

FY2024-25 Proposed McMinnville Budget Q&A #2

Questions from Budget Committee received between 5/17/2024 and 5/21/2024 with answers from staff – prepared 5/21/2024

1. When I add property tax revenue plus fees plus city services fee for 2024 using the final budget on the website the total dollars are \$18,174,830 when I add the same 3 numbers for the proposed 2025 budget it totals \$20,421,000 that's a difference of \$2.3 million yet when I read your packet you're expressing that we are having a major shortfall. I don't understand. Please explain.

Unfortunately, I'm not able to recreate the numbers you mention. Perhaps you are including the property tax for debt service and/or for Urban Renewal in your totals? But that may not be consequential because the revenue increase you mention is reflected in the numbers below:

	FY24	FY25	
Property tax current 01-99-4100-05	11,325,000	13,550,000	pg 340
Property tax prior 01-99-4100-10	250,000	200,000	pg 340
City Services Charge 01-99-5305	2,203,000	2,240,000	pg 342
	13,778,000	15,990,000	
	difference	2,212,000	

The increase in funding from these sources year over year is \$2.2 million. Focusing in on current property tax year to year change, here is the math isolating the increase associated with adding 50 cents of additional tax levy for FY2024-25:

FY24 estimated current property tax	11,425,000
3.85% increase on \$3.52 underlevy	11,860,000
increase attributable to new 50 cents	1,690,000

The trending on FY2023-24 actuals suggests the City will see slightly more property tax this year than projected in the budget. Applying an annual property tax increase of 3.85%, the city will see almost \$1.7 million in new property tax for the 50 cents in its proposed levy.

On pages 25 and 26 of the proposed budget document, information on the shortfall in the General Fund is summarized. The 50 cents was sufficient to cover the steady state inflationary personnel increase year to year plus the annual payment on FY2023-24's capital investments we utilized internal borrowing for. Without borrowing, critical capital replacements and deferred capital maintenance projects in the General Fund would not have been possible to pay for. The reserve shortfall – which factors in the additional incremental General Fund revenue increases we anticipate in City Services Charge and other sources, offset by small declines in some franchise revenue and anticipated interest - is driven by \$1.3 million in one-time fire district costs, \$513,000 in new carrying cost

(details described on pg. 26) and the \$339,000 one-time cost to support the Council goal of continuing to move forward on a Park and Recreation/Library facilities project.

2. There was some discussion about having every department be revenue neutral yet when I look at fiscal year 2023-2024, the Aquatic Center it cost us \$676,138, the Community Center cost us \$683,072, and the Senior Center cost us \$528,697. When I drill down further it would appear that the Aquatic Centers main users are really not paying for the use of the pool. I understand there's probably no way to bring costs in line with revenues for the Senior Center. What would it take to do so for the other two? and is this something that director Muir is currently working on?

Staff across the organization are continuing to pay attention to cost recovery in their departments as a component of the work to address financial sustainability included in Resolution 2021-55. In terms of the City's value on equity, McMinnville's Parks and Recreation Department offers a Financial Assistance Program, where we strive to remove barriers to participation and ensure that more community members have access to our recreation activities.

What would it take to bring the aquatic center and community center costs in line with the senior center? Simply put, it would take replacing those 2 outdated facilities with one new, modern, efficient rec center that can increase our opportunities for additional revenue while allowing us to operate more efficiently. Operating costs in the 2 aging, outdated buildings will continue to increase and make them more expensive to operate and maintain, without a clear path to improved cost recovery footing in the existing facilities. And due to the aging nature of the buildings (for example, a broken elevator, old, stained carpet, or having to close an amenity due to roof leaks), it is becoming harder to find ways to just maintain revenue levels.

The 2020 feasibility study for a combined facility (new rec center) studied just this question you've asked, and did indicate there is an opportunity to increase our revenue and bump our cost recovery % up quite a bit (25% above pre-pandemic levels). The add package in the proposed FY 24/25 proposed budget funds an updated operating budget model for the new rec center that will come before City Council later this year.

Is this something that director Muir is currently working on? Yes, the pursuit of a new, more efficient building with potential for additional revenue, as well as the recent proposed parks System Development Charge methodology, which facilitates new growth paying (100%) for growth impacts to our parks, is pointing us towards a modern parks and recreation system with sustainable revenue.

3. When I total administration, finance, engineering, community development, police, municipal court, parks and rec, park maintenance, and library from the budget documents on the website for 2023-2024 it totals to \$26,671,353 when I total the same accounts based on the numbers provided in the 2024-2025 budget proposal for 2023-24 the total comes to \$30,694,296. That is a rather startling difference. The discrepancy seems to be in the capital outlay numbers in

the administrative department for 2023-2024 as shown in this year's budget. Why is there such a huge difference?

Unfortunately, I'm not able to validate your total for FY2023-24 but the FY2024-25 total you mention is close to the \$30,590,601 total of General Fund Departments in the table on page 30 of the document. In the proposed budget document, the FY2023-24 data is the amended budget number so it includes the supplemental budgets for this year that have been approved through the time the budget was balanced in April 2024. I updated the table on page 30 to include the adopted budget information in case that's helpful.

General Fund Expenditures - By Department					
Requirements	Adopted Budget 2023-2024	Amended Budget 2023-2024	Proposed Budget 2024-2025	\$\$ Change 2023-2024 versus 2024-2025	% Change 2023-2024 versus 2024-2025
Administration	2,235,513	6,585,513	2,671,023	(3,914,490)	-59.44%
Finance	1,153,296	1,153,296	1,012,444	(140,852)	-12.21%
Engineering	1,898,359	2,058,083	1,622,801	(435,282)	-21.15%
Community Development	2,696,554	2,911,554	2,679,035	(232,519)	-7.99%
Police	11,055,374	11,088,455	12,138,373	1,049,918	9.47%
Municipal Court	681,556	681,556	716,572	35,016	5.14%
Fire	-	-	-	-	0.00%
Parks & Recreation	3,517,171	3,517,171	3,941,747	424,576	12.07%
Park Maintenance	3,903,863	3,903,863	2,871,953	(1,031,910)	-26.43%
Library	2,679,298	2,679,298	2,936,653	257,355	9.61%
Total Department Expenditures	29,820,984	34,578,789	30,590,601	(3,988,188)	-11.53%
Non-Departmental	19,602,590	19,471,785	6,563,291	(12,908,494)	-66.29%
Total Outlays	49,423,574	54,050,574	37,153,892	(16,896,682)	-31.26%

The primary driver of the difference with administration is that additional budget appropriation to purchase the \$4.3 million NW Rubber property was included as a supplemental budget this year. That, of course, is a one-time cost that will not recur. Year to year differences throughout this period will be difficult given the need to remember to exclude fire from prior periods. One-time costs associated with American Rescue Plan Act (ARPA) and other one-time grants is another factor which muddies the waters. Non-departmental levels are also different in FY24 because of the costs associated with the fire district transition and the general fund holding the operations loan to cover the new fire districts operating costs for the first six months of the year that will also be unique to this year.

4. For fiscal year 2024-2025 I get a total of \$28,015,278 for the above departments which represents a net 4.8% increase year over year. Yet when I read the packet it seems like there is a massive decrease in spending from last year. I assume that it's predominantly being caused by including pass through dollars and ARPA dollars and does not actually represent true spending of year over year services for the city of McMinnville. Is this accurate?

The decreases seen in the change from FY24 to FY25 column are significant. But, hopefully the reasons noted above help bridge the gap and make it understandable. Just to let you know, it has been the city's practice to use the amended budget as the reference point for the year-to-year analysis instead of the originally approved budget for

the year. And you are right to understand that ARPA dollars are a factor here but this grant is not the biggest driver of the budgetary change.

5. The proposed budget packet on page 24 states that the 2023-2024 total requirements were more than double the 2022-2023 requirements. It states that the 2024-2025 requirements are half again as large as the 2022-2023 requirements. On first glance it appears the 2023-2024 increases can be pinned down predominantly to the general fund which spiked by \$15 million that year and wastewater capital which spiked by \$33 million that year. What happened in 2023-2024 and 2024-2025 to cause such spikes?

Yes – year to year budget comparisons often swing significantly. General Fund one-time issues are as noted in above questions. When looking at FY23 actuals, we also have to remember that the fire department is fully included. The significant wastewater change is due to the new contracts that the fund has spent years saving up for (as reflected by lower actual spending in FY2023-22 and FY2022-23) as well as factors that affect the General Fund. On page 514 of the document, the list of big projects is noted and includes \$11 million for the construction of the Solids Treatment Capacity Improvements project. FY24 included transfers out for internal loans of over \$10 million, down to \$855,000 in FY25. Two internal loans were made for over \$4 million each for the NW Rubber property acquisition loan and the fire district operations transition loan.

6. On page 67 of the proposed budget packet you saved me a bunch of time of having to question each department head about FTEs, thank you. However I found the difference that you highlighted between 2023-2024 and 2024-2025 to be a bit misleading. How many FTEs in the 2023-2024 cycle were specifically funded by ARPA and are no longer being used? I guesstimated it right around 4 to 5 FTEs. How close was I? I know we still have one FTE that is funded by ARPA, although it somewhat funded by the "Noble Grant"?

The following page in the document (pg 64 as printed) gives the year-to-year changes in budgeted FTE. Finance had a grant manager funded by ARPA that is no longer on staff. The decrease in court clerk I is due to the 2 days a week supplement funded by ARPA running out during the FY2024-25 year. In Engineering, the half time, ARPA-funded emergency manager is a new budgeted FTE in the department for the next year. His position was authorized mid-year in FY24 as part of a supplemental budget action. Finally, there is one staffer who is largely funded by a number of grant sources including the City's ARPA projects in the 10-20% range. I believe that's the extent of ARPA-funded staffers.

The FY2023-24 budget envisioned short duration fire district transition staffing needs with a position budgeted in finance and administration for the year. As the iterative process of the transition unfolded, the scenario of adding staff in support services that would potentially transition over to the new fire district organization no longer made sense so those positions were never filled and, of course, are not included in the FY2024-25 budget.

7. Following up on hybrid working -I suppose this is another one of these situations where it depends on which study you cite. I have read multiple studies that actually show a loss in productivity. I have also read multiple studies showing many employers are requiring their employees to come back to the office. Further I think it sends the wrong message when members of our community show up and those that they're paying to work on their behalf are not present. It also sends a bad message to those who are required to show up every day because of their job requirements when their managers and superiors are not. I would urge reconsideration on this point. I have personally found it to cause delays in getting things done I needed to get done because the person who did the job happened to be working from home that day.

This question was answered by Jeff Towery, City Manager, in an email to Councilor Chris Chenoweth. Here is that response.

Chris,

Thank you for the question. As you mentioned, there are studies that suggest remote work is better for the workplace and studies that suggest the opposite, so it's hard to speak in absolutes about a topic that is somewhat subjective. This [SHRM article](#) describes the current dilemma pretty well:

"The arguments for and against hybrid work arrangements have been fast and furious. The people who support a combination of onsite and remote work defend it passionately; while some support hybrid work arrangements with caveats. Others make clear their preference for completely in-person work.

From hybrid supporters: If anything positive came from the COVID-19 pandemic, it's the hybrid work schedule. From hybrid detractors: Now that the pandemic seems to be more or less behind us, let's return to the prior normal."

Ultimately, we have decided to move forward with a hybrid model, because it allows us to sustain the benefits of remote work and in-person work.

Before diving into the rationale for hybrid work, I feel like it is important to understand what positions are working remotely. Currently there is only one position (part-time) that is working a fully remote schedule, and that position requires in-person attendance at meetings when necessary.

Positions that need to provide direct services to our community members are fully in-person. With the exception of a few positions that occasionally work remotely, the following departments are fully in-person:

- Parks and Recreation
- Police
- Public Works
- Library
- Municipal Court
- IS

Positions that do not have regular interactions with community members and that can complete work tasks remotely have been given the opportunity to work a hybrid schedule. With the exception of a few positions that need to be in-person to do their work, employees in these groups generally have the option to work a fraction of their time remotely:

- Community Development
- Administration
- Finance
- Human Resources

When deciding how to move forward with remote work, the City considered the following when deciding to move forward with hybrid work options.

- Community Impact – The impact on the community was most important in how this decision, which is why only some positions are eligible for hybrid work.
- Productivity – While sometimes it feels like employees are more productive at work, there are studies that suggest the opposite. Here is an excerpt from [Entrepreneur.com](#) which sites many reputable studies demonstrating an increase in productivity due to remote work:
 - “... Not surprisingly, according to the U.S. Bureau of Labor Statistics, productivity decreased significantly in the first quarter of 2022 when workers returned to in-person work environments with a drop of 7.5%; that fall marks the largest reduction in productivity since 1947. The second quarter also saw a large productivity decrease at 4.6%. By contrast, productivity increased sharply in the first two years of the pandemic, and that boost occurred specifically in the industries where much of the work can be done remotely such as IT and finance, as found by a recent National Bureau of Economic Research (NBER) study; while industries that require more in-person work fell behind in productivity measures.”
- Recruitment and Retention – Given the high cost of transportation, the limited housing supply in McMinnville, and the cost of housing in the area, it is difficult to attract employees to a job that requires a fully on-site presence. We have had many conversations with applicants that tell us they are considering the cost of gas and the ability to have a hybrid work option when making the decision whether or not to accept the position. A [SHRM article](#) published in September 2023 shows the ability to work remotely drastically decreases the quit rate.
 - “The study found that the ability to work from home reduced quit rates by a staggering 35%. Moreover, the power of hybrid work to improve retention is not limited to a particular age group. While younger employees have shown a preference for more in-office time, older employees are more likely to favor home-based work. A hybrid model caters to both preferences, making it a universal retention tool.”
- Employee Engagement – Studies show that employees with the ability to work remotely are more engaged in their work.

Gallup.com, which is a very reputable source, wrote [a fantastic article](#) on hybrid work and how it affects employees. It is worth a read if you get a chance, but a couple things that stood out to me:

- “Eight in 10 chief human resources officers (CHROs) from Fortune 500 companies surveyed by Gallup report that they have no plans of decreasing remote work flexibility in the next 12 months.”
- “When employees work from their desired location, they tend to be: more engaged at work, less burned out, less likely to quit”

I do know that a number of recent and current incumbent employees accepted their positions here with the understanding that there would be the opportunity for flexible work schedules. On a more personal note, it has been very helpful for me to have dedicated time in the office and dedicated time working remotely. The time in the office allows me the ability to build relationships with employees, to be available to engage with community members and other partners, and the time at home allows me the opportunity to get some work done without interruption.

Since this is a follow up to another question from a Budget Committee member, we'll be sharing this thread with the full committee as well as the answers to your other questions. Thank you.

Jeff

8. Are there any legal limitations on the amount of interfund loans? I don't see any impairment potential, so my question is largely a curiosity inquiry.

The state statute ORS 294.468 permitting interfund loans does not have financial limit. Operating loans must be paid back within one year and capital loans may be extended for as long as 10 years. Governing bodies must establish the debt authority by formal action.

9. Is the Transient Lodging Tax applicable to VRBO and AirBnB? (p. 362)

Yes, vacation home aggregators remit TLT collected. The ordinance's length of stay parameter states that it's for stays of less than 30 days.

10. Note 4090 in Park Development Fund (p. 450) - Not sure I understand the significance of this note.

Thanks for noticing this! It is no longer an accurate statement as the park improvement bond proceeds have been fully spent at this stage and now the fund's beginning fund balance in this line item is unspent system development charges (SDCs). The comments found throughout the financial software system's line-item budget output are generated from the prior year's document; this comment has been recurring for a number of years and we did not notice the need for an update. I went back to FY2015-16's budget as a point in time and identical language is there though it was slightly different back in FY2008-09.

General comments from Councilor Chris Chenoweth that he requested be added to the public record and circulated to Budget Committee members:

1. I would really appreciate it if we could get a profit and loss statement. It is frustrating to not have those numbers as it would answer a lot of these questions with clarity. The Council has been asking for at least four years for this it and it

really should be part of this package. It is mind boggling to me that the Council is requesting something and our City Manager consistently seems unwilling to provide it. Why?

2. I would also really appreciate it if we could get a consistent approach to budgeting. It makes it very difficult for this City Councilor to compare year over year when each year the layout is slightly different. That being said I was able to get to the same basic statements and make comparisons that way and I am very grateful for that. Maybe there was just too much editorializing throughout the packet and in reality it was laid out the same way but regardless it made my job as a City Councilor more difficult than I think it needed to be.
3. I would like to express a huge thank you for the movement in the police department regarding hiring. It is noticed and greatly appreciated.
4. I would like to express my personal priorities. The police will always be a top priority to me, administration will always be a low priority to me in the vein that I don't want the city to get top heavy. I think we have more money going into the library than really needs to be going there. I don't know if this has to do with propping up care for our houseless community or not, but it would seem to me those dollars will be better served in park and rec. 17 to 18 FTEs seems way more than is needed to run that department.
5. I think we need to have our HR department perform another pay equity analysis. When I've gone back through it it appears to me that we are paying the same for a executives with the same tenures. The responsibilities, roles, potential liabilities, and stress loads of a Chief of
6. Police or even the Community Director is entirely different and should not be measured as equal to some of the other execs. That is not to slight anyone but it is to say that true equity pays a person based upon the load they're required to carry. It would appear that our previous HR director thought equity meant a person at the same level in a hierarchy should be paid the same regardless of whether the roles, number of employees, responsibilities, and potential loss of life are entirely different. That's not equitable at all. Something went wrong in that process and I think we need to reevaluate it.