



2010–2011 Proposed Budget --- Financial Overview

This overview provides a brief description of the budget process and an analysis of the City of McMinnville's resources (beginning fund balances and revenues) and requirements (expenditures, contingencies and ending fund balances). In this document, "fund balance" and "reserve" are used interchangeably.

The Budget Process:

Purpose of Budget

- The budget represents the financial plan of the City of McMinnville. It communicates the City Council's goals priorities to the citizens and dictates the City's allocation of resources. In addition, it is a guideline for spending decisions and it provides a tool for performance measurement. As much as federal and state governments, local government also has the need to demonstrate "transparency" and "accountability". The budget document clearly indicates where the City has allocated its resources in 2008-09 and 2009-10 and where it intends to spend taxpayer and ratepayer dollars in fiscal year 2010-11.

Preparation of Budget

- The City's budget has been prepared in accordance with Oregon Revised Statute (ORS) 294.305 through 294.565, otherwise known as Oregon Local Budget Law.
- The budget is prepared by fund. For a description of the City's funds, see the Fund Definition narrative following the next green divider page within this tab. All resources and requirements must be budgeted and resources and requirements must balance.

Adoption of Budget

- As part of the budget process, Local Budget Law requires a public hearing which provides a forum for the Budget Committee to receive input from the public. The Budget Committee approves the budget proposed by the Budget Officer and recommends the approved budget to the City Council. Once approved by the Budget Committee, the City Council cannot amend the budget by more than 10% without an additional public hearing. After adoption, management only has authority to spend within the adopted budget appropriations, unless the City Council amends the budget by resolution.

Resource and Requirement Summaries

The budget is a legal document which includes lawful appropriations and gives the City of McMinnville the authority to spend public money. Therefore, the focus of the budget is on resources (which are used to pay for services provided to the public) and requirements (used to ensure that public funds are spent according to the budget adopted by the City Council). Local Budget Law defines resources as beginning fund balances and revenues. Requirements are defined as expenditures, contingencies and ending fund balances. For comparison purposes, this document primarily discusses revenues and expenditures only.

ALL CITY FUNDS

RESOURCES – by Type

Beginning Balance	\$33,420,270
Property Taxes	11,437,240
Franchise Fees	1,921,000
License & Permits	340,995
Intergovernmental	5,168,243
Charges for Services	15,766,705
Fines & Forfeitures	843,700
Other Revenues	750,290
Transfers In	6,369,661
Total Resources	\$76,018,104

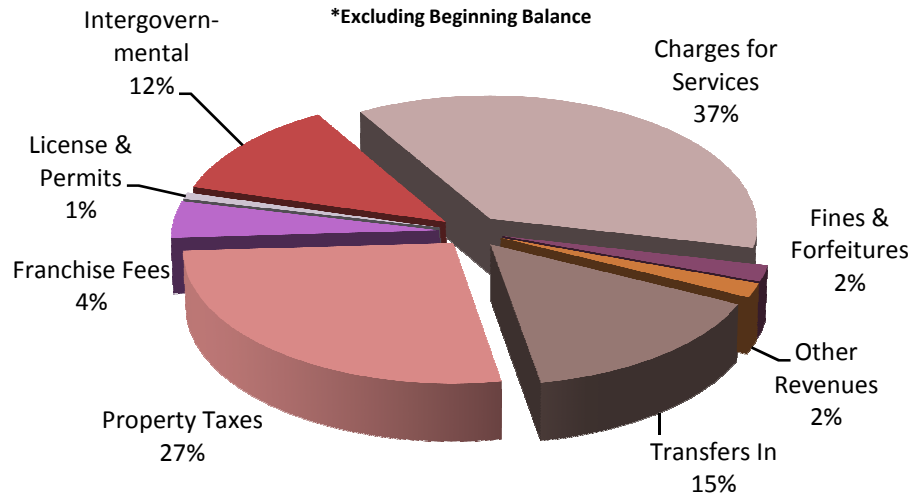
REQUIREMENTS – by Classification

(Excluding Contingency & Ending Balance)

Personal Services	\$17,015,040
Materials & Services	11,381,490
Capital Outlay	9,084,563
Debt Service	4,650,919
Transfers Out	6,369,661
Contingency	2,922,390
Ending Balance	24,594,041
Total Requirements	\$76,018,104

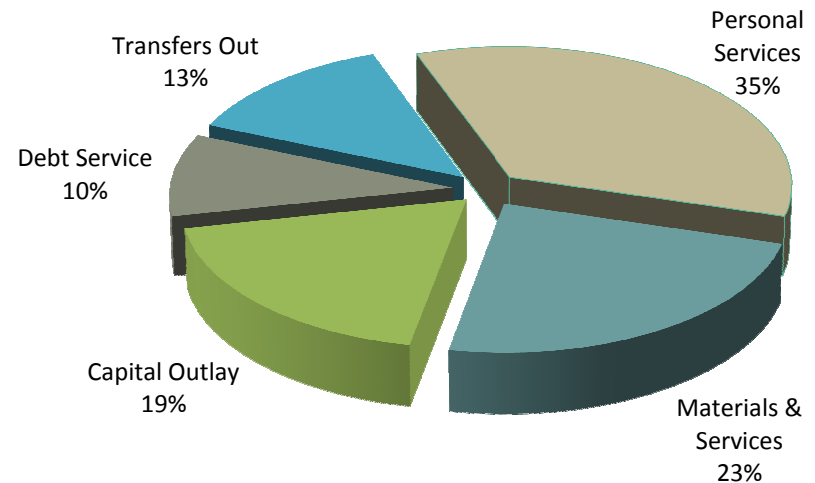
Revenues- All City Funds

*Excluding Beginning Balance



Expenditures - All City Funds

*Excluding Contingency & Ending Balance



Resources for All City Funds:

The charts on the previous page indicate the type and amount of revenues for all City funds. These charts clearly show the significance of Charges for Services and Property Taxes as funding sources for City operations.

Charges for Services revenues at \$15.7 million or 37% account for the largest share of all city revenues. Sewer user charges in the Wastewater Services Fund at \$8.0 million and recreation program fees in the General Fund Park and Recreation Department at \$1.1 million constitute the majority of total Charges for Services.

Property tax revenue is the next largest share at \$11.4 million or 27% of all City revenues. Property tax revenue funds a significant portion of General Fund operations and is used to pay debt service on General Obligation bonds approved by voters. Additional discussion regarding property tax revenue appears in the "General Fund Resources" section of this document. For additional information on City debt obligations, please see the Debt Service Fund and Wastewater Capital Fund tabs.

Transfers In revenues represent 15% of all City revenues. These are "internal" revenues that result from the City's policy of reimbursing certain departments, such as Administration, Finance, and Engineering, for services provided to other City departments.

Intergovernmental revenues at \$5.2 million or 12% of all City revenues include state shared revenues, such as

liquor, cigarette, and gas taxes, and a \$2.9 million grant from the Federal Aviation Administration (FAA) for airport runway construction. Interestingly, cigarette tax revenues are projected to remain flat, while liquor tax revenues are projected to increase.

Requirements for All City Funds:

The charts on the previous page reflect classifications and amounts of expenditures for all City funds.

Expenditures are classified as Personal Services (salaries and wages and fringe benefits), Materials and Services (contractual services, materials, and other), Capital Outlay (long term assets), Debt Service (payments on debt obligations) and Transfers Out (which correspond to Transfers In).

Personal Services expenditures are by far the largest portion of all City expenditures at 35% of the total. Of the \$17.0 million Personal Services expenditures, \$11.5 million or 68% is for Salaries and Wages and \$5.5 million or 34% is for fringe benefits.

Materials and Services expenditures are 23% of total expenditures and primarily include \$3.2 million for General Fund expenditures such as program costs, contractual services, etc.; in the Ambulance Fund, Materials and Services expense includes almost \$2.5 million for ambulance transport fee write-offs.

Capital Outlay expenditures include projects in the Airport Fund (funded by an FAA grant), Park Development Fund (funded by 2001 bond proceeds), and Wastewater Capital Fund (funded primarily by sewer user charges).

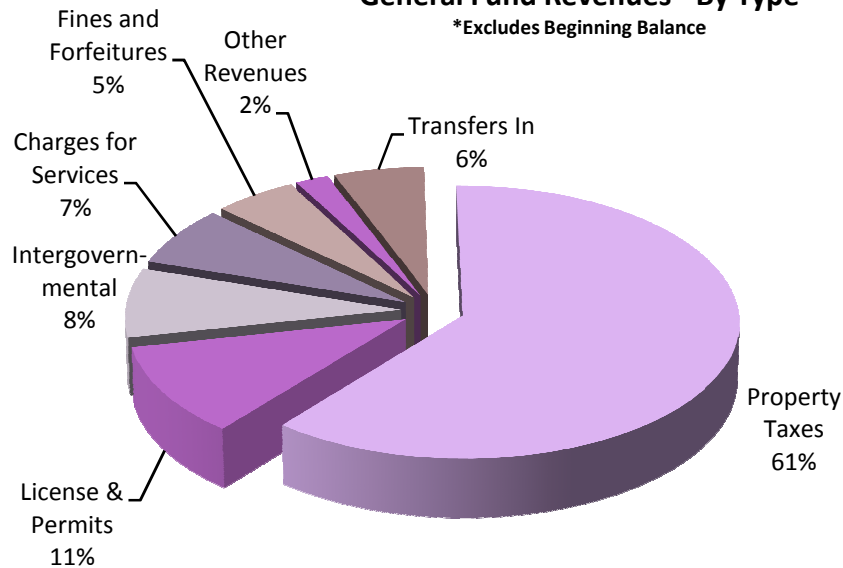
GENERAL FUND OPERATING PROPERTY TAX

GENERAL FUND RESOURCES – by Type	
Beginning Balance	\$5,501,230
Property Taxes	10,002,000
License & Permits	1,768,100
Intergovernmental	1,349,813
Charges for Services	1,146,220
Fines and Forfeitures	843,700
Other Revenues	329,514
Transfers In	906,576
Total Resources	\$21,847,153

GENERAL FUND REQUIREMENTS – by Classification	
Personal Services	\$12,441,156
Materials & Services	3,288,655
Capital Outlay	145,859
Transfers Out	917,372
Contingency	750,000
Ending Balance	4,304,111
Total Requirements	\$21,847,153

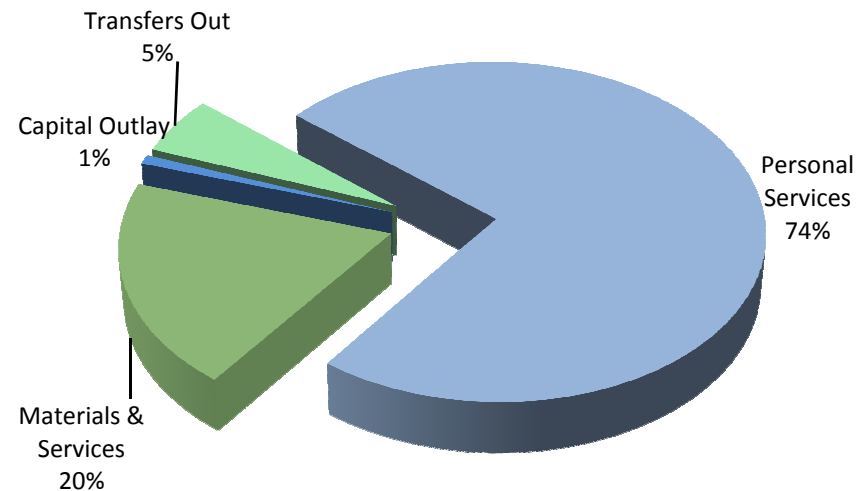
General Fund Revenues - By Type

*Excludes Beginning Balance



General Fund Requirements - By Classification

*Excludes Contingency & Ending Balance



General Fund Resources:

General Fund revenues are used to pay for the delivery of vital City services, including Police and Fire services, parks and recreational opportunities, library services and general government administration. The charts on the previous page indicate the type and amount of revenues included in the General Fund.

Property taxes for general operating purposes are levied at the permanent rate of \$5.02 per \$1,000 of assessed value. The 2010-11 Proposed Budget projects that \$10.0 million in operating property tax revenues will be collected, a 4% increase from the prior year. Property tax revenues constitute 61% of General Fund revenues. As a result, General Fund operations are significantly impacted by the growth rate of assessed values and the associated property tax revenue.

Licenses and permits account for \$1.7 million or 11% of General Fund revenues. Licenses and permits include franchise fees which are collected from gas, electric, telephone and garbage collection users. Franchise fees are projected to be relatively flat compared to last year. However, franchise fees paid by McMinnville Water and Light to the City are projected to be 21% less than 2007-08, primarily due to the decrease in production at Cascade Steel Rolling Mills.

In the General Fund, charges for services are primarily Parks and Recreation Department fees collected for Aquatic Center use and recreation programs. Fines and forfeitures are primarily court fines collected by the Municipal Court.

General Fund Requirements:

The chart on the previous page indicates the classification and amount of General Fund expenditures. The majority of expenditures are for Personal Services at \$12.4 million or 74%. Of the 74%, Police, Fire and Municipal Court combined account for \$7.1 million of total General Fund Personal Services. Because Personal Services are such a substantial percentage of expenditures, significant budget reductions can generally only be obtained by reducing staffing levels and/or fringe benefits.

Materials and Services account for 20% of General Fund expenditures. The Police and Parks and Recreation Department budgets account for \$1.4 million or 44% of Materials and Services expenditures. Examples of Police Department expenditures are building utilities and maintenance; fuel, maintenance and repairs of vehicles; computer system costs; and property and liability insurance. Parks and Recreation Department expenditures are primarily for recreation program costs, and utilities, repairs and maintenance of the Aquatic Center, Community Center and Senior Center.

This chart also reflects that, due to budget constraints, a minimal amount of Capital Outlay expenditures are included in the 2010-11 Proposed Budget for the General Fund. Capital Outlay items that were originally included in the 2010-11 Proposed Budget but were subsequently deleted are several Police Department vehicles; office remodeling in the library; and Fire Department equipment.

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General Fund Expenditures by Department:

The following chart illustrates that the largest share of General Fund resources are spent on public safety. The Police Department, Fire Department and Municipal Court combined account for 51% of all General Fund expenditures.

Culture and Recreation expenditures (Parks & Recreation, Parks Maintenance, and Library) make up 27% of all General Fund expenditures. The largest share of Culture and Recreation expenditures is attributable to the Parks and Recreation Department. Approximately half of Parks and Recreation Department expenditures are offset by charges for services revenues. The significant portion of General Fund resources dedicated to Culture and Recreation demonstrates the City's commitment to providing the citizens of McMinnville a quality environment, as well as a safe environment.

The remaining 22% of General Fund expenditures are for general government (Administration, Finance, Engineering, and Planning) and Transfers Out. Administration includes City Manager's Office, City Hall and Other City Property, Human Resources, Legal, Mayor and City Council, and Community Services. Transfers Out are primarily reimbursements to the Information Systems and Services (IS) Fund for computer support; to the Emergency Communications Fund for YCOM support; and to the Ambulance Fund to subsidize operations.

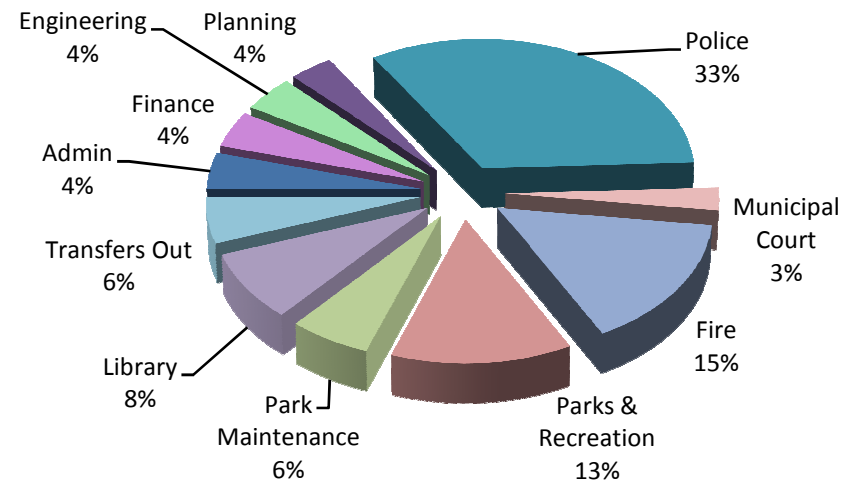
GENERAL FUND REQUIREMENTS – by Department

(Excludes Contingency & Ending Balance)

Administration	\$722,821
Finance	722,249
Engineering	700,121
Planning	575,916
Police	5,554,073
Municipal Court	455,025
Fire	2,561,055
Parks & Recreation	2,210,537
Park Maintenance	995,871
Library	1,378,002
Transfers Out	917,372
Contingency	750,000
Ending Balance	4,304,111
Total Resources	\$21,847,153

General Fund Expenditures - By Department

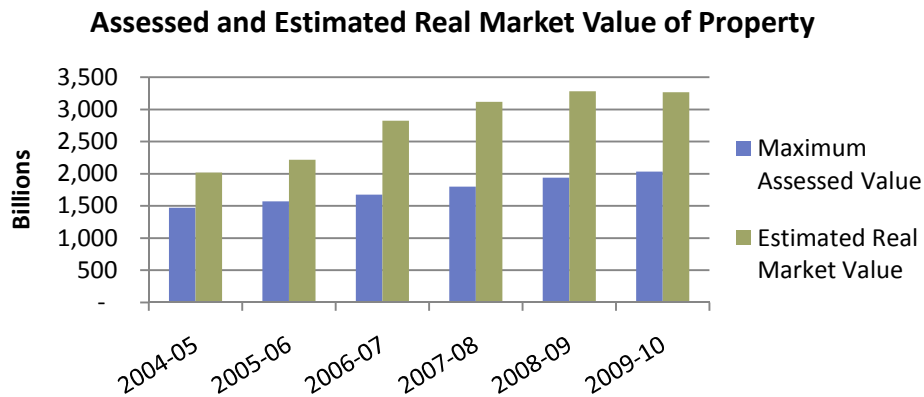
*Excludes Contingency & Ending Balance



General Fund Reserve:

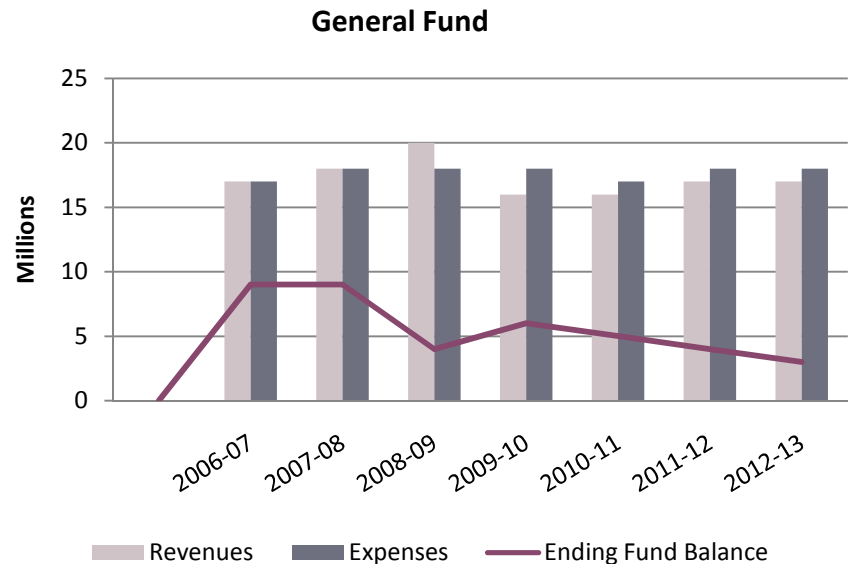
One measure of a City's financial health is whether revenues exceed expenditures. When revenues exceed expenditures, the ending fund balance or reserve is increased. The reserve also increases when actual revenues are higher than projected and / or actual expenditures are lower than budgeted.

From 2004-05 through 2008-09, the City's assessed value increased by an average of 7% per year. This steady growth and the accompanying increase in property tax revenue played a major role in enabling the City to maintain the General Fund reserve even though the demand for services increased with the growing population. However, the City's assessed value grew by only 5% in 2009-10 and is projected to grow by only 4% in the next few years. This slower growth rate is one important factor in the spending down of the General Fund reserve. The following chart compares the growth in maximum assessed value to real market value.



Another important factor in spending down the reserve is the expenditure increases from 2006-07 through 2009-10, which are primarily due to increases in Police and Fire staffing levels.

The following chart demonstrates the relationship between flattening revenues, expenditures exceeding revenues and the resulting decrease in the General Fund reserve. Note the decrease in expenditures from 2009-10 to the 2010-11 Proposed Budget. Revenue and expenditure estimates for 2010-11 and 2012-13 were derived from the City's long term fiscal forecast.



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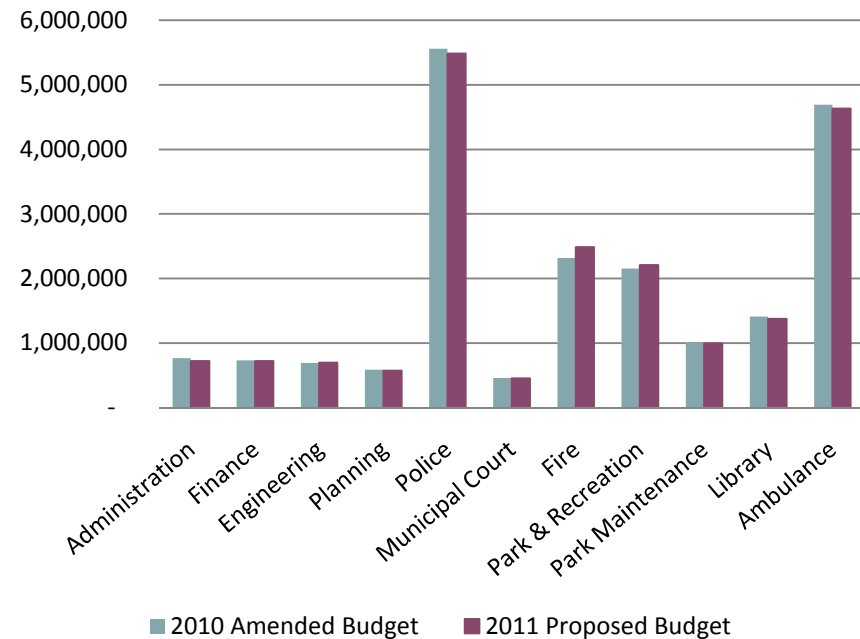
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As stated in the City Manager's Budget Message, "Use of reserves to partially fund operations cannot be sustained indefinitely. This...requires the City to make difficult decisions to bring operating expenditures more in line with the current revenues." The chart on this page compares the 2009-10 Amended Budget with the 2010-11 Proposed Budget for Property Tax Supported departments. The percentage decrease reflects the reductions proposed by departments in response to the City Manager's directive to reduce operating expenditures. Capital Outlay expenditures are excluded to allow for better comparison.

PROPERTY TAX SUPPORTED – DEPARTMENT COMPARISON (Excludes Capital Outlay)			
	<u>2010 Amended Budget</u>	<u>2011 Proposed Budget</u>	<u>% Change</u>
Administration	\$766,427	\$722,821	-5.69%
Finance	732,312	722,249	-1.37%
Engineering	691,418	700,121	+1.26%
Planning	590,612	575,916	-2.49%
Police	5,558,290	5,482,439	-1.36%
Municipal Court	461,869	455,025	-1.48%
Fire	2,317,991	2,486,830	+7.28%
Park & Recreation	2,153,791	2,210,537	+2.63%
Park	1,016,765	995,871	-2.05%
Maintenance			
Library	1,411,017	1,378,002	-2.34%
Ambulance	4,690,853	4,631,718	-1.26%
Total	\$20,391,345	\$20,361,529	-0.15%

It should be noted that the increase in the Fire Department's 2010-11 Proposed Budget is due to the inclusion of \$120,000 for Self Contained Breathing Apparatus (SCBA) repairs, in lieu of purchasing new apparatus. In the Parks and Recreation Department, increasing demand for services has resulted in higher program costs. Approximately half of all program costs are recovered through user fees. Modest increases are proposed for some fees to limit the use of General Fund tax dollars to fund recreational programs and offset the increase in expenditures.

**Property Tax Supported - Department Comparison
2010 Amended Budget vs 2011 Proposed Budget**



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Fiscal Forecast

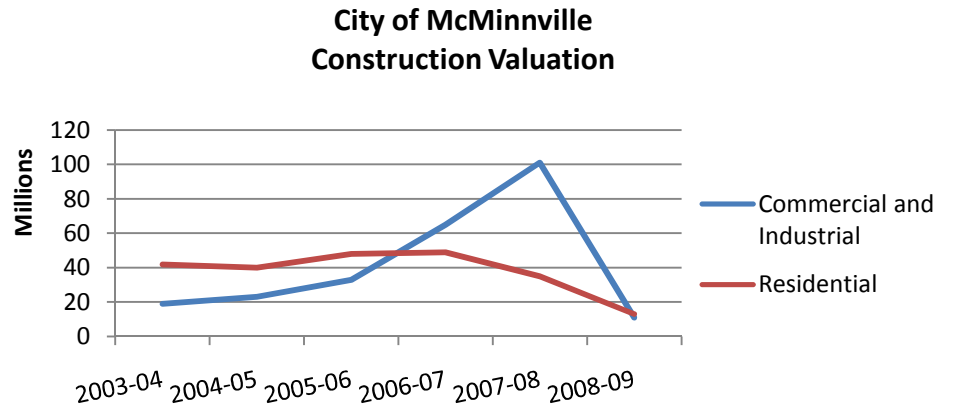
Recognizing that the recovery from the current recession will be prolonged, City management decided early in the budget process to dedicate resources to completing an in-depth update to the fiscal forecast. This forecast projected revenues, expenditures and fund balances for fiscal years 2010-11, 2011-12, and 2012-13 for the General Fund, Ambulance Fund, and Building Fund. The Ambulance Fund was included in the forecast process because a General Fund subsidy is required to balance the fund. The Building Fund does not require a subsidy at this time, but may in the future. The fiscal forecast allows the 2010-11 Proposed Budget to be considered within the framework of the City's long term financial condition.

A set of assumptions was defined and used to project revenues and expenditures. These assumptions were based on historical data, trends, research, discussion with other entities, and the assistance of a financial consultant who has extensive budgeting expertise. The initial fiscal forecast indicated that General Fund reserves would be depleted to an unacceptable level in 2012-13 unless substantial reductions were made in the 2010-11 Proposed Budget. The information derived from the fiscal forecast was extremely beneficial in management's decision making process. As stated in the City Manager's Budget Message, the assumptions used in the forecast will be continually evaluated and adjusted as necessary.

Budget Highlights for Other Funds

The 2011 Proposed Budget addresses challenges and opportunities in several other funds.

The Building Fund has been significantly affected by substantial reduction in residential, commercial and industrial construction. Due to the drop in permit revenue, the Building Fund reserve has virtually disappeared. Yet, through the efforts of Building Department management and staff to reduce expenditures, the 2010-11 Proposed Budget does not propose a General Fund subsidy for Building Department operations. The chart below illustrates the dramatic increase in commercial and industrial activity in 2006-07 and 2007-08 and the equally dramatic decrease in 2008-09.



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The Ambulance Fund faces significant budget and operational issues. Due to insufficient reimbursement from Medicare and Medicaid, a General Fund subsidy of \$150,000 is proposed in the 2010-11 Proposed Budget. The need for a General Fund subsidy will most likely continue and will increase in years when substantial capital outlay, such as the purchase of a new ambulance, is necessary. City Council is presently reviewing several different ambulance service delivery options.

The Wastewater Services and Wastewater Capital Funds expenditures constitute 32% of all City expenditures. In April 2010, the City's wastewater master plan and financial plan were updated. This update indicated that the City can rely on a "pay as you go" approach to funding the significant capital needs identified in the wastewater master plan. The foresight shown by previous management and City Councils will enable the City to maintain the existing rate structure with only slight rate increases and no additional debt over the life of the plan.

Summary

On the following page is a Citywide Financial Overview which provides a comparison of the total resources and requirements for all City funds for the 2009-10 Amended Budget and the 2010-11 Proposed Budget.

The decrease in Beginning Fund Balance is partially due to the spending down of the General Fund reserve but is also due to the use of bond proceeds for Civic Hall construction and park acquisition and development projects.

Comparison of revenues indicates that the City's primary funding sources, property taxes, licenses and permits (franchise fees), and charges for services are fairly stable with relatively minor changes from 2009-10 to 2010-11. In 2009-10, intergovernmental revenues included \$530,000 in energy incentives for the Aquatic Center project. The decrease in miscellaneous revenues is generally due to extremely low interest rates.

The 2% change in Personal Services reflects increases related to Police and Fire collective bargaining agreements which were nearly offset by reductions in FTE. The reduction in Materials and Services and Capital Outlay expenditures is a result of decisions made by management and staff to propose a fiscally conservative budget.

The intent of this Financial Overview is to illustrate the relationships between revenues, expenditures, reserves and City operations. The City Manager's Budget Message, the Financial Overview, the Fund Definitions, and the information behind the Personal Services tab provide a comprehensive overview of the City's operations. Additional information regarding individual departments can be found in the Budget Summaries included with each fund.

Please contact Finance Director Marcia Baragary at 503-434-2350 or Marcia.Baragary@ci.mcminnville.or.us with any comments or questions regarding the Financial Overview.



City Wide Financial Overview

Description	2009 - 2010 Amended Budget	2010 - 2011 Proposed Budget	Percent Change
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RESOURCES

Beginning Fund Balance	\$37,688,585	\$33,420,270	-11%
Property Taxes	11,178,685	11,437,240	2%
Special Assessments	75,000	60,000	-20%
Licenses & Permits	2,412,150	2,261,995	-6%
Intergovernmental	6,035,966	5,168,243	-14%
Charges for Services	15,711,398	15,766,705	0%
Fines & Forfeitures	843,140	843,700	0%
Miscellaneous	1,131,162	690,290	-39%
Current Revenue	37,387,501	36,228,173	-3%
Transfers In	7,070,884	6,369,661	-10%
TOTAL ALL RESOURCES	\$82,146,970	\$76,018,104	-7%

REQUIREMENTS

Personal Services	16,717,153	17,015,040	2%
Materials & Services	12,734,088	11,381,490	-11%
Capital Outlay	12,045,419	9,084,563	-25%
Operating Budget	41,496,660	37,481,093	-10%
Debt Service	5,121,524	4,650,919	-9%
Transfers Out	7,070,884	6,369,661	-10%
Non-operating Budget	12,192,408	11,020,580	-10%
Contingency	3,548,703	2,922,390	-18%
Ending Fund Balance	24,909,199	24,594,041	-1%
TOTAL ALL REQUIREMENTS	\$82,146,970	\$76,018,104	-7%
Reserve (% of Requirements)	47%	43%	-4%