

## **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, 2008. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the City's *Letter of Transmittal*, pages 3–9, 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 \$131.2 million at June 30, 2008. This compares to \$123.8 million for the prior year.
- The net assets balance of \$131.2 million is composed of investments in capital assets, such as buildings, parks and roads (\$99.1 million), restricted amounts for future capital projects and debt service (\$3.8 million) and an unrestricted balance (\$28.3 million).

#### **Fund Level:**

- The City's governmental funds report a combined fund balance of \$22.5 million, a decrease of \$8.7 million from last fiscal year. Approximately \$12.4 million of that total is restricted by legal or contractual provisions. The remaining \$10.1 million is unrestricted. The decrease is primarily due to the spending down of resources for capital improvement projects.
- Total property taxes increased \$0.5 million or 5%. Property taxes are used to fund general government, public safety, culture and recreation operations and to pay debt service. The increase resulted from new construction and increases in assessed property values.
- The City's proprietary funds report a net assets balance of \$53.5 million, an increase of \$4.9 million over the prior year. The increase was primarily due to a \$3.1 million increase in Cash and investments, resulting from higher service charges to Wastewater services customers and a \$2.8 million decrease in long term 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.

**Government-wide financial statements:** The government-wide financial statements are prepared using the full accrual method of accounting similar to private-sector accounting. The government-wide financial statements present three reporting units; i.e., governmental activities and business-type activities that are combined for the primary government total, and the component unit, McMinnville

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Water & Light Department (Department). Governmental activities of the City are General Government, Public Safety, Community Development, Parks and Recreation, Library, Airport, and Highways and Streets. Business-type activities for the City are Wastewater Services and Ambulance Services. The government-wide financial statements are found on pages 33–35.

- **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, payments-in-lieu of taxes from the Department, 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 funds follow the governmental. Fund financial statements can be found on pages 40–54.

- **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. Reconciliations between the fund financial statements and the government-wide financial statements are found on pages 43 and 47.

The City maintains thirteen governmental funds, seven of which are considered major funds. All funds that receive property tax revenues have been classified as major funds; i.e., General, Fire, Parks and Recreation, Improvements, and Debt Service Funds. The Park Development Fund and the Public Safety Facilities Construction 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 a new Public Safety Building and Civic Hall. The remaining governmental funds, five 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 found on pages 96–108.

- **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 and Ambulance Services. 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.

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**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. The notes to the financial statements are found on pages 57–90.

**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 for federal grants.

**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 on pages 130–183.

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

### 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, 2008 and 2007**  
(in millions)

	City of McMinnville – Primary Government						Component Unit	
	Governmental Activities		Business – Type Activities		Total City		Department	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash and investments	\$24.3	\$32.0	\$17.0	\$14.0	\$ 41.3	\$ 46.0	\$ 42.7	\$ 39.2
Other assets	2.0	2.1	1.3	1.3	3.3	3.4	4.4	4.5
Capital assets	<u>77.5</u>	<u>66.9</u>	<u>50.7</u>	<u>52.2</u>	<u>128.2</u>	<u>119.1</u>	<u>83.0</u>	<u>78.0</u>
<b>Total assets</b>	<b><u>103.8</u></b>	<b><u>101.0</u></b>	<b><u>69.0</u></b>	<b><u>67.5</u></b>	<b><u>172.8</u></b>	<b><u>168.5</u></b>	<b><u>130.1</u></b>	<b><u>121.7</u></b>
Other liabilities	2.7	2.2	0.4	0.5	3.1	2.7	4.5	3.8
Long-term liabilities	<u>21.5</u>	<u>22.3</u>	<u>17.0</u>	<u>19.7</u>	<u>38.5</u>	<u>42.0</u>	<u>0.3</u>	<u>0.3</u>
<b>Total liabilities</b>	<b><u>24.2</u></b>	<b><u>24.5</u></b>	<b><u>17.4</u></b>	<b><u>20.2</u></b>	<b><u>41.6</u></b>	<b><u>44.7</u></b>	<b><u>4.8</u></b>	<b><u>4.1</u></b>
Investment in capital assets, net of related debt	65.3	62.9	33.8	32.6	99.1	95.5	83.1	78.0
Restricted	3.8	2.9	-	-	3.8	2.9	-	-
Unrestricted	<u>10.5</u>	<u>10.7</u>	<u>17.8</u>	<u>14.7</u>	<u>28.3</u>	<u>25.4</u>	<u>42.2</u>	<u>39.6</u>
<b>Total net assets</b>	<b><u>\$79.6</u></b>	<b><u>\$76.5</u></b>	<b><u>\$51.6</u></b>	<b><u>\$47.3</u></b>	<b><u>\$131.2</u></b>	<b><u>\$123.8</u></b>	<b><u>\$125.3</u></b>	<b><u>\$117.6</u></b>

For the City of McMinnville, assets exceeded liabilities by \$131.2 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 (\$99.1 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 \$3.8 million and represent amounts that are legally restricted for capital expansion, debt service, or other purposes. Finally, the remaining \$28.3 million is unrestricted, meaning it is available for meeting the City's ongoing obligations.

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- **City --- Comparative Summary Statement of Net Assets – Governmental Activities:** Total net assets increased by \$3.1 million. This was due to an increase of \$10.7 million in capital assets related to the construction of the new Police Building. This increase was offset by a \$7.7 million decrease in Cash and Investments as bond proceeds were spent down to pay for the construction project.
- **City --- Comparative Summary Statement of Net Assets – Business-Type Activities:** Total net assets increased by \$4.3 million. Cash and Investments increased by \$3.0 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. Long-term liabilities decreased \$2.7 million due to principal payments on loans and revenue bonds.

**Component Unit - Department --- Comparative Summary Statement of Net Assets:** The Department's overall financial position continued to improve during fiscal 2007-08 with total assets increasing 7%. Current assets and utility plant increased by 8% and 6% respectively. Liabilities increased by 22% largely due to an increase in payables at year-end, resulting from water treatment plant expenditures.

### Statement of Activities:

Total net assets of the City increased by \$7.4 million, or 6%, in the current fiscal year. Governmental activities net assets increased by \$3.1 million and business-type activities increased by \$4.3 million.

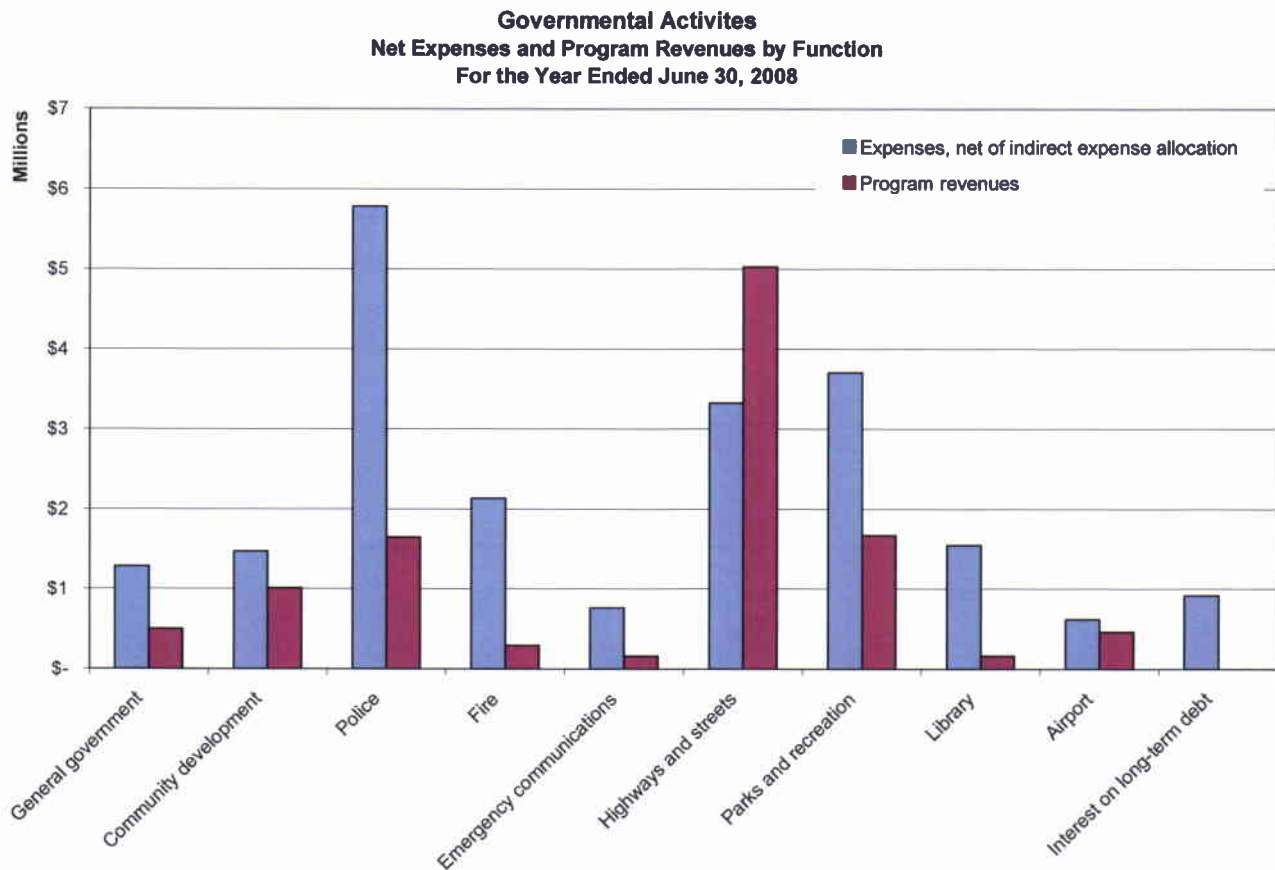
### Government-Wide --- Comparative Summary Statement of Activities For the Years Ended June 30, 2008 and 2007 (in millions)

	City of McMinnville – Primary Government						Component Unit	
	Governmental Activities		Business – Type Activities		Total City		Department	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Revenues:</b>								
Program revenues:								
Charges for services	\$ 5.1	\$ 4.8	\$11.1	\$10.5	\$ 16.2	\$ 15.3	\$ 41.2	\$ 40.2
Operating grants and contributions	2.0	2.0	-	-	2.0	2.0	0.4	0.7
Capital grants and contributions	3.9	6.7	0.6	1.0	4.5	7.7	1.6	1.8
General revenues:								
Property taxes	10.3	9.4	-	-	10.3	9.4	-	-
Franchise taxes	2.4	2.3	-	-	2.4	2.3	-	-
Other	1.3	1.3	0.6	0.6	1.9	1.9	4.3	4.3
<b>Total revenues</b>	<b>25.0</b>	<b>26.5</b>	<b>12.3</b>	<b>12.1</b>	<b>37.3</b>	<b>38.6</b>	<b>47.5</b>	<b>47.0</b>
<b>Expenses:</b>								
Governmental activities	21.6	21.0	-	-	21.6	21.0	-	-
Business-type activities	-	-	8.3	8.1	8.3	8.1	-	-
Component unit	-	-	-	-	-	-	39.8	38.6
<b>Total expenses</b>	<b>21.6</b>	<b>21.0</b>	<b>8.3</b>	<b>8.1</b>	<b>29.9</b>	<b>29.1</b>	<b>39.8</b>	<b>38.6</b>
<b>Change in net assets before transfers</b>	<b>3.4</b>	<b>5.5</b>	<b>4.0</b>	<b>4.0</b>	<b>7.4</b>	<b>9.5</b>	<b>7.7</b>	<b>8.4</b>
Transfers	(0.3)	(0.3)	0.3	0.3	-	-	-	-
<b>Change in net assets</b>	<b>3.1</b>	<b>5.2</b>	<b>4.3</b>	<b>4.3</b>	<b>7.4</b>	<b>9.5</b>	<b>7.7</b>	<b>8.4</b>
Beginning net assets	76.5	71.3	47.3	43.0	123.8	114.3	117.6	109.2
<b>Ending net assets</b>	<b>\$79.6</b>	<b>\$76.5</b>	<b>\$51.6</b>	<b>\$47.3</b>	<b>\$131.2</b>	<b>\$123.8</b>	<b>\$125.3</b>	<b>\$117.6</b>

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- City --- Comparative Summary Statement of Activities – Governmental Activities:** Program Revenues decreased \$2.5 million. This was primarily due to the significant decline in capital contributions by developers, resulting from a slowing of subdivision construction. Developers are responsible for paying for street and sewer improvements when subdivisions are built. When the subdivision is completed, the improvements are recorded as Capital Contributions to the City. General Revenues, however, increased by \$1.0 million primarily due to increased property tax levy.
- Total expenses for governmental activities increased \$0.6 million. Generally, expenses for Functions/Programs for governmental activities increased from 1-13%, except for General Government, which decreased 25%. This decrease in General Government is attributable to a contribution in the prior fiscal year.

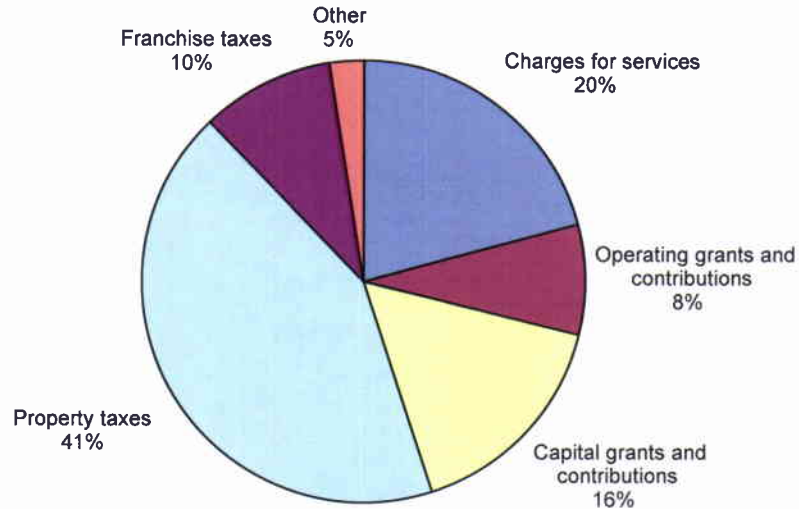
The following bar chart compares each governmental activity expense with the revenue stream for each activity.



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

**Governmental Activities  
Revenues by Source  
For the Year Ended June 30, 2008**



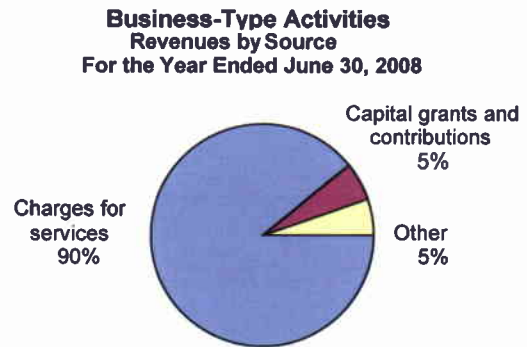
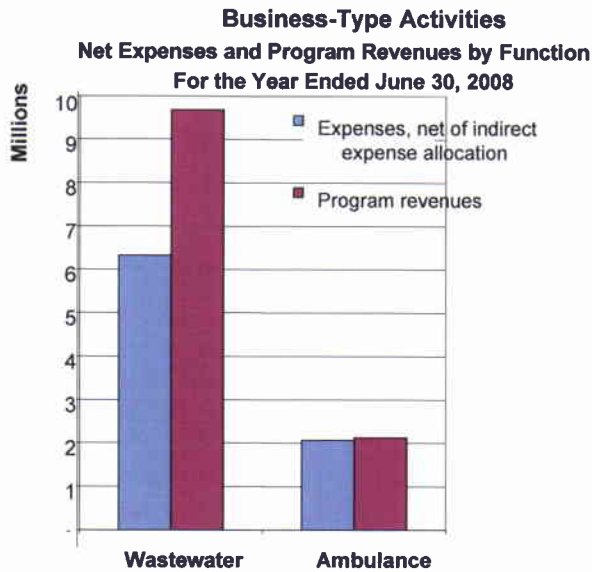
**City --- Comparative Summary Statement of Activities – Business-Type Activities:** Program Revenues increased by \$0.2 million. This increase consisted of a \$0.6 million increase in Charges for Services related to increased rates for wastewater services and a \$0.4 million decrease in capital contributions from developers. The revenue increase was offset by an expense increase of \$0.2 million, resulting in the same change in net assets as fiscal year 2007.

All categories of expenses increased for both Wastewater and Ambulance Services, but the majority of the increase came from Materials and Services expenses for Wastewater Services.

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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:** Increased operating revenue for the Department is due to positive customer growth rates (Light 1.6% and Water 1.5%) along with increased consumption in electricity (4.9% kWh). While Water consumption decreased by 6.6%, water operating revenue showed an increase due to the 16.6% rate increase. A net decrease in other revenues is largely due to decreases in timber sales, other income (net) and investment earnings. Lower construction volume in the community resulted in decreased contributed capital.

**City of McMinnville - Management's Discussion and Analysis**

**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, 2008 and 2007  
(in thousands)**

	Ending Fund Balances						Net Change 2008
	Unreserved		Reserved		Total		
	2008	2007	2008	2007	2008	2007	
<b>Major funds:</b>							
General	\$ 3,705	\$ 3,955	\$ 786	\$ 581	\$ 4,491	\$ 4,536	\$ (45)
Improvements	1,174	1,570	-	-	1,174	1,570	(396)
Fire	2,038	1,602	-	-	2,038	1,602	436
Parks & recreation	1,584	1,638	-	-	1,584	1,638	(54)
Public safety facilities construction	-	-	3,727	12,905	3,727	12,905	(9,178)
Park development	-	-	4,670	5,076	4,670	5,076	(406)
Debt service	-	-	835	657	835	657	178
<b>Non-major funds</b>	<u>1,552</u>	<u>1,424</u>	<u>2,380</u>	<u>1,754</u>	<u>3,932</u>	<u>3,178</u>	<u>754</u>
<b>Total ending fund balance</b>	<b><u>\$10,053</u></b>	<b><u>\$10,189</u></b>	<b><u>\$12,398</u></b>	<b><u>\$20,973</u></b>	<b><u>\$22,451</u></b>	<b><u>\$31,162</u></b>	<b><u>\$(8,711)</u></b>

**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 \$3.7 million compared to \$3.9 million at prior year end. The General Fund is used to account for Administration, Finance, Engineering, Planning, Building, Police, Municipal Court and the Library. While the main source of revenue, property taxes, increased by approximately 5%, expenditures for personal services and materials and services also continue to increase, partly due to rising costs for health insurance and retirement benefits for employees.

For the 2007-08 fiscal year, the Fire Fund balance increased due to significant savings resulting from staff turnover in the Fire Chief, Assistant Chief and Fire Marshall positions. For the 2006-07 fiscal year, the increase in the Fire Fund and the decrease in the Improvements Fund resulted from a re-allocation of property taxes from improvement projects to public safety operations. The decrease in the Improvements Fund balance in fiscal year 2007-08 reflects the spending down of resources to fund downtown infrastructure improvements and public safety operations.

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 bond, a principal and interest payment of approximately \$700,000 is due in August of each fiscal year.



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The fund balance for the Public Safety Facilities Construction Fund decreased \$9.2 million as bond proceeds were used to fund the construction of the new Public Safety Building. The remaining \$3.7 million restricted funds will be used in 2008-09 to construct a Civic Hall building, which will house the Municipal Courtroom and City Council Chambers.

The Park Development Fund balance includes unspent proceeds from the \$9.5 million in General Obligation bonds issued by the City in 2001. The fund also includes 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 existing parks.

### Proprietary Funds – Comparative Ending Net Assets June 30, 2008 and 2007 (in thousands)

	Ending Net Assets						Net Change
	Unrestricted		Invested in Capital Assets Net of Related Debt		Total		
	2008	2007	2008	2007	2008	2007	
<b>Fund:</b>							
Wastewater	\$17,070	\$14,400	\$33,552	\$32,289	\$50,622	\$46,689	\$3,933
Ambulance	1,120	602	254	315	1,374	917	457
Internal service	340	238	1,141	733	1,481	971	510
<b>Total ending net assets</b>	<b>\$18,530</b>	<b>\$15,240</b>	<b>\$34,947</b>	<b>\$33,337</b>	<b>\$53,477</b>	<b>\$48,577</b>	<b>\$4,900</b>

**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 \$4.9 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 by nearly \$0.5 million due to savings in personal services from staff turnover. Also, a new ambulance budgeted was not purchased in this fiscal 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. The Insurance Services fund provides a reserve against future liability and workers compensation claims.

### Budgetary Highlights

In fiscal year 2008, two resolutions were adopted by the City Council which amended the 2007-08 budget. The contingency transfer resolutions totaled \$436,500 in the General Fund, allocated to Administration and Finance \$200,150; Engineering, \$14,000; Building \$25,000; Police \$117,300; Municipal Court \$54,050; and Library \$26,000. Adjustments were necessary due to unanticipated increases in personal services, materials and services, and capital outlay expenditures. Administration and Finance's appropriations increased mainly to fund additional staff during the implementation of a new financial system and to remodel City Hall. Police's appropriations increased mainly to fund additional salary, wages, overtime and related fringe benefits and to purchase an additional vehicle.

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### Capital Assets

#### Government-Wide Capital Assets June 30, 2008 and 2007 (in millions)

	Governmental Activities		Business-Type Activities		Total City	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 27.1	\$ 25.7	\$ 0.9	\$ 0.9	\$ 28.0	\$ 26.6
Land improvements	11.5	11.0	0.1	0.1	11.6	11.1
Buildings	29.2	19.6	41.2	40.9	70.4	60.5
Machinery and equipment	5.5	3.7	1.0	1.0	6.5	4.7
Vehicles	3.4	3.3	1.1	1.1	4.5	4.4
Infrastructure	46.7	44.6	33.7	32.8	80.4	77.4
Construction in progress	<u>0.5</u>	<u>1.8</u>	<u>---</u>	<u>0.2</u>	<u>0.5</u>	<u>2.0</u>
<b>Total capital assets</b>	<b><u>123.9</u></b>	<b><u>109.7</u></b>	<b><u>78.0</u></b>	<b><u>77.0</u></b>	<b><u>201.9</u></b>	<b><u>186.7</u></b>
Accumulated depreciation	<u>(46.5)</u>	<u>(42.8)</u>	<u>(27.2)</u>	<u>(24.8)</u>	<u>(73.7)</u>	<u>(67.6)</u>
<b>Net capital assets</b>	<b><u>\$77.4</u></b>	<b><u>\$66.9</u></b>	<b><u>\$50.8</u></b>	<b><u>\$52.2</u></b>	<b><u>\$128.2</u></b>	<b><u>\$119.1</u></b>

- **City --- Capital Assets:** The City's net capital assets increased \$9.1 million from the prior fiscal year. Governmental activities capital assets increased \$10.5 million. Land increased due to property acquired for a neighborhood park. Buildings increased significantly due to the addition of the new Public Safety Building.
- For business-type activities, net capital assets decreased \$1.4 million. The change consisted of a \$1.2 million increase in Buildings and Infrastructure which was offset by a \$2.4 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. pages 70–72.

### Debt Administration

#### Government-Wide Outstanding Debt June 30, 2008 and 2007 (in millions)

	Governmental Activities		Business-Type Activities		Total City	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
General obligation bonds	\$20.5	\$ 21.2	\$ -	\$ -	\$20.5	\$ 21.2
Revenue bonds	-	-	16.0	18.3	16.0	18.3
Certificates of participation	0.2	0.4	-	-	0.2	0.4
Notes payable	<u>0.1</u>	<u>0.1</u>	<u>0.9</u>	<u>1.3</u>	<u>1.0</u>	<u>1.4</u>
<b>Total outstanding debt</b>	<b><u>\$20.8</u></b>	<b><u>\$21.7</u></b>	<b><u>\$16.9</u></b>	<b><u>\$19.6</u></b>	<b><u>\$37.7</u></b>	<b><u>\$41.3</u></b>

**City --- Outstanding Debt:** At June 30, 2008, the City had \$37.7 million in outstanding debt compared to \$41.3 million last year. Of that total, \$1.1 million of the debt related to governmental activities is due within one year. For business-type activities, \$2.7 million is due within one year. Outstanding debt for governmental and business-type activities decreased as debt service payments reduce principal balances and no new debt was issued.

The \$20.5 million governmental activities general obligation debt is payable from property taxes levied specifically for that purpose. The remaining \$0.3 million is payable from other general resources.

All the \$19.6 million business-type activity debt is either wastewater notes payable or revenue bonds and is payable exclusively from wastewater revenues.

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City and Department outstanding debt are described in more detail in the notes to the financial statements of the *CAFR*, note III. F., pages 75–80.

**City --- Bond Ratings:** The City again received an A2 general obligation bond debt rating from Moody's Investor's Services, Inc. when the public safety improvement 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.

### 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, Measure 47/50, 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 42 percent of the City's governmental operations funded by property taxes, the City's ability to meet the demand for services is significantly impacted by the increase in assessed value and new construction. Cost pressures exist in all areas of governmental operations, but most notably the increases for salaries, medical insurance, and retirement benefit contributions. In May 2006, the citizens of McMinnville overwhelmingly passed a general obligation bond to construct a new Public Safety Building and Civic Hall Building. Construction of the Public Safety Building was completed in the summer of 2008 and the Civic Hall Building is scheduled for completion in spring 2009.

#### Business-type activities:

- **Wastewater operations ---** Since the 1993-1994 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 of McMinnville 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.
- **Ambulance operations ---** The ambulance service has experienced very challenging financial pressures 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 2002-2003 to cover rising operating costs and 48.5 percent in 2007-2008. In past years, property tax subsidies have helped fund ambulance operations and may continue to be necessary in the future.

Additional economic factors affecting McMinnville are described in the transmittal letter of this report, pages 3–9.

### 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](mailto:Marcia.Baragary@ci.mcminnville.or.us).

