

CITY OF McMINNVILLE
2010 – 2011
BUDGET MESSAGE

April 23, 2010

Honorable Rick Olson, Mayor

City Council and Members of the Budget Committee

"Leadership would be a safe undertaking if your organizations and communities only faced problems for which they already knew the solutions . . . But there is a whole host of problems that are not amenable to authoritative expertise or standard operating procedures. . . . We call these adaptive challenges because they require experiments, new discoveries, and adjustments from numerous places in the organization or community."

*~ Ronald Heifetz & Marty Linsky,
Leadership on the Line: Staying Alive
Through the Dangers of Leading*

"There are no silver bullets or magic productivity gains to allow us to avoid the need to come to grips with a governmental revenue system in Oregon that is unsustainable."

*~ Mike McCauley,
Executive Director,
League of Oregon Cities (November 2009)*

I. INTRODUCTION

The quality of life we enjoy in McMinnville is due in no small part to the services provided by the City. These services have been built based upon many years of City Council and Budget Committee decisions about the level and quality of services the community wants. In past surveys of community opinion about City services, the City has received high marks, with the public being very happy with the level and quality of service provided.

But as indicated over the past several years, use of reserves to partially fund operations cannot be sustained indefinitely. This, coupled with the negative impacts of the current deep economic recession, requires the City to make difficult decisions to bring operating expenditures more in line with the current revenues. That process began with the current fiscal year's budget and continues with this Proposed Budget for Fiscal Year 2010 – 2011.

Your Management Team has approached this fiscal reality in a collaborative manner and spirit. While each Department Head kept in mind the mission and welfare of his or her department, they also honored the value and contributions made by the other departments. The underlying philosophy has been that the "whole is greater than the sum of the parts." I commend the Management Team for their hard work. Their leadership has been critical to addressing this challenge, for which "there are no silver bullets."

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* and Financial Overview, will outline the highlights, changes, and assumptions related to the variety of City departments and services.

II. BUDGET ASSUMPTIONS

The Proposed 2010 – 2011 Budget is based upon the following assumptions and criteria:

- A. The Economy.** The recession has flattened property tax revenues and significantly reduced building and development related revenues and reduced utility franchise fees. The AP's latest Economy Survey, released April 12, 2010, concludes that the recession will remain with us, "well into 2011." Its impacts on the local economy, residents, and the City's budget will also continue for some time. Placing any proposed new tax measure before voters any time soon is not prudent. I believe the public expectation is that the City needs to continue to do its own belt-tightening.

B. Cost Containment and Efficiency Measures. For some time the City has taken numerous steps to lower costs. Examples are wide-ranging and include implementing energy efficiency measures in virtually every facility; extensive use of volunteers and contract services; increased use of technology; increasing the share of medical insurance employees pay; and, elimination of COLA salary increases for general service employees in the current budget year. The City will continue to look for operating efficiencies and take other cost containment measures. In the Proposed Budget, that includes extending the COLA freeze and a further personnel reduction of 4.0 FTE's (full-time employee equivalents). The 4.0 FTE reduction includes vacant positions and the effect of furlough days.

C. 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.

Funding Target – In the current fiscal year's budget (2009 – 2010), revenues in the General Fund finance approximately 89 percent of total operating costs. Based upon updated budget forecasting models, including the services and recommendations by an outside financial consultant, this Proposed Budget decreases the use of reserves in the General Fund as a percentage of the total expenditures. The Proposed 2010 – 2011 Budget funds General Fund expenditures with operating revenues at a 97 percent level. This allows us to maintain prudent financial reserves for a longer period of time. Hopefully, conditions in late 2011 or early 2012 will be more favorable for obtaining new revenues and/or seeing revenue levels from existing sources increase.

The proposed City tax rate for Fiscal Year 2010 – 2011 is estimated to be \$5.74 per \$1,000 of assessed value. The current year's tax rate is \$5.84. The reduction is due in part to the projected 4.0 percent increase in the City's assessed value. Also, because the reserve in the Debt Service Fund is now fully funded, it is no longer necessary to levy additional property taxes.

We will need to continue monitoring our actual vs. budget performance as we move through the fiscal year. The three-year fiscal forecast will also need to be reviewed and updated as needed.

D. Service and Program Mix. The "Introduction" section discussed the collaborative approach used to prepare this Proposed Budget. The strength of our community and organization is that we are strengthened by providing a variety of services and facilities. Woven together they make for an excellent fabric – i.e., a high quality of life. They are interrelated and interlocked. Reductions and sacrifices of various kinds have been made by every department, but core services have been maintained. It is ironic that the deep recession has actually increased the demands for service in a variety of programs, including the Library, recreation, and after-school enrichment programs.

The Proposed Budget continues the support for a mix of services and sense of a shared community – in good times and bad. The following note was sent to me, unsolicited, by one of our Department Heads. It reflects so well the spirit of mutual support and community that I've tried to describe – and maintain.

"On a personal note, I wanted to share with you that this recent experience of working through the budget process has served to remind me of the character and strength of this organization and the people that work here. I had shared with you how proud I was of the people in my office and of their empathy for others and willingness to do what was necessary to help

"fix" the current situation. I'm sure that others on the management team experienced similar responses from their staffs.

I appreciate the other members of the management team for their focus and openness throughout this process . . . "

E. CITY COUNCIL GOALS AND OBJECTIVES. A copy of the City Council's 2010 Goals and Objectives directly follows this *Budget Message*. The lack of any new objectives that would rely heavily on General Fund financing reflects an awareness of the challenging fiscal time in which we find ourselves. Most are a continuation of current initiatives and can be achieved within the limitations of the Proposed Budget. It is a balancing process to incorporate new initiatives while striving to provide quality services and programs that McMinnville's citizens have come to expect.

F. EMPLOYEE COMPENSATION AND FTE REDUCTIONS. The Personnel costs are the largest single expenditure classification in the organization. The services supported by property taxes and other non-designated revenues are heavily invested in personnel – e.g., police officers, firefighters, lifeguards, librarians, recreation program staff, and parks maintenance workers. These personnel costs are 74 percent of the total expenditures within the General Fund budget.

COLAs – Salaries of General Service employees (all non-union staff) reflect no cost-of-living adjustment (COLA) for the second consecutive year. The COLAs for the public safety employees covered by our two collective bargaining agreements are tied to COLA indexes. The Proposed Budget reflects the minimum of 3.0 percent due the police union members and the minimum of 2.0 percent due to the fire union members.

Personnel Reductions and Related – Through a combination of reductions in full-time positions, part-time employee hours, and the use of employee furlough days, the total number of Full-Time Equivalents (FTE) has been

reduced by approximately 4.0 FTE from the current year. The charts located behind the "Personal Services" tab summarize these changes by department.

Medical Insurance – The Proposed Budget document, as distributed, reflects an estimated 10 percent premium increase in the coming policy year. Since the budget document was printed, we have learned that our actual premium increase will be 1.5 percent in the coming year. 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 23 percent of the total premium cost.

Pursuant to the terms of collective bargaining agreements, the share of medical premiums for employees within the police union is 5.0 percent of the total cost. Fire union employees pay 10 percent of the total premium cost.

G. OTHER INSURANCE COVERAGES. It is another good year for news about our premium for liability, property, and workers' compensation insurance coverages through the City-County Insurance Services Trust (CIS). We have budgeted for an overall 1.0 percent increase, but the most current information suggests that these rates will not increase at all. In addition, the Proposed Budget reflects the City's having received a \$112,000 dividend from CIS for good performance in prior policy years – further evidence of the excellent cost and coverage advantages and risk management services we have received from our participation in the CIS program.

III. BUDGET HIGHLIGHTS AND ITEMS OF NOTE

The "highlight" of this Proposed Budget is achieving the goals of budgetary discipline and fiscal prudence required to address the impacts of rising costs and a prolonged national recession. The difficult budgetary decisions reflected in the Proposed Budget position the City to weather a prolonged recession over the next several fiscal years. We have put ourselves on a course to maintain

a prudent General Fund reserve at least through Fiscal Year 2012 – 2013.

The General Fund's reliance on reserves has been reduced from the current 11 percent to 3 percent of total expenditures.

Total General Fund expenditures in the Proposed Budget are decreased 7.8 percent from the current year's Budget. A summary, by department, is included in the Financial Overview which immediately follows the City Organization Chart.

The Proposed Budget will require all General Fund-supported departments to prioritize services and adapt to change. I would call your attention again to the Budget Summaries and Highlights prepared by each Department Head. They precede the line-item budgets for each department. Their discussion includes the impacts of reductions.

IV. PROPOSED 2010 – 2011 PROPERTY TAXES

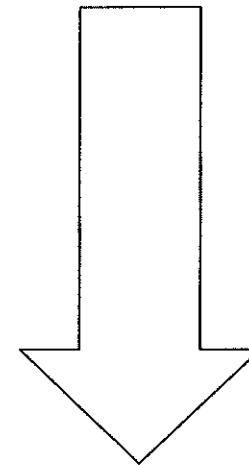
The projected tax rate for the Proposed Budget is \$5.74 per \$1000 of assessed value. The current year's rate is \$5.84.

The projected tax rate is based on an estimated total City assessed valuation of \$2.116 billion. This represents a projected 4.0 percent increase from the current year.

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 2010 – 2011. Current year actual data is also shown.

See Property Tax Levy and Rate Summary Table on Next Page



	2009 - 2010 Yamhill County Certified Property Tax Levy	2010 - 2011 Proposed Budget Property Tax Levy	\$ Change	% Change
General Fund	10,213,768	10,622,000	408,232	4.0%
Debt Service Fund	1,659,839	1,522,000	(137,839)	-8.3%
Total Property Tax Funds	<u>11,873,607</u>	<u>12,144,000</u>	<u>270,393</u>	2.3%

	Actual 2009 - 2010 PPTax Rate*	Proposed Budget 2010 - 2011 PPTax Rate*	\$ Change*	% Change
General Fund	5.02	5.02	0.00	0.00
Debt Service Fund	0.82	0.72	-0.10	-12.2%
Total Property Tax Funds	<u>5.84</u>	<u>5.74</u>	<u>(0.10)</u>	-1.7%

* Rate per \$1,000 of AV

Assessed Valuation	2,034,615,980	2,116,000,000	81,384,020	4.0%
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Real Market Value	3,267,741,423
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V. CAPITAL PROJECTS

The major capital improvement projects in the Proposed 2010 – 2011 Budget include:

- Construction of a new neighborhood park in NE McMinnville, near Grandhaven School.
- Continued wastewater collection system improvement work in the “high school basin.”
- Construction of additional taxiway improvements at the Airport.

These projects are funded by designated revenues – i.e., bond proceeds, utility revenue, and grant funds.

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 2010 City Council Goals and Objectives and City of McMinnville Organization Chart.

Behind the Financial Overview tab, you will find an overview and analysis of the City's revenues, expenditures and reserves. Numerous charts and graphs are included in the analysis to enhance the readability of the document. Also included behind the Financial Overview tab is a section entitled “2010 – 2011 Proposed Budget – Fund Definition, Budget Basis.” This section explains the different types of funds, describes the purpose of each of the City's funds, and discloses the total operating expenditures for each fund.

Behind the Personal Services Tab is information related to staffing levels and Fiscal Year 2010 – 2011 proposed reductions; volunteer rosters; and salary schedules.

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

"Taking the heat with grace communicates respect for the pains of change."

~ Ronald Heifetz and Marty Linsky
Leadership on the Line: Staying
Alive Through the Dangers of Leading
(2002).

"Because the future can be changed - it is not static any more than the present is. With one action taken today you can initiate a whole series of actions in the future, and with one action avoided today, you can stop many actions in the future."

~ Vusamazulu Credo Mutwa,
 Zulu Elder

The Proposed Budget reflects difficult decisions. They are decisions necessitated by a continuing economic recession that makes it very difficult to match service demands with resources. The Proposed Budget represents a collaborative effort by the City's Management Team to address our present day fiscal challenge in a way that will shape our future in a positive way.

I recognize “the pains of change” that flow from this Proposed Budget. Knowing that these fiscal steps are prudent and necessary for the City's continued financial health does not erase my sensitivity to their impacts at a human level. I am just beginning my twenty-fifth year as City Manager. The fact that we have been through other periods of budget reductions

and contraction does not make the current decisions and their impact on staff and programs any easier to take.

The City's employees are dedicated and committed to public service. They have been challenged during this troubled time and have stepped up to the challenge. Yes, there is some pain and anxiety involved, but their commitment to the City and the public has not wavered. I am proud of them and honored to work with them.

Even after a budget is adopted in June for Fiscal Year 2010 – 2011, 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 continue benefitting from 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.

Acknowledgements - 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 another 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,

A handwritten signature in black ink, appearing to read "Kent L. Taylor". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Kent L. Taylor
Budget Officer
City Manager