

## Message from the Chief Financial Officer

June 26, 2007

Budget Committee Members and Citizens

Tualatin Valley Fire and Rescue

Washington, Clackamas, and Multnomah Counties, Oregon

**Dear Budget Committee Members and Citizens:**

### Introduction

In compliance with the state of Oregon Local Budget Law and District policies as authorized in Section 3 of the Board Policy Manual, the annual budget for Tualatin Valley Fire and Rescue for the fiscal year 2007-08, beginning July 1, 2007, and ending June 30, 2008, is submitted for your approval.

As prepared and submitted, the annual budget is intended to serve as:

- A financial plan for the next fiscal year, outlining the forecasted expenditure requirements and the proposed means for financing these requirements.
- An operational plan for the use and deployment of personnel, materials and services, and other resources during the 2007-08 fiscal year.
- An operations guide to program and department goals and objectives.

### Budgetary Accounting Basis

The budgetary and accounting policies contained in the proposed budget conform to generally accepted accounting principles as established by the Governmental Accounting Standards Board. The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate budgetary and accounting entity. Within the annual budget, the District's various funds are grouped into the fund types and account groups indicated below:

- **Governmental funds**, which include the General Fund (a major fund), the *special revenue fund types*; Apparatus Fund, Capital Improvements Fund, Emergency Management Fund, the Grants Fund, the Debt Service Fund, and the *capital projects fund types*; Property and Building Fund and Capital Projects Fund.

## Message from the Chief Financial Officer, continued

- **Proprietary fund**, which includes the internal *service fund type*, the Insurance Fund.
- **Fiduciary funds**, which include *trust and agency funds*, cover the Retiree Medical Insurance Stipend Fund, Pension Trust Fund, and Volunteer LOSAP Fund.

As previously noted, the proposed budget is prepared on the generally accepted accounting principles basis, with all governmental funds accounted for using the modified accrual basis of accounting, with revenues being recorded when measurable and available and expenditures being recorded when the goods or services are received. The District's internal service funds and trust and agency funds are maintained on the accrual basis of accounting.

For pension trust funds, the measurement focus is on the determination of net income and capital maintenance. All fund assets and liabilities, current and non-current, are accounted for within the fund.

These models provide the foundation for communication of our overall budgetary goals to department managers. Department managers develop the budget after preparation and identification of key performance objectives for each department and program.

Overall guidance and philosophy are outlined by the Fire Chief and executive staff.

The District prepares a budget for all funds that are subject to the budget requirements of state law, including the legal requirement for a balanced budget, meaning that total beginning fund balance, revenues, and other financing sources are equal to the total of expenditures, other financing uses, contingency, and ending fund balance. The budgeting process includes citizen input through various stages of preparation, public hearings, and approval of the original budget by the Board of Directors.

### Budget Summary for Expenditures

Expenditures	2006-07 Revised Budget	2007-08 Proposed Budget	Increase (Decrease)
Personnel Costs	\$54,058,977	<b>\$55,648,283</b>	\$1,589,306
Materials and Services	9,267,166	<b>9,290,514</b>	23,348
Capital Outlay	9,759,268	<b>16,249,433</b>	6,490,165
Debt Service	1,933,631	<b>3,306,892</b>	1,373,261
Transfers	2,872,009	<b>3,076,582</b>	204,573
Contingencies	6,088,612	<b>13,487,204</b>	7,398,592
Ending Fund Balance	14,893,298	<b>20,739,209</b>	5,845,911
<b>Total Expenditures</b>	<b>\$98,872,961</b>	<b>\$121,798,117</b>	<b>\$22,925,156</b>

The proposed budget requirements for fiscal year 2007-08 for all funds totals \$121,798,117, which is \$22,925,156 higher than the \$98,872,961 in the current year. The budgeted usage of the general obligation bond proceeds in the Capital Projects fund in Capital Outlay and Contingency is the cause of the most significant reason for the change in the proposed budgets. Comparative data on individual funds may be obtained by reviewing financial summaries presented within individual funds.

## **2007-08 Significant Changes:**

### **Personnel Services**

Personnel expenditures increased by \$1,589,306 or 2.94% across all funds, which largely just reflects the cost of the additional personnel and the non-union PERS rate decrease. Because the labor contract for the year beginning July 1, 2007, is still in negotiations at the time of budget development, the budgets for line personnel were largely based upon 2006-07 contract and PERS amounts. Changes from the completed negotiations will be implemented in the budget once the contract is negotiated and signed. Funds will be transferred from contingency for these costs. A range increase has been included for non-union personnel. The District generally hires its non-union employees at mid-range or below and allows merit increases within the range based upon performance.

### **Materials and Services**

Materials and Services increased \$23,348. The General Fund reflects an overall increase of \$283,960, which is offset in part by the Capital Projects Fund, with a decrease of \$150,000 as the 2006-07 budget reflected one time bond issuance expenses in the budget. Within the General Fund, Apparatus Fuel/Lubricants, account 5350, increased by \$62,197, due to expected continued increases in fuel costs. The Other Professional Services account 5414 increased by \$72,582, as we continue to outsource specialized project assistance in the Logistics departments of Information Technology, Communications and Technology, and Logistics Administration.

### **Capital Outlay**

Capital Outlay increased \$7,753,829 or approximately 80% to a total of \$17,513,097. The Property and Building Fund decreased \$2,334,500 for a total of \$123,000, reflecting reduced activity for this fund due to the sale of general obligation bonds in 2007, and the accounting for both the resources and projects through the Capital Projects Fund. Capital Outlay in the Capital Projects fund was increased \$9,593,750, reflecting planned expenditures of the bond fund. The Capital Projects Fund will fund Station 66 at Brockman Road and the Walnut Fire station construction as well as land purchases for future fire station sites, emergency response apparatus, and other projects.

### **Debt Service**

Total budgeted debt service expenditures increased \$1,373,261 or 71% in the 2007-08 fiscal year. The debt service is budgeted in the Debt Service Fund for the repayment of the Series 1999, 2000, and the new Series 2007 bonds, whose first payments begin April 2008.

### **Transfers**

Transfers are increased by \$204,573 to \$3,281,155, reflecting \$100,000 increase to the Grants Fund for matching funds to a requested grant to fund breathing apparatus and \$100,000 increase to the Capital Improvements Fund. The proposed budget transfers reflect the planned level of transfers to meet ongoing capital needs that cannot be funded with general obligation bonds. The Capital Improvements Fund receives \$2,582,500 of transfers from the General Fund.

### **Contingencies**

Contingencies across all funds are budgeted at \$13,487,204 for 2007-08, up \$7,398,592 from the prior year. The Property and Building Fund's contingency was increased by \$1,457,129. The Capital Projects Fund, budgeted for 2007-08, to utilize the proceeds of a general obligation bond, comprises \$2,710,000 of the change. The General Fund's contingency was increased by \$2,281,451. Under Oregon law, ending fund balance may not be appropriated for use during the year, so the contingency appropriation provides for flexibility in operations should an unexpected major natural disaster occur, a major apparatus fail, or other such event occur that cannot be anticipated. Accordingly, the District is attempting to increase the contingency budget each year.

### **Ending Fund Balance**

The majority of amounts for Ending Fund Balance are related to the General Fund, \$12,321,675; the Bonded Debt Service Fund, \$1,200,725; the Property and Building Fund, \$3,000,000; and the Pension Trust Fund, \$1,057,740. The District seeks a stable General Fund balance and conservatively forecasts the actual ending fund balance to be approximately \$26 million dollars, which equates to an estimated five months of operating fund.

### **Debt Administration**

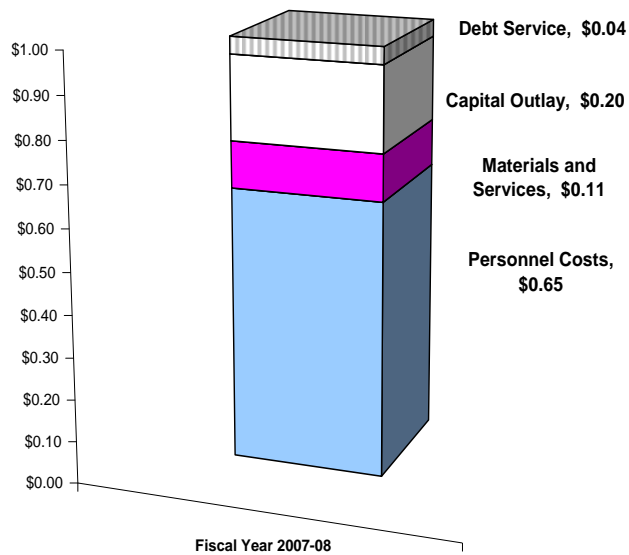
Debt outstanding consists of 1999 General Obligation Bonds in the remaining amount of \$1,315,000, and a remaining balance of \$1,535,000 of Series 2000 General Obligation Bonds. These bonds will be paid in full during the 2008-09 fiscal year. The District sold \$20,000,000 of Series 2007 bonds in April 2007, and will make the first principal and interest payments in April 2008. These bonds will mature over a 20 year period.

**Message from the Chief Financial Officer, continued**

The District's legal debt limit is approximately \$594,000,000. We utilize capital planning in conjunction with financial forecasting to determine what level of capital funding we can continue to make while managing our resources under our legal tax base.

Our largest future variables will be the siting and possible relocation of several stations. Because station siting and relocation planning are dependent upon factors such as road construction by the State Highway Department, other neighboring jurisdictions' station siting, and population and development growth, we are continuing to work extensively on a regional basis to ensure the best service to our citizens. The District has spent considerable staff hours developing and finalizing station location studies, considering neighboring city stations, changing demographics, forecasted population densities, and future traffic and roads. Our goal is to locate stations for the most effective emergency response and allow continued alternative staffing configurations depending on the region's call types and run volumes. The new bond will be funding continued land purchases for new fire stations, the construction of two new fire stations, and the reconstruction and seismic improvements of several older fire stations. These bonds were issued for 20 years with \$1 million dollar principal payments made each year.

**How Your Tax Dollar is Spent**



**Message from the Chief Financial Officer, continued**

**Budget Summary for Revenues**

Total revenues for all funds for the current budget year and the ensuing fiscal year are shown below:

Revenues	<b>2006-07 Budget</b>	<b>2007-08 Budget</b>	Increase (Decrease)
Beginning Fund Balance	\$27,982,066	<b>\$50,758,878</b>	\$22,776,812
Property Tax, Current Year	58,272,116	<b>62,957,480</b>	4,685,364
Property Tax, Prior Year	1,286,197	<b>1,127,009</b>	(159,188)
Other Taxes and Interest on Tax	47,728	<b>42,972</b>	(4,756)
Interest on Investments	1,160,267	<b>2,010,126</b>	849,859
Service Contracts	232,323	<b>187,900</b>	(44,423)
Accounting Service Fees	68,000	<b>33,460</b>	(34,540)
Program Revenue	127,700	<b>183,200</b>	55,500
Sale of Surplus Property	247,210	<b>200,000</b>	(47,210)
Donations and Grants	1,253,935	<b>1,000,000</b>	(253,935)
Proceeds from Debt Issuance	5,000,000	<b>0</b>	(5,000,000)
Transfers from Other Funds	2,872,009	<b>3,076,582</b>	204,573
Rental Income	79,150	<b>85,450</b>	6,300
Regional Hazardous Response	5,500	<b>5,500</b>	0
Training Center Revenues	76,760	<b>81,560</b>	4,800
Other Revenues	162,000	<b>48,000</b>	(114,000)
<b>Total Revenues</b>	<b>\$98,872,961</b>	<b>\$121,798,117</b>	<b>\$22,925,156</b>

**Beginning Fund Balance**

Beginning Fund Balance has increased over 81% to \$50,758,878 for all funds. The General Fund's budgeted beginning fund balance was increased by \$1,813,875, reflecting that we had been able to balance expenditures with revenues after we began collection of the local option levy. Our General Fund has a targeted goal to provide at least five months of operating funds before we receive our tax collections. The beginning fund balance in the Apparatus Fund increased by \$255,298, as we did not have to utilize this fund as we had sold general obligation bonds. In the Capital Improvements Fund, the beginning fund balance increased by \$1,556,271, as several significant projects budgeted were carried forward. The Property and Building Fund budgeted beginning fund balance increase of \$2,033,701 reflects the reimbursement of the usage of prior reserves to fund future fire station land site purchases in 2005-06, from the general obligation bonds. The increase in beginning fund balance in the Capital Projects Fund reflects the expected remaining bond proceeds in the fund from the April 2007 \$20 million bond sale.

**Local Option Levy**

Our local option levy was renewed at the November 2004 election, and based upon financial planning performed in 2006-07, we believe that we will ask our voters for a third renewal of the levy in 2008, and possibly ask for the first increase in 2012.

**Property Taxes - Current Year**

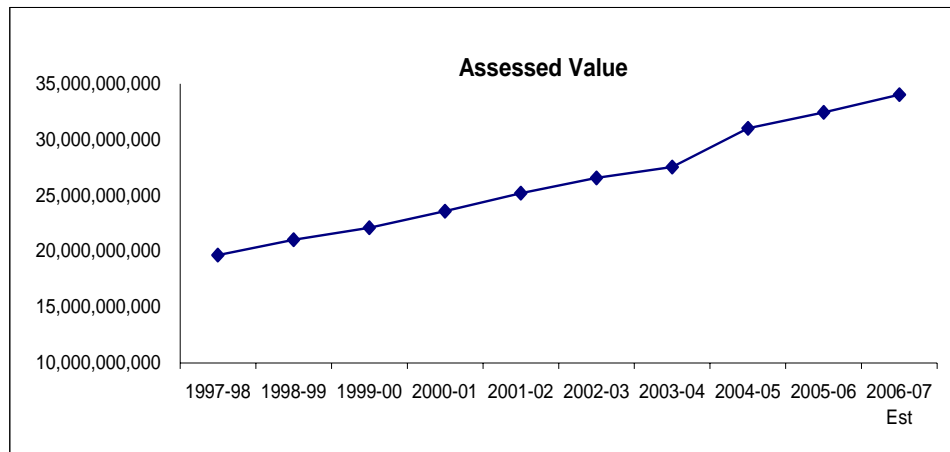
General operating property taxes are based upon the District’s assigned “permanent tax rate” of \$1.5252, multiplied by the assessed valuation within the District and supplemented by a local option levy. The local option levy was renewed by voters in November 2004, and will be levied annually through 2010, at the approved rate of \$0.25 per \$1,000 of assessed valuation. Under current law, assessed value is generally significantly less than market value and is based upon the relationship of other similar properties as well. For 2006-07, the Washington County Assessor estimated the Average Maximum Assessed Value was 57.2% of Average Real Market Value for residential property<sup>1</sup>. For purposes of our budget, we assumed a 4.25% assessed valuation increase for property in our service area based on data from Washington County as well as our own analysis of the high-tech industry and local economy, and the impact on assessed value. A collection rate of 94.1% was assumed. Tax levies for general obligation bonds are exempt from the property tax limitation measures and accordingly, the District levies the total dollar amount necessary for payment of the general obligation bonds.

**How does TVF&R get their money?**

*Permanent tax rate of \$1.5252/\$1,000 AV.*

*Voter optional Local Option Levy of \$.25/\$1,000 AV.*

*GO Bond Repayment Levy of \$.04/\$1,000 AV.*



<sup>1</sup> “Projected Assessed Values by Tax District for Fiscal Year 2007-08,” April 6, 2007, Department of Assessment and Taxation, Washington County, Oregon.

## Message from the Chief Financial Officer, continued

Taxes levied at \$1.5252 for general operations against an estimated \$35.7 billion in assessed valuation are expected to provide approximately \$51,307,764 in collections. The local option levy of \$.25 per thousand dollars of assessed valuation is expected to provide collections of \$8,410,006. We will also levy \$3,442,837 for our general obligation bonds. This bond levy is expected to result in a levy rate of 10 cents per thousand dollars of assessed valuation and approximately \$3,239,710 in collections.

### Property Tax-Prior Year

Total taxes outstanding totaled \$1,829,053 at the fiscal year ended June 30, 2006. At the beginning of the previous fiscal year, that amount totaled \$1,983,519. Of the June 30, 2006 amount, \$1,285,406 was for taxes levied during that fiscal year, while \$543,647 was related to prior years' tax levies. Delinquent tax collections are estimated on an average collection rate based upon the forecasted June 30, 2007 receivables.

### Interest on Investments

Interest on short-term investments has been budgeted to reflect short-term interest rates projected at an estimated 5.0%. The governmental fund types and capital funds are largely invested in the Oregon Local Government Investment Pool and short-term United States Government Agency securities. Investments are regulated by Board of Director policy, and permitted investment products include the Oregon Local Government Investment Pool, which is a diversified portfolio, commercial paper, bankers' acceptances, and United States Government Treasury and Agency securities, among others. Certain funds are designated for longer term investing by the Board of Directors and may be invested for terms up to 18 months. Oregon law does not allow leveraged investing and the Oregon Local Government Investment Pool does not use derivative securities. The Pension Trust Fund and Volunteer LOSAP Fund are managed as separate trust funds and each has its own investment policy, including the above investments and additional permissible investments in equity investments appropriate for long-term pension funding. Their investments are actuarially expected to earn between 7% and 8% annually by investment policy. However, due to the turbulent equity market, short-term investment projections for 2008 are lower than the actuarial projections.

Transfers into and out of pool accounts are made by telephone prior to 11:00 a.m. on a one day ahead basis. This provides a flexible mode for keeping surplus cash invested and is reinforced by a cash management program with our designated banking institution.

### **Service Contracts**

The Occupational Health Services program is scheduled for \$142,000 in contract revenues with other agencies, and the EMS Division is scheduled to receive \$45,900 of contract fees related to ambulance franchise collaborative agreements.

### **Accounting Service Fees**

Tualatin Valley Fire and Rescue ceased performing accounting services for another entity, the Washington County Consolidated Communications Agency (WCCCA) effective July 1, 2007, and accordingly, a commensurate reduction in accounting service fees was reflected.

### **Program Revenue**

These revenues are primarily from apparatus maintenance (\$62,000) and the Occupational Health Services program (\$115,000). Fees are collected from several governmental agencies for providing preventive and corrective maintenance to firefighting apparatus and automobiles. The Occupational Health Services program for District employees also contracts with other governmental agencies to provide occupational health services, which serves to reduce the District's costs of providing these required services to our own employees.

### **Sale of Surplus Property**

The Grants Fund reflects the anticipated recoverable value of existing breathing apparatus units, should the District be successful in obtaining grant funding for standardized self-contained breathing apparatus units.

### **Donations and Grants**

The District has been awarded and applied for several grants in 2005 and 2006, in the areas of public education, communications, and other areas. The District also has managed two grants on behalf of other agencies, WCCCA and a state communications committee. The District intends to continue to actively pursue increased grant funding in future years and further develop this new source of revenue. The 2007 budget reflects our goal of receiving grant funding for SCBAs in the amount of \$1.2 million for a \$1.5 million dollar replacement.

### **Transfers**

A major revenue source for five funds is correspondingly, also a major requirement for another fund. In the Non-Organizational category section in the General Fund, transfers are listed as a requirement. Monies are transferred from this fund to five funds, where they are listed as a resource. These transfers provide operating resources to the Capital Improvements Fund, the Emergency Management Fund, the Grants Fund, the Retiree Medical Insurance Stipend Fund, and the Volunteer LOSAP Fund.

**Training Center Revenues**

Training Center revenues reflect external training for cost shared programs in hazardous materials training.

**Rental Income**

Leases for surplus space are reflected in the revenue in rental income, as well as new leases made on our microwave towers to cellular phone companies for tower leases.

**Miscellaneous**

Revenues include \$20,000 for unspecified revenues. Insurance refunds were not re-budgeted for 2007-08, as a sizeable refund for the rolling three year retrospective evaluation was made during 2006-07, and is not expected to be repeated.

**Summary**

The proposed budget for fiscal year 2007-08, continues to afford the District a high level of service to our community, while continuing to meet our long-term performance statements. The year 2007-08 promises to be a year of many challenges to the organization, as we manage our many bond projects, add to our firefighting work force, and continue to constantly focus on the most effective emergency response service to our citizens.

Recognition is given to all staff members, division heads, and worksite managers who have effectively devoted their time and energy toward the development of the annual budget. Please be assured that the same degree of effort will be devoted to the effective administration of the 2007-08 budget.

Sincerely,

**Tualatin Valley Fire and Rescue**

Debra L. Guzman, CPA  
Budget Officer and Chief Financial Officer