expansion. This typically saves time and money compared to the traditional capital project process and we'll use this in preparation for the building of the new Water Treatment Plant in coming years.

Staff also embraced a minor department reorganization in the current year that will save the City approximately \$160,000 per year going forward. Upon the retirement of the Assistant City Manager at the end of 2017, most of the divisions previously reporting to the Assistant City Manager now report to Parks and Community Development. Due in part to this reorganization, the administrative services fund was able to lower the indirect fee rate to

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operating departments from 7.6% to 7.1% beginning in FY'19, saving costs for all operating departments of the City.

The knowledge and years of experience of our employees will continue to help Grants Pass succeed. Through this budget, we are recognizing the needs of today and of the future by planning strategically and implementing measurable objectives. With the Council adopted and prioritized Strategic Plan, Staff will be able to direct their energies, skills, and talents, in applying the budgeted financial resources to make measurable progress toward achieving those goals.

Throughout the narrative pages of the operating divisions presented in this budget, you will see a uniform format of presenting some of these performance measures. There is much more to the budget than just the financial figures associated with maintaining the level of services our citizens expect. In each operating division, you will see at least one output measure, one efficiency measure, and one effectiveness measure that helps describe some of the operating conditions that affect the budget. These measures are important to monitor over time and important to achieving our goals. You will see examples of the City's Strategic Plan and resulting Work Plan items in the narrative text of operating divisions for specific goals and objectives that will be the responsibility of that department or division.

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 both the City's Strategic Plan and this budget document. I am particularly grateful to Jay Meredith, 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