

City of McMinnville, Oregon

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) section of the City of McMinnville's (City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2009. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the City's *Letter of Transmittal*, of this *Comprehensive Annual Financial Report (CAFR)*. In an effort to make the MD&A more readable, all amounts have been rounded to the nearest million or in some cases thousand.

Financial Highlights

Government-Wide:

- The assets of the City exceeded liabilities by \$132.5 million at June 30, 2009. This compares to \$131.2 million for the prior year.
- The net assets balance of \$132.5 million is composed of investments in capital assets, net of related debt, such as buildings, parks and roads (\$100.3 million), restricted amounts for future capital projects and debt service and a non-expendable library endowment (\$3.4 million), and an unrestricted balance (\$28.8 million), which may be used to meet the government's ongoing obligations to citizens and creditors.

Fund Level:

- The City's governmental funds report a combined fund balance of \$16.7 million, a decrease of \$5.8 million from last fiscal year. Approximately \$8.1 million of that total is reserved by legal or contractual provisions. The remaining \$8.6 million is unreserved. The decrease is primarily due to the spending down of bond proceeds for capital improvement projects.
- Total property taxes increased \$0.65 million or six percent. Property taxes are used to fund general government, public safety, cultural and recreational operations and to pay debt service. The increase in property tax revenue resulted from increases in assessed property values and new construction.
- The City's proprietary funds report a net assets balance of \$57.3 million, an increase of \$3.8 million over the prior year. The increase was primarily due to a \$1.6 million increase in cash and investments, resulting from higher service charges to wastewater services customers and a \$2.9 million decrease in non-current liabilities due to principal payments on loans and revenue bonds.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the City of McMinnville's basic financial statements. The basic statements include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements. This report contains other supplementary information in addition to the basic financial statements and required information.

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Government-wide financial statements: The government-wide financial statements are prepared using the full accrual method of accounting similar to private-sector accounting. Both the Statement of Net Assets and the Statement of Activities distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through users fees and charges (business-type activities).

These government-wide financial statements include three reporting units; i.e., governmental activities and business-type activities that are combined for the primary government total, and the component unit, McMinnville Water & Light Department (Department). Governmental activities of the City are General Government, Public Safety, Community Development, Culture and Recreation, Airport, and Highways and Streets. Business-type activities for the City are the Building Division, Wastewater and Ambulance.

- **Statement of Net Assets:** This statement includes all assets and liabilities with the difference reported as net assets. Evaluating increases or decreases in net assets over time can serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- **Statement of Activities:** This statement presents information showing how the government's net assets changed during the fiscal year. The statement reports governmental and business-type activities' function/program expenses and program revenues and indicates the amount that must be supplemented by general revenues. General revenues include property taxes, franchise fees, and unrestricted state shared revenues and investment earnings.

Fund financial statements: These statements focus on major governmental and proprietary funds separately. The City's major governmental funds are each presented separately and the remaining non-major funds are combined into a column titled "Non-Major Governmental Funds." Statements for the City's proprietary and fiduciary funds follow the governmental statements.

- **Governmental funds:** Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. This fund reporting method may be more useful in evaluating the City's short-term financial requirements and position.

The City maintains 13 governmental funds, eight of which are considered major funds. All funds that receive property tax revenues have been classified as major funds; i.e., General Fund and Debt Service Fund. The Park Development Fund, Public Safety Facilities Construction Fund and Airport Maintenance Fund are also classified as major funds. The Park Development Fund is used to account for the \$9.5 million park improvement bonds issued in 2001 to fund major park improvements and acquisition of property. The Public Safety Facilities Fund is used to account for the \$13.1 million bonds issued in 2006 to fund construction of the new Public Safety and Civic Hall Buildings. The Airport Maintenance Fund is used to account for maintenance and construction of airport facilities and taxiways/runways. The other three major governmental funds, Fire Fund, Parks and Recreation Fund, and Improvements Fund, had no ending fund balance at June 30, 2009 and, therefore, are not included as major funds in the Governmental Funds Balance Sheet. However, these three funds are included in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances as all resources were transferred from these three funds to the General Fund during fiscal year 2008-09. The remaining governmental funds, four special revenue and one capital projects, are classified as non-major funds and are aggregated for reporting in the fund financial statements. Non-major governmental funds data is provided in combining and individual fund statements.

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- **Proprietary funds:** The City maintains two types of proprietary funds, enterprise funds and internal service funds.
 - Enterprise funds are used to account for Wastewater Services, Ambulance Services and Building Division operations. The Building Fund was established as an enterprise fund in fiscal year 2008-09 when reserved funds related to Building Division operations were transferred from the General Fund. Enterprise funds use the full accrual method of accounting, as do the government-wide financial statements; therefore, no separate reconciliation is necessary.
 - Internal service funds are used to accumulate and allocate costs internally among the operating funds. The City's Internal Service funds are Information Systems & Services and Insurance Services. These funds are included with the proprietary funds in the fund financial statements and with the governmental activities in the government-wide financial statements, since the funds served are primarily governmental activities.
- **Fiduciary fund:** The City maintains one fiduciary fund, an agency fund, which is used to account for the Length of Service Award Program (LOSAP) for the City's volunteer firefighters. The primary purpose of the LOSAP is to provide a retirement income for volunteers in recognition of their service to the City. The assets of the plan remain in the name of the City. The agency fund is described in more detail in the notes to the financial statements of the *CAFR*, Note IV. D. 2.

Notes to the financial statements: The notes to the financial statements are essential to a complete understanding of the government-wide and fund financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required and other supplementary information. This includes budget and actual comparisons for each fund, property tax and debt service schedules, and a schedule of expenditures of federal awards.

Statistical section: The statistical section includes a number of financial schedules to enable the reader to understand the city's overall financial health. This section presents multi-year summaries for financial trends, revenue capacity, debt capacity, demographic and general operating information.

Independent certified public accountants reports: These reports provide supplemental communication on City compliance and internal controls as required by Oregon Statutes and Federal Law.

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Government-Wide Financial Analysis

Statement of Net Assets:

The following table reflects a summary of Net Assets compared to the prior fiscal year:

Government-Wide --- Comparative Summary Statement of Net Assets June 30, 2009 and 2008 (in millions)

	City of McMinnville – Primary Government						Component Unit	
	Governmental Activities		Business – Type Activities		Total City		Department	
	2009	2008	2009	2008	2009	2008	2009	2008
Cash and investments	\$19.2	\$24.3	\$18.7	\$17.0	\$ 37.9	\$ 41.3	\$ 35.6	\$ 42.7
Other assets	1.7	2.0	1.8	1.3	3.5	3.3	6.1	4.4
Capital assets	79.6	77.5	49.6	50.7	129.2	128.2	97.2	83.0
Total assets	100.5	103.8	70.1	69.0	170.6	172.8	138.9	130.1
Other liabilities	2.7	2.7	0.5	0.4	3.2	3.1	6.3	4.5
Long-term liabilities	20.6	21.5	14.3	17.0	34.9	38.5	1.7	0.3
Total liabilities	23.3	24.2	14.8	17.4	38.1	41.6	8.0	4.8
Investment in capital assets, net of related debt	64.7	65.3	35.6	33.8	100.3	99.1	97.1	83.1
Restricted	3.0	3.8	0.4	-	3.4	3.8	-	-
Unrestricted	9.5	10.5	19.3	17.8	28.8	28.3	33.8	42.2
Total net assets	\$77.2	\$79.6	\$55.3	\$51.6	\$132.5	\$131.2	\$130.9	\$125.3

For the City, assets exceeded liabilities by \$132.5 million at the end of the current fiscal year. The largest portion of the City's net assets are invested in capital assets and are reported net of related outstanding debt (\$100.3 million). The City uses these capital assets to provide services to its citizens. Therefore, they do not represent resources available for future spending. Restricted net assets total \$3.4 million and represent amounts that are legally restricted for capital expansion, debt service, or other purposes. Finally, the remaining \$28.8 million is unrestricted, meaning it is available for meeting the City's ongoing obligations.

- **City --- Comparative Summary Statement of Net Assets – Governmental Activities:** Total net assets decreased by \$2.4 million. This was due to a decrease of \$5.1 million in cash and investments as bond proceeds were spent down to pay for Public Safety and Civic Buildings construction projects. This decrease was offset by a \$2.1 million increase in capital assets and a \$0.9 decrease in long-term liabilities due to principal payments on general obligation bonds.
- **City --- Comparative Summary Statement of Net Assets – Business-Type Activities:** Total net assets increased by \$3.7 million. Cash and investments increased by \$1.7 million due to higher rates charged to wastewater services customers. The City has established a policy to build a reserve of \$7.5 million to fund future capital improvements necessary to serve a growing population. At 2008-09 fiscal year end, that reserve was \$3.6 million. Long-term liabilities decreased \$2.7 million due to principal payments on loans and revenue bonds.

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- **Component Unit - Department --- Comparative Summary Statement of Net Assets:** The Department's overall financial position continued to improve during fiscal year 2008-09 with total assets increasing seven percent. Cash and investments decreased and capital assets increased by 17 percent and 17 percent respectively. This is the result of funding construction projects internally. Liabilities increased by 68 percent largely due to an increase in payables at year-end resulting from water treatment plant expenditures and the recognition of other post-employment benefits liability at year-end.

Statement of Activities:

Total net assets of the City increased by \$1.3 million from the prior fiscal year. Governmental activities net assets decreased by \$2.4 million and business-type activities increased by \$3.7 million.

Government-Wide --- Comparative Summary Statement of Activities For the Years Ended June 30, 2009 and 2008 (in millions)

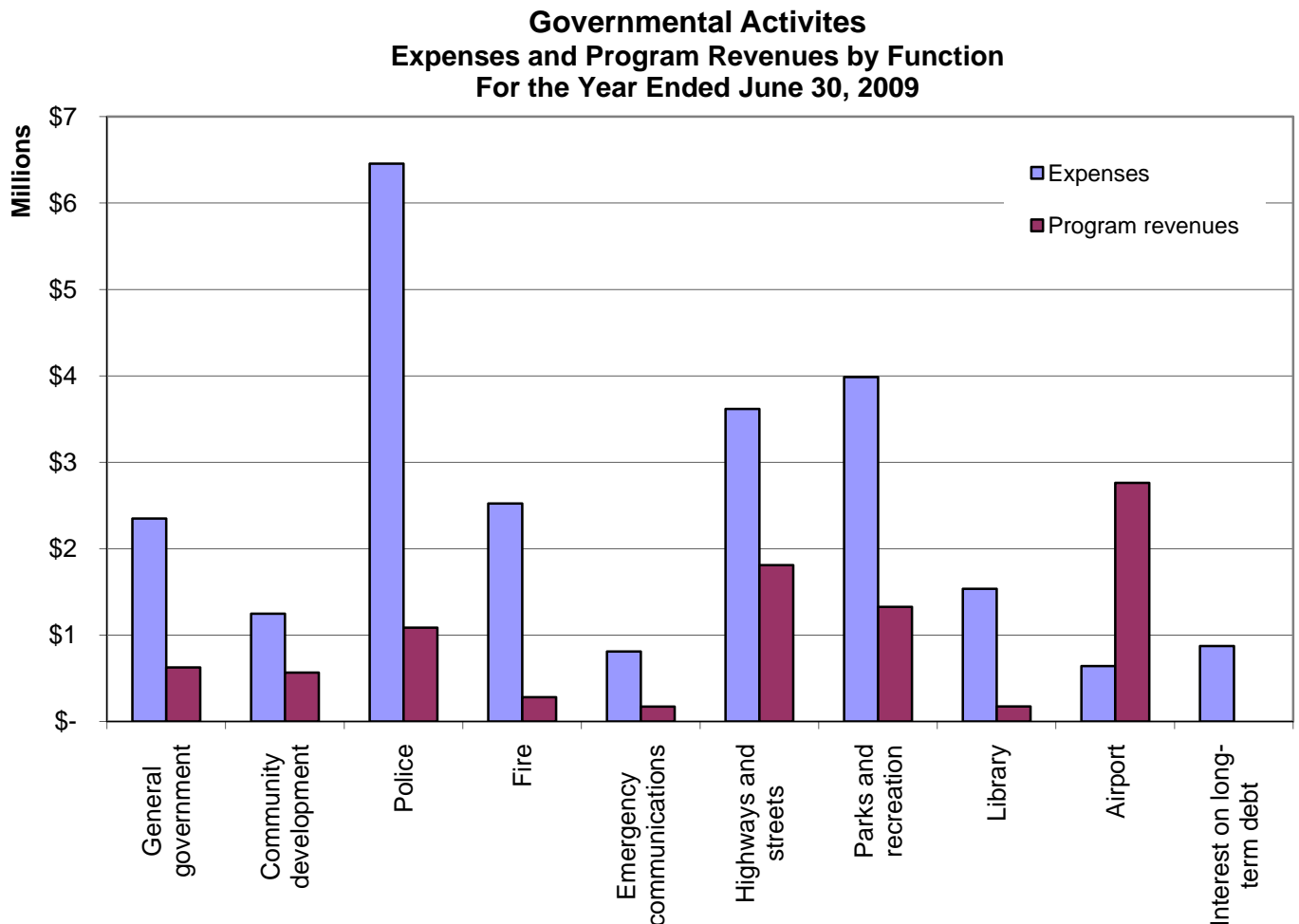
	City of McMinnville – Primary Government						Component Unit	
	Governmental Activities		Business – Type Activities		Total City		Department	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:								
Program revenues:								
Charges for services	\$ 3.7	\$ 5.1	\$11.0	\$11.1	\$ 14.7	\$ 16.2	\$ 34.6	\$ 41.2
Operating grants and contributions	1.7	2.0	-	-	1.7	2.0	0.2	0.4
Capital grants and contributions	3.3	3.9	-	0.6	3.3	4.5	0.4	1.6
General revenues:								
Property taxes	11.1	10.3	-	-	11.1	10.3	-	-
Franchise taxes	2.1	2.4	-	-	2.1	2.4	-	-
Other	<u>0.9</u>	<u>1.3</u>	<u>0.3</u>	<u>0.6</u>	<u>1.2</u>	<u>1.9</u>	<u>3.7</u>	<u>4.3</u>
Total revenues	<u>22.8</u>	<u>25.0</u>	<u>11.3</u>	<u>12.3</u>	<u>34.1</u>	<u>37.3</u>	<u>38.9</u>	<u>47.5</u>
Expenses:								
Governmental activities:								
General government	2.4	2.0	-	-	2.4	2.0	-	-
Community development	1.2	1.8	-	-	1.2	1.8	-	-
Public safety	9.8	8.2	-	-	9.8	8.2	-	-
Highways and streets	3.6	3.1	-	-	3.6	3.1	-	-
Culture and recreation	5.5	5.0	-	-	5.5	5.0	-	-
Airport	0.6	0.6	-	-	0.6	0.6	-	-
Interest on long-term debt	0.9	0.9	-	-	0.9	0.9	-	-
Business-type activities:								
Building	-	-	0.6	-	0.6	-	-	-
Wastewater	-	-	5.9	6.0	5.9	6.0	-	-
Ambulance	-	-	2.3	2.3	2.3	2.3	-	-
Component unit	-	-	-	-	-	-	<u>33.3</u>	<u>39.8</u>
Total expenses	<u>24.0</u>	<u>21.6</u>	<u>8.8</u>	<u>8.3</u>	<u>32.8</u>	<u>29.9</u>	<u>33.3</u>	<u>39.8</u>
Change in net assets before transfers	(1.2)	3.4	2.5	4.0	1.3	7.4	5.6	7.7
Transfers	<u>(1.2)</u>	<u>(0.3)</u>	<u>1.2</u>	<u>0.3</u>	-	-	-	-
Change in net assets	(2.4)	3.1	3.7	4.3	1.3	7.4	5.6	7.7
Beginning net assets	<u>79.6</u>	<u>76.5</u>	<u>51.6</u>	<u>47.3</u>	<u>131.2</u>	<u>123.8</u>	<u>125.3</u>	<u>117.6</u>
Ending net assets	<u>\$77.2</u>	<u>\$79.6</u>	<u>\$55.3</u>	<u>\$51.6</u>	<u>\$132.5</u>	<u>\$131.2</u>	<u>\$130.9</u>	<u>\$125.3</u>

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- **City --- Comparative Summary Statement of Activities – Governmental Activities:** Program revenues decreased \$2.3 million. This was primarily due to a \$1.4 million decrease in charges for services, including a \$0.7 million decrease in Transportation System Development Charges (SDC) and the transfer of Building Division revenue to a business-type activity fund (\$0.8 in the prior fiscal year). For capital grants and contributions, a \$2.6 million decrease in capital contributions by developers was substantially offset by a \$2.3 million increase from airport Federal Aviation Administration (FAA) grants. Developers are responsible for paying for transportation and wastewater improvements when subdivisions are built. When the subdivision is completed, the improvements are recorded as Capital Contributions to the City. The decrease in developer capital contributions reflects the substantial decrease in new subdivisions in the City.

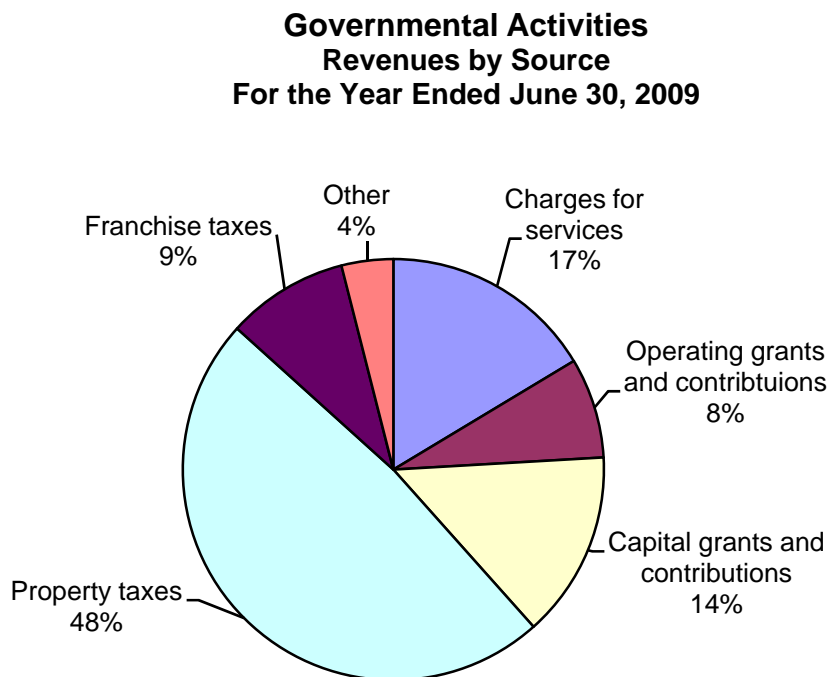
Total expenses for governmental activities increased \$2.4 million. Generally, expenses for Functions/Programs for nearly all governmental activities increased, especially for Public Safety which increased by approximately 19 percent. However, Community Development expense decreased 33 percent due to the transfer of Building Division operations to business-type activity.

The following bar chart compares each governmental activity expense with the revenue stream for each activity.



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The following pie chart illustrates the relative size of revenue sources for governmental activities.



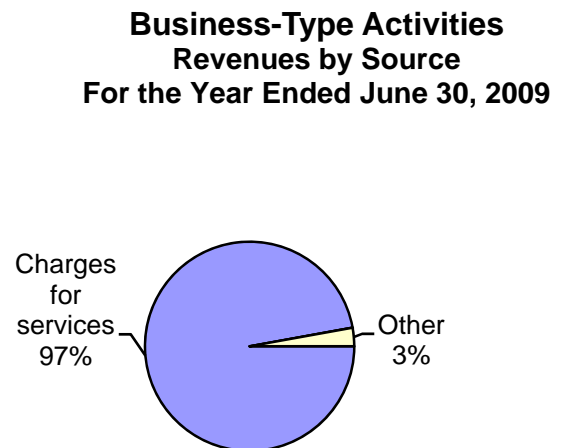
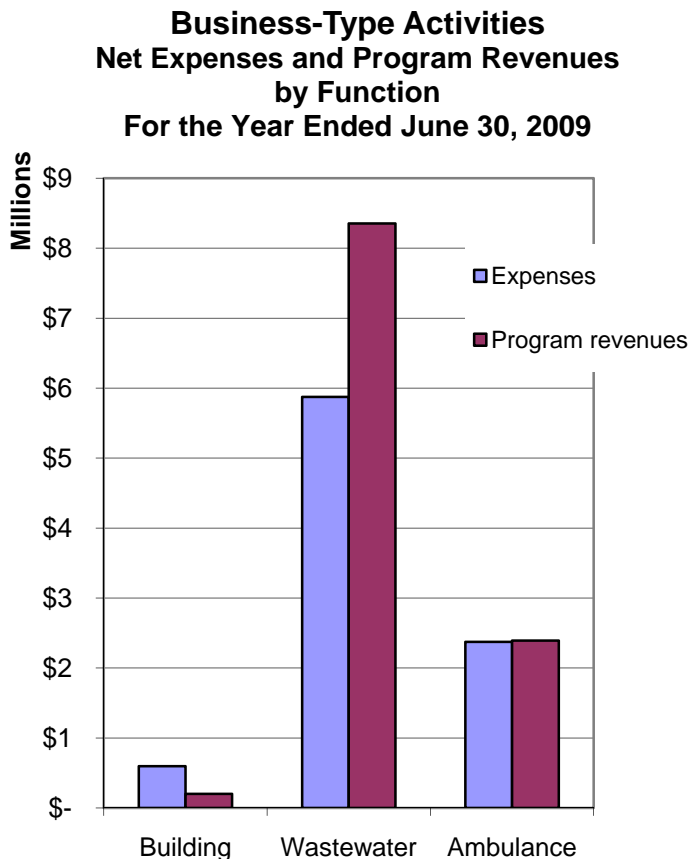
City --- Comparative Summary Statement of Activities – Business-Type Activities: Program revenues decreased by nearly \$0.7 million. This decrease is attributable to several factors, including decreases in both charges for services and capital grants and contributions. For charges for services, a modest increase in ambulance fee revenue and the addition of Building Division revenue was offset by a decrease of \$0.8 million in Wastewater Systems Development Charges (SDC). The significant decrease in capital grants and contributions resulted from no wastewater system capital contributions from developers compared to \$0.6 in the prior year.

Total expenses for business-type activities increased in the current fiscal year by \$0.5 million. This was primarily due to the inclusion of \$0.6 million in expenses for Building Division operations. Expenses for Wastewater and Ambulance operations remained relatively consistent with the prior year.

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The bar chart on the left below compares each business-type activity expense with the revenue stream for that activity. The significant difference between wastewater revenue and expenses is due to the financial policy set by City Council to set sewer rates at a level to establish an approximate \$7.5 million reserve by the year 2014.

The pie chart on the right below illustrates the relative size of revenue sources for business-type activities.



Component Unit - Department --- Comparative Summary Statement of Activities: Decreased charges for services is due primarily to a 23 percent decrease in consumption of electricity. While water consumption decreased by 0.4 percent, water charges for services showed an increase due to the final year of a rate increase. The decrease in general revenues is largely due to decreases in interest income from lower rates earned on the Local Government Investment Pool (LGIP). Due to the economic downturn, lower construction volume in the community resulted in a 73 percent decrease of grants and contributions.

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Fund Financial Analysis

Fund accounting segregates revenues according to their intended purposes and is used to aid management in demonstrating legal and contractual compliance with revenue source spending requirements.

Governmental Funds – Comparative Ending Fund Balances June 30, 2009 and 2008 (in thousands)

	Ending Fund Balances						
	Unreserved		Reserved		Total		Net Change
	2009	2008	2009	2008	2009	2008	2009
Major funds:							
General (1)	\$ 7,262	\$ 3,705	\$ 97	\$ 786	\$ 7,359	\$ 4,491	\$ 2,868
Airport							
maintenance (2)	567	800			567	800	(233)
Improvements (3)	-	1,174	-	-	-	1,174	(1,174)
Fire (3)	-	2,038	-	-	-	2,038	(2,038)
Parks &							
recreation (3)	-	1,584	-	-	-	1,584	(1,584)
Public safety							
facilities							
construction	-	-	466	3,727	466	3,727	(3,261)
Park							
development	36	-	4,357	4,670	4,393	4,670	(277)
Debt service	-	-	1,070	835	1,070	835	235
Non-major funds	716	752	2,109	2,380	2,825	3,132	(307)
Total ending fund							
balance	\$ 8,581	\$10,053	\$8,099	\$12,398	\$16,680	\$22,451	\$(5,771)

(1) Building was a department in General Fund in fiscal year 2007-08 and is an enterprise fund in fiscal year 2008-09.

(2) Airport Maintenance Fund was a non-major fund in fiscal year 2007-08 and a major fund in fiscal year 2008-09.

(3) Improvements, Fire, and Parks & Recreation Funds are part of General Fund in fiscal year 2008-09.

City --- Governmental Funds: Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they are measurable and available and expenditures generally are recorded when a liability is incurred, except for long-term liabilities.

The General Fund is the City's main operating fund. At fiscal year end, the unreserved fund balance was \$7.3 million compared to \$3.7 million at prior year end. The increase resulted primarily from the transfer of the Fire, Parks and Recreation, and Improvements Funds balances to the General Fund. Prior to the 1996 tax limitation measure, special property tax millage levies existed for the Fire and Parks and Recreation Funds. In fiscal year 2008-09, the decision was made to combine all property tax supported funds, excluding debt service, with the General Fund. The total amount transferred to the General Fund was \$4.8 million. Also in fiscal year 2008-09, the decision was made to transfer the Building Division operations to a new enterprise fund to assist in financial management of the operations. The amount transferred from the General Fund to the new Building Fund was \$0.8 million.

The General Fund is currently used to account for Administration, Finance, Engineering, Planning, Police, Municipal Court, Fire, Parks and Recreation, and Library. When total revenues are adjusted for the addition of Fire, Parks and Recreation, and Improvements Funds, and the transfer out of

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Building Division operations, fiscal year 2008-09 General Fund revenues, excluding property taxes, actually decreased 13 percent from the prior fiscal year. Decreases were seen in all revenue classifications, including licenses and permits, intergovernmental revenues, charges for services, fines and forfeitures, and miscellaneous revenues. The most significant decreases were in licenses and permits (franchise fees), charges for services (parks and recreation fees), and miscellaneous (interest), a reflection of the downturn in the economy. This 13 percent overall decrease was offset by a seven percent increase in property taxes.

The Debt Service Fund balance is increasing as the City builds a reserve for debt service payments that are due early in the fiscal year prior to receipt of property tax revenue. For the Public Safety and Courtroom/Civic Buildings and the Parks Improvements bonds, principal and interest payments of approximately \$1.3 million are due in August of each fiscal year.

The fund balance for the Public Safety Facilities Construction Fund decreased \$3.3 million as bond proceeds were used to fund the construction of the new Public Safety Building and the Civic Hall Building. In fiscal year 2009-10, the remaining \$0.5 million reserved funds will be used to complete construction of the Civic Hall building.

The \$4.4 million Park Development Fund reserved balance represents unspent bond proceeds from the \$9.5 million in General Obligation bonds issued by the City in 2001. The fund also includes Park Systems Development Charges (SDC) collected through residential construction. The decrease in the Park Development fund balance resulted from spending down the bond proceeds to acquire park property and fund improvements at several new neighborhood parks.

The Airport Maintenance Fund qualifies as a major governmental fund in fiscal year 2008-09 due to \$2.6 million in grant funds received from the Federal Aviation Administration (FAA).

Proprietary Funds – Comparative Ending Net Assets June 30, 2009 and 2008 (in thousands)

	<u>Unrestricted</u>		<u>Restricted</u>		<u>Invested in Capital Assets Net of Related Debt</u>		<u>Total</u>		<u>Net Change</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Fund:									
Building	\$ -	\$ -	\$ 375	\$ -	\$ 360	\$ -	\$ 735	\$ -	\$ 735
Wastewater	18,697	17,070	-	-	34,658	33,552	53,355	50,622	2,733
Ambulance	937	1,120	-	-	543	254	1,480	1,374	106
Internal									
Service	636	340	-	-	1,139	1,141	1,775	1,481	294
Total ending net assets	<u>\$ 20,270</u>	<u>\$ 18,530</u>	<u>\$ 375</u>	<u>\$ -</u>	<u>\$ 36,700</u>	<u>\$ 34,947</u>	<u>\$ 57,345</u>	<u>\$ 53,477</u>	<u>\$ 3,868</u>

City --- Proprietary Funds: The basis of accounting for proprietary funds is the same as found in the government-wide financial statements; i.e., full accrual. Ending net assets increased by \$3.9 million over the prior fiscal year due to the City Council's commitment to funding a reserve for future wastewater system improvements. Ambulance Fund net assets increased slightly and Building Fund net assets are included in proprietary net assets for the first year. Internal service funds include Information Systems & Services and Insurance Services Funds. The Information Systems & Services net assets increased due to capital contributions related to the Public Safety Building construction.

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The Insurance Services Fund is used to account for liability, property and workers' compensation risk financing activities. Charges to other funds are based on historical cost information and allow for a reasonable provision for future losses.

General Fund Budgetary Highlights

During the fiscal year, two resolutions were adopted by the City Council which amended the 2008-09 General Fund budget. General Fund contingency transfers of \$341,180 were as follows:

- \$116,130 for public safety dispatch and radio system costs
- \$54,000 for an energy efficiency project at the Aquatic Center and park maintenance
- \$171,050 for general administration and finance costs

Capital Assets

Government-Wide Capital Assets June 30, 2009 and 2008 (in millions)

	Governmental Activities		Business-Type Activities		Total City	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 27.3	\$ 27.1	\$ 0.9	\$ 0.9	\$ 28.2	\$ 28.0
Land improvements	14.1	11.5	0.1	0.1	14.2	11.6
Buildings	28.2	29.2	41.5	41.2	69.7	70.4
Machinery and equipment	5.2	5.5	1.1	1.0	6.3	6.5
Vehicles	3.5	3.4	1.4	1.1	4.9	4.5
Infrastructure	47.3	46.7	34.0	33.7	81.3	80.4
Construction in progress	<u>4.2</u>	<u>0.5</u>	<u>0.1</u>	<u>---</u>	<u>4.3</u>	<u>0.5</u>
Total capital assets	<u>129.8</u>	<u>123.9</u>	<u>79.1</u>	<u>78.0</u>	<u>208.9</u>	<u>201.9</u>
Accumulated depreciation	<u>(50.2)</u>	<u>(46.5)</u>	<u>(29.5)</u>	<u>(27.2)</u>	<u>(79.7)</u>	<u>(73.7)</u>
Net capital assets	<u>\$79.6</u>	<u>\$77.4</u>	<u>\$49.6</u>	<u>\$50.8</u>	<u>\$129.2</u>	<u>\$128.2</u>

- **City --- Capital Assets:** The City's total net capital assets increased \$1.0 million from the prior fiscal year. Governmental activities capital assets increased \$2.2 million. Land increased due to property acquired for a neighborhood park. Land improvements increased due to the taxiway and runway improvements at the airport, which were funded by grants from the FAA.
- For business-type activities, net capital assets decreased \$1.2 million. The change consisted of a \$1.1 million increase in total capital assets, which was offset by a \$2.3 million increase in accumulated depreciation.

City and Department capital assets are described in more detail in the notes to the financial statements of the *CAFR*, Note III. D.

Debt Administration

Government-Wide Outstanding Debt June 30, 2009 and 2008 (in millions)

	Governmental Activities		Business-Type Activities		Total City	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General obligation bonds	\$19.7	\$20.5	\$ -	\$ -	\$19.7	\$20.5
Revenue bonds	-	-	13.6	16.0	13.6	16.0
Certificates of participation	-	0.2	-	-	-	0.2
Notes payable	-	0.1	0.4	0.9	0.4	1.0
Total outstanding debt	<u>\$19.7</u>	<u>\$20.8</u>	<u>\$14.0</u>	<u>\$16.9</u>	<u>\$33.7</u>	<u>\$37.7</u>

City --- Outstanding Debt: At June 30, 2009, the City had \$33.7 million in outstanding debt compared to \$37.7 million last year. Of that total, \$1.6 million of the debt related to governmental activities is due within one year. For business-type activities, \$3.1 million is due within one year. Outstanding debt for governmental and business-type activities decreased as debt service payments reduced principal balances and no new debt was issued.

The \$19.7 million governmental activities general obligation debt is payable from property taxes levied specifically for that purpose. The certificates of participation were paid off in fiscal year 2008-09. All the \$14.0 million business-type activity debt is payable exclusively from wastewater revenues. City and Department outstanding debt are described in more detail in the notes to the financial statements of the *CAFR*, Note III. H.

City --- Bond Ratings: The City received an A2 general obligation bond debt rating from Moody's Investor's Services, Inc. when the Public Safety and Civic Buildings Bonds were sold in November 2006. The City received an A3 Sewer Revenue Bond debt rating from Moody's Investor's Services, Inc. in December 2003 during the process of refunding a significant portion of sewer debt outstanding. The City has not issued any new bonds since 2006.

Economic Factors and Future Operations

Governmental activities: The economic pressures affecting the City's governmental operations continue to be significant. After the 1996 property tax limitation measure, Oregon governmental operating property taxes became rate based and each entity was given a permanent rate depending on the entity's prior property tax levies. With 48 percent of the City's governmental activities funded by property taxes, the City's ability to meet the demand for services is significantly impacted by the rate of increase in assessed value and new construction. Cost pressures exist in all areas of governmental operations, but most notably in increases for salaries, medical insurance, and retirement benefit contributions.

Business-type activities:

- **Wastewater operations** --- Since the 1993-94 financing of the new Water Reclamation Facility and sewer system improvements, the City has established an outstanding record of meeting the challenges of increased environmental regulations. Meeting these regulatory challenges has not come without a cost; the City's sewer rates are among the highest in the state. The City Council adopted a plan that recommended 2.75 percent rate increases for the next several years. These rate increases are projected to not only meet operational and debt service requirements but also build a reserve of approximately \$7.5 million for future expansion of the Water Reclamation Facility. During fiscal year 2009-10, the City plans to review and update the wastewater treatment and collection facilities plans and complete a new rate study.

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- **Ambulance operations** --- The ambulance service has experienced significant challenges over the last several years with the proliferation of retirement facilities in the city and the reduction in Medicare and Medicaid reimbursement rates. As the City increases the fees charged for ambulance services, the collection rate has trended downward because the Medicare and Medicaid reimbursement rates have not increased correspondingly. The collection rate was 68.4 percent in fiscal year 2002-03 and 47.8 percent in fiscal year 2008-09. In the past several years, property tax subsidies have helped fund ambulance operations and will continue to be necessary in the future.
- **Building Division operations** --- As previously noted, Building Division operations were transferred from the General Fund, a governmental activity, to a new enterprise fund, a business-type activity, in fiscal year 2008-09. Unfortunately, it is projected that the fund will be in a deficit position by fiscal year 2010-11 without a significant subsidy from the General Fund. We anticipate that building construction activity will resume over the next several years and that the subsidy will no longer be necessary.

Additional economic factors affecting McMinnville are described in the transmittal letter of this report.

Information Requests

The City's *Comprehensive Annual Financial Report* has been prepared to provide a general overview of the City of McMinnville's finances. City Management hopes that interested parties will find this document readable and helpful in assessing the City's overall financial health. The City's Finance Director, Marcia Baragary, CPA, will answer any questions interested parties might have about the report or provide additional information as requested. She may be reached by mail at 230 NE Second Street, McMinnville, OR 97128, by telephone at 503-434-2350, or by email at Marcia.Baragary@ci.mcminnville.or.us.

