

To: The Budget Committee and the Citizens of Forest Grove

It is my pleasure as City Manager Pro Tem to submit the FY 2015-16 City of Forest Grove Proposed Budget to the City of Forest Grove Budget Committee for its review and consideration. This budget retains the focus of prior budgets of maintaining Forest Grove as a full-service City while proposing to add resources for additional services in limited areas that are sustainable for at least the next several years. The Budget also targets City resources towards meeting City Council goals and objectives along with other community aspirations identified within the City Vision Statement.

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 2015-16 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

Forest Grove continues to grow and the resulting new housing and residences continues to put pressure on City services. The budgets for the last several years have been focused on being sustainable into the future and adding services to address critical needs where possible while avoiding any serious financial crisis. Additional proposed expenses to the General Fund Budget are added to the City's five-year financial forecast to determine the effect of adding those expenses before the decision is made to propose these additional expenses.

The City's general fund remains healthy and maintaining reserves has given the City the ability to absorb unexpected increases in expenditures. Police dispatch charges and retirement costs are increasing significantly in FY 2015-16 but increased property taxes from higher property tax revenue for higher than expected increases in property values offset those costs increases. The condition of the budget allows the City to carefully add limited staffing to help keep up with a growing community. An additional Police Sergeant is being proposed. A Fire Inspector whose position was in jeopardy due to expiring grant funding is proposed to be retained.

The budget also proposes additional staffing to help meet the Council's goal of being a sustainable community. Current staffing levels do not allow the City to develop the sustainability program approved by the City Council. A Program Coordinator position funded by the General, Light and Power, Water, and Building Permits Funds is being proposed to continue to develop the City's sustainability program.

Overall Budget

The City's total proposed budget is \$95.66 million, which includes ending cash balances and contingencies, and compares to last year's adopted budget of \$88.58 million, for an increase of \$7.1 million. The difference is a combination of many items which will be explained throughout this budget message.

The City's total tax rate is estimated to be \$5.91 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 \$0.35 for the 2010 Refinanced General Obligation Bonds. Forest Grove's assessed value is projected to grow by 4% for a total of \$1.42 billion for FY 2015-16 compared to the actual increase in assessed value of 6% in FY 2014-15.

The City is in labor negotiations with the Forest Grove Paid Firefighter's Association and the Forest Grove Police Association 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 two bargaining units and non-represented employees have been incorporated into the budget. The last of the adjustments made over the last three fiscal years to get several non-represented employees to within 5% of market median is being made in FY 2015-16. A study will be conducted in FY 2015-16 to determine if the adjustments made over the last three years resulted in non-represented employees being within 5% of the market median.

Revised medical and dental rate changes will take effect on January 1, 2016. Regence medical rates will increase by about 5.9%, ODS dental will increase by 1.0%, and Kaiser medical rates will increase by about 6.2%. The contribution rate to the City's defined benefit retirement plan will increase by 1.6% to 24.3% of base full-time wages due to a change in several of the actuarial assumptions used to value the defined benefit plan. The City has implemented a defined contribution retirement plan for new AFSCME and new non-represented employees, which has a maximum contribution rate of 12%. In FY 2015-16, liability insurance is increasing by approximately 7.6%, auto physical damage is increasing by approximately 13.4%, and property insurance is increasing by 5% with an adjustment in value for some facilities due to a reappraisal of replacement value by the insurance company.

A format change has been made to this year's Proposed Budget document. In addition to the required information, a column that shows the projected FY 2014-15 year-end balance for each account has been added to right of the FY 2014-15 Budgeted Column. These projections were developed as part of the budget process in February, 2015.

General Fund

The FY 2015-16 Proposed Budget is designed to be sustainable over the next several fiscal years while at the same time increasing resources available in some departments to address increasing service demands. The total proposed operating expenditures are \$16,398,619 compared to the current year's adopted operating expenditures of \$15,595,001; an increase of \$803,618 or 5.1%. This amount is determined by removing non-operating transfers, contingencies and ending fund balances. In fiscal year 2015-16, the proposed operating expenditures will exceed the proposed operating revenue by \$147,656 resulting in a proposed small use of reserves to balance the Budget. The beginning fund balance at July 1, 2015, is projected to be \$5.94 million which is higher than original projections. The projected reserve balance on June 30, 2015, will be \$5.29 million with the decrease due to projected operating expenditures being greater than projected operating revenue and a proposed transfer of \$500,000 in reserves to the Facilities Major Maintenance Fund for future General Fund major maintenance projects.

Projections continue to indicate that maintaining a balanced budget, meaning ongoing operating revenues fund ongoing operating costs, will be difficult without the limited 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 at least 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. Current projections indicate that the General Fund's projected reserves at June 30, 2018, will exceed the minimum level of reserves assuming the assumptions used to prepare the forecast are accurate.

The departments' narratives discuss significant changes to their operations and budgets. Some of the major changes are:

Legislative and Executive is proposing funding to send 2 student members of the City's Advisory Committees and a chaperon to the National League of Cities (NLC) Annual Conference in Washington, D.C. in March as part of preparing youth for future leadership roles. \$5,000 is being proposed to purchase a reusable shopping bag for every home in Forest Grove if the proposed plastic shopping bag ban is implemented. The City Recorder will begin converting City records to the statewide online record-keeping system with the goal of eventually having all publically accessible City records on that system.

Administrative Services is proposing increasing the 0.75 FTE Volunteer/HR Coordinator to full-time. The additional 0.25 FTE would concentrate on HR tasks due to the increasing number and complexity of recruitments as well as complying with increasing Federal and State regulations. A \$5,000 increase in funding for the Senior and Community Center is also proposed.

Library is proposing to convert some of its on-call staffing dollars and reductions in other expenditure line items to add a temporary 15-hour per week Adult Services Librarian position for the next fiscal year. If the proposed WCCLS levy is approved, library funding from Washington County is projected to increase by 10 percent in FY 2016-17 and Library would review what to do with this temporary one-year position at that time. The Library Materials budget is proposed to be increased by \$4,000.

Park's budget proposes continuing having 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. Parks Department is proposing adding a pick-up truck to their fleet by transferring a pick-up truck from Engineering.

Non-Departmental budget includes the following proposed transfers: 1) \$500,000 to the Facility Major Maintenance Fund for future maintenance on General Fund facilities; and 2) \$7,500 to the Special Public Works Debt Service Fund to pay the debt service which is due prior to the assessments being collected.

Police's budget includes the proposed addition of a Sergeant on January 1, 2016, to be a cover Sergeant for shifts and will also perform some administrative functions for the department. In FY 2014-15, the patrol officer assigned to Tri-Met was brought back to the City to be a regular patrol officer. That change returned the Police Department back to its FY 2008-09 staffing level. This additional Sergeant position would represent the first addition to officers since FY 2004-05.

Materials and Services are increasing due to increased WCCCA dispatch fees and Information System Fund charges. WCCCA changed how they allocate dispatch fees to all the agencies and as a result, dispatch fees are increasing from \$200,214 in FY 2014-15 to \$264,378 in FY 2015-16 or a 32% increase. Forest Grove had the largest percentage increase in WCCCA fees. The Information System Fund charges increase by \$22,339 primarily to build funding to replace new tablets purchased to replace existing mobile data consoles. This year, the Police Department joined the new regional police data system and replaced its mobile data consoles with tablets for greater mobility and functionality. These tablets will need replaced in four to five years. The City's practice is to accumulate funding to replace vehicles and computer equipment so the department is being charged for the replacement of the tablets over their expected four-year life.

Fire's budget includes the transfer of the Fire Inspector position funded by the Fire SAFER Grant Fund to the General Fund. The grant for this position will expire on June 30, 2015. This budget proposes retaining that position. The Fire District will pay its proportionate share of the position, the fees paid by Gaston Fire for chief services will be applied to this position, and the Building Permits Fund will pay for 25% of the position as the Fire Inspector does Fire Life safety reviews as part of the building permits process. This will give the Fire Department 20.50 FTE, excluding the other position in the Fire SAFER Grant Fund, compared to 20.00 FTE that the Fire Department had in FY 2004-05.

Materials and Services budget is increasing by \$108,939 primarily due to an increase in the Tools – 50/50 line item of \$93,900. The replacement of turnouts will be significantly increased over the next two years as turnouts originally purchased with grant funding are at the end of their life and need to be replaced. Other purchases include additional training equipment for the fire simulator, communications equipment for firefighters while wearing self-contained breathing apparatus, new thermal imaging camera, needed equipment for the paramedics, and exercise equipment at the Fire Station. Dispatch charges to WCCCA are decreasing by \$6,035 as the Fire Department was a beneficiary of the WCCCA cost reallocations.

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. The main highlight for this Fund which has minimal effect on the Proposed Budget is the replacement of the current building permit software with the online permitted software offered by the State of Oregon. There is no direct cost for this software as it is paid for by State surcharges on building permit fees.

Light and Power Fund The proposed budget includes an average rate increase of 6% with different rate increases applied to different classes of services. The rate increase is the result of the implementation of the recently completed Cost of Service and User Rate Study.

Personnel costs are increasing due to increased wage & benefits costs and the department's 0.60 FTE share of the proposed Program Coordinator position. Budgeted Materials and Services is declining due to the reclassification of \$560,000 for construction materials expenses to Capital Outlay and a decrease of \$334,673 in anticipated power purchases based on FY 2014-15 projected power purchases. Industrial Conservation Augmentation from the Bonneville Power Administration is projected to increase by \$100,000 as BPA has increased the conservation funds available.

Capital Outlay is increased due to the purchase of two substation transformers scheduled for delivery in October 2015 and the related improvements at the Forest Grove and Thatcher substations. In September 2015, the City is planning on issuing approximately \$3.8 million in debt for the transformers and substation improvements. A debt service payment in FY 2015-16 of \$60,000 is budgeted which would be an interest only payment on that debt.

Sewer Fund The budget reflects a proposed 3.0% sewer rate increase by Clean Water Services (CWS) effective July 1, 2015. The City is also proposing to increase its sewer surcharge by 3.0% on July 1, 2015, which will increase the surcharge from \$3.81 to \$3.92

per month. The Sewer Fund will pay the Equipment Fund \$75,000 to participate in the replacement of a vector truck.

Sewer SDC Fund CWS establishes the system development charge (SDC) for sewer capital project funding. The current fee of \$4,900 per equivalent dwelling unit (EDU) will increase to \$5,100 as of July 1, 2015. 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. The addition of sewer services to Firwood Lane costing \$440,000 will occur in FY 2015-16 as the result of a \$240,000 Community Development Block Grant and the Sewer SDC Fund paying the remaining \$200,000.

Water Fund A previous study had projected annual 8% increases for the foreseeable future. Due to changes in future capital projects, the City had another rate review performed which showed a need for annual rate increases of 3.5% for the next several years. Staff is proposing a 3.5% rate increase on a system-wide basis effective July 1, 2015.

The rate increases will allow the City to set aside funds for upcoming capital projects while covering the operating costs of the water system. 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.

In Materials and Services, timber harvesting expenditures are expected to increase as the City is increasing its volume of timber to be harvested from 1.5 million to 2.0 million board feet. Professional services will increase due to a \$200,000 increase for a proposed seismic vulnerability analysis of the City's water treatment plant.

Some of the capital projects proposed for FY 2015-16 are: 1) the completion of the project to replace water meters with radio-read meters in cooperation with the Light and Power Department; and 2) repair of the west filter bay at the City-owned water treatment plant similar to the repair of east filter bay that was completed during the current fiscal year.

SWM Fund For FY 2015-16, CWS will increase their monthly fee of \$6.75 by \$0.50 to \$7.25. The City retains 75% of this and passes 25% to CWS. The City has an additional surcharge of \$1.00 per month which is proposed to remain the same.

Street Fund This budget includes \$80,000 for an ADA City-wide Study for Improvements primarily related to sidewalk ramps at all City intersections. Projects planned in FY 2015-16 are: 1) continued street overlays including Firwood Lane as part of the sewer construction project; and 2) the construction of sidewalk along B Street near Harvey Clarke School as part of the Safe Routes to School Project which is finally getting started after a long delay to complete the contracting process by ODOT; and 3) the sidewalk improvement project if there is interest from enough property owners to make the project cost effective.

Fire SAFER Grant Fund The City received two grants from Department of Homeland Security for fire staffing. One grant for a Recruitment and Retention Volunteer Coordinator position is for four years and expires in September of 2016. The second grant for a Fire Inspector position was for two years and will expire on June 30, 2015. The Fire Inspector position is proposed to be moved to the General Fund.

Fire Equipment Replacement Fund Funding transferred from the CIP Excise Tax Fund will be \$167,000 in FY 2015-16. The City and the Forest Grove Rural Fire District are proposing to place a manufactured home on Fire District owned property next to the Gales Creek Fire Station for interns to stay overnight for call response, to replace two command vehicles (SUVs), and to carryover the purchase of heart monitors scheduled to be purchased in FY 2014-15 which may not be delivered until FY 2015-16.

Capital Projects Fund This Fund will have approximately \$1.85 million in funds remaining from the sale of the Fernhill Wetlands to CWS. \$327,000 in costs for the demolition of the Times Litho site and other costs related to the sale and development of the Times Litho site are proposed to be spent from this fund. Reimbursement of these funds could come from the sale of the Times Litho site depending on the price received from the sale. Any other proposed use of funds from this Fund will go the City Council for approval.

CIP Excise Tax Fund This fund accounts for the Capital Improvement Excise Tax on the utility bills. 90% of the revenue collected goes to public safety projects with the remaining portion going to general projects. In FY 2015-16, \$294,078 will be transferred to the Fire Equipment Replacement Fund and the Equipment Fund to pay for the purchase of fire and police apparatus and vehicles. Other public safety items to be funded are: 1) mobile device management and authentication software for the Police Department tablets, interview room recording equipment for Police, and mobile printer and software so electronic traffic citations can be issued and directly loaded into the Municipal Court software. General purchases include: 1) mini-split heat pump for Engineering, and purchase of a portion of the small van to replace the Engineering pick-up truck being transferred to Parks.

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 FY 2015-16 Budget includes a proposed transfer of \$500,000 from the General Fund to help fund future maintenance projects. Projects planned for FY 2015-16 include: 1) repairing the roof of the Aquatic Center's activity pool; 2) replace tile in the family changing rooms at the Aquatic Center; 3) overlay of two parking lots at Lincoln Park; and 4) continued replacement of the rooftop HVAC units on the Library.

Information Systems Fund This budget includes funding for the City to begin to implement a City-wide geographic information system (GIS). The expenditures consist of needed software purchases, design and implementation of the database system, and data conversion for several departments. The total projected cost of this portion of the project is \$123,000. Costs were kept lower because the City's server system has sufficient capacity

to handle the GIS. Other cost increases include increased supplies which are used by departments and increased replacement charges for the City's server equipment for the virtualized server and disaster recovery site. Most of the increase is due to the implementation of the GIS. These expenses are paid by the charges to the various funds that use the various services. Large increases for Information System Fund charges in the Light & Power, Engineering, Planning, and Building Permit Funds are due primarily to the implementation of the GIS.

General Debt Service Fund This fund is mentioned because the final debt payment on the bonds issued in 1999 to fund the Library expansion, the Aquatic Center expansion, and the purchase of Thatcher Park will be made in May 2016.

Conclusion In summary, adoption of the proposed budget for FY 2015-16 will allow the City to maintain and enhance the services that make Forest Grove a full-service City. One of the key discussions the City is going to have over the next fiscal year is what does it mean to be a full-service City. What are the community standards and expectation for "full-service" will be part of the discussion which will also include how do the costs of those expectations impact the budget and the City's current ability to provide those services.

I would like to close by expressing my appreciation to the Budget Committee, the City Council, all of the 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 difficulties in later years. Also, the City Council's leadership in promoting measures to leverage financial opportunities from other agencies has helped the City support a sustainable future for all of our departments and the important functions they provide.

Finally, even though we are moving in the right direction, we will strive to monitor carefully City resources. We continue to rely on an operating levy and we know that economic conditions can impact us greatly. Protecting adequate reserves and carefully evaluating any additional new employees is critical given the uncertainties that may be ahead.

Tom Gamble, City Manager Pro Tem