

# City of McMinnville, Oregon

## Management's Discussion and Analysis

City of McMinnville (City) management provides readers of these financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2005. Please read this *Management Discussion and Analysis (MD&A)* in conjunction with the City's *Letter of Transmittal*, pages 3–11, 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

- **City Government-wide net assets increased \$8.3 million:** The City's governmental activities reported a significant continued increase in capital assets, \$5.3 million, while paying routine long-term debt thus lowering government long-term liabilities, \$3.0 million. The City's business-type activities most significant net asset highlight was to continue to lower outstanding sewer revenue debt.
- **Governmental park system improvements:** The City continued to utilize the 2001 \$9.5 million park improvement bond proceeds, supplemented with available park system development charges, to improve the City's park system. During 2004-2005, Discovery Meadows Community Park, located in fast growing southwest McMinnville, opened as the first new community park built in 20 years. Also, the 100 year-old City Community Park was extensively renovated as was the 45 year-old Wortman Community Park. Another significant improvement to the park system was the construction of a second access road to Joe Dancer Community Sports Park helping to alleviate traffic congestion.
- **Governmental property purchased from current operations:** During July 2004, the \$1.25 million SW Community Park Note was redeemed using a combination of property tax operating dollars, \$0.75 million, saved over the last seven years, and park system development charges, \$0.5 million. During the fall of 2004, the City began talks with Oregon Mutual Insurance (OMI) Company to purchase their Regional OMI Office Building to house the Community Development Department. The 2005-2006 Budget appropriates dollars for purchase of the building, which occurred in November 2005.
- **Governmental public safety building planning:** During the spring of 2005, Mayor Gormley appointed a committee to explore the City's options for building new police department, emergency communications, municipal court, and city council facilities. The public safety committee selected an architect, began touring facilities, and began planning to place a bond levy on the ballot, likely in May 2006.
- **Governmental airport improvements:** The Federal Aviation Administration continued to provide the City with grant dollars to make improvements at the City's municipal airport. The project completed in 2004-2005 was the Ramp Construction and Hazard Removal Project.
- **Business-type activity sewer system improvements continue:** For several years, the City has been working on sewer system improvements in the Airport Basin. Previously, the City consolidated two old pump stations into a new larger new pump station to better service the present and future projects development in the basin. 2004–2005 brought completion of the re-sized sewer collection system trunkline.

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

- **Business-type activity ambulance fund continued to report operating loss:** The pressures in the medical insurance industry continue to negatively affect the financial operations of the ambulance fund. Particularly governmental payments, both Medicare and Medicaid, continue to decline with federal and state budget pressures. A subsidy from property taxes was instituted for the first time in the 2004-2005 Budget to address these operating pressures and was significantly increased in the 2005-2006 Budget.
- **Component Unit - McMinnville Water & Light Department (Department):** In water operations, the McGuire Reservoir Expansion Project was completed; and after a rate study that adjusted customer classes was completed, water rates increased for the first year of a five-year implementation plan. In electric operations, electric rates remained at the September 2002 level, although conservation and renewable discount spending plans were implemented. A new dark fiber lease program started using the fiber optic network jointly owned by the Department, the City, and McMinnville School District #40. Regarding litigation matters, an Enron settlement was reached.

### Overview of the Financial and Statistical Sections

The City *CAFR's* basic financial statements are comprised of the following three sections: 1) government-wide financial statements; 2) fund financial statements; 3) notes to the financial statements. The *CAFR* also contains a significant amount of additional financial information, a statistical section, and independent certified public accountant reports.

**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 a City total, and the component unit, McMinnville Water & Light Department (Department). Governmental activities of the City are general government, community development, public safety – police, public safety – fire, public safety – emergency communications, highways and streets, culture and recreation – parks and recreation, culture and recreation – library, airport, and interest on long-term debt. Business-type activities for the City are sewer and ambulance. The government-wide financial statements are found on pages 39–41 of the *CAFR*.

- **Statement of net assets:** This statement reports all assets and liabilities with the difference reported as net assets. In the government-wide financial statements, governmental activities report capital assets, including infrastructure and the associated depreciation, and long-term liabilities.
- **Statement of activities:** This statement reports governmental activities' function/program expenses and then "matches" them with function/program dedicated revenues computing cost of the function/program that must be supplemented by general governmental revenue sources that are primarily property taxes, franchise fees, payments-in-lieu of taxes from the Department, and state shared revenues. The statement also reports function/program business-type activities and the Department using the same format disclosing whether the activity has shown an increase or decrease in net assets for the year.

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

**Fund financial statements:** In governmental accounting, funds are used to maintain accounting control over resources dedicated for specific activities or functions/programs. Fund financial statements can be found on pages 46–65 in this *CAFR*.

- **Governmental funds:** Governmental funds are used to account for essentially the same functions/programs reported as governmental activities in the government-wide financial statements; although the fund financial statements use the modified accrual method of accounting that does not report capital assets, including infrastructure and the associated depreciation or long-term liabilities. 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 49 and 53.

The City maintains thirteen governmental funds, six of which are considered major funds with the remaining seven combined into a single, aggregated presentation for the *CAFR*. All funds that receive property tax revenues have been classified as major funds; i.e., General, Fire, Parks and Recreation, Capital Improvement, and Debt Service Funds. The Park Development Fund is also classified as a major fund due to the significant park renovation and improvement program currently funded by the \$9.5 million park improvement bonds issued in 2001. The remaining governmental funds are classified as non-major funds. A budgetary comparison statement is included for the general fund and each major special revenue fund. Non-major, debt service, and capital project individual fund data is provided in combining and individual fund statements and schedules found on pages 110–130.

- **Proprietary funds:** The City maintains two types of proprietary funds, business-type activities enterprise funds and governmental activities internal service funds.
  - Enterprise funds are used to report the same functions/programs presented as business-type activities in the government-wide financial statements. The City's Sewer and Ambulance Funds are enterprise funds. The 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 an accounting device used to accumulate and allocate costs internally among the City's various functions/programs. The City uses internal service funds to account for information systems and services and insurance coverages. These funds are included with the proprietary funds in the fund financial statements and included with the governmental activities in the government-wide financial statements, since the funds served are primarily governmental activities.

**Notes to the financial statements:** The notes to the financial statements are essential to a complete understanding of the government-wide and governmental fund financial statements. The notes to the financial statements are found on pages 69–104 in the *CAFR*.

### Supplementary information:

- **Combining and individual fund statements and schedules:** In addition to the basic financial statements, the *CAFR* contains significant additional information.
  - Combining financial statements: Governmental non-major fund combining financial statements are presented. These financial statements aggregate the non-major governmental funds; pages 110–113. Internal service fund combining financial statements are presented and aggregated, pages 123–125.

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

- Budgetary comparison schedules: Budgetary comparison schedules for each individual governmental fund not presented as part of the fund financial statements are presented for the governmental funds on pages 114–122 and for proprietary funds - enterprise and internal service funds - on pages 126–130.
- **Other financial schedules:** Additional information of interest to report to readers is included in this section. Schedules include federal financial assistance, future debt service requirements, property tax transactions, and accountability for independently elected officials, pages 134–140.

**Statistical section:** This section presents ten-year summaries of various financial schedules, property tax valuations, construction valuations, debt analyses, and miscellaneous statistical information, pages 143–167.

**Independent certified public accountants reports:** State of Oregon statutes require municipal auditors to include additional communications on certain compliance and internal controls of the City. Also, since the City received and expended over \$500,000 in federal grant funds, the City was subject to *US Office of Management and Budget Circular A-133 Compliance Supplement* audit. These Talbot, Korvola, Warwick, LLP special reports are found at the end of the *CAFR*.

## Government-Wide Financial Analysis

The government-wide statement of net assets reports all assets and liabilities with the difference reported as net assets. This statement should over time serve as a useful indicator of whether the financial position of the City and the Department are improving or deteriorating. In the government-wide financial statements, governmental activities report capital assets, including infrastructure and the associated accumulated depreciation, and long-term liabilities.

### Government-Wide --- Comparative Summary Statement of Net Assets June 30, 2005 and 2004 (in millions)

	City of McMinnville – Primary Government						Component Unit	
	Governmental Activities		Business – Type Activities		Total City		Department	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Cash and investments	\$17.1	\$19.4	\$ 9.7	\$ 9.5	\$26.8	\$28.9	\$27.6	\$22.9
Other assets	1.9	1.7	1.4	1.5	3.3	3.2	3.9	3.6
Capital assets	<u>63.3</u>	<u>58.1</u>	<u>53.9</u>	<u>53.2</u>	<u>117.2</u>	<u>111.3</u>	<u>75.3</u>	<u>74.1</u>
<b>Total assets</b>	<b><u>82.3</u></b>	<b><u>79.2</u></b>	<b><u>65.0</u></b>	<b><u>64.2</u></b>	<b><u>147.3</u></b>	<b><u>143.4</u></b>	<b><u>106.8</u></b>	<b><u>100.6</u></b>
Other liabilities	2.6	1.8	0.6	0.6	3.2	2.4	4.8	3.4
Long-term liabilities	<u>12.3</u>	<u>15.3</u>	<u>24.7</u>	<u>26.9</u>	<u>37.0</u>	<u>42.2</u>	<u>1.7</u>	<u>2.7</u>
<b>Total liabilities</b>	<b><u>14.9</u></b>	<b><u>17.1</u></b>	<b><u>25.3</u></b>	<b><u>27.5</u></b>	<b><u>40.2</u></b>	<b><u>44.6</u></b>	<b><u>6.5</u></b>	<b><u>6.1</u></b>
Investment in capital assets, net of related debt	56.8	50.7	29.3	26.4	86.1	77.1	75.3	74.1
Restricted	2.1	2.7	-	-	2.1	2.7	-	-
Unrestricted	<u>8.5</u>	<u>8.7</u>	<u>10.4</u>	<u>10.3</u>	<u>18.9</u>	<u>19.0</u>	<u>25.0</u>	<u>20.4</u>
<b>Total net assets</b>	<b><u>\$67.4</u></b>	<b><u>\$62.1</u></b>	<b><u>\$39.7</u></b>	<b><u>\$36.7</u></b>	<b><u>\$107.1</u></b>	<b><u>\$98.8</u></b>	<b><u>\$100.3</u></b>	<b><u>\$94.5</u></b>

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

**Comparative summary statement of net assets – City and Department:** The comparative summary statement of net assets reports that the City's net assets increased \$8.3 million, an 8.4 percent increase, which is comprised of a \$3.9 million increase in assets with a \$4.4 million decrease in liabilities. The Department's net assets increased by \$5.8 million, a 6.1 percent increase, which is comprised of a \$6.2 million increase in assets and a \$0.4 million increase in liabilities. The government-wide statement of net assets is located on page 39.

**City --- Comparative summary statement of net assets – governmental activities:** The governmental activities net asset increase of \$5.3 million, an 8.5 percent increase, is comprised of a \$3.1 million increase in assets and a \$2.2 million decrease in liabilities.

- The \$3.1 million asset increase is due to a combination of the following factors:
  - \$5.2 million Increase in capital assets – primarily from park system bond and system development charge improvements and street infrastructure subdivision capitalization and less significantly airport taxiway improvements. During 2004-2005, \$4.7 million of construction in progress was placed in service.
  - (3.0) Reduction in restricted cash and investments – primarily due to the spending of park improvement bond proceeds on the specified 2001 park improvement bond projects.
  - 0.9 Increase in other assets – most significantly \$0.6 million of cash and investments.
- The \$2.2 million liability decrease is due to the following factors:
  - \$1.5 million Annual payments of general obligation outstanding bonds paid through dedicated property taxes.
  - 1.3 City exercised the contract right to pay note in full on land for Discovery Meadows SW Community Park.
  - 0.2 Annual payments on two certificates of participation for public safety equipment and one note payable land purchase.
  - (0.8) Increase in other liabilities – most significantly checks issued in excess of deposits.

**City --- Comparative summary statement of net assets – business-type activities:** The business-type activities net asset increase of \$3.0 million, an 8.2 percent increase, is comprised of a \$0.8 increase in assets and a \$2.2 million decrease in liabilities.

- The \$0.8 million asset increase is due to a combination of the following factors:
  - \$2.8 million Increase in capital assets – primarily developer capital contributions of sewer system infrastructure subdivision development.
  - (2.0) Increase in accumulated depreciation – also primarily from the City's sewer system and water reclamation facility depreciation.
- The \$2.2 million liability decrease is due to the following factors:
  - \$1.9 million Annual payments of sewer system revenue bonds paid through dedicated sewer system revenues.
  - 0.3 Annual note payable payment on sewer revenue water/wastewater note.

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

**Component Unit - Department --- Comparative summary statement of net assets:** The Department's \$5.8 million net asset increase, a 6.1 percent increase, is due to the following combination of factors: a) \$4.7 million increase in cash and investments; b) \$1.2 million increase in capital assets resulting most notably from the completion of the McGuire Water Reservoir raising project; c) \$1.0 million decrease in long-term liabilities due to the reduction of long-term debt; d) \$1.4 million increase in short-term debt; e) \$0.3 million increase in other assets.

### Government-Wide --- Comparative Summary Statement of Activities For the Years Ended June 30, 2005 and 2004 (in millions)

	City of McMinnville – Primary Government						Component Unit	
	Governmental Activities		Business – Type Activities		Total City		Department	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>								
Program revenues:								
Charges for services	\$ 4.5	\$ 4.4	\$ 9.6	\$ 9.3	\$14.1	\$13.7	\$36.8	\$37.4
Operating grants and contributions	1.9	1.6	-	-	1.9	1.6	.4	0.3
Capital grants and contributions	4.2	4.6	0.9	1.1	5.1	5.7	1.2	0.9
General revenues:								
Property taxes	8.7	8.5	-	-	8.7	8.5	-	-
Franchise taxes	2.1	2.1	-	-	2.1	2.1	-	-
Other	<u>0.9</u>	<u>0.8</u>	<u>0.2</u>	<u>0.1</u>	<u>1.1</u>	<u>0.9</u>	<u>2.7</u>	<u>3.1</u>
<b>Total revenues</b>	<b><u>22.3</u></b>	<b><u>22.0</u></b>	<b><u>10.7</u></b>	<b><u>10.5</u></b>	<b><u>33.0</u></b>	<b><u>32.5</u></b>	<b><u>41.1</u></b>	<b><u>41.7</u></b>
<b>Expenses:</b>								
Governmental activities	17.0	15.5	-	-	17.0	15.5	-	-
Business-type activities	-	-	7.7	7.7	7.7	7.7	-	-
Component unit	-	-	-	-	-	-	<u>35.3</u>	<u>36.8</u>
<b>Total expenses</b>	<b><u>17.0</u></b>	<b><u>15.5</u></b>	<b><u>7.7</u></b>	<b><u>7.7</u></b>	<b><u>24.7</u></b>	<b><u>23.2</u></b>	<b><u>35.3</u></b>	<b><u>36.8</u></b>
<b>Increase in net assets before transfers</b>	<b>5.3</b>	<b>6.5</b>	<b>3.0</b>	<b>2.8</b>	<b>8.3</b>	<b>9.3</b>	<b>5.8</b>	<b>4.9</b>
Transfers	-	<u>0.1</u>	-	<u>(0.1)</u>	-	-	-	-
<b>Total increase in net assets</b>	<b>5.3</b>	<b>6.6</b>	<b>3.0</b>	<b>2.7</b>	<b>8.3</b>	<b>9.3</b>	<b>5.8</b>	<b>4.9</b>
Beginning net assets	<u>62.1</u>	<u>55.5</u>	<u>36.7</u>	<u>34.0</u>	<u>98.8</u>	<u>89.5</u>	<u>94.5</u>	<u>89.6</u>
<b>Ending net assets</b>	<b><u>\$67.4</u></b>	<b><u>\$62.1</u></b>	<b><u>\$39.7</u></b>	<b><u>\$36.7</u></b>	<b><u>\$107.1</u></b>	<b><u>\$98.8</u></b>	<b><u>\$100.3</u></b>	<b><u>\$94.5</u></b>

**Comparative summary statement of activities – City and Department:** The comparative government-wide summary statement of activities reports program revenues, general revenues, and expenses disclosing whether the activity has shown an increase or decrease in net assets for the year. The comparative summary statement of activities reports the City's net assets decreased \$1.0 million. The net asset decrease is comprised of a \$0.5 million revenue increase and a \$1.5 million expense increase. The Department's statement of activities reports a net asset increase of \$0.9 million. The net asset increase is comprised of a \$0.6 million revenue decrease and a \$1.5 million expense decrease. The government-wide statement of activities is located on pages 40–41.

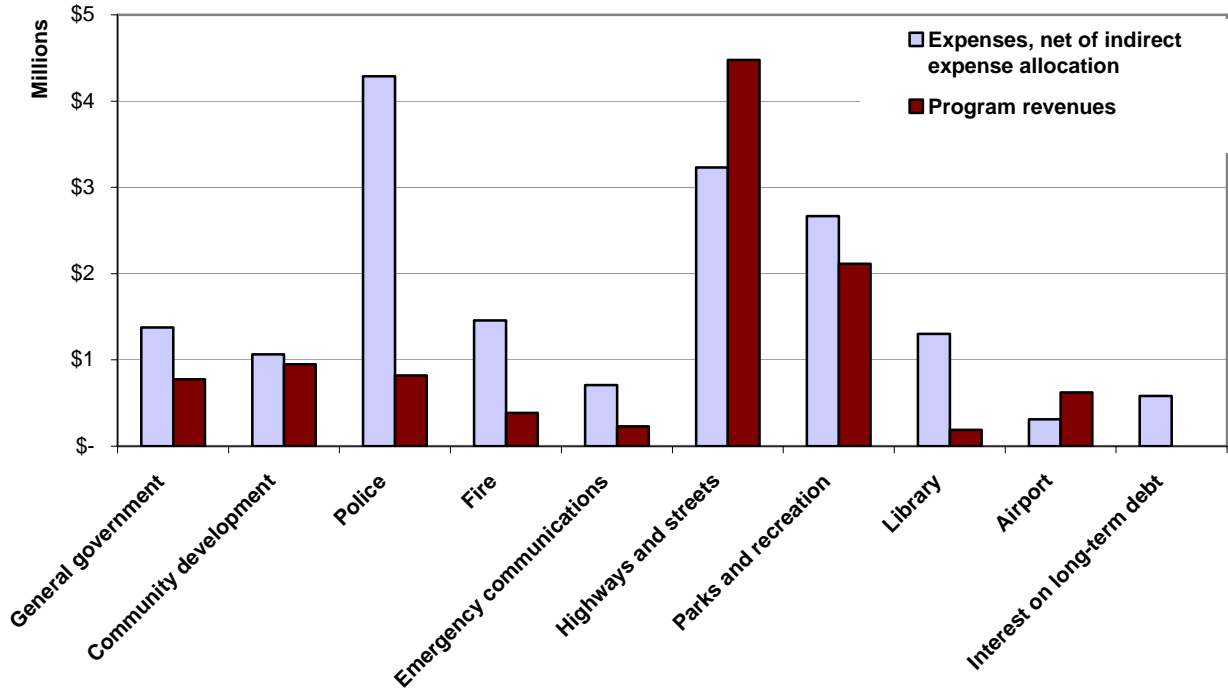
## City of McMinnville - Management's Discussion and Analysis

**City --- Comparative summary statement of activities – governmental activities:** The comparative summary statement of governmental activities reports a \$1.3 million decrease in governmental activities. The \$1.3 million decrease is comprised of \$0.3 million revenue increase, \$1.5 million expense increase, and \$0.1 million decrease of transfers in:

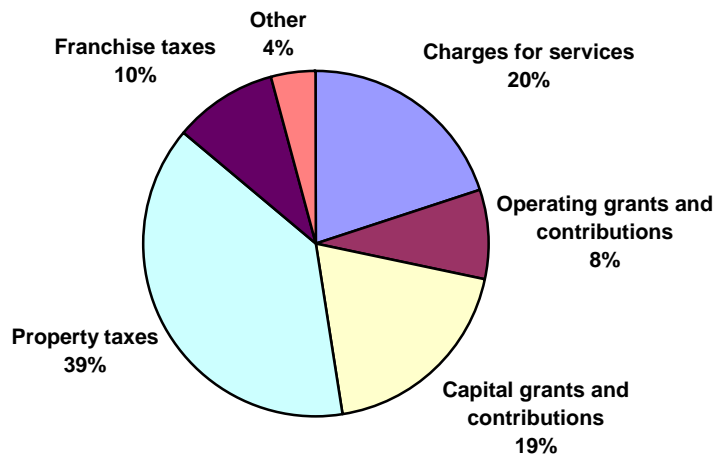
- The \$0.3 million revenue increase is due to a combination of the following factors:
  - \$0.1 million Increase in charges for services – resulting primarily from an increase in municipal court fines and forfeitures revenue in the police program.
  - 0.3 Increase in operating grants and contributions – resulting primarily from increases in fire, \$0.1 million; highways and streets, \$0.1 million; and library, \$0.1 million program activities revenue.
  - (0.4) Decrease in grants and contributions – resulting from a significant decrease in highways and streets capital contributions from developers, (\$1.5 million); and increases in general government, \$0.2 million; parks and recreation, \$0.5 million; and airport, \$0.4 million.
  - 0.2 Increase in property taxes – comprised of a \$0.5 million increase in operating permanent rate property taxes and a decrease of (\$0.3 million) in dedicated bonded debt service property taxes.
  - 0.1 Increase in other revenues – comprised of a combination of franchise fees, \$0.05 million; and state shared revenues, \$0.05 million.
- The \$1.5 million expense increase is due to the following factors:
  - \$0.4 million Increase in general government program activities expense.
  - 0.1 Increase in community development program activities expense.
  - 0.3 Increase in police program activities expense.
  - 0.1 Increase in fire program activities expense.
  - 0.1 Increase in emergency communications program activities expense.
  - 0.5 Increase in highways and streets program activities expense.
  - 0.1 Increase in parks and recreation program activities expense.
  - 0.1 Increase in library program activities expense.
  - (0.1) Decrease in airport program activities expense.
  - (0.1) Decrease in interest expense on long-term debt.

# City of McMinnville - Management's Discussion and Analysis

**Governmental Activities**  
**Net Expenses and Program Revenues by Function**  
**For the Year Ended June 30, 2005**



**Governmental Activities**  
**Revenues by Source**  
**For the Year Ended June 30, 2005**

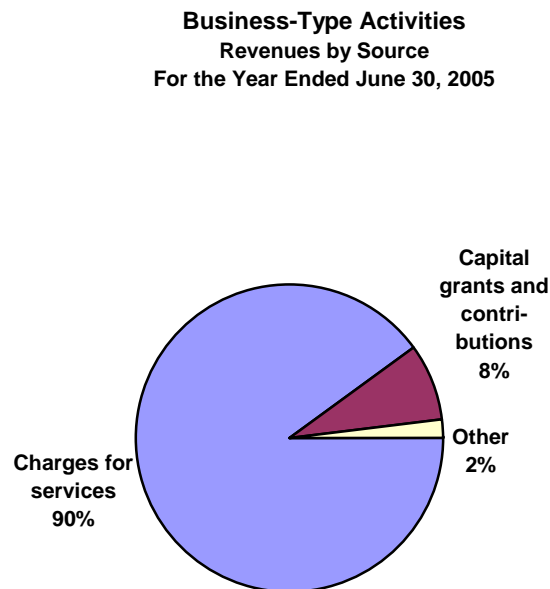
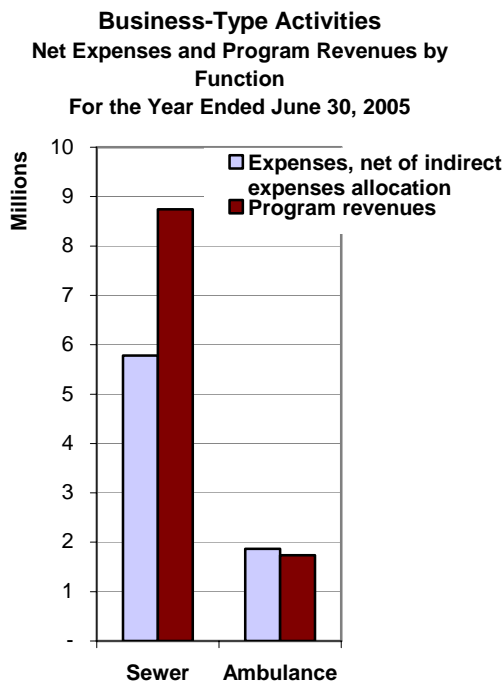




## City of McMinnville - Management's Discussion and Analysis

**City --- Comparative summary statement of activities – business-type activities:** The comparative summary statement of governmental activities reports a \$0.3 million increase in the business activities net asset change over fiscal year ended June 30, 2004 net asset change, while posting a total business activities increase in net assets of \$3.0 million. The \$0.3 million change is comprised of \$0.2 million revenue increase, no change in total expenses, and \$0.1 million transfer increase:

- The \$0.2 million revenue increase is due to a combination of the following factors:
  - \$0.3 million Increase in charges for services – resulting from sewer program revenue increase, \$0.2 million; and ambulance program revenue increase, \$0.1 million.
  - (0.2) Decrease in capital grants and contributions – resulting completely from sewer program revenue decrease.
  - 0.1 Increase in other revenues – interest revenue.
- The lack of change in the combined business-type activities expense is actually comprised of the following differences:
  - \$0.2 million Increase in ambulance program activities expense.
  - (0.2) Decrease in sewer program activities expense.
- The \$0.1 million decrease in transfers due to the following factors:
  - (\$0.1) million Decrease in sewer program activities transfers out.



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

**Component Unit - Department --- Comparative summary statement of activities:** The Department's statement of activities net asset increase of \$0.9 million is comprised of a \$0.6 million revenue decrease and a \$1.5 million expense decrease. The revenue decrease resulted from Cascade Steel Rolling Mill's (CSRM) one-month shut down; also, in the Department's watershed management program, fewer board feet of timber were sold. The expense decrease resulted primarily from a decreased cost of power; but also due to CSRM's decreased consumption resulting from the one-month shut down.

### 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, 2005 and 2004 (in thousands)

	Ending Fund Balances							
	Unreserved		Reserved		Total		Net Change	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>Major funds:</b>								
General *	\$4,150	\$3,444	\$ 587	\$ 389	\$ 4,737	\$ 3,833	\$904	\$1,090
Fire *	1,264	1,101	-	-	1,264	1,101	163	299
Parks and recreation *	1,624	1,299	-	-	1,624	1,299	325	354
Capital improvement *	1,183	1,405	-	-	1,183	1,405	(222)	269
Debt service	-	-	687	902	687	902	(215)	61
Park development	-	89	4,206	7,833	4,206	7,922	(3,716)	(759)
<b>Non-major funds</b>	<u>781</u>	<u>1,035</u>	<u>989</u>	<u>852</u>	<u>1,770</u>	<u>1,887</u>	<u>(117)</u>	<u>40</u>
<b>Total ending fund balance</b>	<b><u>\$9,002</u></b>	<b><u>\$8,373</u></b>	<b><u>\$6,469</u></b>	<b><u>\$9,976</u></b>	<b><u>\$15,471</u></b>	<b><u>\$18,349</u></b>	<b><u>\$(2,878)</u></b>	<b><u>\$1,354</u></b>

\* Operating property tax funds

**City --- Governmental Funds:** The basis of accounting for governmental funds is on near-term inflows, outflows, and fund balances of spendable resources; i.e., modified accrual; thus not recording capital assets or long-term debt as are reported in the government-wide financial statements. The chart above summarizes the unreserved, reserved, and total ending fund balances of the major governmental funds and the aggregated non-major funds along with the net change of fund balance from operations for period ended June 30, 2005 and 2004.

- The governmental fund balances decreased by \$2.9 million, comprised of the following changes:

- (\$3.7) million      Decrease in the park development fund balance – due to the continued spend down of the 2001 park improvement bond proceeds to expand and renovate city parks.
- 1.2                      Increase in operating property tax fund balances – due to the conscious management decision to maximize these fund balances as much as possible.

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

- 0.2 Increase in reserved building division ending fund balance.
- (0.2) Decrease in the capital improvement fund balance – due primarily to the paying off the \$1,250,000 parks property note payable on its earliest redemption date utilizing funds in excess of designated funds saved in prior fiscal years toward this early redemption date of July 2005.
- (0.2) Decrease in debt service fund balance due to final maturity of 1996 refunding bonds thus enabling a lower fund balance at year-end.
- (0.2) Decrease in non-major fund ending fund balances.

### Proprietary Funds – Comparative Ending Net Assets June 30, 2005 and 2004 (in thousands)

	Ending Net Assets							
	Unrestricted		Invested in Capital Assets Net of Related Debt		Total		Net Change	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Fund:</b>								
Sewer	\$9,911	\$9,738	\$29,042	\$26,027	\$38,953	\$35,765	\$3,188	\$2,935
Ambulance	706	728	311	369	1,017	1,097	(80)	(118)
Internal service	<u>274</u>	<u>327</u>	<u>407</u>	<u>526</u>	<u>681</u>	<u>853</u>	<u>(172)</u>	<u>191</u>
<b>Total ending net assets</b>	<b><u>\$10,891</u></b>	<b><u>\$10,793</u></b>	<b><u>\$29,760</u></b>	<b><u>\$26,922</u></b>	<b><u>\$40,651</u></b>	<b><u>\$37,715</u></b>	<b><u>\$2,936</u></b>	<b><u>\$3,008</u></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. The chart above summarizes net assets as unrestricted and invested in capital assets net of related debt, and total ending net assets of the Sewer Fund, Ambulance Fund, and internal service funds in the aggregate along with the net change from operations.

- The proprietary ending net assets increased \$2.9 million, comprised of the following:
  - \$3.0 million Increase in sewer fund investment in capital assets.
  - 0.2 Increase in sewer fund unrestricted net assets.
  - (0.1) Decrease in ambulance fund net assets – derived from an operating loss signifying the extremely challenging medical environment in which the ambulance transport services operations provides services.
  - (0.2) Decrease in the internal service fund net assets – due primarily to operating the information systems and services fund with an operating loss in 2004-2005.

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

### Budgetary Highlights

Although City Council approved one \$185,000 supplemental budget resolution during the fiscal year ended June 30, 2005, the supplemental budget did not affect the General Fund.

Each fiscal year a final budget adjustment contingency transfer resolution is made at year-end to reflect actual department spending patterns in response to changing service delivery needs or expense changes. The June 2005 contingency transfer resolution totaled \$351,000 with only \$54,000 affecting the General Fund.

### Capital Assets

#### Government-Wide Capital Assets June 30, 2005 and 2004 (in millions)

	Governmental Activities		Business-Type Activities		Total City	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$23.5	\$22.5	\$0.9	\$0.9	\$24.4	\$23.4
Land improvements	10.8	5.4	0.1	0.1	10.9	5.5
Buildings	17.5	16.4	40.7	40.4	58.2	56.8
Machinery and equipment	3.1	1.8	0.9	0.9	4.0	2.7
Vehicles	3.2	2.9	0.9	0.9	4.1	3.8
Infrastructure	40.2	37.8	30.7	28.1	70.9	65.9
Construction in progress	0.9	5.1	0.0	0.1	0.9	5.2
Accumulated depreciation	<u>(36.0)</u>	<u>(33.8)</u>	<u>(20.2)</u>	<u>(18.2)</u>	<u>(56.2)</u>	<u>(52.0)</u>
<b>Total capital assets</b>	<b><u>\$63.2</u></b>	<b><u>\$58.1</u></b>	<b><u>\$54.0</u></b>	<b><u>\$53.2</u></b>	<b><u>\$117.2</u></b>	<b><u>\$111.3</u></b>

**City --- Capital Assets:** The City reported \$117.2 million invested in capital assets net of accumulated depreciation at June 30, 2005. The net capital asset increase of \$5.9 million is comprised of \$5.1 million increase in governmental activities and \$0.8 million increase in business-type activities. City and Department capital assets are described in more detail in the notes to the financial statements of the *CAFR*, note III. D. pages 82–84.

\$5.1 million      The governmental activities capital asset change is comprised of \$12.7 million increase in capital assets placed in service with \$4.8 million of those assets were previously capitalized in construction in progress, annual depreciation of \$2.7 million, and \$0.1 million of net disposals.

0.8                      The business type activities capital asset change is comprised of \$3.1 million increase in capital assets placed in service with \$0.1 million of those assets previously capitalized in construction in progress, annual depreciation of \$2.0 million, and \$0.2 million of disposals.

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

### Change in Government-Wide Capital Assets For the Years Ended June 30, 2005 and 2004

(in millions)

	Governmental Activities		Business-Type Activities		Total City	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Beginning balance</b>	<b>\$58.1</b>	<b>\$54.8</b>	<b>\$53.2</b>	<b>\$53.1</b>	<b>\$111.3</b>	<b>\$107.9</b>
Additions	7.9	6.1	3.1	2.3	11.0	8.4
Net disposals	(0.1)	-	-	(0.3)	(0.1)	(0.3)
Depreciation	(2.7)	(2.8)	(2.3)	(1.9)	(5.0)	(4.7)
<b>Ending balance</b>	<b><u>\$63.2</u></b>	<b><u>\$58.1</u></b>	<b><u>\$54.0</u></b>	<b><u>\$53.2</u></b>	<b><u>\$117.2</u></b>	<b><u>\$111.3</u></b>

#### City --- Change in Capital Assets:

- Governmental activities capital asset additions, shown net of construction in progress assets put in-service, were \$7.9 million:

\$7.2 million	Park system capital asset increases – this large increase is comprised of the following: Wortman Park renovation, \$0.8 million; skate park improvements \$0.2 million; \$0.3 million baseball/soccer field improvements; \$0.6 million Thompson Park construction; \$3.5 million Discover Meadows SW Community Park construction; \$1.4 million Marsh Lane extension at Joe Dancer Park; \$0.4 million Rotary Nature Park at Tice Woods.
3.2	Street system capital assets placed in service – street and storm drainage infrastructure donated to City by subdivision developers, \$2.5 million; street resurfacing, \$0.1 million; Cypress Lane improvements, \$0.6.
0.7	Emergency communications capital assets placed in service.
0.5	Airport land improvements placed in service.
0.3	Capital assets placed in service for police activities.
0.2	Fire service capital assets placed in service.
0.6	Increase in construction in progress.
(4.8)	Decrease in construction in progress – park system (\$3.5 million); emergency communications, (\$0.7 million); transportation, (\$0.3 million); airport, (\$0.2 million); police, (\$0.1 million).

- Business-type activities capital asset additions are, shown net of construction in progress assets put in-service, \$3.1 million:

\$1.5s million	Sewer improvements constructed by City.
0.9	Sewer infrastructure donated to City by subdivision developers.
0.4	Water reclamation facility capital asset additions.
0.3	Sewer system maintenance betterments capital asset additions.

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

### Debt Administration

#### Government-Wide Outstanding Debt June 30, 2005 and 2004 (in millions)

	Governmental Activities		Business-Type Activities		Total City	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds	\$10.7	\$12.2	\$ -	\$ -	\$10.7	\$12.2
Revenue bonds	-	-	22.6	24.4	22.6	24.4
Certificates of participation	0.9	1.1	-	-	0.9	1.1
Notes payable	0.1	1.4	2.0	2.4	2.1	3.8
<b>Total outstanding debt</b>	<b><u>\$11.7</u></b>	<b><u>\$14.7</u></b>	<b><u>\$24.6</u></b>	<b><u>\$26.8</u></b>	<b><u>\$36.3</u></b>	<b><u>\$41.5</u></b>

**City --- Outstanding Debt:** At June 30, 2005, the City had \$36.2 million in outstanding debt. Of the \$11.7 million governmental activities debt, \$10.7 million is funded by a dedicated bonded debt service property tax levy. The remaining outstanding governmental activities debt of \$1.0 million must be paid through current resources, which is primarily through operating property taxes. The debt maturing within one year paid with the dedicated bonded debt service property tax levy is \$1.4 million principal with \$0.5 million interest expense and debt paid from governmental activities operating resources is \$.25 million principal with \$.04 million interest expense. All the business-type activity debt is either sewer revenue bonds or notes and is payable exclusively from sewer revenues. The amount of debt that matures in the next year and payable from sewer revenues is \$2.4 million principal with \$1.0 million interest expense. City and Department outstanding debt are described in more detail in the notes to the financial statements of the *CAFR*, note III. F., pages 87–94.

#### Change in Government-Wide Outstanding Debt For the Years Ended June 30, 2005 and 2004 (in millions)

	Governmental Activities		Business-Type Activities		Total City	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Beginning balance</b>	<b>\$14.7</b>	<b>\$16.4</b>	<b>\$26.8</b>	<b>\$29.4</b>	<b>\$41.5</b>	<b>\$45.8</b>
Debt issued	-	-	-	24.4	-	24.4
Debt refunded	-	-	-	(24.8)	-	(24.8)
Debt paid	(3.0)	(1.7)	(2.2)	(2.2)	(5.2)	(3.9)
<b>Ending balance</b>	<b><u>\$11.7</u></b>	<b><u>\$14.7</u></b>	<b><u>\$24.6</u></b>	<b><u>\$26.8</u></b>	<b><u>\$36.3</u></b>	<b><u>\$41.5</u></b>

**City --- Change in Outstanding Debt:** During 2004-2005, the City paid \$5.2 million principal on outstanding debt.

- The \$3.0 million reduction in governmental activities debt was attributable to debt service.
  - \$1.50 million Annual general obligation bond payments from a dedicated bond debt service levy.
  - 1.25 Discovery Meadows SW Community Park property note payable redemption paid from a combination of operating property tax dollars, 60 percent, and park system development dollars, 40 percent.
  - .25 Lease-purchase debt payments mostly funded from operating property tax dollars, purchasing public safety equipment.

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

- The \$2.2 million reduction in business-type activities debt service is totally sewer system debt paid by sewer ratepayers.

\$1.9 million Sewer revenue bond annual payments funded by sewer ratepayers.

0.3 Oregon Economic and Community Development Department Water/Wastewater Fund note annual payments, funded by sewer ratepayers.

**City --- Bond Ratings:** The City received an A2 general obligation bond debt rating from Moody's Investor's Services, Inc. when the park improvement bonds were sold in August 2001. 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, 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 the City's governmental operations funded roughly 39 percent from property taxes, the fact that the City has levied the maximum property tax rate of \$5.02 per thousand for the last three years emphasizes the importance of property tax assessed value growth with the economic pressure of delivering high value governmental services. Cost pressures exist in all areas of governmental operations, but most notably the increases for salaries, health insurance, and retirement benefit contributions. During the 2004-2005 fiscal year, merit increases were again instituted for all general service employees who had undergone a salary freeze during 2003-2004 to help address those cost pressures. Due to existing contracts, the police and fire unions did not participate in this salary freeze. During the budget planning process for 2005-2006, City Council decided that a more comprehensive level of service project should be undertaken. This project will be completed during the 2006-2007 budget preparation process and coupled with information collected through the community outreach project, Community Choices. In the spring of 2006, placing a local option levy on the November 2006 ballot will again be reviewed as the level of service project and Community Choices information is reviewed by the City Council and Budget Committee.

### Business-type activities:

- **Sewer operations ---** Since the 1993-1994 financing of the new water reclamation facility and significant sewer collection system improvements over the years since, the City has developed an outstanding track record of meeting the challenges of increased environmental regulations in a proactive manner. Meeting these regulatory challenges has not come without a cost; the City of McMinnville sewer rates are among the highest in the state. A sewer rate study was completed during 2003-2004. The City Council adopted a plan that recommends 2.75 percent rate increases for the next eight years. This level of rate increase is 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 2004-2005, preliminary steps began for the wastewater services operations to update the City's water reclamation facility and sewer collection system plan. This significant undertaking in time and money is projected to be completed in 2007. The

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

product of the plan will be to determine the water reclamation facility and sewer collection system needs to address the significant growth of the city and to address the expanded urban growth boundary currently submitted to the State of Oregon for final review.

- **Ambulance operations** --- The ambulance operation has experienced very challenging operating pressures over the last several years. With the proliferation of retirement facilities in the city over the last several years, emergency medical services (EMS) is constantly busy and billed almost \$2.5 million for the year ending June 30, 2005. Unfortunately, the EMS billing operations is under more and more pressure from Medicare and Medicaid to accept less for the services rendered. The collection rate had dropped in the prior three years from 72.7 percent in 2001-2002, to 67.1 percent in 2002-2003, and to 64.2 percent in 2003-2004. During 2004-2005, the collection rate increased slightly to 66.3 percent. During the year ended June 30, 2005, ambulance operations posted another net operating loss of approximate \$0.1 million. An operating transfer subsidy of property tax support to help fund ambulance operations was instituted in the 2004-2005 Budget and in the 2005-2006 Budget was increased from \$50,000 to \$100,000. Also, property tax dollars will subsidize the purchase of a new ambulance during the 2005-2006 fiscal year.

Additional economic factors affecting McMinnville are described in the transmittal letter of this report, pages 4-7.

### 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, Carole M. Benedict, 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 [benedic@ci.mcminnville.or.us](mailto:benedic@ci.mcminnville.or.us).