

To: The Budget Committee and the Citizens of Forest Grove

It is my pleasure to submit a balanced budget for FY 2014-15 to the City of Forest Grove Budget Committee. This budget is focused on targeting City resources towards maintaining Forest Grove as a full-service City. This budget also targets City resources towards meeting City Council goals along with other community aspirations identified within the City Vision Statement. The Vision Statement acts as a guide for the City by helping to identify those qualities about Forest Grove that we want to promote and protect, along with what actions we need to pursue that will enhance the quality of life for the citizens of our community.

Also, each year, the City Council adopts goals and objectives that also aim to achieve various priorities and needs that have been identified as important to the community. The goals adopted for FY 2014-15 are:

- Promote Safe, Livable, and Sustainable Neighborhoods and a Prosperous Dynamic Green City
- Promote a Prudent Financial Plan to Maintain Effective Service Levels of a Full-Service City
- Promote the Interests and Needs of Forest Grove in Local, State, and National Affairs

This past year, the City of Forest Grove was identified as the sixth fastest growing City in Oregon and the fastest growing City in Washington County. The effects of this significant growth were first experienced in our Building Department which processed over 168 applications for new homes, the highest number of new homes ever built in a year in Forest Grove. The City's population grew from 21,460 residents on July 1, 2012 to 22,340 residents as of July 1, 2013. This increase in housing and new residents has added increased pressure on City services. Adding additional pressure on City services is further complicated by the fact that the number of City employees in several departments has stayed relatively unchanged over the past 10 years while the population has increased approximately 17% over the past 10 years. The Police Department is proposed to have 34.5 employees in FY 2014-15 compared to the 33.5 employees it had in FY 2004-05. The Fire Department is proposed to have 21.5 employees in FY 2014-15 compared to the 20 employees in FY 2004-05. For the past several years, holding the line on adding staff, being frugal with capital and material expenses, and basically doing more with less has allowed the City to survive financially. This approach has allowed the City to maintain services while avoiding any serious financial crisis.

The good news is that due to the additional growth experienced by the City, along with the benefit of having a higher levy rate and from adding property tax revenues from island annexations, the City's general fund is healthier than it has been in my 10 years as Budget Officer. With that said, the Budget is still tight but allows the City to carefully

add limited staffing to help keep up with a growing community. This additional revenue has allowed City staff to add an IT Manager to address the City's growing IT demands. Also, the City is proposing to bring back the officer assigned to Tri-Met in FY 2008-09 and to restore a manager position in the Engineering Department that had been eliminated. In addition, we have carefully targeted resources towards adding additional help in the Parks Department and on-call help in the Library Department to keep up with growing community needs and demands.

One of the major reasons the City has been able to maintain services, while experiencing significant growth in demand has been because of the leadership and dedication of our City Council, our Department Directors and our outstanding employees who are committed to providing our community with the best service possible. In addition, our Volunteer Coordinator continues to manage an outstanding program that provides critical support to our Police, Parks, and Library Departments. The City also has benefited from a grant funded Volunteer Coordinator who manages this program for the Fire Department. In FY 2012-13, it was estimated that the City received 7,868 hours of support from volunteers, excluding Fire Department volunteers, who take time to make a difference in our community.

Overall Budget

The City's total proposed budget is \$88.45 million, which includes ending cash balances and contingencies, and compares to last year's adopted budget of \$82.85 million, for an increase of \$5.6 million. Increased reserves in City funds account for \$5.30 million of that increase. The remainder is from a combination of many items in all of the Funds.

The City's total tax rate is estimated to be \$5.96 per \$1,000 of taxable assessed value. This breaks down as follows: \$3.96 for the City's permanent rate, \$1.60 for the Local Option Levy passed by the voters in May 2012 which is due to expire in 2018, and \$0.40 for the 2010 Refinanced General Obligation Bonds. Forest Grove's assessed value is projected to grow by 3% for a total of \$1.32 billion for FY 2014-15.

The City has a policy that states City employee salaries are to be within 5% of the market median salary for comparable cities. Several employee groups meet that policy. For the employees that do not meet that policy, this proposed budget continues to address the salaries of the employees who are more than 5% below the market median. For several employees, the process to get them within 5% of the market median will take another fiscal year so the budget is not negatively impacted from correcting the issues immediately.

The City is in labor negotiations with the American Federation of State County Municipal Employees (AFSCME) so salary and benefit adjustments for the employees covered by that union have yet to be determined. COLA and other salary adjustments for the other

three bargaining units and non-represented employees have been incorporated into the budget.

Medical and dental rate changes will take effect on January 1, 2015, and are lower than anticipated. Regence medical rates will decline by about 1.0% while Kaiser medical and dental rates will increase by about 5.0%. The contribution rate to the City's defined benefit retirement plan will increase by 0.9% to 22.8% of base full-time wages. The City has implemented a defined contribution retirement plan for new AFSCME and most new non-represented employees, which has a maximum contribution rate of 12%. In FY 2014-15, liability insurance is increasing by approximately 27%, auto physical damage is increasing by approximately 29%, and property insurance is increasing by 9%.

General Fund

The total proposed operating expenditures are \$15,526,645 compared to the current year's adopted operating expenditures of \$14,511,519; an increase of \$1,015,126 or 7.0%. This amount is determined by removing non-operating transfers, contingencies and ending fund balances. In fiscal year 2014-15, the proposed operating expenditures will exceed the proposed operating revenue by \$326,284. The projected reserve balance at July 1, 2014, is \$6.1 million which is significantly higher than what had been projected. The projected reserve balance on June 30, 2015, will be \$5.15 million with the decrease due to using reserves to fund operations and the proposed transfer of \$600,000 in reserves to the Facilities Major Maintenance Fund and the Risk Management Fund.

Projections continue to indicate that maintaining a balanced budget, meaning ongoing operating revenues fund ongoing operating costs, will be difficult without the use of reserves in the coming fiscal years. Staff is again proposing a budget which continues to protect reserves over the next several fiscal years with the ultimate goal of maintaining 16% of operating expenditures as a minimum level of reserves and contingencies at the end of the current local option levy on June 30, 2018.

The FY 2014-15 Proposed Budget is designed to increase service in some departments and to add back services that had been previously reduced in other departments. Some additional staff is proposed to try to restore service levels particularly in the Police and Engineering Departments. More detail about each department can be found in the departments' narratives. Some of the changes are:

Administrative Services staffing increased by a 1.0 Full-Time Equivalent (FTE) Information Technology Manager that was approved by the City Council and hired during FY 2013-14. Staffing also increased during FY 2013-14 by the re-allocation of 0.4 FTE of an Administrative Services Specialist from Engineering back to Administrative Services due to the addition of Cornelius Municipal Court. A staffing change proposed for FY 2014-15 is increasing the 0.75 FTE Janitor to full-time. Part of the increase in

salary will be offset by this person taking over the contracted window cleaning services and the changing of furnace filters which is currently performed by the contract HVAC firm.

Professional services is increased due to the proposed addition of \$30,000 for a police facility study to determine if and how the current facility could be enlarged and remodeled to meet the future needs of the Police Department. The funds to support the Forest Grove Senior and Community Center are proposed to remain unchanged from FY 2014-15.

Municipal Court actual revenues and expenditures for FY 2013-14 were significantly higher than the budget for FY 2013-14. However, due to the uncertainty of citation volume from Cornelius with the shift to the Sheriff's Office providing the service, the FY 2014-15 revenue is proposed at the level of the FY 2013-14 revenue instead of the actual results of FY 2013-14.

Library staff will remain unchanged in FY 2014-15 with the exception of adding \$15,240 in funding for on-call staff to cover vacations and other absences when other staff is not able to fill-in. The Library Materials budget is proposed to be increased by \$5,000.

Park Department's budget proposes taking 0.2 FTE of a Parks Utility Worker with forestry training and experience to assist Public Works in doing some of the watershed management tasks that were previously performed by the contract watershed management company. The Water Fund will pay the Parks Department for this assistance. To ensure the Parks Department does not lose staffing, the Budget proposes making the 0.50 FTE Parks Utility Worker into a full-time employee. The funding will come partially from the Water Fund funds with the General Fund paying for the difference.

Non-Departmental budget includes the following proposed transfers: 1) \$500,000 to the Facility Major Maintenance Fund for future maintenance on General Fund facilities; 2) \$100,000 to the Risk Management Fund for the possible replacement of the City's financial, utility billing, licensing, and building permit software package; and 3) \$15,000 to the Special Public Works Debt Service Fund to pay the debt service which is due prior to the assessments being collected. This department no longer includes accounting for the collection and payment of the Metro and School District Construction Excise Taxes which are now accounted through the Balance Sheet after discussions with independent auditors.

Police's staffing in total will remain unchanged in FY 2014-15. However, the Budget proposes bringing the officer assigned to Tri-Met in April 2009 back as a Patrol Officer within the City. The City will lose the revenue from Tri-Met since the officer will no longer be performing duties for Tri-Met. With the City's increasing population and call volume, it was determined to be vital to bring that experienced officer back to provide services to the

citizens of Forest Grove. This change will return the Police Department back to its FY 2008-09 staffing level. No addition to the number of officers has occurred since FY 2004-05.

Materials and Services are increasing due to large cost increases in items such as ammunition, equipment fund charges, and insurance. Ammunition is more expensive and difficult to acquire. Property and liability insurance went up by 87% due to having better information from the insurance company on the allocation of costs by department. Dispatch charges to WCCCA are budgeted to increase by \$8,336 or a 4.3% increase from the current year. The budget also includes \$5,000 for consulting assistance for strategic planning.

The budget also includes funding for replacement of weapons, radars, and other supplies that have not been maintained over the years. These requests represent a catch-up situation for items that should have been replaced on a periodic basis. Current radars are old and can no longer be repaired. The department's goal is to have a radar unit for each patrol vehicle and this budget goes a long way towards accomplishing that goal. Weapons have not been replaced for many years and with the volume of rounds that are put through these weapons in training, they need to be replaced periodically. Several taser units are at the end of the manufacturer's warranty period. The Department is proposing purchasing other less-lethal weapons that have been developed. Weapons mounts will be changed in vehicles so all mounts operate the same way. Improvements will be made to wiring in the Police Department Conference Room and squad room. Funds are proposed to continue the replacement of the department's portable radios.

Planning staffing is being reallocated due to actual time spent on work performed. The Permits Coordinator allocation is being reduced from 0.30 FTE to 0.20 FTE in Planning to reflect the additional time being spent in the Building Permits Fund due to the increase in permit activity. Also included is funding for the Westside Planning Program for \$123,000 and consultant assistance to complete code amendments to the recently approved Comprehensive Plan update for \$45,000. Both of these tasks are grant funded.

Fire's budget in the General Fund includes no changes in staffing but an additional \$18,000 in overtime funding. Dispatch charges to WCCCA are increasing by \$5,714 or 3.5% for next year. Staff will continue to monitor dispatch costs and future increases in those costs. The budget also includes \$20,000 in funding for the City's portion of the proposed study to review if and how fire services in the western portion of Washington County could be consolidated.

Engineering's budget proposes adding a Project Manager that will: 1) manage the flow of capital infrastructure projects in the Engineering Department; 2) oversee the Private Development Design and Review process; and 3) oversee the City's interest in transportation programming and funding at a State and Regional level. This department has seen an increase in transportation and development projects to manage. The addition of the Project Manager will bring the Engineering Department back to the pre-

2006 FTE level. This budget also includes funding for an assessment of the City's use and need for a consolidated geographic information system (GIS) throughout the City in partnership with Light and Power and Information Technology staff.

Legislative and Executive Department has a status quo budget when compared to last year, accounting only for inflationary changes and limited additions to training in Legislative and Executive Department.

Other Funds Highlights for selected funds are presented below. More detail for all funds can be found in the narrative for each fund.

Building Permits Fund This Fund is fully funded by revenues generated by building permits fees. Proposed Building Permits Fund expenditures are slightly lower than FY 2013-14 due to the elimination of part-time inspection staff now that regular inspection staff will be at full strength.

Light and Power Fund The proposed budget does not include a rate increase. The City is nearing completion of a Cost of Service and User Rate Study. The study is reviewing the cost needed to operate the electric system and how those costs are allocated by user class.

Overall, the expenditure budget for Light and Power is increasing by approximately 7%. This increase is due to higher Bonneville Power Administration's power costs and the Department's efforts in continuing to upgrade the aging electrical system. The Department is proposing to accelerate the purchase of radio-read meters to improve the efficiency and accuracy of the meter reading process.

Capital Outlay includes the purchase of one transformer in FY 2014-15. The plan is to purchase three transformers over the next three years. The City may purchase up to three transformers this year depending on the bid price to purchase the transformers. The department will also replace the remainder of its old HVAC this year and replace its aging generator. The Department also plans on replacing a forklift, small directional boring machine, pole trailer, and a double bucket truck, which was ordered in FY 2013-14 but will not be delivered until FY 2014-15. The department also plans on purchasing a new quad with a snow blade.

Sewer Fund The budget reflects a proposed 3.0% sewer rate increase by Clean Water Services (CWS) effective July 1, 2014. The City is also proposing to increase its sewer surcharge by 3.0% on July 1, 2014, which will increase the surcharge from \$3.70 to \$3.81 per month. The Sewer Fund will pay the Equipment Fund \$50,000 to participate in the replacement of a vactor truck.

Sewer SDC Fund CWS establishes the system development charge (SDC) for sewer capital project funding. The current fee of \$4,800 per equivalent dwelling unit (EDU) will increase to \$4,900 as of July 1, 2014. This revenue is split between CWS (80%) and

the City (20%). The City will continue to work in partnership with CWS to complete Phase II of the 23rd Avenue Inflow and Infiltration project.

Water Fund The City completed a water rate review study in 2011. The study modified the rate tiers for the residential class of customers and recommended a series of 8% rate increases to allow the City to set aside funds for upcoming capital projects. Staff is proposing an 8% rate increase on a system-wide basis effective July 1, 2014. For the average residential water customer, this means a monthly rate increase of \$2.49.

The rate increases have allowed the City to set aside funds for upcoming capital projects as the Water Fund's Fund Balance is proposed to increase by \$750,000 in the coming fiscal year. The rate increases are accomplishing what they were intended to do which is build-up funding for future capital projects. Net revenue from timber harvesting over debt service requirements has also helped to increase the Fund Balance which will be used for future capital projects.

Some of the capital projects proposed for FY 2014-15 are: 1) a standby power generator at the Joint Water Commission (JWC) treatment plant in which Forest Grove has a 13.3% ownership interest; 2) the continued replacement of water meters with radio-read meters in cooperation with the Light and Power Department, which is replacing electric meters at the same time; 3) water main distribution improvements; and 4) repairs at the City-owned water treatment plant and the raw water supply line to that plant.

SWM Fund For FY 2013-14, CWS will increase their monthly fee of \$6.25 by \$0.50 to \$6.75. The City retains 75% of this and passes 25% to CWS. The City has an additional surcharge of \$0.75 per month and will propose to increase its surcharge to \$1.00 per month as of July 1, 2014. The City's increase will pay for fees that CWS is charging for the jurisdictions to dispose of street sweeping debris at a CWS facility. The SWM Fund will also be transferring \$50,000 to the Equipment Fund to pay for the replacement of a vector truck.

Street Fund Projects planned in FY 2014-15 are: 1) increase street overlays including the portion of Willamina that the City took over jurisdiction of from Washington County; and 2) sidewalk along B Street near Harvey Clarke School as part of the Safe Routes to School Project in cooperation with the Oregon Department of Transportation which is finally getting started after a long delay to complete the contracting process by ODOT. The purchase of an additional snow plow is included in the budget.

The implementation of the street light maintenance fee of \$1.50 per utility customer has allowed the City to continue its overlay program and to stop the decline in the Fund's reserves. The fee does not fully cover the estimated costs of the street light maintenance and electricity but the fee is doing what the City intended it to do.

Fire SAFER Grant Fund The City received two grants from Department of Homeland Security for fire staffing. One grant is for a four-year term, which commenced in September of 2012 and expires in September of 2016. This grant funds a Recruitment and Retention Volunteer Coordinator position, as well as incidental supplies. The second grant is for a term of two years, which commenced in February, 2013, and expires in February, 2015. This grant funds a Fire Inspector position. The proposed FY 2014-15 Budget assumes the City will be successful in renewing the Fire Safer Grant which will expire in February, 2015.

Fire Equipment Replacement Fund Funding transferred from the CIP Excise Tax Fund will increase from \$97,850 in FY 2013-14 to \$167,000 in FY 2014-15 due to the increase in the CIP Excise Tax approved by the City Council in June 2013. The City and the Forest Grove Rural Fire District are proposing to replace the heart monitors at a cost of \$65,000 and purchase a new Type III Engine at a cost of \$260,000 in FY 2014-15.

Capital Projects Fund This Fund will have approximately \$1.83 million in funds remaining from the sale of the Fernhill Wetlands to CWS. There are no proposed projects for those funds. If a proposed project is developed, the project will go the City Council for approval.

Facility Major Maintenance Fund This fund was established in FY 2010-11 to accumulate funds for major maintenance on General Fund facilities which will be required in the near future. The budget includes a proposed transfer of \$500,000 from the General Fund to help fund future maintenance projects. Projects planned for FY 2014-15 include: 1) Aquatic Center shower floor repairs; 2) police parking lot repairs to prevent water intrusion into the building; 3) fire station HVAC and roof repair which will be 50% funded by the Rural Fire District.

Information Systems Fund The budget includes the proposed transfer of \$83,000 to the Risk Management Fund for the possible replacement of the City's financial software. These funds were left over from the original purchase of the financial software in 2005. Capital outlay includes funding for large printers in Light and Power and Engineering, and funds to continue the virtualization project for City servers.

Conclusion In summary, adoption of the proposed budget for FY 2014-15 will allow the City to maintain and enhance the services that make Forest Grove a full-service City. In addition, adoption of this budget will allow the City to strategically enhance services by adding back key staffing in targeted areas that have been affected by the growing demands precipitated by a growing population base. This budget also appropriates critical resources to fund important planning efforts necessary to guide future City growth. Funding to complete a parks master plan, to complete a concept plan for growth in the newly added Urban Reserve/UGB area, a strategic plan for the Police Department, funding to examine future options for providing Fire Services, and finally funding for planning and construction of various multi-modal transportation needs, are

just some of the projects funded by this budget that will be invaluable in guiding future development of the City.

I would like to close by expressing my appreciation to the Budget Committee, the City Council, all of my Department Directors and staff for their leadership in managing and guiding the use of Forest Grove's budget resources. By looking five years into the future when examining budgets, we have been able to make decisions today that have allowed us to avoid financial disaster later. Also, the City Council's leadership in promoting a higher levy rate, annexing several islands within the City, and adopting a street light fee are just some of the important policy decisions that have generated new resources that have allowed the City to maintain the critical services we provide for the community.

Finally, even though we are moving in the right direction, we will need to continue our careful stewardship of City resources. We still live on a levy and we know that the economy can be like a roller coaster. Protecting adequate reserves and refraining from adding too many new employees is very important given the many uncertainties that lie ahead.

Michael J. Sykes, City Manager