

INTRODUCTORY SECTION

- **Letter of Transmittal**
- **GFOA Certificate of Achievement**
- **Elected Officials and Principal Appointed Officers**
- **Organizational Chart**





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December 19, 2008

Mayor Edward J. Gormley
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, 2008. The *Comprehensive Annual Financial Report (CAFR)* presents the financial position of the City of McMinnville (City) as of June 30, 2008 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, beginning on page 17.

Reporting Entity:

City: 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. All seven positions are elected for staggered four-year terms. The City provides a full range of services, including City administration, finance and information services; police protection and investigation; municipal court; fire protection and inspection; wastewater treatment, system construction and maintenance; street construction and maintenance; engineering services; planning services; building inspection services; library; parks and recreation including aquatic center, community center, Kids-on-the-Block After-School Program, recreational sports, and senior center; ambulance services; and a municipal airport.

Department: In addition to the City's primary services, over which the elected officials exercise financial control, the City has one discretely presented component unit, the McMinnville Water and Light Department (Department) that is governed by a City Council appointed Water and Light Commission. The Department provides water and electrical services to City residents. Additional information on the Department is located in the notes to the financial statements, note I. A. 2., page 57.

Factors Affecting Financial Condition:

Employers: The City of McMinnville is located in the agriculturally rich Willamette Valley 40 miles southwest of Portland and 25 miles northwest of Salem at an elevation of 157 feet. The area has a mild climate averaging 70 degrees from June to September and 40 degrees from November to February. The average rainfall is 42 inches with the growing season approximately 175 days. The City of McMinnville's economy is widely diversified and continues to grow at a moderate pace. The primary industries include commercial aviation, steel rebar production, medical services, insurance products and services, manufactured home and recreational vehicle production, plastics fabrication, tourism, and food production. As the county seat of Yamhill County and the home of Linfield College, McMinnville is the economic hub of a growing county. Agriculture plays a major role in the economy of the City and the County. The City's diverse economy is based primarily on companies of smaller than 50 employees, although several larger companies are also based in McMinnville. The City's principal employers are listed in the Statistical Section on pages 170-171.

Employment: According to the Oregon Employment Department, total employment in McMinnville in 2008 stood at 12,581; within the urban growth boundary that number rises to an estimated 14,663.¹ The largest single share of this employment was concentrated in the manufacturing sector, 19 percent, and was comparable to percentages found statewide, and a nearly 4 percent increase from 2004 levels in the McMinnville urban area. Private education and health services employment accounted for 17 percent (in large part due to Linfield College), followed by retail and wholesale trade employment at nearly 16 percent. The next largest sector, government employment, at 14 percent was slightly higher than the state average. Remaining employment was divided between a number of categories, including leisure and hospitality services at nearly 9 percent and profession and business services at approximately 7 percent of total employment. 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. McMinnville's average payroll per employee in 2006 climbed approximately 3 percent from 2005 estimates of \$31,656 to \$32,756, similar to increases realized from 2004 and 2005. During the past decade, most of the largest industries in McMinnville showed increases in employment, with health services, local government, and construction, leading the way. It is interesting to note that during this same period, over half of the employment growth was from industries with a payroll per employee above the average for McMinnville as a whole.

Recent economic forecasts for McMinnville suggest that the area 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, which currently totals approximately 12,500, will continue to grow at an average annual growth rate of 2.06 percent over the course of the next twenty years.

Population Growth: Over the last ten years, McMinnville has experienced one of the fastest population growth rates in Oregon, 32.7 percent. Both new employers and residents are attracted

¹ Source: Oregon Employment Department, Quarterly Census of Employment and Wages, 2005. This is the most recent data available for the McMinnville city limits area.

to McMinnville because of its “livability” and its close proximity to the Portland metropolitan area; Salem, the state’s capital; the Cascade mountain range; and the Oregon coast. Other factors contributing to the livability are the vitality of McMinnville’s downtown, Linfield College, excellence of medical and City services. During the same 10-year period, the state of Oregon’s population grew 11.7 percent, less than half the growth rate of McMinnville, while Yamhill County population grew by 13.5 percent. Since 1989, the city’s population grew by 89.3 percent, while the State of Oregon’s population increased by 55.4 percent and Yamhill County by 35.9 percent.

Year	McMinnville		Yamhill County		State of Oregon	
	Population	Percent Change	Population	Percent Change	Population	Percent Change
1999	24,420	0.6%	83,100	1.5%	3,393,410	1.2%
2004	29,200	1.1	89,200	1.2	3,582,600	1.2
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	99,085	1.5	3,745,455	1.5
2008	32,400	2.3	94,325	1.3	3,791,075	1.2

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 twenty 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 13,795 residents from its 2008 population total.

Residential, Commercial, and Industrial Development: Mirroring the national housing economic situation, 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. Despite this, several projects of note occurred this past year, including the following: completion of a second museum and aircraft hangar on the Evergreen Aviation campus to house aerospace related artifacts (an estimated \$30 million expansion); groundbreaking for a new Toyota dealership (\$3 million); completion of the Yamhill County Housing Authority’s “Village Quarter” mixed use project in downtown McMinnville, which includes 9,000 square feet of retail space and 50 units of affordable housing (\$6.5 million); and numerous additions or remodels, including the addition of office space at Cascade Steel Rolling Mills (\$2.5 million).

In 2006, McMinnville School District passed a \$66 million general obligation bond levy which is being used to construct a new elementary school and renovate several other existing schools. This project is slated for completion in the fall of 2008.

Regarding the downturn in the housing market, this past year the City had only one tentative subdivision application for a 4 lot subdivision. The City did issue permits for the construction of a 68 unit apartment complex, valued at \$4.4 million and a smaller 6 unit complex, valued at \$376,000. To contrast, in the past two 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 estimates that there were a total of 9,834 housing units in the City of McMinnville.

Although the number of permits issued this past year decreased significantly, the value of new construction actually surpassed prior year totals. In the commercial and public sector the value of new construction totaled over \$100 million, a \$35 million increase from last year. This can be attributed to the School District construction projects, the new Public Safety Building, and private investments previously described. On the residential side, permit values decreased from the prior year from \$48.6 million to \$34.6 million. City records indicate that in 2008, 273 residential permits

were issued, compared to 406 and 348 permits in 2007 and 2006, respectively. For commercial and industrial permits, 151 permits were issued in 2008 compared to 147 in 2007.

During 2008, Evergreen Aviation sought approval for various land use permits that, if granted, would allow construction of an indoor water park facility and 75 room lodge to be constructed on the existing museum campus. In addition, the City approved the rezoning of 45 acres within the Linfield campus for commercial development. Plans indicate that a shopping center with 450,000 square feet of retail space may be constructed in early 2009.

Property Values: Real market value growth is another factor in measuring the economic health of a community. As illustrated below, the real market value for McMinnville grew by 51.6% 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 61.3 percent. The property values table below also illustrates that McMinnville is located in a growing economic region. Yamhill County's real market value grew by 128.2 percent in the last ten years.

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

<u>Fiscal Year</u> <u>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>
1999	\$ 1,115,479	4.8%	\$ 1,385,367	4.8%	\$ 4,522,685	34.3%
2004	1,381,286	4.4	1,760,704	2.6	5,814,566	32.1
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

Source: Yamhill County Assessor's Office

Property Tax Rates: The 1996 property tax limitation measure allows the maximum assessed valuation of established residences and businesses to rise by no more than 3 percent per year. New construction is valued at estimated real market value discounted by the percentage difference between the City's total maximum assessed value and the City's total real market value.

Since the 2000-2001 fiscal year, the City of McMinnville has levied the entire \$5.02 permanent property tax rate for operations, which was established by the 1996 tax limitation measure. The debt service levy reduction between 2004 and 2005 resulted from debt payment completion in 2004 for the 20-year serial bonds which financed the Aquatic Center upgrade.

Property Tax Rates
(per thousand of assessed valuation)

<u>Fiscal Year</u> <u>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>
1999	\$ 4.07	\$ 1.27	\$ 5.34	\$ 17.24
2004	5.02	1.25	6.27	17.50
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	15.44
2008	5.02	0.85	5.87	16.59

Source: Yamhill County Assessor's Office

City of McMinnville Government: The 2007-08 fiscal year continued to be a challenging one for most of Oregon's 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, medical insurance funding, and the Oregon Public Employee Retirement System contribution rate, the City will continue to be challenged with providing services that meet the demands of the growing population. In the past, the City has been able to maintain fund balances due to the continued increases in the City's maximum assessed valuation.

2007-08 – Year in Review – Major Accomplishments and Issues:

Governance and Fiscal Policy: The Budget Committee and City Council adopted an operating budget for fiscal 2007-08 that relied on existing property tax levying authority. Incremental increases to existing user fees were also implemented. The City's property tax rate, including operating and debt service levies combined, remained essentially flat from the prior year. The City Council Audit Committee met on two occasions to discuss the annual financial audit, internal controls and budget process.

City Administration and City Council: At the beginning of 2008 the City Council again conducted their annual goal-setting session, adopting goals and objectives to govern service and spending priorities. Mayor Ed Gornley, in the final year of his 6th four-year term as Mayor, announced that he would not be running for re-election. During the fall of 2007 the City Council held several neighborhood meetings, focusing on the issues of sustainability, livability, the sign ordinance, parks and open spaces and transportation. In February of 2008, the Council distributed to each residence its second Annual Report, highlighting 2007 accomplishments and goals for 2008. In September 2007 the League of Oregon Cities awarded the City its "Good Governance Award" in recognition of the City's community outreach programs over the last two years. A new program to establish more public art in the downtown area was funded and the first art pieces were installed.

Public Safety: Construction was completed in June 2008 on the new Public Safety Building, housing both the Police Department and the Yamhill County Communications (YCOM) emergency dispatch center. The adopted budget for 2008-09 includes three additional Firefighter/Paramedic positions and the addition of a full-time Fire Prevention Specialist.

Finance: The primary accomplishment was continued successful implementation of the City's new financial software, Logos.

Engineering, Planning, and Building: The Engineering division continues to manage major City construction projects and conduct master plan updates for transportation and wastewater systems. The Planning Department finalized a sign ordinance and new design standards for large commercial developments.

Parks & Recreation: A 7.7 acre future neighborhood park site was purchased. New playground equipment was installed at existing City parks.

Airport: Construction began on runway and taxiway improvements at the airport. Feasibility studies were initiated for replacement of the FBO Building and remodel of the Flight Service Station to accommodate leasing the building to the Oregon State Police.

2008-2009 – Future Issues and Initiatives:

City Administration and City Council: Beginning in January 2009 there will be a significant change in the elected official leadership group when the City swears in its first new Mayor in 24 years. The Mayor-Elect has served as a member of the City Council for eight years. A new Councilor will be appointed to fill his vacated position. All other City Council members will remain the same.

Public Safety: The Fire Department is in the beginning stages of doing a risk assessment to review future staffing, equipment and facility needs. Finding the resources necessary to meet future operational goals will be a challenge.

Engineering, Planning and Building: Work is to be finished on updates to both the transportation system and wastewater system master plans. Funding the improvement priorities identified in these two studies presents a fiscal challenge and will require significant new capital funding.

Parks and Recreation: The lease agreement with Yamhill Soil and Water Conservation District for the NE neighborhood park site will be finalized in the fall of 2008 and construction will take place in the summer of 2009. Construction of the Westside neighborhood park will also begin in summer of 2009. Additional park land is also being sought in northwest McMinnville.

Library: The 2008-09 budget included funding to re-open the Library for four hours on Sundays. This increases the public hours from 47 to 51 per week. Bookmobile service has also been expanded.

Airport: Improvements to the FAA building to accommodate a lease with the Oregon State Police are anticipated to be completed in early 2009. Developing a funding strategy to construct a new FBO building will be a significant challenge.

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, 2007. The City has received this recognition for nineteen 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.

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