

# MESSAGE FROM THE CHIEF FINANCIAL OFFICER

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**June 28, 2005**

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 2005-06, beginning July 1, 2005, and ending June 30, 2006, 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 2005-06 fiscal year.
- An operations guide to program and department goals and objectives.

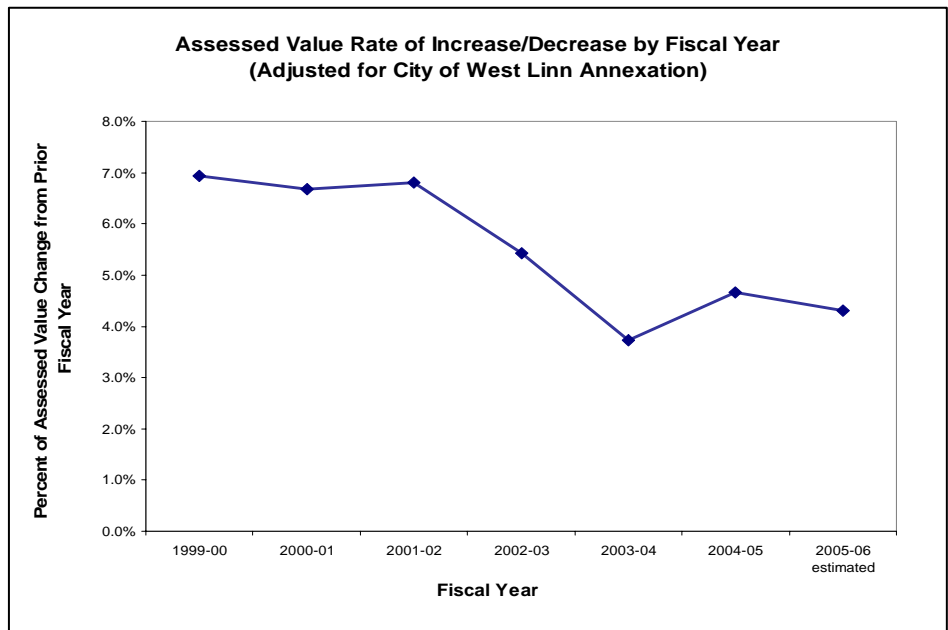
## **Budgetary Accounting Basis**

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.
- **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 which 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	2004-05 Revised Budget	2005-06 Budget	Increase (Decrease)
Personnel Costs	\$48,341,747	<b>\$49,590,738</b>	\$1,248,991
Materials and Services	8,451,894	<b>8,640,140</b>	188,246
Capital Outlay	8,124,128	<b>9,373,111</b>	1,248,983
Debt Service	1,869,831	<b>1,898,881</b>	29,050
Transfers	4,066,736	<b>4,160,723</b>	93,987
Contingencies	2,880,338	<b>5,112,649</b>	2,232,311
Ending Fund Balance	15,839,331	<b>14,460,925</b>	(1,378,406)
<b>Total Expenditures</b>	<b>\$89,574,005</b>	<b>\$93,237,167</b>	<b>\$3,663,162</b>

The proposed budget requirements for fiscal year 2005-06 for all funds totals \$93,237,167 which is \$3,663,162 higher than the \$89,574,005 in the current year.

Comparative data on individual funds may be obtained by reviewing financial summaries presented within individual funds.

### 2005-06 Significant Changes:

#### Personnel Services

Personnel expenditures increased by \$1,248,991 or 2.58% across all funds. The General Fund's personnel services increased \$1,169,936 or 2.47%. Because of the unsettled labor contract for the year beginning July 1, 2005, no union range increases are included in the budget at the time of the budget committee meeting on May 19, 2005. For purposes of nonunion personnel budgeting, a 2% potential range increase has been incorporated into the budget. Any subsequent settlement of negotiations will allow the budget to be adjusted and adopted by the Board of Directors reflecting the results of actions to approve the new labor

contract. The District generally hires its nonunion employees at mid-range or below and allows merit increases within the range based upon performance.

Of the total personnel increase in the General Fund, \$690,248 of the personnel increase reflects a budgeted 2% increase in PERS taxes, account 5201, in anticipation of continued scheduled cost increases. The significant increase in workers' compensation insurance costs in 2005 is expected to continue into 2006. During 2005, a budget transfer from contingency was required in the amount of \$148,875 to cover workers' compensation premium increases above anticipated cost increases. Rates for nonunion medical insurance have been budgeted to increase 6%, with the employee funding the remainder of the increase through employee co-pay.

### **Materials and Services**

Materials and Services increased \$188,246 or 2.22%. The General Fund reflects an overall increase of \$379,718 which is offset in part by the Grant Fund with a decrease of \$194,820. Within the General Fund, the largest increase reflects a continuing trend in outsourcing highly technical and specialized knowledge workers in areas such as information technology, communications issues problem solving and technical equipment support. The account Other Professional Services increased \$146,444 due to these areas. Telephone expense was consolidated into one cost center but the budget for account 5430, Telephones, was increased to reflect enhanced communication lines required to be installed to support the wireless connections to stations as part of the response aid program. Further detail is provided within the Communications and Technology cost center budget. The Grant Fund reflects specific reimbursement grant projects that have been or are anticipated to be awarded.

### **Capital Outlay**

Capital Outlay increased \$1,248,983 or approximately 15.4% to a total of \$9,373,111. The Property and Building Fund increased \$3,296,954 for a total of \$5,247,454 to provide for seismic reconstruction of station 56 and the City of West Linn station 58 as well as land purchases for future fire station sites. The Apparatus Fund is recommended at \$1,355,000 and provides funding for one water tender and five rescue pumpers. In addition, we continued our planned local option levy funded improved response aids program in the Capital Improvements Fund.

### **Debt Service**

Total budgeted debt service expenditures increased \$29,500 or 0.21% in the 2005-06 fiscal year. The general obligation bond in the Debt Service Fund has scheduled debt service in the amount of \$1,415,000 on two bond issues outstanding. We have budgeted debt service in the General Fund in anticipation of the potential for debt financing of station construction projects.

## **Transfers**

Transfers are increased by \$93,987. The proposed budget transfer reflects the planned level of transfers, in addition to local option levy transfers. The Capital Improvements Fund receives \$1,276,561 of transfer from the General Fund. The Apparatus Fund and Property and Building Fund receive \$1,026,561 and \$1,566,569, respectively.

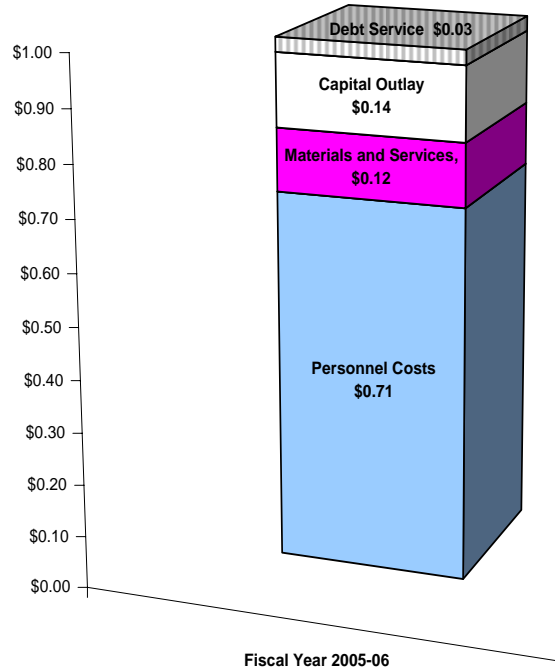
## **Contingencies**

Contingencies across all funds are budgeted at \$5,112,649 for 2005-06 up from \$2,880,338, as revised, in 2004-05. 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. In addition, for 2005-06, General fund contingency would be partially utilized when the labor contract currently in negotiations settles.

## **Ending Fund Balance**

The majority of amounts for Ending Fund Balance are related to the General Fund (\$11,384,945), the Bonded Debt Service Fund (\$783,725), and the Pension Trust Fund (\$1,467,819). The District seeks a stable General Fund balance and conservatively forecasts the actual ending fund balance to be approximately \$19 million dollars, similar to the Beginning Fund Balance.

### How Your Tax Dollar is Spent



### Debt Administration

Debt outstanding consists of 1999 General Obligation Bonds in the remaining amount of \$2,455,000, and a remaining balance of \$2,865,000 of Series 2000 General Obligation Bonds. The bonds will be paid in full during the 2008-09 fiscal year. The District's equipment financing by loan was paid in full in 2004-05. In anticipation of further financing, the General Fund budget provides for similar debt service payments in the 2005-06 budget year.

The District's legal debt limit is approximately \$468,000,000. Until the 1997 passage of Measure 50, a property tax limitation measure that severely reduced 1997-98 tax revenues and generally restricted future property tax growth to 3% a year, the District's general philosophy had been to set aside reserves for capital replacement of its ongoing capital needs as much as possible and avoid debt issuances. However, we have concluded we must continue to periodically supplement our capital funding through general obligation debt

issues. We received overwhelming voter support in the November 1998 election for issuance of up to \$10,000,000 in two phases to construct fire stations and purchase fire apparatus. We intend to ask our voters for additional general obligation bond approval in the November 2006, or 2008 general election to fund continued seismic station enhancement, station additions and emergency response apparatus replacement. 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 our 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.

### Budget Summary for Revenues

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

Revenues	2004-05 Revised Budget	<b>2005-06 Budget</b>	Increase (Decrease)
Beginning Fund Balance	\$29,122,634	<b>\$29,940,183</b>	\$ 817,549
Property Tax, Current Year	52,179,246	<b>55,463,539</b>	3,284,293
Property Tax, Prior Year	1,011,288	<b>1,446,172</b>	434,884
Other Taxes and Interest on Tax	33,424	<b>41,833</b>	8,409
Interest on Investments	511,350	<b>710,057</b>	198,707
Service Contracts	122,575	<b>127,395</b>	4,820
Accounting Service Fees	62,180	<b>66,180</b>	4,000
Program Revenue	173,680	<b>169,050</b>	(4,630)
Sale of Surplus Property	2,500	<b>15,000</b>	12,500
Donations and Grants	1,405,312	<b>793,975</b>	(611,337)
Transfers from Other Funds	4,066,736	<b>4,160,723</b>	93,987
Rental Income	89,265	<b>75,700</b>	(13,565)
Regional Hazardous Response	7,500	<b>5,500</b>	(2,000)
Training Center Revenues	201,315	<b>78,860</b>	(122,455)
Other Revenues	585,000	<b>143,000</b>	(442,000)
<b>Total Revenues</b>	<b>\$89,574,005</b>	<b>\$93,237,167</b>	<b>\$ (3,663,162)</b>

## Beginning Fund Balance

Beginning Fund Balance has increased almost 2.8% to \$29,940,183 for all funds. The General Fund's budgeted beginning fund balance was increased by \$311,669, 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 decreased by \$141,594, as we had significant apparatus purchases in 2005. In the Capital Improvements Fund, a budgeted decrease in the beginning fund balance of \$1,293,594 reflects the result of 2004-05 expenditures for mobile data computer, automatic external defibrillators and personal computers that we had built reserves for to accommodate those local option levy funded projects. The Property and Building Fund budgeted beginning fund balance increase of \$2,033,104 reflects the dedication of property tax revenue increases in West Linn toward the seismic reconstruction of their fire station as well as local option levy supported budget transfers to the fund.

## Local Option Levy

Our local option levy was renewed at the November 2004, election, and we are continuing to fine tune our next levy and general obligation bond request which likely will first go before our voters in November 2006.

## Property Taxes - Current Year

### *How does TVFR get their money?*

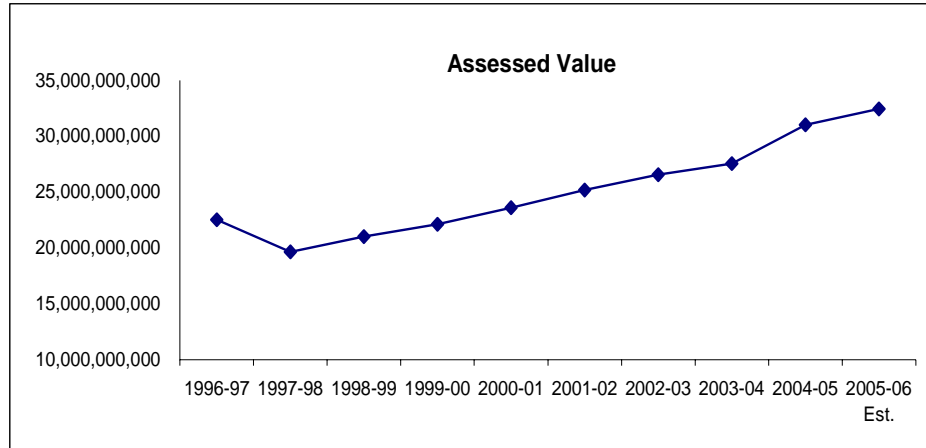
*Permanent tax rate  
of \$1.5252/\$1,000  
AV.*

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

*GO Bond  
Repayment Levy of  
\$.05/\$1,000 AV.*

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. This renewal local option levy will be levied for the first year of a five year levy 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 2004-05, the Washington County Assessor estimated the Average Maximum Assessed Value of the Average Real Market Value for residential property at 73.7%<sup>1</sup>. For purposes of our budget, we assumed a 4.31% 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. We projected a collection rate of 94.1%. 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.



Taxes levied at \$1.5252 for general operations against an estimated \$32.3 billion in assessed valuation are expected to provide approximately \$46,427,687 in collections. The local option levy of \$.25 per thousand dollars of assessed valuation is expected to provide collections of \$7,610,098. We will also levy \$1,515,148 for our general obligation bonds. This bond levy is expected to result in a levy rate of 4.7 cents per thousand dollars of assessed valuation and approximately \$1,425,754 in collections.

### Property Tax-Prior Year

Total taxes outstanding totaled \$1,983,519 at the fiscal year ended June 30, 2004. At the beginning of the previous fiscal year that amount totaled \$1,956,395. Of the June 30, 2004 amount, \$1,268,720 was for taxes levied during that fiscal year, while \$714,799 was related to prior years' tax levies. Delinquent tax collections are estimated on an average collection rate based upon the forecasted June 30, 2005 receivables.

### Interest on Investments

Interest on short-term investments has been budgeted to reflect short-term interest rates projected at an estimated 1.83%. 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,

<sup>1</sup> "Projected Assessed Values by Tax District for Fiscal Year 2005-06," April 21, 2005, Department of Assessment and Taxation, Washington County, Oregon.

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 2006 are significantly lower than the actuarial projections.

Transfers into and out of pool accounts are made by telephone prior to 11:00 a.m. on a two 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 \$127,395 in contract revenues with other agencies.

### **Accounting Service Fees**

Tualatin Valley Fire and Rescue District performs accounting services for another entity, the Washington County Consolidated Communications Agency (WCCCA).

### **Program Revenue**

These revenues are primarily from apparatus maintenance (\$60,900) and the Occupational Health Services program (\$102,150). 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.

## **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 manages 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 the future years and further develop this new source of revenue.

## **Transfers**

A major revenue source for seven 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 seven funds where they are listed as a resource. These transfers provide operating resources to the Apparatus Fund, Capital Improvements Fund, the Emergency Management Fund, the Grants Fund, the Property and Building Fund, the Retiree Medical Insurance Stipend Fund, and the Volunteer LOSAP Fund.

## **Training Center Revenues**

Training Center revenues have been reduced to reflect an anticipated continued reduction in external 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.

## **Other**

Revenues include receipts from miscellaneous sources.

## **Summary**

The proposed budget for fiscal year 2005-06 continues to afford the District a high level of service to our community while continuing to meet our long-term performance statements.

The year 2005-06 promises to be a year of many challenges to the organization with the settlement and implementation of a new labor contract, planning for future financial levies

and debt issuance and continuing to constantly focus on the most effective emergency response service to our citizens.

Recognition is given to all staff members, division heads, and work site 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 2005-06 budget.

Sincerely,

**Tualatin Valley Fire and Rescue**

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