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December 21, 2009

Mayor Rick Olson
City Councilors
Citizens of the City of McMinnville

City management is pleased to submit the City of McMinnville's *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2009. The *Comprehensive Annual Financial Report (CAFR)* presents the financial position of the City of McMinnville (City) as of June 30, 2009 and the results of City operations and proprietary fund cash flows for the year then ended. The City's financial statements and schedules were prepared following accounting principles generally accepted in the United States of America (GAAP) and were audited by Talbot, Korvola & Warwick, LLP in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Talbot, Korvola & Warwick, LLP concluded the basic financial statements are free of material misstatement and issued an unqualified opinion presented in the second section of this report. Financial accuracy, completeness, and fairness of presentations in the *CAFR* are the responsibility of City of McMinnville's management. City management asserts the *CAFR* is complete and reliable in all material respects.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A is located immediately following the report of the independent auditors.

Profile of the Government:

City of McMinnville: The city is located in the agriculturally rich Willamette Valley 40 miles southwest of Portland, the largest city in Oregon. McMinnville is the county seat of Yamhill County, the home of Linfield College, and the economic hub of the region. The economy is widely diversified, with primary industries including commercial aviation, steel rebar production, medical services, insurance services and tourism. This diverse economy is based primarily on smaller companies with less than 50 employees, although several larger companies are also based in McMinnville.

The City is a municipal government incorporated as a town in 1876 and as a city in 1882, and now operates under a council-manager form of government. The elected officials are a mayor and six city council members. The City provides a full range of services, including police and fire protection; municipal court; wastewater treatment, system construction and maintenance; street

construction and maintenance; engineering and planning services; building inspection services; parks, recreational and cultural activities; and a municipal airport.

Department: In addition to the City's primary services the City has one discretely presented component unit, the McMinnville Water and Light Department (Department) that is governed by a Mayor appointed and City Council affirmed Water and Light Commission. The Department provides water and electrical services to McMinnville residents. Additional information on the Department is located in the notes to the financial statements, Note I. A. 2.

Local Economy:

Employment: According to the Oregon Employment Department, total employment within city limits in 2008 stood at 13,940.¹ The largest share of this employment was concentrated in two industries; 19 percent in the trade, transportation, and utilities sector; and 19 percent in the private education and health services sector. These two sectors were followed by manufacturing employment at 16 percent. According to the Oregon Employment Department's data, most of the employment in McMinnville is in industries with above-average levels of payroll per employee. Over the past decade, most of the largest industries in McMinnville showed increases in employment, with health services, local government, and construction, leading the way. McMinnville's principal employers are listed in the Statistical Section.

Long-term economic forecasts suggest that employment in McMinnville will continue to grow at a slightly faster rate than Yamhill County and the northern Willamette Valley Region, as it has over the last several decades. These same forecasts estimate that McMinnville's employment will continue to grow at an average annual growth rate of 2.06 percent over the course of the next 20 years.

However, in the short-term, the city of McMinnville and Yamhill County unemployment rates have trended upward, along with state and national unemployment rates. In October 2009, the seasonally adjusted unemployment rate in Yamhill County exceeded 12 percent compared to 11 percent for the state of Oregon. Oregon has been particularly hard hit by the recession due to its dependence on the construction and manufacturing sectors. However, the Oregon Office of Economic Analysis forecasts that the decline in employment will flatten in 2010. During 2010, growth is predicted in the second quarter, gaining momentum as the year progresses.

Population Growth: Over the last ten years, McMinnville has experienced one of the fastest population growth rates in Oregon, 29.7 percent. Both new employers and residents are attracted to McMinnville because of its "livability" and its close proximity to the Portland metropolitan area, the state capital, the Cascade mountain range and the Oregon coast. Other factors contributing to the livability are the vitality of McMinnville's Historic Downtown District, Linfield College, and excellence of medical and City services. For comparison, during the same ten-year period, the state of Oregon's population grew 11.4 percent, less than half the growth rate of McMinnville, while Yamhill County population grew by 11.8 percent.

¹ Source: Oregon Employment Department, Labor Market Information, 2008. This is the most recent data available for the McMinnville city limits area.

Population Estimates

<u>Year</u>	<u>McMinnville</u>		<u>Yamhill County</u>		<u>State of Oregon</u>	
	<u>Population</u>	<u>Percent Change</u>	<u>Population</u>	<u>Percent Change</u>	<u>Population</u>	<u>Percent Change</u>
2000	25,250	3.4%	85,500	2.9%	3,421,399	0.8%
2005	30,020	2.8	90,310	1.2	3,628,700	1.3
2006	30,950	3.1	91,675	1.5	3,690,505	1.7
2007	31,665	2.3	93,085	1.5	3,745,455	1.5
2008	32,400	2.3	94,325	1.5	3,791,075	1.5
2009	32,760	1.1	95,255	1.0	3,823,465	0.9

Source: US Census Bureau, Portland State University Population Research Center
 certified yearly rounded estimates

Using forecasts published by the Oregon Office of Economic Analysis, McMinnville’s population is expected to increase over the next 20 years at an average annual increase of 2.4 percent. At this rate, McMinnville’s year 2025 population is expected to reach 46,195; an increase of some 13,435 residents from its 2009 population total.

Residential, Commercial, and Industrial Development: Mirroring the national downturn, McMinnville’s residential, industrial and commercial sectors saw a marked slowdown in activity this past year. This contrasts sharply with prior years in which McMinnville experienced steady growth. However, during fiscal year 2008-09, several projects of note were initiated or completed, including the following: groundbreaking for the construction of a recreational water park on the Evergreen Aviation campus, part of a larger project that will eventually include a 75-room lodge (total estimated \$24 million project); completion of a new Toyota dealership (\$3 million); renovation of a Wal-Mart store (\$1 million); completion of the Captain Michael King Smith Space Museum (\$26 million); completion of an Alzheimer / assisted care facility (\$4.5 million); construction of a new corporate airplane hangar (\$6 million); and several additions or remodels, including an addition to the Oregon Wine Services building (\$3.5 million).

Reflecting the downturn in the housing market, this past year the City had no tentative subdivision applications, something not experienced in the prior 20 years. The City did, however, issue permits for the construction of a 50-unit apartment complex, valued at \$6.5 million. To contrast, in the past three years, the City granted approval for the development of 15 residential subdivisions that, when completed, will add 829 lots. For comparison, the 2000 US Census Bureau estimated that there were a total of 9,834 housing units in McMinnville.

The decrease in the number of permits issued this past year has caused a noticeable drop in the value of new construction when measured against prior years. In 2009, 140 residential permits were issued, compared to 273 and 406 permits in 2008 and 2007, respectively. The value of residential new construction totaled \$12.6 million in 2009 compared to \$34.6 million in 2008 and \$48.6 million in 2007. For commercial and industrial permits, 153 permits were issued in 2009 compared to 151 and 147 in 2008 and 2007, respectively. The value of commercial, public sector and industrial new construction totaled \$10.8 million in 2009, compared to \$100.6 million in 2008 and \$65.0 million in 2007.

Property Values: Real market value growth is another factor useful in measuring the economic health of a community. As illustrated below, the real market value for McMinnville grew by 122.7 percent over the last ten years. The tax limitation measure enacted in 1996 rolled back assessed values for taxing purposes two years and limited future growth to three percent except for new construction and major improvements made to existing structures. Over this same ten-year period, maximum assessed values increased by 62.8 percent. The property values table below also illustrates that the City is located in a growing economic region. Yamhill County's real market value grew by 123.3 percent in the last ten years.

Property Values --- Maximum Assessed Value and Real Market Value
(\$s in thousands)

<u>Fiscal Year End</u>	<u>McMinnville</u>				<u>Yamhill County</u>	
	<u>Maximum Assessed Value</u>	<u>Percent Change</u>	<u>Real Market Value</u>	<u>Percent Change</u>	<u>Real Market Value</u>	<u>Percent Change</u>
2000	\$ 1,190,582	6.7%	\$ 1,473,226	6.3%	\$ 4,814,053	6.4%
2005	1,473,341	6.7	2,020,287	14.7	6,587,913	13.3
2006	1,570,074	6.6	2,215,610	9.7	7,218,305	9.6
2007	1,675,907	6.7	2,822,851	27.4	9,138,140	26.6
2008	1,798,841	7.3	3,117,670	10.4	10,321,298	12.9
2009	1,938,724	7.8	3,281,261	5.2	10,751,680	4.2

Source: Yamhill County Assessor's Office

Property Tax Rates: Since fiscal year 2000-01, the City has levied the entire \$5.02 permanent property tax rate for operations, which was established by the 1996 tax limitation measure. In 2007, the debt service levy increased slightly due to the issuance of \$13.12 million general obligations bonds in 2006. Bond proceeds were used to fund construction of the new Public Safety and Civic Hall Buildings.

Property Tax Rates
(per thousand of assessed valuation)

<u>Fiscal Year Ended</u>	<u>City of McMinnville - Only</u>			<u>McMinnville Tax Code #40</u>
	<u>Operating Levy</u>	<u>Debt Service Levy</u>	<u>Total Property Tax Levy</u>	<u>Consolidated Property Tax Rate</u>
2000	\$ 4.93	\$ 1.01	\$ 5.94	\$ 17.37
2005	5.02	0.96	5.98	15.93
2006	5.02	0.90	5.92	16.31
2007	5.02	0.91	5.93	15.43
2008	5.02	0.85	5.87	16.59
2009	5.02	0.83	5.85	16.50

Source: Yamhill County Assessor's Office

Fiscal Policy and Financial Planning:

Fiscal year 2008-09 presented many challenges for many Oregon local governments, including the City of McMinnville. Given the pressures of increasing operating costs, most notably police and fire union salary and cost-of-living adjustments, increasing medical insurance premiums, and the volatility of the Oregon Public Employee Retirement System (OPERS) employer contribution rates, the City will continue to be challenged with providing services that meet the demands of the growing population.

**Transmittal Letter
Year Ended June 30, 2009**

Fortunately, the City Council and Budget Committee have taken a prudent approach to budgeting in the past. As a result, the City's General Fund is in solid financial position. Over the last three years, revenues have exceeded expenditures, there have been budget savings, and reserves are strong. Compared to many Oregon cities, McMinnville is in an enviable financial position.

However, in the fiscal year 2009-10 budget, expenditures exceed revenues and this trend is projected to continue. The need to subsidize Building Fund and Ambulance Fund operations with General Fund resources provides additional pressure on the General Fund reserve. Also, in the past five years, the increase in maximum assessed value has been six to eight percent. This has enabled the City to maintain fund balances even though the demand for services increased with the growing population. However, for fiscal year 2009-10, maximum assessed value increased by only five percent from the prior year and is projected to increase by only four percent in the next several years. We anticipate that this slower growth rate will be an important factor in the spending down of the General Fund reserve.

In response, City management will closely monitor revenues and expenditures throughout the fiscal year and respond proactively if issues are identified. In addition, the long-term financial forecast will be thoroughly analyzed and updated as new information becomes available and any significant changes to revenues or expenditures come to light. The long-term financial forecast is an important decision-making tool used by management to evaluate service levels, possible expenditure reductions and the resultant impact on City Council goals and objectives. The City is committed to maintaining adequate fund reserves in all funds, but especially in the General Fund, and will continue the previous conservative fiscal policy.

Major Initiatives:

In fiscal year 2008-09, the City Council continued its commitment to planning for the future by initiating a review of the Master Transportation Plan and the Master Wastewater Treatment and Facilities Plans. Major improvements and construction of taxiways and runways at the Municipal Airport were completed and will continue in fiscal year 2009-10. Extensive community outreach efforts were continued and an Employee Sustainability Committee was created.

During fiscal year 2008-09, the new Civic Hall Building, which includes the City Council Chambers, the Municipal Courtroom, and meeting space for other City groups, was substantially completed. The Civic Hall Building and the new Public Safety Building, which was completed in 2008, are cornerstone buildings in the vital downtown area. Construction of these buildings was funded through the issuance of \$13.2 million in general obligation bonds issued in 2006. In addition, acquisition and construction of neighborhood parks continues, as the City spends down bond proceeds from the \$9.5 million general obligation bonds issued in 2001.

Certificate of Achievement:

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of McMinnville for its *Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2008. The City has received this recognition for 20 consecutive years. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized *CAFR* and must satisfy both generally accepted accounting principles and applicable legal requirements. This award is the highest form of recognition for excellence in state and local government financial reporting.

**Transmittal Letter
Year Ended June 30, 2009**

A Certificate of Achievement is valid for a period of one year only. We believe our current *CAFR* continues to meet these standards and will be submitted to GFOA to determine eligibility for another certificate.

Acknowledgements:

The preparation of the *Comprehensive Annual Financial Report (CAFR)* is the final step in completing a successful year for the City's Finance Department. We would like to thank the City's accounting staff for their day-to-day dedication to providing professional accounting services and producing accurate accounting records, which are the critical basis for successful financial statement preparation in the City's *CAFR*.

We would like to give special recognition to the dedication of Laurie S. LeCours, CPA, as the City's financial statement preparation project leader. Accountant Julie Orth also provided valuable assistance in the drafting of the City's *CAFR*.

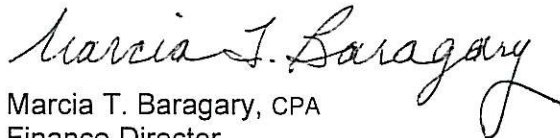
Furthermore, we would like to acknowledge the efforts of all City department personnel who during the year conscientiously follow internal controls; and during *CAFR* preparation, provide additional information that makes the report more meaningful than merely a presentation of financial statements.

Special appreciation should also go to the City of McMinnville Mayor and City Councilors for their interest and support in conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Kent L. Taylor
City Manager



Marcia T. Baragary, CPA
Finance Director

