

CITY OF McMINNVILLE
2009 – 2010
BUDGET MESSAGE

April 21, 2009
Honorable Rick Olson, Mayor
City Council and Members of the Budget Committee

"Local governments around the world find their budgets in the throes of a major recession, one that began as a crisis in the sub-prime mortgage market but has now morphed into a full-blown economic crisis of frightening proportions. Tough economic times require making tough decisions in order to preserve a balanced budget . . . Leaders in local government know that a balanced budget is a moving target.

Sometimes budget plans go awry; even when a local government has vigilantly pursued all the right financial management practices . . . The current recession has pressed managers to the limit in mustering the skills needed to navigate the hardest-hit communities through these turbulent economic waters."

*~ Robert Bland
"Managing Your Budget: Making
Tough Decisions in Tough Times."
Public Management, April 2009*

"Ordinary people, even weak people, can do extraordinary things through temporary courage generated by a situation. But the person of character does not need the situation to generate his courage. It is a part of his being and a standard approach to all life's challenges."

~ Michael Josephson

I. INTRODUCTION

Evidence of the extraordinary economic times in which we are living surrounds us. News of the economy's impact on lives saturates the media. The difficult stories of local people, our neighbors, and relatives are the subject of dinner table and work place conversation. On April 13, 2009, it was reported that Oregon's unemployment rate of 12.1 percent is the second highest in the nation and projected to be the highest before year's end. This is not just someone else's problem, it also belongs to us.

These turbulent economic waters are certainly the most unique and challenging in my 36+ year professional career - and in my lifetime. Our economic reality was forefront in my mind during the preparation of this Proposed 2009 – 2010 City Budget.

As noted above, "(t)ough economic times require making tough decisions in order to preserve a balanced budget." The good news is that because we have "pursued all the right management practices" over a sustained period of time, we have the financial capacity to weather the short-term fiscal and economic storm. The real challenge ahead of us will be to sustain current service levels three years out. More on this below.

I want to commend the team spirit of our Management Team. Every Department Head took to heart the budget preparation guidelines and our need to collectively use fiscal restraint. There has been a uniform consciousness, if you will, that this is not a "business as usual" year and that the City, as an organization, must do its part as a member of the larger McMinnville community and economy. I am confident that the City organization and the McMinnville community are filled with the "ordinary people" who are capable of doing the "extraordinary things" to meet the challenges facing us.

In addition to the information provided in this *Budget Message*, I encourage you to focus your review of the Proposed Budget on the excellent summary and highlight information that precedes each department's budget and each respective fund. These summaries, along with the *Budget Message*, will outline the highlights, changes, and assumptions related to the variety of City departments and services.

II. BUDGET ASSUMPTIONS

The Proposed Budget is based upon the following assumptions and criteria:

- A. Taxation and Fiscal Policy.** The Proposed Budget is balanced and stays within all of the statutory property tax limitations. No additional voter approval is required to authorize the proposed operating tax rate.

The City has added no new bonded debt during the current fiscal year. Thus, the property tax levy for debt service funds the City's existing obligations.

Based upon a conscious Council policy directive of several years ago to "loosen the purse strings" and to particularly increase support of public safety services, we have added to operational overhead. To sustain the higher expenditure levels we must supplement current revenues with fund reserves in order to balance the budget.

In the Proposed Budget, the General Fund's estimated ending fund balance of \$5.3 million is estimated to be 23 percent of the fund total. That percentage drops to a projected 13 percent, or \$2.8 million, by the end of Fiscal Year 2011 – 2012. This goal of maintaining a sustained healthy fund balance for as long as possible is reflected in the conservative nature of the Proposed Budget.

Regardless, the City will need to look closely at options for obtaining additional General Fund revenues simply to sustain current service levels, let alone make any service enhancements. Given that the most optimistic economic forecasts have the current economic recession continuing into 2010, placing a property tax measure before voters any time soon will be problematic. "Timing is everything."

The proposed City tax rate for Fiscal Year 2009 – 2010 is estimated to be \$5.84 per \$1000 of assessed value. This proposed rate met the target of coming in below the current fiscal year's tax rate of \$5.85.

Due to the uncertainty and volatility surrounding the real estate market, property values, and tax collections, we will need to closely monitor actual property tax collections as they relate to our estimates. We will also need to prudently monitor our other major General Fund revenue sources – i.e., franchise fee revenues and state-shared revenues (cigarette and liquor taxes). While we have been conservative in our forecasting of these revenues, the uncharted economic waters we find ourselves in, as well as state government's search for ways to address their own fiscal challenges, demand that we be vigilant.

- B. City Council Goals and Objectives.** A copy of the City Council's 2009 Goals and Objectives directly follows this *Budget Message*. During the City Council's goal-setting session in January 2009, Councilors expressed understanding that the City's ability to fund major new initiatives would be constrained by the economic recession and related issues. I believe the relatively constrained nature of the 2009 objectives reflects this collective feeling.

While the Proposed Budget will allow us to address the 2009 objectives, implementing the capital facility planning that is part of those objectives will remain a very big challenge in the short term.

- C. Employee Compensation and FTE Reductions.** Personal Services Expenditures is the largest single expenditure classification in the organization, with 65 percent of the property tax funds combined expended for wages and related payroll and benefit costs.

COLAs - Salaries of General Service employees (all non-union staff) reflect no cost-of-living adjustment (COLA).

COLAs for public safety employees covered by our two collective bargaining units are driven by labor agreements. The police union contract calls for a 3.0 percent COLA this year. The contract with the fire union is currently being negotiated. Both unions have been asked to consider a voluntary COLA reduction.

Medical Insurance – The Proposed Budget document, as distributed, reflects an estimated 12 percent premium increase in the coming policy year. Since the budget document was printed, we have learned that our actual premium increase will be 5.0 percent in the coming year. This reflects the City’s claims experience being well below the average for the pooled members with the City County Insurance Services program to which we belong. For General Service employees, the cost of this increase will be split 50/50 with the City. This will bring the General Service employee share of their annual medical premium to approximately 22 percent of the total premium cost.

Pursuant to the collective bargaining agreements, the share of medical premiums for employees within the police union is 5.0 percent of the total cost. Under the current agreement, fire union employees pay 10.0 percent of the total premium cost.

An employee committee is currently working with management on a review of alternative health plan options.

Full Time Equivalent (FTE) Position Reductions – The following FTE reductions from the current year are made in the Proposed Budget: one Community Support Coordinator in the Police Department; one Administrative Specialist II in the Municipal Court; and, one Building Inspector III and one Executive Secretary position in the Building Division. All of these positions are currently unfilled and will remain so through the end of this fiscal year. No new positions are being presented in the Proposed Budget.

- D. Other Insurance Coverages.** For the fourth year in a row there is good news about our premiums for liability, property, and workers’ compensation insurance coverage through the City County Insurance Service Trust (CIS). Overall, for these coverages, we will see a 5 percent decrease in pure rates.

III. BUDGET HIGHLIGHTS AND ITEMS OF NOTE

In a “normal” year and one outside of an economic recession of historic proportions, this is the place in the *Budget Message* where I would be describing new capital improvements or acquisitions, program initiatives, or new personnel. This simply is not that kind of budget. It reflects the “hold the line and reduce overhead wherever possible” directive given at the beginning of the budget preparation process.

Total General Fund expenditures in the Proposed Budget are decreased 7.24 percent from the current year’s Budget. Travel and Education accounts have been reduced and reflect a “no out-of-state travel” policy. Classes required to maintain a professional certification or maintain an operating system are exempt from the restriction. A hiring “chill” is in place – i.e., positions that become vacant will not be automatically filled. Such openings will be evaluated with the applicable department head on a case-by-case basis.

Thus, the true “highlight” of this Proposed Budget is that it represents an appropriate fiscal response to both the deep economic recession we are in and our need to contain operating costs in order to balance the budget over the next three to four years.

The Proposed Budget allows us to continue to provide a range of critical public services which, ironically, are in increased demand as a result of the economic recession. Our prudent stewardship of resources in the past is serving the City well, as we work through this difficult and uncertain period without some of the more drastic service reductions taking place elsewhere in Oregon and across the country.

IV. PROPOSED 2009 – 2010 PROPERTY TAXES

The projected tax rate for the Proposed Budget is \$5.84 per \$1000 of assessed value. The current year’s rate is \$5.85.

The projected tax rate is based on an estimated total City assessed valuation of \$2,035,672,000. This represents a projected 5.0 percent increase.

An “estimated not to be received” collection factor of 8 percent has been used to calculate new property tax receipts (the “Property Taxes – Current” accounts). Due to the overall economic uncertainties and volatility of the real estate market, we will need to closely monitor the rate of actual property tax collections as compared to our projections. The City of McMinnville’s share of the

total property taxes levied in McMinnville is estimated to remain at about 35 percent.

The following table summarizes the property taxes which make up the total proposed property tax levy for Fiscal Year 2009 – 2010. Current year actual data is also shown.

	2008 - 2009 Yamhill County Certified Property Tax Levy	2009 - 2010 Proposed Budget Property Tax Levy	\$ Change	% Change
General Fund	9,732,386	10,219,014	486,628	5.0%
Debt Service Fund	1,599,835	1,660,000	60,165	3.8%
Total Property Tax Funds	11,332,221	11,879,014	546,793	4.8%
	Actual 2008 - 2009 PPTax Rate*	Proposed Budget 2009 - 2010 PPTax Rate*	\$ Change*	% Change
General Fund	5.02	5.02	0.00	
Debt Service Fund	0.83	0.82	-0.01	-1.2%
Total Property Tax Funds	5.85	5.84	(0.01)	-0.2%
* Rate per \$1,000 of AV				
Assessed Valuation	1,938,723,856	2,035,672,000	96,948,144	5.0%
Real Market Value	3,281,260,714			

V. UNFUNDED REQUESTS

The Proposed Budget certainly does not represent funding of all of the needs and wants of each department. In most of our service areas, there are increasing demands due to growth.

Due to the Department Heads' responsiveness to the call to be extremely conservative in their budget requests, there were relatively few significant items that were not included in the Proposed Budget. And even with respect to those final reductions, there was an understanding and consensus amongst the Management Team as to the need for the reductions.

The most significant of the items included in the final reductions were: a non-sworn Community Support Coordinator position in the Police Department; one of the three proposed patrol car replacements, one Administrative Specialist position in Municipal Court, not converting five part-time Firefighter / Paramedic positions to three full-time positions, the reduction of information system technology capital outlay by approximately \$150,000, one Information System Analyst II position, and lease financing of a new Fire Department aerial ladder truck.

VI. FORMAT OF THE BUDGET DOCUMENT

You will find in this Proposed Budget notebook considerable supplemental and supporting information and budget detail. Behind the Budget Officer Tab, are the 2009 City Council Goals and Objectives and City of McMinnville Organization Chart.

Behind the Financial Overview Tab, you will find pie charts that summarize the revenue and expenditures of all City funds, along with pie charts that graphically demonstrate the City's Property Tax Supported Operating Funds, i.e., General Fund and Debt Service Fund. Also in this tab are Fund Definitions which are necessary to understand the purpose of each City of McMinnville fund, Account Definitions which describe how the City of McMinnville uses particular line-item accounts, and some information on budget-building related to line-item accounts.

Behind the Personal Services Tab, staffing levels (full-time, part-time, and volunteer staff) for the Proposed Budget are summarized. Also

included within this tab are the salary schedules for the three City employee groups.

Of particular value and usefulness are the Budget Summaries and Highlights that precede the line-item budgets for each department and fund. This information, prepared by each department head, provides excellent history and background information on their respective pieces of the Proposed Budget. The information includes program and project summaries and highlights, short- and long-term issues, and department history. **I highly recommend that you carefully read these Budget Summaries.** As you read, you will note that some departments have employee costs split between departments. A personal services summary for employees whose costs are divided between different departments is directly behind the Budget Summaries and Historical Highlights.

VII. CONCLUSION

"If "I" stories are essential to building new connections, "we" stories are equally valuable in sustaining those connections. Recounting how "we" overcame obstacles and achieved success reinforces shared identity and frames strategic choices for the future."

~ Robert Putnam

*Better Together: Restoring
The American Community*

"There is something troubling, self-indulgent, and slothful about America today - something that Katrina highlighted and that people who live in countries where the laws of gravity still apply really noticed . . ." [as Janadas Devan of the Straits Times in Singapore wrote,] "It is not only government that doesn't show up when (it) is starved of resources and leached of all its meaning.

Community doesn't show up either, sacrifice doesn't show up, pulling together doesn't show up, 'we're all in this together' doesn't show up."

*~ Thomas L. Friedman
"Singapore & Katrina"
New York Times, 9-14-2005*

This Proposed Budget reflects the fact that McMinnville is in the midst of an economic recession that is unprecedented in our lifetimes. It contains reductions in spending and reflects sacrifice. But, as a recent News Register editorial suggested, this is a time for governments to make "tough decisions" and for "sacrifice." The City has both a responsibility to do our part and to make prudent long-term decisions. I believe we can and will.

The McMinnville community has a history of what Robert Putnam refers to above as "'we' stories." City government and many other groups and individuals have worked together to build connections and sustain successful partnerships. This same sense of community, a "shared identity," and a spirit of cooperation will see us through the current economic challenge and put us in a position to be even stronger on the other side.

*Community will "show up."
Sacrifice will "show up."
Pulling together will "show up."
'We're all in this together' will "show up."*

These past six months have been as challenging of a time as I can recall in my professional career. I recognize that for many City staff members it has been marked at times by uncertainty and fear about the organization, the community, their jobs, their families, and their neighbors. Not finding ready answers to their questions and doubts adds to the angst. We have been together in unchartered waters. But in the midst all of this, our staff members have stepped up and continued to provide excellent services, remaining committed to the value of what we do and provide. And what we will do, and how we

do it, will continue to be critical not only to our community's "weathering the storm" but also to being positioned for economic growth as the recession recedes and ends. I want to express my thanks to all of our staff members for their excellence and patience during this troubling time.

Even after a budget is adopted in June for Fiscal Year 2009 – 2010, we will need to closely monitor our budget estimates and projections. We will need to be in a position to make mid-course adjustments as needed. To aid with this ongoing oversight, we have budgeted some funds to bring in an outside "set of eyes." We need to be assured that our projections are sound and that they are related to reality as we move through the coming fiscal year.

As always, preparation of this Proposed Budget is a team effort and reflects many hours of hard work on the part of many City staff members. Additionally, as discussed at length throughout this *Budget Message*, this has been a particularly challenging year. A special thanks to Finance Director Marcia Baragary, Senior Accountant Crystal Wooldridge, and the other members of the Finance Department staff. Everyone is to be commended for their sense of team, hard work, patience, and steadfastness!

City staff stands ready to assist you in any way possible with your budget review and deliberations.

Respectfully submitted,



Kent L. Taylor
Budget Officer
City Manager