

SECTION 1

**CITY MANAGER MESSAGE
&
ALL FUND SUMMARIES**



CITY of NAPA



CITY of NAPA

CITY MANAGER
955 School Street
Mailing Address:
P.O. Box 660
Napa, California 94559-0660
(707) 257-9501
FAX (707) 257-9534

June 26, 2007

Honorable Mayor and Council Members:

I am pleased to present the City of Napa's Approved Budget for Fiscal Years 2007-08 and 2008-09. This budget balances the need to be responsive to the service requirements of residents and businesses in the community with the need to operate within the limits of available resources. Development of this budget was a challenging exercise that presented difficult decisions with short-term and long-term implications affecting the well-being of the City.

The document itself is designed to provide a comprehensive overview of City activities and programs during the 24 month period beginning July 1, 2007. The budget includes basic program descriptions and an overview of the City's finances and related budget issues to enhance the utilization of this document as a communication device, a financial plan, a policy tool and an operations guide for the City Council and the citizens of Napa.

Changes to the Budget Document

Many revisions to the format and presentation of the budget have been incorporated into this document, including:

Summary and Overview – A summary section and an overview section have been incorporated, containing the condensed information related to revenues and expenditures; the Capital Improvement Program; and major initiatives and priorities addressed in the proposed spending plan. The overview contains information also included in this transmittal. Please note that the summary and overview have been designed for stand-alone publication as a handout for public presentations or for distribution to those who wish to gain insight to the City's budget without buying a large document.

Fiscal Policies - This new section of the budget documents and highlights policies and procedures to be followed to strengthen the City's fiscal position and management over time. The policies, adopted by the Council on June 19, 2007, will serve as a public "report card" allowing us to monitor conformance with accepted fiscal management standards and practices. It is not reasonable to expect that conformance with all of the fiscal policy targets will be achieved immediately. However, there is value in monitoring our progress and also publicly identifying and explaining any future revisions to policy goals or procedural standards.

Operational Summary Information - The information describing proposed program expenditures is expanded to provide more detail. Revenue generated by each division is shown to allow insight into the net cost of operations. The budget continues to define operational responsibilities, staffing changes over time, staff level adjustments, programmatic accomplishments during the past budget cycle, and FY 2007-09 objectives. In addition, given the spending reductions required in all programs needed to balance this budget, enhancements added to stabilize critical services, and organizational changes made to improve efficiency, a section describing significant changes and impacts reflected in each program budget is included.

Comparing approved budget costs for FY 2007-09 to previous budget expenditures will be very difficult for two reasons. First, with the recent reorganization and transfer of programs between departments, prior year expenditures remain with the department that oversaw the budget at that time. The FY 2007-09 approved spending for those programs will now reside with the departments receiving those service responsibilities. Secondly, past practice provided for operating divisions to charge other divisions both within the same fund and other funds for services provided, offsetting costs within a division or department through interdepartmental charges (credit). This practice made it difficult to determine the real cost of operations and has been eliminated. From July 1, 2007 forward, the results of a recent independent cost allocation study will be used to recover internal costs through appropriate interfund transfers. These changes, while necessary and appropriate, skew revenues and expenditures reflected in the current fiscal year and in FY 2007-09, making comparisons difficult.

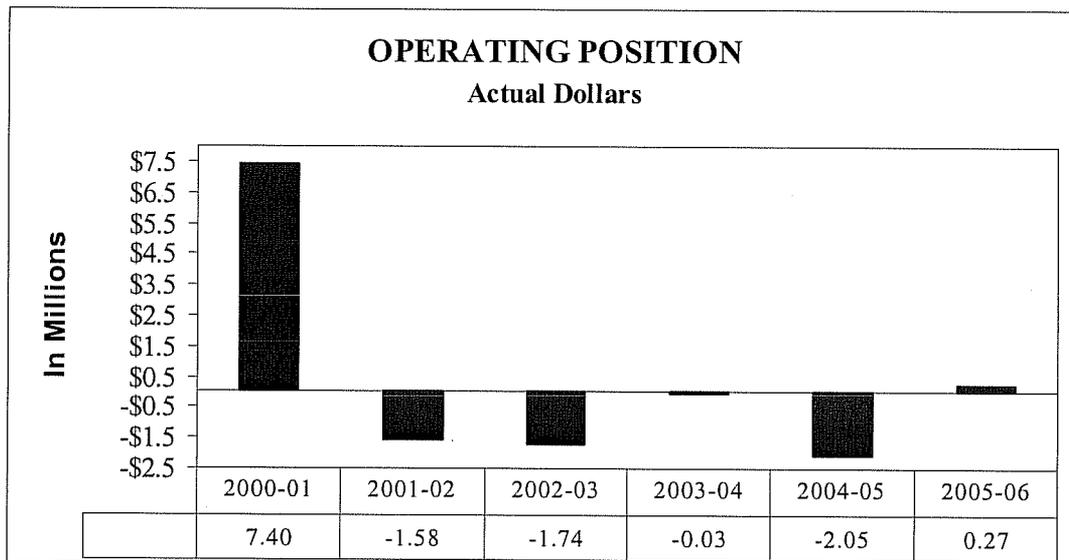
All Funds - In addition to presenting the General Fund and Capital Improvement budgets, this document has expanded to include spending summaries, balance statements and approved budgets for all other funds. The new information has been organized by fund type (i.e. Special Revenue Funds, Proprietary Funds, Capital Projects, Redevelopment and Housing). The intent is to provide more insight into all City operations and to identify issues that should be addressed outside of typical General Fund activities. Because this information has been organized for the first time for presentation and review, and our financial management/budget software system is inadequate, manual compilation of data and insertion into the budget document was required. This was accomplished through the heroic efforts of the assigned staff. In future budgets this information will be more readily available, the data will be more reliable, and the policy issues better defined.

Background

The City has faced significant budgetary challenges resulting in funding shortfalls during the last five years. The fundamental problem is that General Fund expenditures are rising faster than revenues creating a structural operating deficit. In other words, there are not sufficient funds generated annually to fund on-going annual operations. This condition can be traced to a series of circumstances dating back to the beginning of the decade. Prior to 2001, the City was optimistic regarding the fiscal condition of the City. The local economy was stable; the prospects for economic development were strong given the promise represented by the approved Flood Control Project; and, labor costs were not a concern since pension expenses were subsidized entirely by booming investment portfolio proceeds managed and controlled by the California Public Employees Retirement System (CalPERS). Given the positive conditions, the City entered

into long-term contracts with City labor groups in hopes that such agreements would provide fiscal stability and positive labor relations during the planning horizon.

Unfortunately, beginning in the FY 2001-02, the economic downturn following 9/11 and the major stock market correction that marked the end of the dot-com bubble had an immediate impact on sales and transient occupancy tax revenues to the City. Further, the stock market losses had a devastating impact on the investment proceeds for CalPERS and they were forced to recover billions of lost dollars through increased contribution demands from member agencies. This has resulted in retirement contributions of an estimated \$6.191 million in FY 2006-07 representing an increase of 128% since FY 2002-03. Additionally, double digit annual increases in health insurance premiums have continued unabated. The State responded to the financial pressure by shifting local tax revenues to fund state programs. Compounding the problem even further, anticipated revenue growth from private investment tied to the Flood Protection Project have been slow to develop given significant delays in project construction due to Federal and State budget retrenchment. In short, the City has been left with anemic revenue growth during a period of rapidly escalating costs, particularly labor costs, resulting in annual operating deficits that have negatively impacted the City's service delivery systems and financial security.



Unlike the federal government, the City cannot adopt a budget that is not balanced. In previous budget cycles the City has used reserves, one-time revenues, deferral of capital and maintenance projects, and freezing vacant staff positions to bridge the gap between revenues and expenditures in the General Fund Operating Budget. During the FY 2005-07 budget cycle, the total gap after freezing 30 positions and reducing operating line items was projected to be \$11.7 million. That projected shortfall was addressed by transferring \$10.4 million from various reserve funds and negotiating concessions with labor groups.

2007-09 Budget Process

The budget process began in January of 2007 when the City Council reviewed and adopted the City's first Long Term Financial Plan. At that session the Council reviewed financial trends, analyzed spending projections and considered fiscal issues that would affect the financial condition of the City over the next six years. Following this exercise, the Council sent a clear message that a primary goal of this budget process would be establishing a spending plan that responds to basic service needs while operating within the means available.

In addition, the City Council discussed their priorities and proposed key areas of focus for the upcoming budget. Those priorities, which were established by consensus, included: fiscal management; economic development; communications; and, organizational development. Additional areas of focus included: infrastructure; community development; and public safety.

Based on that direction, department managers began preparing their budgets evaluating how to meet these operating goals while providing for "core service" demands within a "status quo" budget. This means they were asked to develop their baseline budget proposals assuming no new programs. Growth in expenditures would be limited to contractually required salary/benefit adjustments and inflationary increases for services and supplies. Developing baseline budgets was a difficult exercise that required every department manager to make difficult priority decisions regarding service delivery and resource allocations.

In addition, the City Administration had previously concluded, with Council concurrence, that the "status quo" was not an acceptable strategy given long term financial projections. The vacant positions that were "frozen" or left vacant, some for a number of years, were the result of a relatively arbitrary process that avoided laying off employees, but did not take into consideration the operating impact on core City services. This is a typical and acceptable strategy for a short-term budgetary problem, but should not be used to address a structural deficit, like Napa's, which is projected to span a number of years.

The alternative approach called on department managers to define their core services and identify "frozen" or necessary new positions that should be restored or added to meet service demands. Addressing the cost of these positions would require prioritization of other programs/services and developing recommendations for reducing or eliminating lower priority programs and services by employing difficult strategic decision-making.

Using this approach to define our budgetary requirements, the department managers identified five (5) new positions (all funds) and ten (10) frozen positions that should be added to the workforce. One factor that was considered in the selection of positions to be recommended for inclusion in the budget was the degree to which the cost of each position could be offset by revenue generated by the position or reductions in spending that result from the new hires (i.e. reduced contract services). Approximately 75.3% of the on-going cost of these positions is offset by revenue or operational savings.

Added Positions	Budget Offset Percentage
Added Positions	
Deputy City Attorney	61%
Office Assistant I (IT)	100%
System Administrator	100%
Housing Manager	100%
Office Assistant I/II (Solid Waste)	100%
Frozen to be Reinstated	
Street Maintenance Worker	77%
Account Clerk (Upgrade to Senior Acct.)	0%
Park Maintenance Worker	100%
Park Maintenance Worker	60%
Recreation Coordinator	100%
Senior Engineering Aide	60%
Inspector (Fire)	100%
Police Officer	100%
Engineering Assistant (Junior Engineer)	71%
Fire EMS Captain	0%

Additionally, one (1) Police Sergeant and two (2) Police Officer positions previously held vacant will be filled.

During the Long Term Financial Plan (LTFFP) discussions in January, it was determined that the long term stability of the organization required the establishment of necessary funding sources for on-going infrastructure needs and replenishment of reserves previously diverted to cover operating shortfalls. Fortunately, due to spending controls applied by the operating departments and strong revenue growth derived largely from development related projects, it was not necessary to spend down the reserves which had been transferred to balance the last budget. An undesignated fund balance of \$10.9 million was available as of the end of FY 2005-06. The adopted budget provides for a transfer of funds from our undesignated fund balance to finance one-time costs for critical financial systems and software (\$1.5 million); support for a recommended organizational analysis (\$50,000); and, funding to replenish reserves that are established to provide stability for operations during difficult times (see details below). A formal policy which defines each reserve and identifies funding goals and the purpose of each reserve is included in the final adopted budget document (See Section 2.)

A number of unfunded operational needs were also identified as part of the Long Term Financial Plan. Unfunded operational needs include annual funding for infrastructure and facility repairs (\$400,000) to avoid the cost and liability incurred with deferred maintenance. The proposed budget includes an additional \$500,000 each year - a 334% increase in General Fund contributions - to address sidewalk maintenance and replacement needs that have been deferred and represent a liability. Fifty thousand (\$50,000) has been included to augment training and employee development funds substantially depleted in prior budget cycles.

Funding (\$200,000 each year) has been included to help the City meet our obligation to provide access to public facilities and programs for the disabled. Appropriate reserves for contingencies and emergencies such as natural disasters or financial recessions are included in this spending plan as well. As discussed in the Long Term Financial Plan, the emergency funds should be adjusted annually to maintain an available balance of at least 12% of operating expenditures. No additional transfers are included in the first year of this approved budget. It is recommended that anticipated reimbursements from FEMA (approximately \$1.5 million) for expenses related to the 2005 flood be committed to the Emergency Reserve to approach an appropriate funding level of 11.3 % in FY 2007-08. An additional \$400,000 will be set aside for Emergency Reserves in FY 2008-09. The emergency reserve will be funded at 11.5% of operating expenditures by the end of the cycle.

LTFP Unfunded Needs Summary

<u>Need</u>	<u>Two Year Funding Goal</u>
Retiree Medical	\$ 2,800,000
Contingency	1,000,000
ADA Compliance	400,000
Infrastructure / Facility Maintenance	1,000,000
Training and Development	100,000
Financial System	1,542,725
Organizational Study	50,000
Emergency Reserve	1,822,740
Risk Reserve	1,000,000
Fleet Reserve	1,400,000
Capital Projects	2,350,000
Building Replacement Reserve	1,500,000
Total	<u>\$ 14,965,465</u>

Addressing the Budget Shortfall

The process identified above resulted in a funding gap of \$3.9 million in FY 2007-08 and \$3.7 million in FY 2008-09. In order to address this funding gap, four strategies were employed: (1) reducing program costs; (2) increasing revenue sources; (3) containing labor costs; and, (4) use of fund balance and reducing contributions to reserves. The following provides a brief description of the efforts and impacts of these strategies to achieve a balanced budget.

1. Program Reductions and Service Impacts

Unfortunately, the budget strategy identified above cannot be implemented without impacting longstanding services provided through existing programs. Significant cuts are necessary to provide a budget that allows us to operate within our means. As with all service delivery organizations, the City’s operating budget is dominated by labor costs (78%). This means that addressing a significant budget shortfall requires that much of the budgetary savings be achieved by reducing personnel. Personnel reductions are proposed in three categories: frozen positions, vacant positions and lay-offs. In previous years, dozens of positions were “frozen” which means

they were left unfilled indefinitely in hopes that they could be restored in the short term. Eliminating frozen positions does not generate budgetary savings. It is now apparent that revenue is not available to significantly expand the workforce and, as a result, most frozen positions are recommended for elimination. To restore these positions in future years, department managers will be required to submit a request for a new position and those requests will be evaluated on their merits and approved as resources allow.

Vacant positions are funded within the current operating budget but have not been filled pending the budget review. Those vacant positions that are recommended for elimination will provide additional savings, but come at a cost to the programs they serve. All vacant positions have been reviewed for the FY 2007-09 budget cycle. Some have been retained, while others are recommended for elimination through this budget process.

The prioritization process led to the identification of seven positions which are currently filled but are being recommended for elimination or lay-off. In these cases, efforts have been made to accommodate impacted employees by giving them the option to move to other positions made available through normal attrition. Six of the positions to be layed-off will be impacted in FY 2007-08. Of the seven positions requiring lay-off, two employees have opted to retire and four others have been presented with the opportunity to transfer to other available positions within the City. The goal is to work towards finding an organizational or funding solution during the next fiscal year to avoid impacting the final position in the FY 2008-09 Budget.

The following list defines in brief some of the program changes reflected in the adopted budget. These cuts represent \$2,021,870 in FY 2007-08 and \$2,301,500 in FY 2008-09 in operational reductions. A more complete narrative description of the budget cuts and impacts is provided with each departmental budget summary.

- Reduce City funding for additional library hours from 16 hours/week to 12.5 hours in FY 2007-08 and 9 hours in FY 2008-09 of the budget. In FY 2007-08, Sunday evening hours would be eliminated. In FY 2008-09, all Sunday hours would be cut or as an option Sunday evening hours would be cut along with 3.5 weekday hours.
- Eliminate City funding for DARE and Jr. Traffic Patrol programs in Napa schools.
- Funding for the Conference and Visitors Bureau is reduced from \$180,000 to \$100,000; the General Fund contribution for the Napa Valley Economic Development Corporation is reduced from \$10,000 to \$5,000 and Napa Public Access Cable Television (NPACT) will be cut \$25,000 representing a 21% reduction from prior year funding levels.
- 19 of the 29 positions that were previously authorized, but have been frozen for multiple years, are being eliminated as a product of this budget (see Appendix A).
- Eight (8) positions that are currently vacant will be eliminated in FY 2007-08 and six (6) positions currently filled are recommended for lay-offs. In FY 2008-09, three (3) additional vacant positions will be eliminated and one (1) position may require a lay-off depending on the outcome of an evaluation of clerical needs in the Fire Department.
- Funding for 11 half-time positions in the Police Department will be eliminated in FY 2007-08 and another 3 half-time positions are to be eliminated in FY 2008-09.

- In FY 2007-08 of the approved budget, five (5) new positions will be added to the workforce and 10 previously frozen positions will be restored. The cost for most of these positions is off-set by revenue or cost savings.
- The Police Department will see a Sergeant position restored and two (2) vacant patrol positions filled. This will allow emergency and patrol functions to maintain emergency service standards.
- Contractually required police and fire salary increases are included in this approved budget
- Four (4) public safety positions, including Fire Emergency Medical Services Captain, two (2) Police Officers and one (1) Police Sergeant that were initially targeted for elimination were retained or restored prior to final approval of this budget. .

The result of approved operational reductions (\$2,021,870 in FY 2007-08; \$2,301,500 in FY 2008-09), funding for unmet operational needs and additional adjustments brought the budget shortfall to \$2.014 million in FY 2007-08 and \$1.549 million in FY 2008-09.

In FY 2008-09, department managers have identified \$779,264 additional program reductions that will be required to bring spending into alignment with projected revenues. These would include such reductions as:

- Additional reduced hours for library service
- Eliminating City funding for the Police diversion program
- Eliminate legislative advocacy support
- Reduce asphalt supplies in streets
- Reduce drainage inlets maintained
- Eliminate an Assistant Planner position
- Eliminate a Custodian position

A more comprehensive list of impacts can be found in the budget narratives for each department.

Because it is necessary to approve a balanced budget, Council approved a budget with these program reductions included. Because the cumulative service and organizational impacts related to these additional cuts are quite significant, staff intends to work during the next fiscal year to provide alternatives to avoid these impacts.

Specifically, labor has agreed to work with the administration to continue our cost containment dialogue in an effort to find ways to provide long-term savings related to labor costs without jeopardizing our ability to attract and retain quality employees. In addition, we will analyze our current organizational structure and service delivery systems to identify changes that may result in savings while maintaining the quality of public services.

Funds have been reserved in the approved budget to use some outside consulting support that can identify and help implement organizational changes including organizational restructuring, internal consolidation of operations, partnerships or mergers with other public agencies for specific services; contracting and/or privatization. This effort will require the involvement and

support from many stakeholders including the Council, labor, management, operating staff and potential partners in both the public and private sectors.

2. New Revenue and Fee Adjustments

The approved General Fund budget implements various new fees and adjustments to existing fees to recover costs for providing services and programs. These include:

- Recreation fees for existing and new programs will increase by an average of approximately 8%.
- A new “technology fee” will support the staff and systems costs related to the development permit tracking system used by development services departments. This fee should generate roughly \$150,000 per year.
- A study is currently underway related to current processing fees for development services. Pending the results of that study, the budget assumes a 3% market increase for development processing fees.
- Additionally, the City’s work plan next year will address the need to evaluate and update development impact fees including streets and park development impact fees to ensure that City is adequately recovering costs associated with impacts of new development.
- Residential (R-1) Inspection Fees conducting mandated annual inspections of multiple family dwelling units, hotels, motels, and congregate facilities will generate approximately \$150,000. This revenue will support the staffing and support services required to implement this program.
- Updates to the existing Policy Resolution 16 fee schedule for various citywide administrative fees and charges were approved by Council on June 19th with adoption of the budget.

Additionally, a cost allocation plan has been prepared to proportionately and fairly distribute General Fund overhead costs to other operating departments. This change allows for a more accurate understanding of the actual cost for services in each fund and provides for more precise cost recovery for fee based funds. This effort will generate approximately \$200,000 in additional revenue for the General Fund.

In addition to implementation of fee increases, the City will also need to continue to pursue, through departmental work plans, long-term funding sources for facilities and infrastructure maintenance/expansion as well as economic development opportunities such as a plan for addressing sales tax leakage, and business recruitment and retention strategies.

One-time revenues of \$1,190,000 in FY 2007-08 and \$490,000 FY 2008-09 have been included in the approved budget. This represents the \$1.5 million FEMA reimbursements and \$90,000/year one-time Napa Community Redevelopment Agency contributions for parking garage maintenance and security.

3. Labor Cost Savings

While the budget process evolved, the City Administration was simultaneously meeting with labor leaders. The first meeting took place on January 8, 2007 to advise them of the process and inform them of the nature of our budget issues. Several meetings have been held subsequently to keep them apprised of the budget status and to facilitate a dialogue aimed at identifying how employees could assist in addressing the City's projected budget shortfall through labor cost containment alternatives. With the assistance and voluntary contribution of resources from organized labor groups, we are attempting to avoid more serious operational impacts that would result from additional program cuts.

These discussions have been fruitful. As of May 25, 2007, the administration has received general commitments from four of the six labor units representing City employees. The employee groups have agreed to recommend to their members acceptance of voluntary concessions collectively amounting to approximately \$447,000 in FY 2007-08. The total goal for labor concessions that is anticipated in this budget is \$800,000 or 2.7% of General Fund payroll costs. The agreements have primarily focused on combination of salary contributions or deferrals and increased co-payments for health benefit plans which will achieve necessary on-going savings for health premium costs.

The cooperation and support of our labor representatives has significantly assisted our efforts to develop a budget that avoids further service reductions. Our goal is to distribute the impact of labor concessions as equitably as possible among all labor groups, including management and executive staff. If the required concessions are not achieved the administration will present additional spending reductions for City Council review. These cuts have been pre-determined and were shared publicly at the April budget workshop.

4. Use of Fund Balance and Reserves

During the Long Term Financial Plan (LTFP) presentation, the goal of achieving a balanced operating position and fully funding needed reserves was clearly established. This is achieved in this budget by using the available undesignated fund balance to fund reserves and avoid using this resource to support on-going operations. By aggressively pursuing opportunities to reduce spending and raise revenue sources, we have presented a budget that reduces, but does not eliminate, the use of one-time revenues to support operations.

The approved budget includes an operating deficit of \$2,014,000 in FY 2007-08 and \$1,548,000 in FY 2008-09. To address this structural operating deficit using additional spending reductions, fee increases or labor concessions would create negative impacts which would be detrimental to service delivery and the long term stability of the organization. That said, the budget represents significant progress in our efforts to achieve a balanced budget. Rather than transferring \$10.4 million in reserves, this budget largely achieves our funding goals. The chart below revisits the unfunded operational needs and reserve funding goals presented during the LTFP and illustrates the progress achieved and where funding contributions fall short of desired goals:

Unfunded Operational and Reserve Goals

	Two Year Funding Goal	Fiscal Year 2007-08 Adopted Budget	Fiscal Year 2008-09 Adopted Budget	Reductions to Address Gap
Retiree Medical	\$ 2,800,000	\$ 800,000	\$ 1,179,215	\$ 820,785
Contingency	1,000,000	400,000	400,000	200,000
ADA Compliance	400,000	200,000	200,000	
Infrastructure/Facility Maintenance	1,000,000	400,000	400,000	200,000
Training and Development	100,000	50,000		
Financial System	1,542,725	757,825	784,900	
Organizational Study	50,000	50,000		
Emergency Reserve	1,822,740	1,100,000	400,000	322,740
Risk Reserve	1,000,000	500,000	500,000	
Fleet Reserve	1,400,000	700,000	700,000	
Capital Projects	2,350,000	500,000	500,000	1,350,000
Building Replacement Reserve	1,500,000	750,000	750,000	
Total	<u>\$ 14,965,465</u>	<u>\$ 6,207,825</u>	<u>\$ 5,814,115</u>	<u>\$ 2,893,525</u>

Retiree medical benefits: In the past, the City has spent \$600,000 per year to meet current annual program needs. The City should be setting aside an additional \$800,000/yr for a total program cost of \$1.4 million per year to meet long term needs as established through an actuarial analysis. The approved budget funds an additional \$200,000 in FY 2007-08 (deferring \$600,000 for a total program cost of \$800,000) and funds \$1.2 million (deferring only \$220,000) in FY 2008-09. This progress should allow for full program funding on an annual basis by the next budget cycle.

Contingency funding: The contingency fund is used to address unforeseen operating needs throughout the year. The recommended funding level of \$500,000 per year is funded at \$400,000 in this budget. With appropriate monitoring, this should still allow the ability to respond to necessary adjustments.

Facility maintenance contributions: During the LTFP a need for \$500,000 per year to better address maintenance and repair of City facilities and infrastructure was identified. This budget falls short of that goal by \$100,000 per year. The infrastructure funding did not exist in prior budgets so the \$400,000 that remains each year represents a significant improvement and will be used largely to bolster funding for major maintenance and capital projects for City facilities.

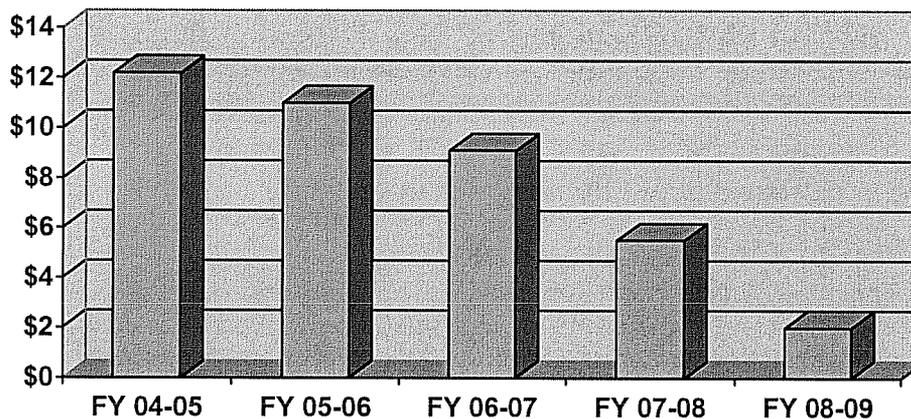
Emergency reserves: The budget brings the City very close to achieving the goal of establishing an emergency reserve representing at least 12% of operating expenditures. In FY 2007-08 the reserve will be at 11.3% and in FY 2008-09 it will be 11.5%. A total of \$7,400,000 will reside in the fund by the end of the budget cycle.

Capital contributions: This funding program recognizes the need to supplement General Fund contributions required to meet capital project needs. The \$500,000 included each year will be used primarily to fund sidewalk repair and replacement. Access to this funding represents a 334% increase in resources available for much needed sidewalk work.

Undesignated Fund Balance: The use of the Undesignated Fund balance has been limited to the extent reasonable to fund reserves and one-time expenses. To utilize these funds to support on-going operations will extend our operating deficit and expose the City to continued instability. However, following the implementation of all the measures taken above, it is still necessary to draw \$414,057 in FY 2007-08 and \$348,628 in FY 2008-09 from the Undesignated Fund Balance to complete the budget process. This represents a considerable improvement over projected FY 2006-07 when \$2,003,464 was used for budget balancing purposes.

Maintaining an undesignated balance of approximately 5% would be a prudent policy goal. The projected balance in FY 2007-08 will be 8.9%, but at the end of year two of this fiscal cycle, the estimated balance falls to 3.1% or \$2 million. This is a situation that warrants monitoring but should not represent a major concern as long as other reserves are maintained. The chart below illustrates that the total Undesignated Fund balance available has been diminishing and in this budget the trend is projected to continue.

Undesignated Fund Balance Trends
(\$ Millions)



Budget Summary

Budget Highlights

	FY 2007-08	FY 2008-09
Total General Fund Expenditures	\$ 60,198,428	\$ 63,156,115
Total General Fund Revenue	\$ 59,784,321	\$ 62,807,487
Total Operating Deficit	\$ 2,014,057	\$ 1,548,677
Use of Undesignated General Fund Reserves	\$ 414,057	\$ 348,628
Total All Funds Expenditures	\$ 153,365,600	\$ 152,324,632
Total All Funds Revenues	\$ 148,021,595	\$ 154,668,862
Total City Staff	431	429

Capital Improvements:

One hundred and ten (110) Capital Improvement Projects have been included in the spending plan for the next two year cycle. In FY 2007-08 more than \$30 million has been programmed with over 36 million in FY 2008-09. The street improvement program will include \$17 million to address 34 separate projects. Special consideration has been given in this budget to addressing the backlog of sidewalk replacement needs, Americans with Disabilities (ADA) compliance projects and addressing deferred maintenance of City facilities. (Details regarding capital projects funded in the budget are contained in Section 9).

Financial System Improvement:

This budget funds the implementation of a new comprehensive financial system. This tool will greatly enhance financial management and reporting capabilities.

Training and Staff Development:

During the difficult budget years in the past, funds required to provide training for staff development and succession planning were eliminated. Because on-going training is a critical component to the on-going effectiveness of the organization, this budget restores \$50,000 for that purpose.

Conclusions

While this budget was built on a foundation of difficult, even painful decisions, there are also many positive elements to consider:

- The local economy is growing slowly, but with private investment in our community at an all time high conditions will improve at a faster pace. As economic development initiatives take hold, property values and revenues related to growth and redevelopment will grow considerably.
- Retirement benefit costs which have spiraled out of control in recent years will slow now that measures have been taken to stabilize retirement contribution rates.
- This budget is responsive to the City Council's direction that we must live within our means. While we have not achieved full conformance with our goal to achieve a budget with a positive operating position, we have made significant progress. Continued effort during the course of this cycle should allow us to present a budget in full compliance with our fiscal policy goals within two years.
- Rather than depleting reserves, deferring capital projects and maintenance of our infrastructure, we have restored our reserves and invested in capital projects. These investments will provide increased financial security, improve stability of services and avoid liability and other exposures to risk.

- Critical positions are being restored to operating departments where they are needed most. Each department has reviewed its operations and made necessary adjustments to place resources where they are needed to provide the most responsive service delivery possible given the reality of the resources available.
- The City's aging financial system will be replaced with a modern product that will greatly enhance financial management and reporting capabilities.

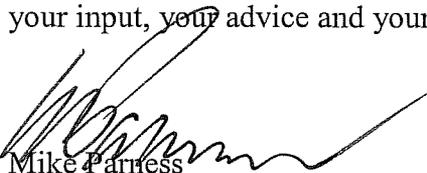
On-going Concerns:

- *Capital funding for streets* – Bonds approved by the voters (Proposition 1B) statewide should combine with Proposition 42 revenues and gas tax dollars to increase funding sources for the repair and maintenance of our street system in the next few years. However, it must be understood that these sources alone can not meet the demand for street infrastructure financing. To adequately maintain existing streets and repair/replace streets that are suffering from deferred maintenance would cost over \$10 million each year for the next 10 years. Each year preventative maintenance replacement funding is not provided our ultimate costs increase exponentially. Finding the funds necessary to restore our streets will never happen as long as street funding competes in the General Fund with Police, Fire, Parks and other services for limited resources. An independent and stable financing source of revenue is needed that can be dedicated to financing street improvements. A countywide or local tax or bond proposal is needed to address this need before the condition of our streets becomes unmanageable.
- *Restoration of staffing levels and services* - Demand for service is growing and the City has been unable to secure the resources to provide the staff necessary to maintain service levels. The number of employees per capita serving this City is well below the average found in cities statewide. This situation will require that we carefully look at our organizational structure to identify efficiencies that may stretch our resources; identify ways of providing services differently and also look at ways to raise additional revenue that might enable us to restore needed staff and services.
- *Labor costs containment* - Since labor costs represent 78% of the City's operating expenditures, it is imperative that we monitor carefully the growth of those costs and strike the appropriate balance between providing the salaries and benefits that will establish Napa as an employer of choice and retaining adequate control over spending to allow preservation and necessary expansion of public services. Continuing to work collaboratively with employee groups to establish fair and reasonable pay and benefit programs will be a priority as contracts expire over the next few years.

Acknowledgements

I would like to express my appreciation to the City Council for providing positive leadership and direction during the preparation of this budget document. I also want to thank the dedicated City department managers and their key staff members who worked countless hours to prepare this budget. Lastly, I wish to acknowledge the incredible dedication and hard work of the City's budget team. Their collective contributions are appreciated and I extend my sincere thanks for a job well done.

I am confident that this budget meets the needs of Napa's citizens. It provides necessary resources for fundamental service requirements and identifies issues that can, and will, be addressed as we move into the new fiscal year. The City Administration will move without delay to investigate program adjustments, revenue options and organizational changes that will result in improved efficiency and effectiveness. It is likely that the mid-cycle budget review this time next year will involve a number of recommendations aimed at avoiding the impacts of the identified FY 2008-09 budget reductions. You will be kept apprised of our progress. I welcome your input, your advice and your guidance.



Mike Parrness
City Manager

The hard work and dedication to excellence by the City's budget team is hereby acknowledged:

Carole Wilson, Finance Director
Nancy Weiss, Assistant City Manager for Administrative Services
Jamie Clark, Secretary
Steve Potter, Police Commander on loan to the City Manager's Office
Charann Neu, Management Analyst
Sheila Esser, Acting Accounting & Audit Supervisor
Barry Martin, Community Outreach Coordinator
Shirley Perkins, Administrative Services Officer
Kate Zawadzki, Acting Accountant
Anette Heun, Acting Accountant
Donna Lee Lawrence, Account Clerk I



CITY of NAPA

Budget Summary

Fiscal Years 2007-08/2008-09



The City of Napa budget for 2007-08 and 2008-09 is a document that is based on Napa's fiscal **reality**, provides **security** for the community, and seeks to enhance **efficiency** of City government.

- **Reality:** This budget focuses on maintaining the highest priority core services for the community, and is based on realistic expectations for costs and revenues.
- **Security:** This budget funds public safety at an appropriate level to provide emergency services when and where they are needed; it prudently sets aside reserve funds "for a rainy day;" invests in repairs to streets, sidewalks and public facilities; and invests in needed technology for better fiscal management.
- **Efficiency:** This budget reflects new thinking about the organization, and seeks to streamline operations through consolidation and collaboration.

The budget has been developed with the Long Term Financial Plan (LTFP) as a guide. The LTFP looks back at historical fiscal data and analyzes key indicators to project the City's financial position in years to come.

The budget reflects the City Council's stated priorities in the budget workshops of January-May 2007.

- **Fiscal Management**
 - Improve financial systems/controls
 - Perform audits of revenue sources
 - Review fiscal policies including reserves policies
- **Economic Development**
 - Streamline and improve development review
 - Seek revenue enhancement
 - Pursue tax base diversification
 - Reduce sales tax leakage
- **Organizational Development**
 - Improve organizational technology
 - Analyze core services
 - Improve training and staff development
 - Improve customer service while creating realistic expectations
- **Communications**
 - Improve external community outreach through meetings, website, newsletters
 - Improve internal communications

The Council's priorities also include infrastructure, Community Development, and Public Safety.



CITY of NAPA

Budget Summary Fiscal Years 2007-08/2008-09

Background

The City Budget consists of many separate funds. Most of these funds are restricted to specific uses, and the Council has little discretion in the way the monies may be used. The **General Fund** provides many essential City services by allocating money to the Departments. The Council has a greater level of discretion in choosing how General Fund monies are spent.

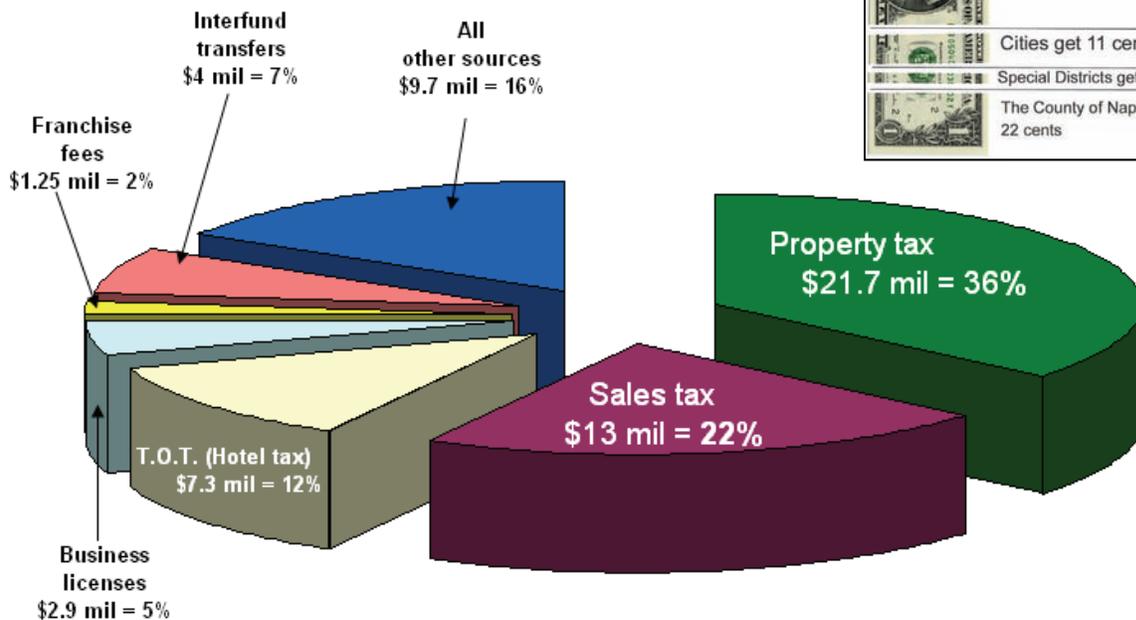
City budgets since 2001 have struggled with a structural deficit – operating expenditures have been greater than operating revenues – and in order to deliver a balanced budget, the City has functioned with reduced staffing levels and reserve funds have been transferred into operations.

Assumptions

Assumptions are necessary to develop revenue and expenditure projections. The budget is based on numerous assumptions, including: 7% annual growth in property tax revenues; 3% base growth in Sales Tax, Transient Occupancy Tax, with incremental adjustments for anticipated new development; 3% growth in Business License, Vehicle violation and Franchise fee revenues, and no growth in interest earnings, or Police grants. Expenditures are projected with assumptions of 10% growth in medical coverage costs; minimal change in PERS pension contributions; 7% growth in other benefits; 3-7% growth in salaries; and 3-4% growth in other expenditures.

Sources of General Fund Revenues

\$59.8 million in revenues projected for 2007-08

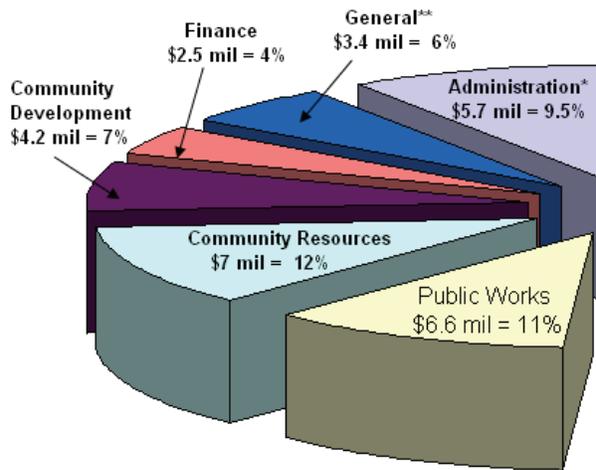


How the Property Tax Dollar is Divided in Napa County	
	Schools get 65 cents
	Cities get 11 cents
	Special Districts get 2 cents
	The County of Napa gets 22 cents



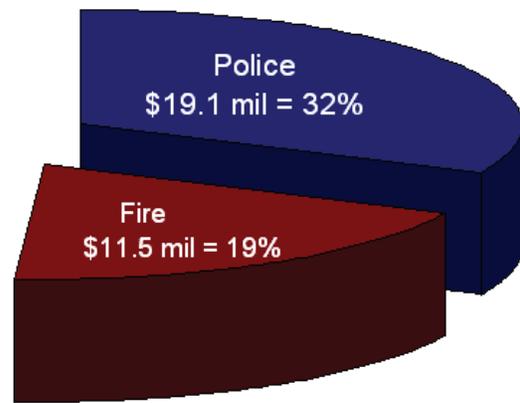
**How the General Fund is Spent
By Department**

\$60.2 million for Fiscal Year 2007-08



*Administration includes the City Council and the Departments of the City Manager, City Clerk, City Attorney, Information Technology, Housing, Economic Development and Personnel

** General Services includes retiree benefits, contingency reserve, accrued compensation reserve, contributions to the library, CVB, and NPACT, dues for ABAG and the League of Cities, and other smaller items.



Budget Highlights

- ⇒ **The total City operating budget** encompassing all funds, including transfers and capital outlay, is \$153,365,600 for FY 2007-2008 and \$152,324,632 for FY 2008-09.
- ⇒ **General Fund revenues, including transfers in,** for FY 2007-08 are projected to be \$59,784,371 a 10% increase over FY 2006-07 estimated revenue. For FY 2008-09, revenues are projected to rise 5% to \$62,807,478
- ⇒ Initial projected **General Fund operating expenditures** including interfund transfers out, totaled \$61,798,428 for FY 2007-08, a 9% increase over the previous year. Expenditures in FY 2008-09 are projected to total \$64,356,164, a 4% increase.

- ⇒ With a difference between projected revenues and projected operating expenditures of \$2,014,057, more expenditure reductions were required to achieve a balanced budget.
- ⇒ Reductions in expenditures include an anticipated \$800,000 in labor savings, deferral of \$800,000 in contributions to reserves.
- ⇒ The final step to achieve a balanced budget is the application of \$414,057 from the undesignated fund balance to the operating budget.
- ⇒ The final proposed General Fund operating expenditure total for FY 2007-08 is \$60,198,428, in balance with anticipated revenues plus the applied sum from the undesignated fund balance.



Budget Highlights (continued)

- ⇒ The General Fund **emergency reserve** is augmented in this budget and will be \$7 million at the end of FY 2007-08 and \$7.4 million at the conclusion of FY 2008-09.
- ⇒ **Total staffing** will be largely the same as FY 2006-07. This budget eliminates 36 positions, but 19 of these positions are frozen, ten are vacant, and seven are currently filled.
- ⇒ Over 100 **capital improvements projects** have been included in the spending plan for the next two year cycle. In FY 2007-08 more than \$30 million has been programmed with nearly \$38 million planned for FY2008-09. The **street improvement program** includes \$17 million over the next two years to address 34 separate projects. Special consideration has been given in this budget to addressing the backload of **sidewalk replacement needs, Americans with Disabilities (ADA) compliance projects and addressing deferred maintenance of city facilities.**
- ⇒ This budget funds the implementation of a **new comprehensive financial system.** This modern tool will greatly enhance financial management and reporting capabilities. Phase one of the system will be implemented in FY 2008, with phase two online in FY 2009.

Conclusions

While this budget was built on a foundation of difficult, even painful decisions, there are also many positive elements to consider:

- The local economy is growing slowly,

but with private investment in our community at an all time high conditions will improve at a faster pace. As economic development initiatives take hold property values and revenues related to growth and redevelopment will grow considerably.

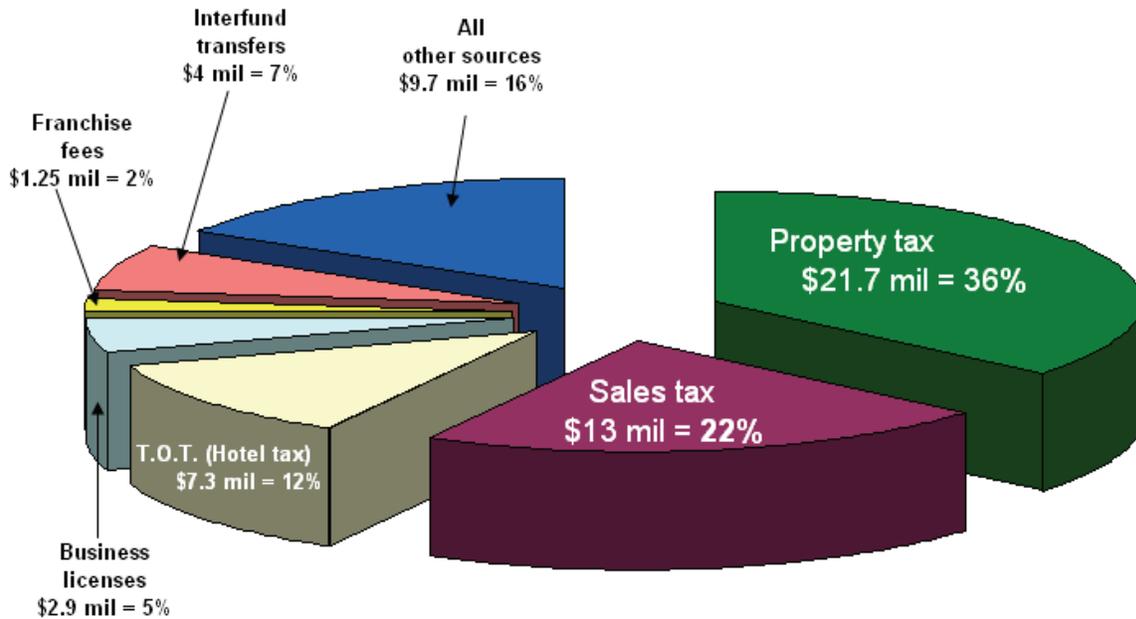
- Labor costs which have spiraled out of control in recent years have leveled out now that statewide measures have been taken to stabilize retirement contribution rates.
- This proposed budget is responsive to the City Council's direction that we must live within our means. While the goal of a budget with a positive operating position is not achieved at this time, we have made significant progress. Full compliance with our fiscal policy goals is achievable within two years.
- Rather than depleting reserves, deferring capital projects and maintenance of our infrastructure we have restored our reserves and invested in capital projects. These investments will provide increased financial security, improve stability of services and avoid liability and other exposures to risk.
- Critical positions are being restored to operating departments where they are needed most. Each department has reviewed its operations and made necessary adjustments to place resources where they are needed to provide the most responsive service delivery possible under current conditions.

This brief summary provides an overview and highlights of the budget. Greater detail can be found in the full budget document.



Sources of General Fund Revenues

\$59.8 million in revenues projected for 2007-08



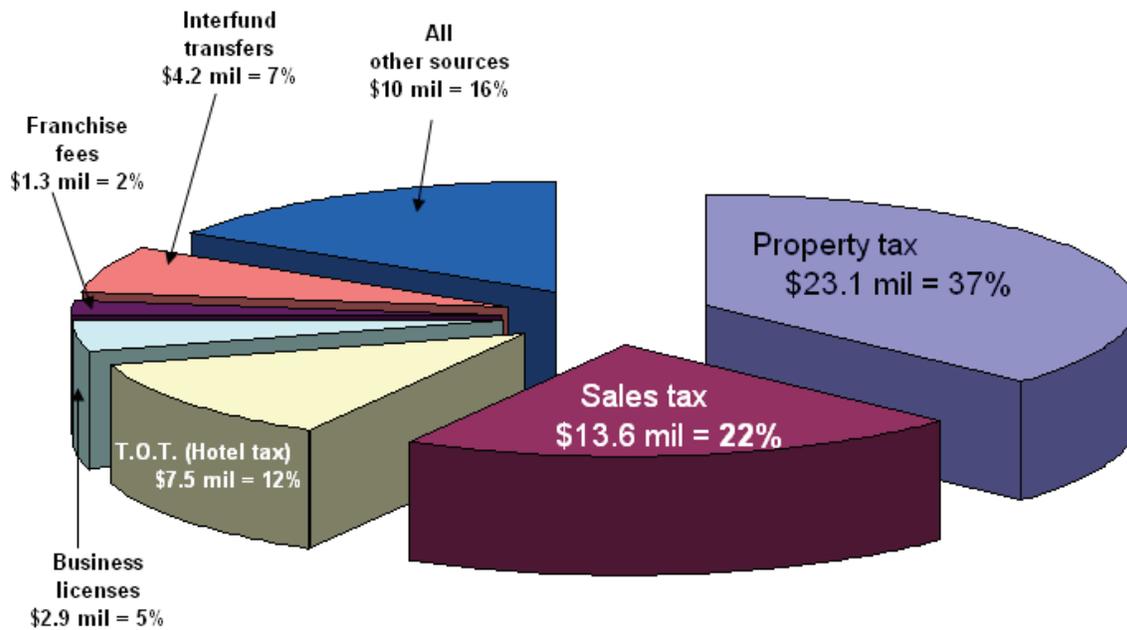
General Fund Revenues

General Fund Revenues for FY 2007-08 are projected to rise by 10% over to FY 2006-07 to \$59,784,371. The largest contributor to this increase is a 29% rise in tax revenues, accounted for in part by an increase in the percentage of property taxes to be received by the City. The offset to this increase in tax revenues is a decrease of 60% in the amount of intergovernmental revenues, accounted for by a reduction in the percentage of Vehicle License Fees (VLF) to be received by the City. This fluctuation is a one-time event, and in FY 2008-09 tax revenues are projected to rise by a more typical 5% while intergovernmental revenues are projected to rise by 4%.



Sources of General Fund Revenues

\$62.8 million for Fiscal Year 2008-09



General Fund Revenues from permits, fees and charges for services are projected to rise by 47% in FY 2007-08, subject to the preparation of a new fee schedule and the Council's approval of that schedule. This revenue category is expected to stabilize and show a 3% increase in FY 2008-09.

Revenues from transfers in will be impacted by a change in the accounting of interdepartmental charges, with a resulting credit in this category that creates an "on paper" increase of 56% in this revenue category.



General Fund Expenditures

The largest element of General Fund expenditures, salaries, is proposed to increase by 5% in FY 2007-08 and by 6% in FY 2008-09. The cost of benefits is scheduled to rise by 1% in FY 2007-8 and 6% in FY 2008-09.

Internal Service Charges will decline by 46%, due to the change in the accounting method for interdepartmental charges. (See General Fund Revenues page for the related increase in the Transfers In category.)

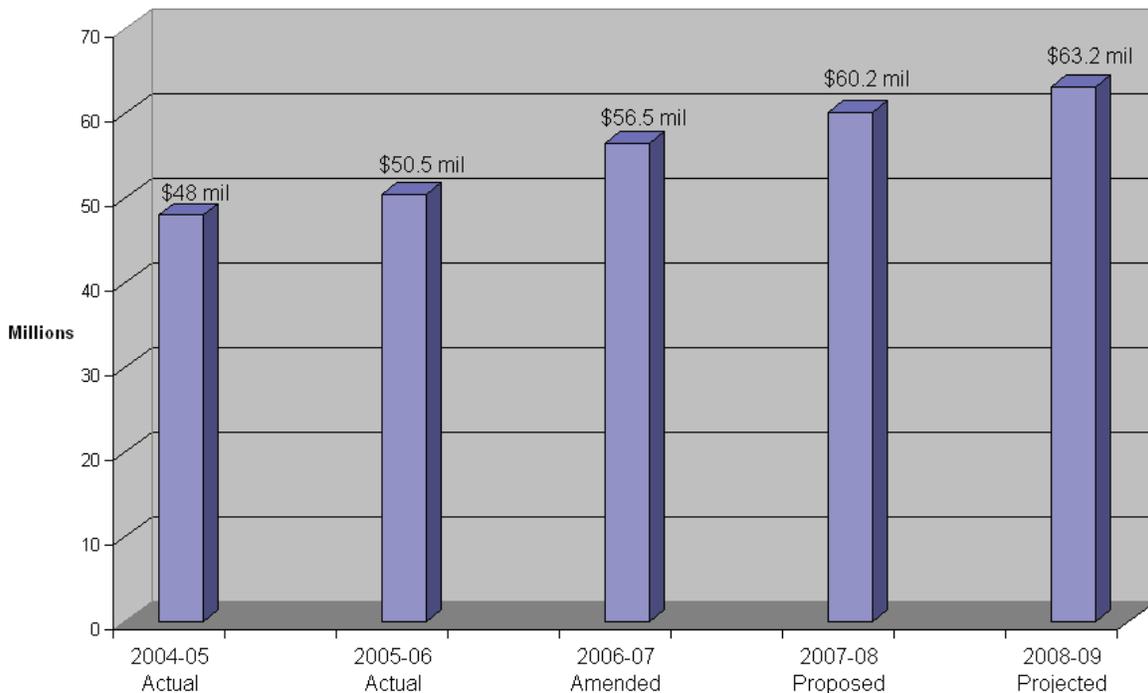
Expenditures by department, depicted in the chart, are significantly different in the proposed budget, compared to the previous fiscal year.

This is due to organizational changes, including:

- the addition or deletion of positions to “right size” for the efficient delivery of core services
- modifications in the use of contract services
- transition of responsibility for specific services from one department to another.

The large percentage increase in the General Services category is due to the setting aside of funds for retiree benefits and contingency reserve, and the establishment of a new accrued compensation reserve that is necessary to avoid unexpected fluctuations in the cost of benefits.

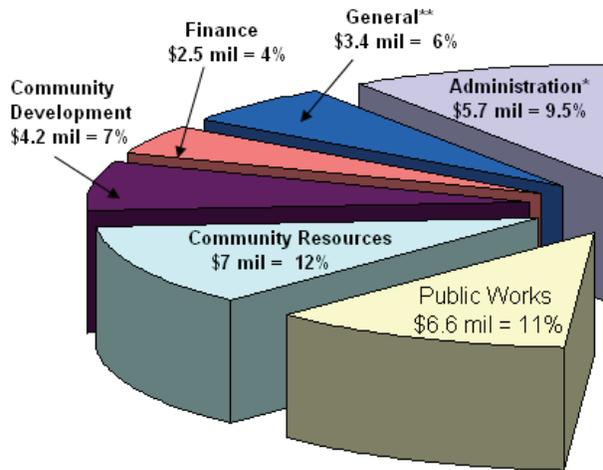
General Fund Expenditures
5 Year Trend





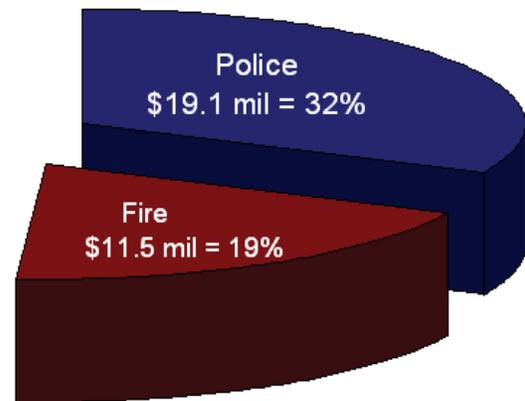
How the General Fund is Spent By Department

\$60.2 million for Fiscal Year 2007-08



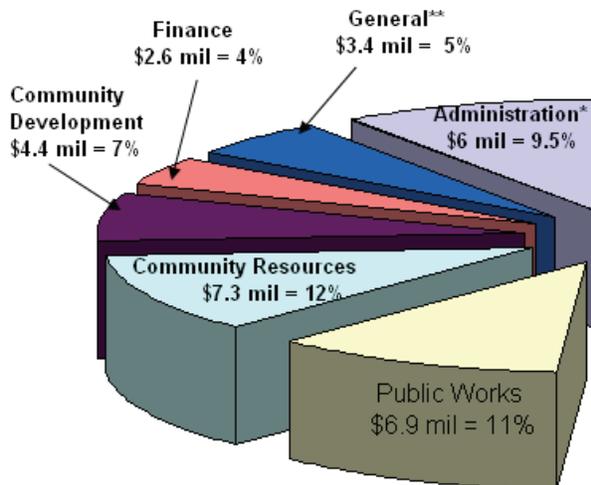
*Administration includes the City Council and the Departments of the City Manager, City Clerk, City Attorney, Information Technology, Housing, Economic Development and Personnel

** General Services includes retiree benefits, contingency reserve, accrued compensation reserve, contributions to the library, CVB, and NPACT, dues for ABAG and the League of Cities, and other smaller items.



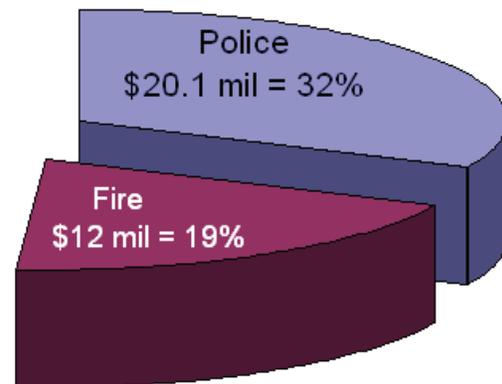
How the General Fund is Spent By Department

\$63.1 Million for Fiscal Year 2008-09



*Administration includes the City Council and the Departments of the City Manager, City Clerk, City Attorney, Information Technology, Housing, Economic Development and Personnel

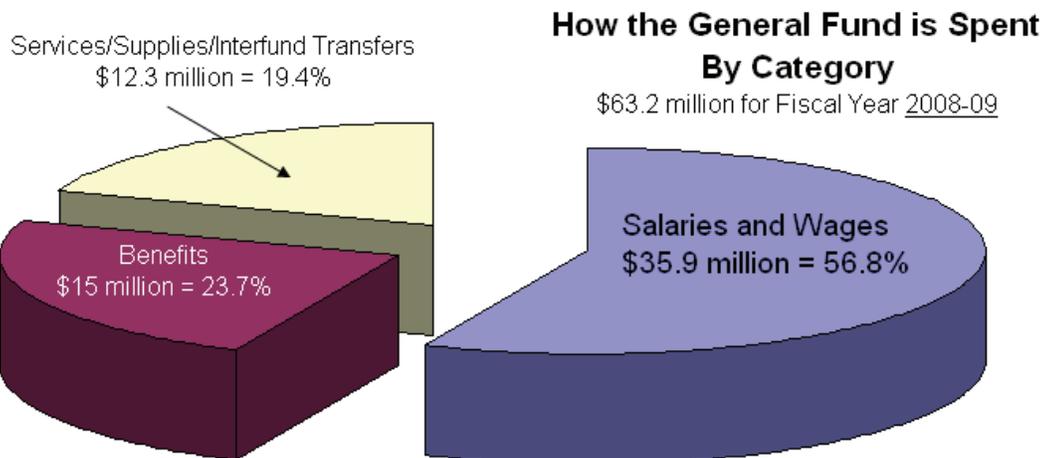
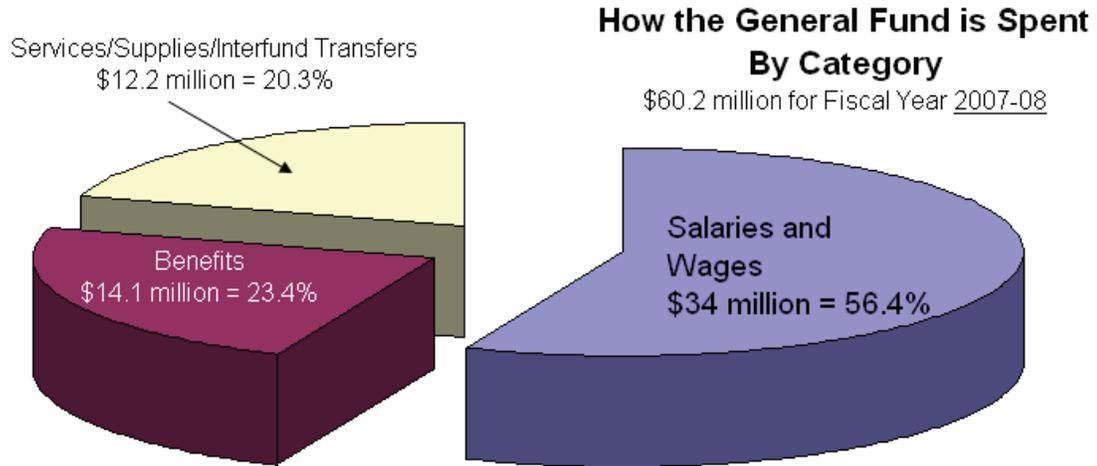
** General Services includes retiree benefits, contingency reserve, accrued compensation reserve, contributions to the library, CVB, and NPACT, dues for ABAG and the League of Cities, and other smaller items.





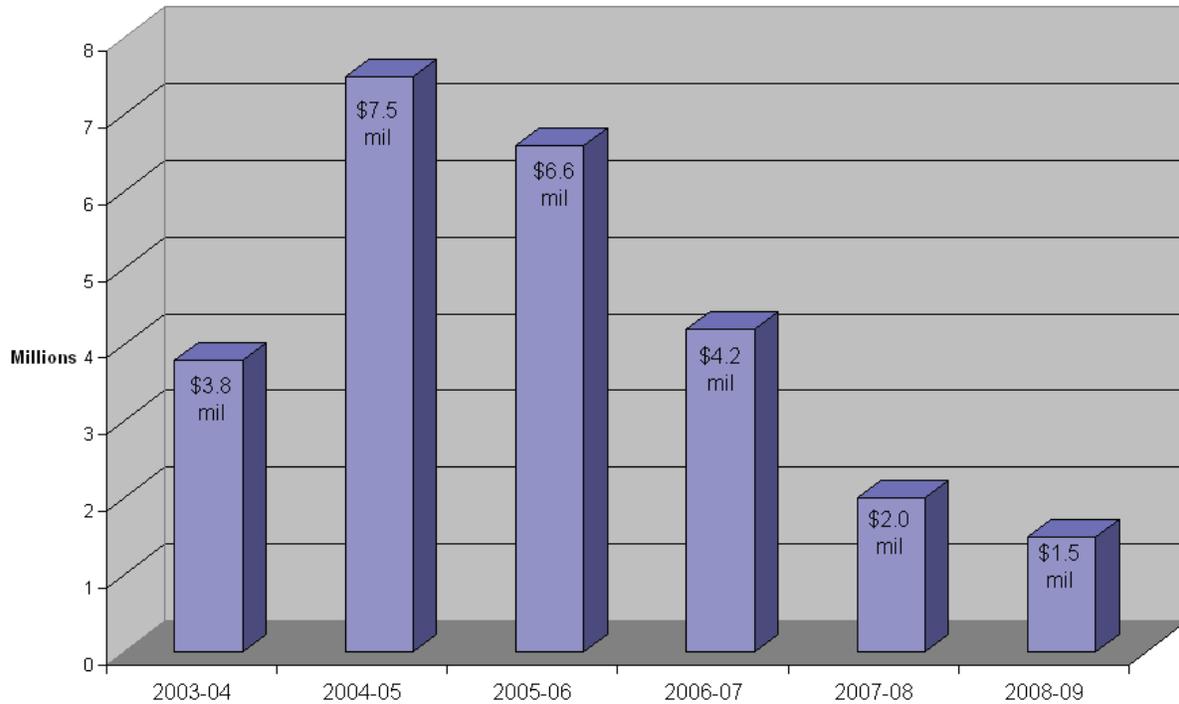
Financial Overview

Fiscal Years 2007-08/2008-09





Budgeted Use of Reserves for Balance

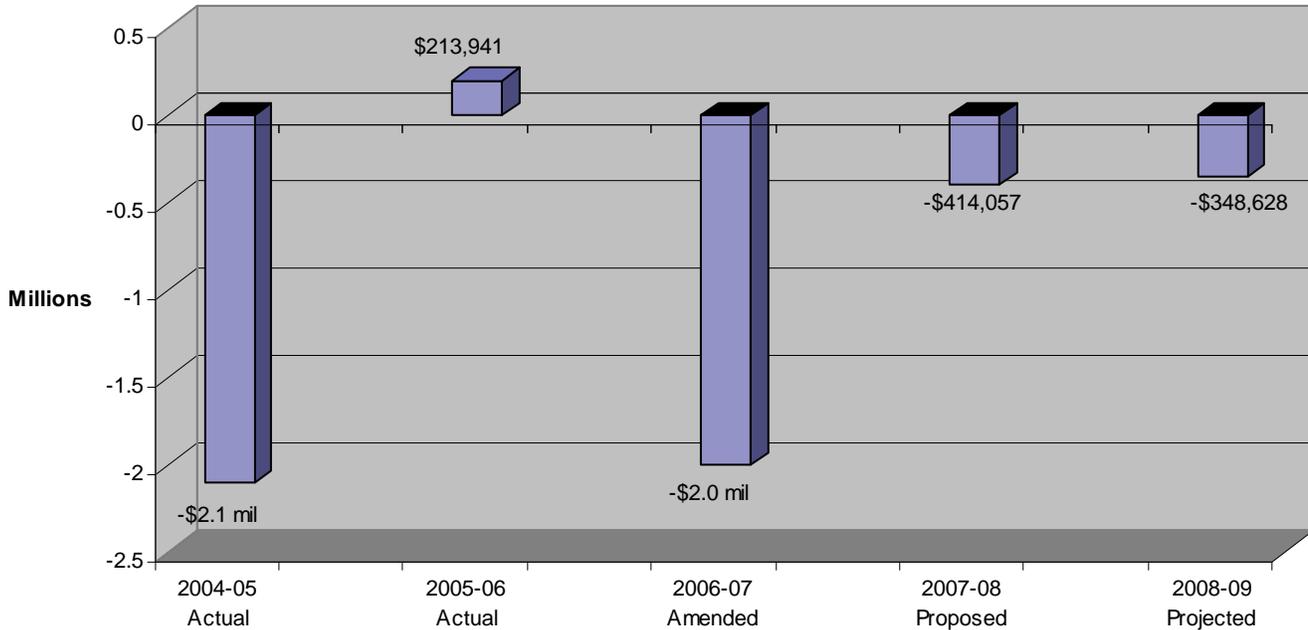


Use of Reserves

Budget shortfalls in the previous two budgets cycles (2003-04/2004-05 and 2005-06/2006-07) have led to the use of reserves to bring the budget into balance. The proposed budget for FY 2007-08/08-09, while not achieving balance without use of reserves, makes great strides toward the goal. The history of budgeted use of reserves over the last four years is shown in the chart above and provides a comparison with the amount of reserves budgeted for balance in FY 2007-08/08-09.



Operating Position
5 Year Trend



Operating Position

With the exception of FY 2005-06 when there was a small operating surplus in the actuals after a transfer of reserves, the City has remained in a negative operating position for several years. The chart shows the proposed FY 2007-08 budget keeps the City in a negative operating position but greatly reduces the problem, relying more on correcting the structural deficit and less on the use of reserves to achieve a balanced budget.

Fund Changes

This budget proposes elimination of the Recreational Facilities Fund and the addition of a Business Assessment District Fund.

Interfund Transfers

Past practice provided for operating divisions to charge other divisions both within the same fund and other funds for services provided, offsetting costs within a division or department through interdepartmental charges (credit). This practice made it difficult to determine the real cost of operations and has been eliminated. It is proposed that the results of a recent independent cost allocation study be used to recover internal costs through appropriate interfund transfers. These changes, while necessary and appropriate, will skew both revenue and expenditures reflected in the current and proposed fiscal years making comparisons difficult.



Labor costs

The overall cost of salaries and wages is projected to rise from \$32,207,997 in FY 2006-07 to \$33, 959, 493 in FY 2007-08, an increase of 5%. This includes cost-of-living and merit increases. The cost of benefits is projected to rise 1% from \$13,913,164 in FY 2006-07 to \$14,053,029 in FY 2007-08. Both salaries and wages and benefits are expected to increase by 6% in FY 2008-09.

Staffing

The budget process required department managers to define core services and identify “frozen” or necessary new positions that should be restored or added to meet core service demands. Addressing the cost of these

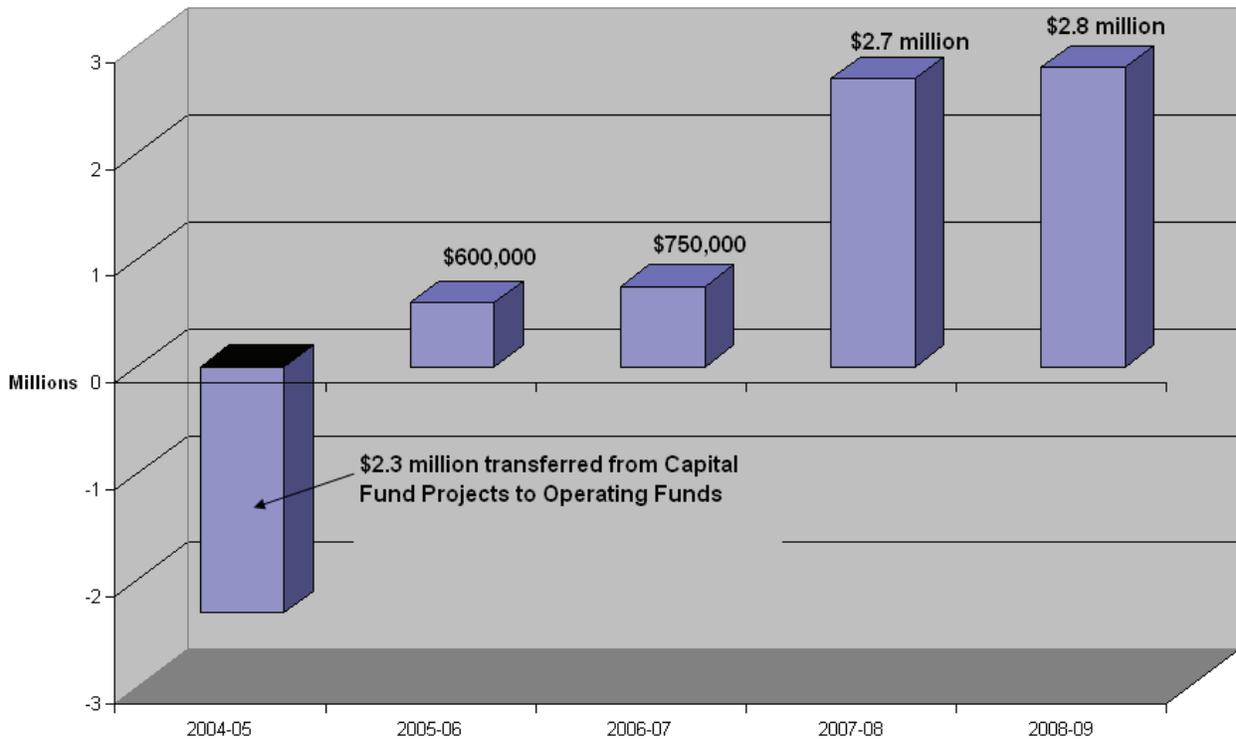
positions requires prioritization of programs and services and developing recommendations to reduce or eliminate lower priority programs and services.

Using this approach, the department managers identified five (5) new General Fund positions and ten (10) frozen positions to be added to the workforce. One factor of analysis was the degree to which the cost of each position could be offset by revenue generated by the position or reductions in spending that result from the new hires, such as reduced contract services. Approximately 75.3% of the ongoing cost of these positions is offset by revenue or operational savings.

Changes to Positions	Budget Offset Percentage
Added Positions	
Deputy City Attorney	61%
Office Assistant I (IT)	100%
System Administrator	100%
Housing Manager	100%
Office Assistant I/II (Solid Waste)	100%
Frozen Positions to be Reinstated	
Street Maintenance Worker	77%
Account Clerk (Upgrade to Sr. Acct.)	0%
Park Maintenance Worker	100%
Part Maintenance Worker	60%
Recreation Coordinator	100%
Senior Engineering Aide	60%
Inspector	100%
Police Officer	100%
Police Sergeant	0%
Engineering Assistant (Jr. Eng)	71%
Fire EMS Captain	0%



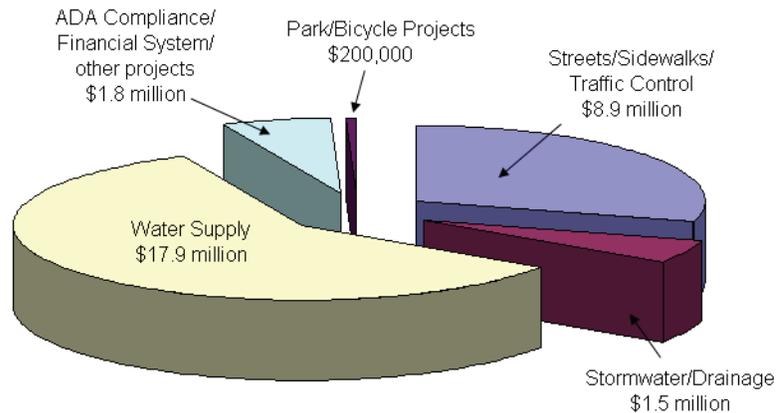
General Fund Contributions to Capital Fund Projects



General Fund Contributions to Capital Projects

As shown in the chart above, the proposed budget doubles the investment of General Fund monies into Capital Fund Projects over FY 2006-07 and triples the amount invested in FY 2005-06. This increased investment of General Fund monies is targeted to critical needs in the areas of street and sidewalk repairs and replacements, ADA compliance, repairs and maintenance for City facilities, and replacement of the City's antiquated financial system.

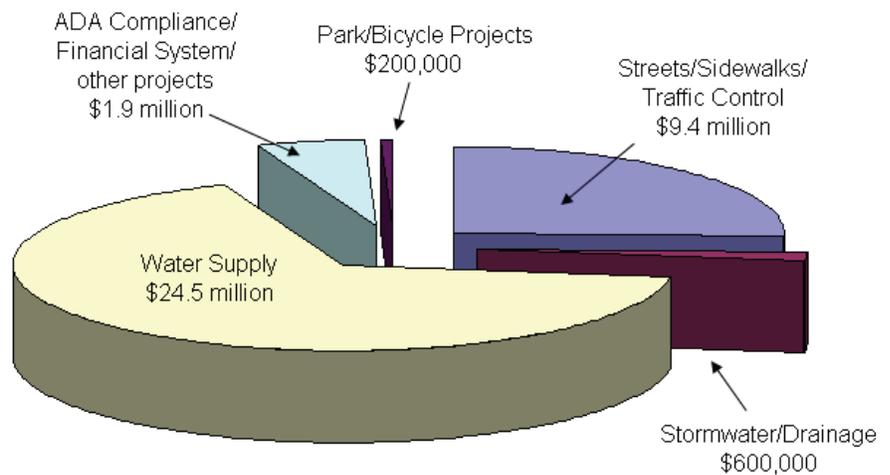
Capital Projects by Category FY 2007-08



Capital Improvement Program (CIP)

Over 100 capital improvement projects have been included in the spending plan for the next two-year cycle. In FY 2007-08 nearly \$30 million has been programmed, with over \$36 million planned for FY 2008-09. Streets, sidewalks and traffic control improvements are budgeted to receive over \$17 million to address 34 separate projects. Special consideration has been given in this budget to addressing the backlog of sidewalk replacement needs, Americans with Disabilities (ADA) compliance projects, and addressing deferred maintenance of City facilities.

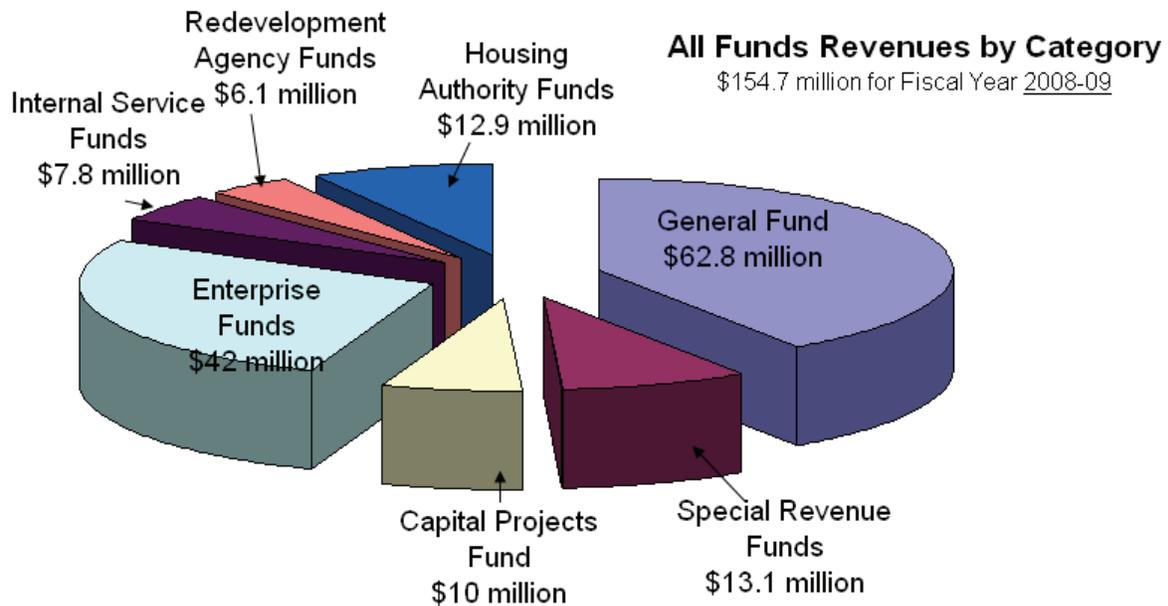
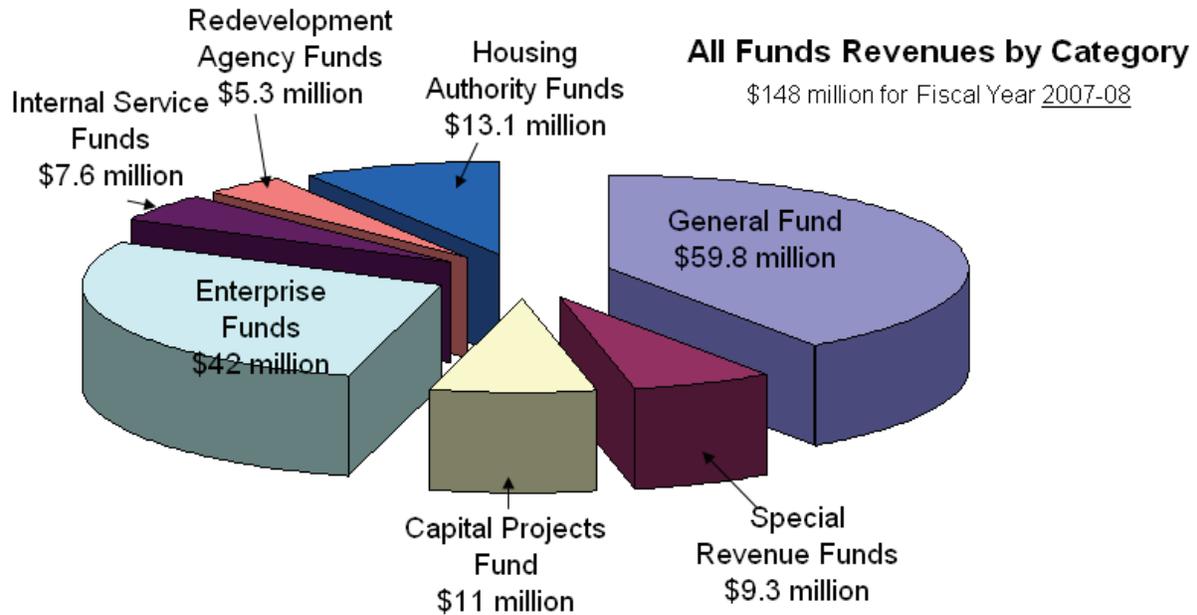
Capital Projects by Category FY 2008-09





Financial Overview

Fiscal Years 2007-08/2008-09





All Funds

The budget reflects all revenues and all operating and capital spending plans for the General Fund, Special Revenue Funds, Capital Projects Funds, , Proprietary Funds, (Internal Service Fund and Enterprise Funds) Redevelopment Agency Funds and Housing Authority Funds.

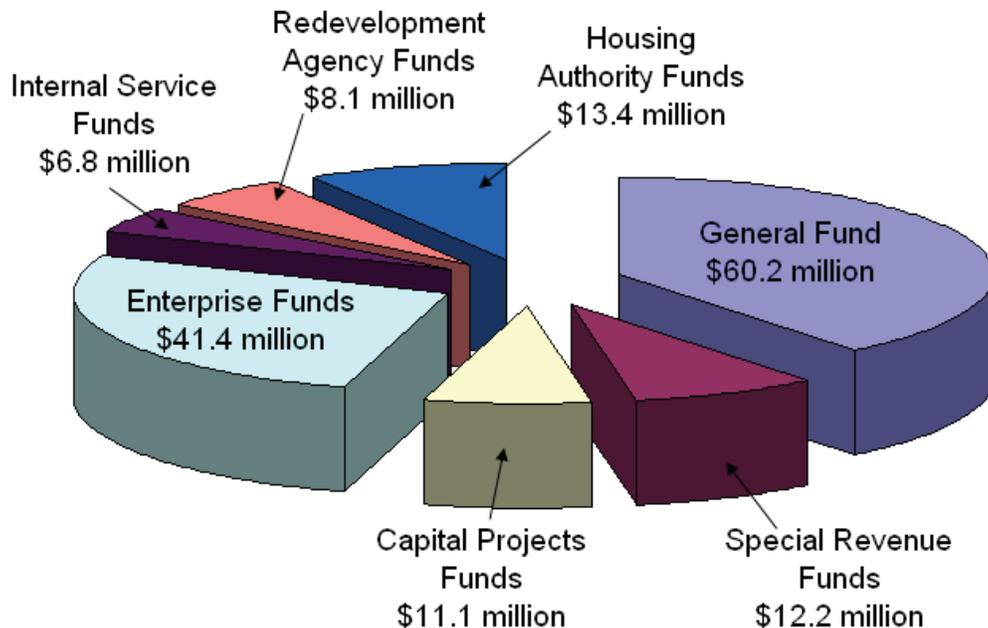
Revenues total \$148,021,595, a decrease of about \$35 million from the FY 2006-07 adjusted budget. This decrease is also accounted for by changes in capital projects funding.

The total **expenditure** appropriation for all budgeted funds for FY 2007-08 is \$153,365,600 This represents a decrease of \$55,977,713 or 26.7% compared to FY 2006-07. This type of fluctuation in the total of expenditures from all funds is common and due to the fact that the appropriation of funds for capital projects and the spending of those funds is frequently out of sync. The total appropriation projected for FY 2008-09 is \$152,324,632.

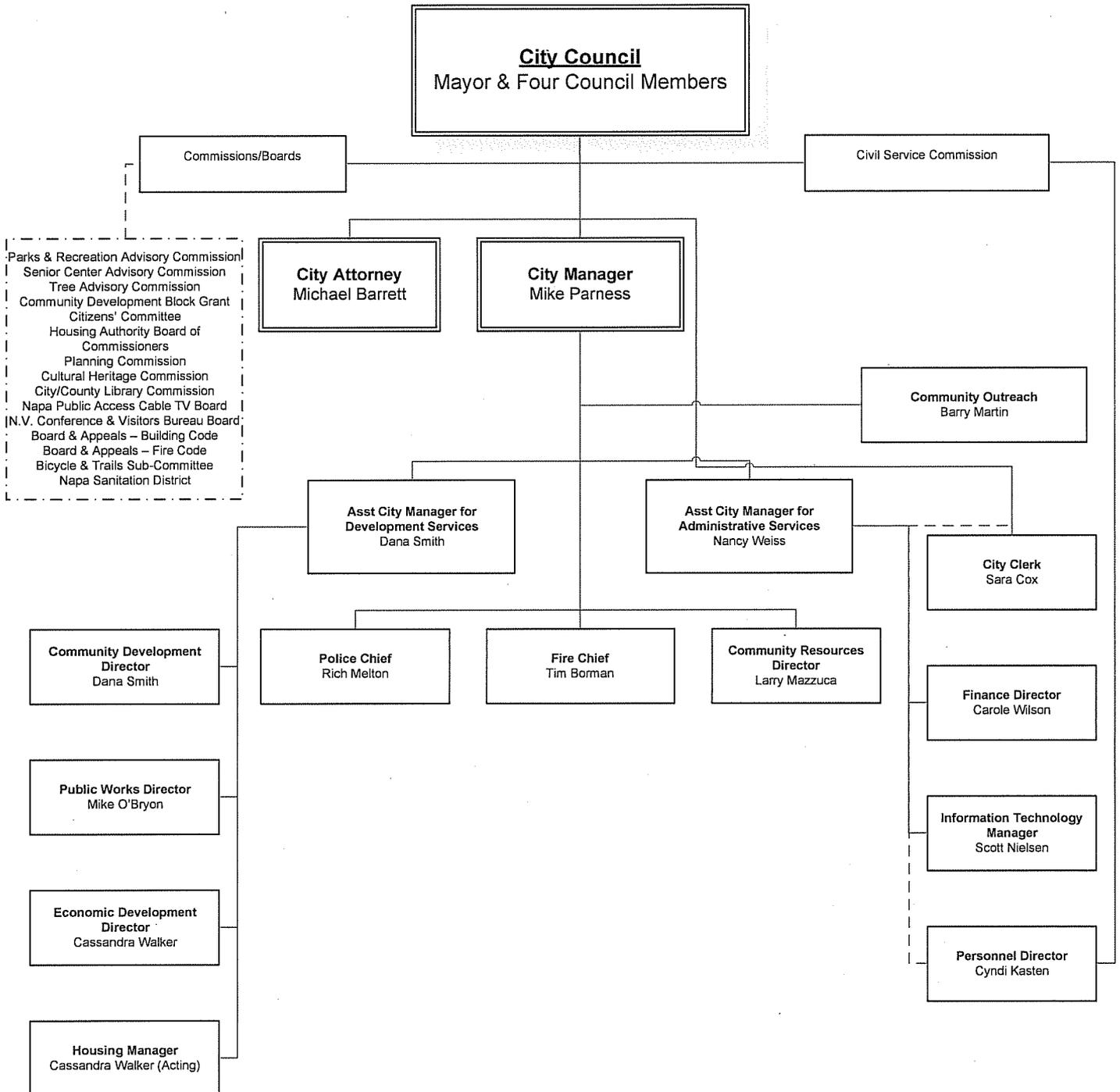
Excluding fund balances and interfund transfers, the total revenue operating budget for all funds amounts to \$132,277,987 for FY 2007-08 and \$138,390,214 for FY 2008-09.

All Funds Expenditure Plan by Category

\$153.4 million for Fiscal Year 2007-08



City of Napa Organizational Chart 2007



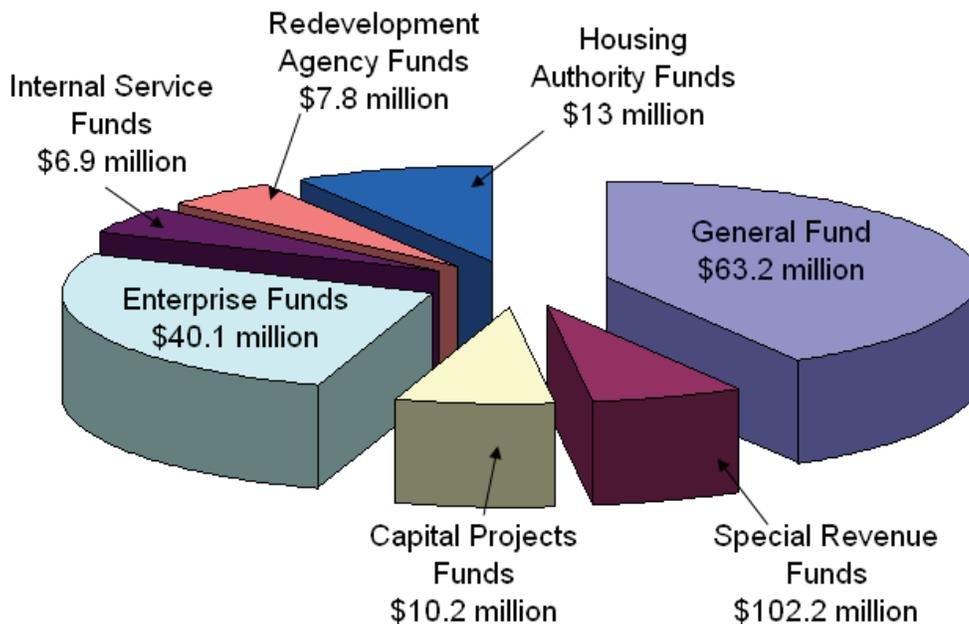


Total Expenditures

Total expenditures from all funds for FY 2007-08, excluding interfund transfers, are planned to total \$141,062,066. The difference of approximately \$9 million between the all funds total revenues and total expenditures can be attributed to the Water Fund's use of reserves for capital projects. Total expenditures from all funds for FY 2008-09 are projected to be \$139,280,884.

All Funds Expenditure Plan by Category

\$152.3 million for Fiscal Year 2008-09



Economic Assumptions

Assumptions are necessary to develop revenue and expenditure projections. The budget is based on the assumption of 7% annual growth in property tax revenues, 3% growth in Sales Tax, Transient Occupancy Tax, Business License fees, vehicle violation and franchise fee revenues, and no growth in interest earnings, gas tax or Police grants. Expenditures are projected with assumptions of 15% growth in medical coverage costs, 7% growth in other benefits, 5% growth in salaries, pension contributions, and retiree health care premiums, and 3-4% growth in other expenditures.

Budget format changes

Many revisions to the format and presentation of the complete budget document have been made, including:

Summary and Overview - The Budget Summary and Overview sections have been incorporated to provide short-form information on revenues and expenditures, the Capital Improvement Program and major highlights of the proposed spending plan. The Summary and the Overview share some information, and may contain information also included in the City Manager's transmittal letter. The Summary and Overview are designed to allow for publishing separately as a handout for public presentations or for distribution to those who wish to gain insight to the City's budget without buying a large document.

Fiscal Policies - This new section of the budget is intended to document and highlight policies and procedures that should be followed to strengthen the City's fiscal position and management over time. The policies, once adopted by the Council, will serve as a public "report card" allowing the monitoring of conformance with accepted fiscal management standards and practices.

Operational Summary Information - The information describing proposed program expenditures has been expanded to provide more detail. Revenue generated by each division is shown to allow insight into the net cost of operations. The budget continues to define operational responsibilities, staffing changes over time, staff level adjustments, programmatic accomplishments during the past budget cycle, and FY 2007-09 objectives. In addition, given the spending reductions required in all programs needed to balance this budget, enhancements added to stabilize critical services, and organizational changes made to improve efficiency, a section describing significant changes and impacts reflected in each program budget has been included.

Comparing proposed budget costs to previous budget expenditures will be very difficult for two reasons.

- With the recent reorganization and transfer of programs between departments, prior year expenditures remain with the department that oversaw the budget at that time. The FY 2007-09 proposed spending for those programs will now

reside with the departments receiving those service responsibilities.

- Past practice provided for operating divisions to charge other divisions both within the same fund and other funds for services provided, offsetting costs within a division or department through interdepartmental charges (credit). This practice made it difficult to determine the real cost of operations and has been eliminated. It is proposed that the results of a recent independent cost allocation study be used to recover internal costs through appropriate interfund transfers. These changes while necessary and appropriate will skew both revenue and expenditures reflected in the current and proposed fiscal years making comparisons difficult.

All Funds - In addition to presenting the General Fund and Capital Improvement

budgets, this document has expanded to include spending summaries, balance statements and proposed budgets for all other funds. The new information has been organized by fund type (i.e. Special Revenue Funds, Proprietary Funds, Capital Projects, Redevelopment and Housing). The intent is to provide more insight into all city operations and to identify issues that should be addressed outside of typical General Fund activities. Because this information is being organized for the first time for presentation and review, and our financial management/budget software system is inadequate, this effort has required manual compilation of data and insertion into the budget document. This has only been accomplished through the heroic efforts of the assigned staff. In future budgets this information will be more readily available, the data will be more reliable and the policy issues better defined.



Undesignated General Fund Balance

	Actual 2004-05	Actual 2005-06	Amended Budget 2006-07	Adopted 2007-08	%	Adopted 2008-09	%
Operating							
Revenues	45,934,775	50,692,465	54,456,614	59,784,371	10%	62,807,487	5%
Expenditures	(47,987,289)	(50,478,525)	(56,460,078)	(61,798,428)	9%	(64,356,164)	4%
Operating Shortfall	\$ (2,052,514)	213,941	(2,003,464)	(2,014,057)	1%	(1,548,677)	-23%
Addressing the Operating Shortfall:							
Expenditures	(47,987,289)	(50,478,525)	(56,460,078)	(61,798,428)	100%	(64,356,164)	4%
Anticipated Labor Savings	0	0	0	800,000	100%	0	-100%
Operating Reductions	0	0	0	0	0%	779,264	100%
Retiree Benefits	0	0	0	600,000	100%	220,785	-63%
Reserve for Contingency	0	0	0	100,000	100%	100,000	0%
Facility Maintenance	0	0	0	100,000	100%	100,000	0%
Revised Expenditures	\$ (47,987,289)	(50,478,525)	(56,460,078)	(60,198,428)	7%	(63,156,115)	0%
Operating Position	\$ (2,052,514)	213,941	(2,003,464)	(414,057)	-79%	(348,628)	0%
Undesignated General Fund Balance							
One Time Contributions							
Contribution from NCRA	0	0	0	90,000	100%	90,000	0%
Use of Reserves	2,314,881	200,000	200,000	0	-100%	0	0%
FEMA Reimbursement	171,346	323,590	200,000	1,100,000	100%	400,000	-64%
Loan Repayment - State VLF	1,266,133	0	0	0	0%	0	0%
Legal Settlement	0	58,427	0	0	0%	0	0%
Sale of Property	0	55,799	0	0	0%	0	0%
Total One Time Contributions	\$ 3,752,360	637,816	400,000	1,190,000	198%	490,000	0%
One Time Uses:							
To Balance Operations	2,052,514	(213,941)	2,003,464	414,057	-100%	348,628	0%
Flood - January 2006	0	2,422,949	291,728	0	-100%	0	0%
Organizational Study	0	0	0	50,000	100%	0	-100%
Maintain Emergency Reserves	0	400,000	0	1,100,000	100%	722,740	-34%
Replenish Risk Fund	0	0	0	500,000	100%	500,000	0%
Reimbursements:							
Building Reserve	0	0	0	750,000	100%	750,000	0%
Fleet Reserve	0	0	0	700,000	100%	700,000	0%
Capital Reserves	0	0	0	1,175,000	100%	1,175,000	0%
Financial System Replacement	0	0	0	757,825	100%	784,900	4%
Total Uses	\$ 2,052,514	2,609,008	2,295,192	5,446,882	100%	4,981,268	-9%
Net Impact of One Time Items	\$ 1,699,846	(1,971,192)	(1,895,192)	(4,256,882)	125%	(4,491,268)	6%
Addressing Fund Balance Deficiency:							
Deferral of Emergency Reserve	0	0	0	0	0%	322,740	100%
Deferral of Capital Reserve Reimbursemer	0	0	0	675,000	100%	675,000	0%
Net Contribution / (Use)	\$ 1,699,846	(1,971,192)	(1,895,192)	(3,581,882)	89%	(3,493,528)	-2%
Undesignated General Fund Balance	12,153,028	10,990,610	9,095,418	5,513,536	-39%	2,020,008	-63%

Fund #11 - General Fund Operating Overview

	Actual 2004-05	Actual 2005-06	Amended Budget 2006-07	Adopted 2007-08	%	Adopted 2008-09	%
Revenues							
Taxes	31,474,135	35,002,283	35,290,229	45,408,350	29%	47,851,940	5%
Intergovernmental Revenues	5,917,460	7,462,628	6,794,546	2,712,995	-60%	2,812,607	4%
Permits/Fees/Charges for Services	5,611,046	5,409,965	4,780,450	7,009,313	47%	7,247,420	3%
Interest on Investments	633,746	461,958	500,000	490,095	-2%	504,800	3%
Miscellaneous Revenue	272,472	382,930	93,739	123,620	32%	127,345	3%
Transfers In	2,025,917	1,972,702	2,587,650	4,039,998	56%	4,263,375	6%
Adjustments:							
Taxes: Property, Sales, TOT, Business License, Franchise Fees			4,410,000				
Revenue Total	\$ 45,934,775	50,692,465	54,456,614	59,784,371	10%	62,807,487	5%
Expenditures - By Category							
Salary & Wages	29,596,146	29,194,185	32,207,997	33,959,493	5%	35,889,234	6%
Benefits	9,316,751	11,269,593	13,913,164	14,053,029	1%	14,960,107	6%
Services & Supplies	10,071,257	11,693,888	14,000,116	14,381,721	3%	14,283,215	-1%
Capital Outlay	217,142	284,495	58,178	21,830	-62%	22,175	2%
Internal Service Charges	(1,214,007)	(1,963,636)	(2,629,377)	(1,417,645)	-46%	(1,577,831)	11%
Adjustments:							
Anticipated Savings Citywide			(1,090,000)				
One time labor savings included in summary				800,000			
Second Round Reductions						779,264	
Expenditure Total	\$ 47,987,289	50,478,525	56,460,078	61,798,428	9%	64,356,164	4%
Expenditures - By Department							
City Council	296,640	322,608	327,056	293,310	-10%	301,854	3%
City Manager	756,195	648,311	720,961	851,318	18%	867,496	2%
City Clerk	718,650	441,949	742,608	688,880	-7%	714,379	4%
City Attorney	578,169	678,279	610,414	929,904	52%	949,550	2%
Personnel	759,840	749,739	1,025,091	1,041,929	2%	1,053,285	1%
Finance	2,460,090	2,381,867	3,133,824	2,512,591	-20%	2,645,576	5%
Information Technology Service	499,050	879,892	1,062,052	1,743,194	64%	1,854,940	6%
General	1,794,901	2,369,531	2,011,904	4,261,398	112%	4,233,781	-1%
Community Resources	4,230,726	3,919,124	4,543,706	6,951,874	53%	7,312,843	5%
Community Development	3,479,399	4,020,134	4,595,950	4,238,347	-8%	4,432,753	5%
Public Works	5,877,329	6,671,192	7,581,447	6,658,559	-12%	6,891,647	4%
Economic Development	138,032	115,708	123,979	145,528	17%	153,055	5%
Housing	377,795	(227,955)	0	69,275	100%	69,275	0%
Police	15,778,023	16,938,014	19,777,129	19,080,249	-4%	20,122,880	5%
Fire	10,242,449	10,570,132	11,293,958	11,532,072	2%	11,973,586	4%
Adjustments:							
Anticipated Savings Citywide			(1,090,000)				
One time labor savings included in summary				800,000			
Second Round Reductions						779,264	
Expenditure Total	\$ 47,987,289	50,478,525	56,460,078	61,798,428	9%	64,356,164	4%
Operating Shortfall:	\$ (2,052,514)	213,941	(2,003,464)	(2,014,057)	1%	(1,548,677)	-23%
Addressing the Operating Shortfall:							
Labor Savings	0	0	0	800,000	100%	0	-100%
Round Two Reductions	0	0	0	0	0%	779,264	100%
Retiree Benefits	0	0	0	600,000	100%	220,785	-63%
Reserve for Contingency	0	0	0	100,000	100%	100,000	0%
Facility Maintenance	0	0	0	100,000	100%	100,000	0%
Revised Expenditures	\$ 47,987,289	50,478,525	56,460,078	60,198,428	7%	63,156,115	5%

Schedule of Proposed Interfund/Interagency Transfers - All Funds

Fiscal Year 2007-2008

From:			Purpose	To:		
12	Redevelopment	\$ 90,000	Operating	11	General Fund	\$ 90,000
12	Redevelopment	287,046	City Admin	11	General Fund	287,046
14	Vouchers	201,000	City Admin	11	General Fund	201,000
21	Risk Management	286,619	City Admin	11	General Fund	286,619
25	Gas Tax	629,035	Operating	11	General Fund	629,035
27	CDBG Fund	16,774	City Admin	11	General Fund	16,774
34	Fleet Management	152,209	City Admin	11	General Fund	152,209
35	Central Stores	60,080	City Admin	11	General Fund	60,080
43	Parking Fund	42,240	City Admin	11	General Fund	42,240
51	Solid Waste	694,721	City Admin	11	General Fund	694,721
82	Local Housing	142,000	City Admin	11	General Fund	142,000
91	Water	1,514,510	City Admin	11	General Fund	1,514,510
14/82	Housing	343,000	City Admin	11	General Fund	343,000
70s	Lighting and Landscaping	13,763	City Admin	11	General Fund	13,763
Subtotal				General Fund Subtotal		4,472,997
11	General Fund	1,300,000	Operating	26	Capital Projects	1,300,000
General Fund Subtotal				Subtotal		1,300,000
13	Redevelopment	438,134	Operating	60	HACN 20% Set Aside	438,134
18	Redevelopment - Debt Service	188,126	Fund Project	12	Redevelopment - Capital	188,126
18	Redevelopment - Debt Service	752,504	Operating	13	Redevelopment - Set Aside	752,504
23	Pk Dedication, Quad 3	120,000	Fund Project	15	Golf	120,000
23	Development Impact Fund	4,805,000	Fund Project	26	Capital Projects	4,805,000
23	City - Inclusionary Impact Fees	50,000	Operating	82	Local Housing	50,000
25	Gas Tax	1,216,000	Fund Project	26	Capital Projects	1,216,000
27	City CDBG	118,047	Fund Project	26	Capital Projects	118,047
27	City CDBG	171,786	Operating	50	HACN CDBG	171,786
27	City CDBG	44,403	Operating	82	Local Housing	44,403
51	Solid Waste/Materials	50,000	Fund Project	26	Capital Projects	50,000
60	HACN 20% Set Aside	3,060	Operating	80	Home	3,060
60	HACN 20% Set Aside	214,478	Operating	82	Local Housing	214,478
81	Laurel Manor	100,000	Operating	82	Local Housing	100,000
82	Local Housing	40,000	Financial System	26	Financial System	40,000
88	Housing Reserve	82,970	Operating	14	Vouchers	82,970
91	Water	200,000	Fund Project	26	Capital Projects	200,000
Subtotal				Subtotal		8,594,508
Total Transfers Out				Total Transfers In		\$ 14,367,505

Schedule of Proposed Equity Transfers

Fiscal Year 2007-2008

From:			Purpose	To:		
22	Recreation Facilities	\$ 232,254	Eliminate Fund	11	General Fund	\$ 232,254
11	General Fund	700,000	Restore Reserve	34	Fleet Management	700,000
11	General Fund	500,000	Restore Reserve	21	Risk Reserve	500,000
11	General Fund	750,000	Restore Reserve	26	Building Reserve	750,000
11	General Fund	500,000	Restore Reserve	26	Capital Projects	500,000
11	General Fund	757,825	Fund Project	26	Project: Financial System	757,825
Total Equity Transfer Out				Total Equity Transfer In		\$ 3,440,079

Schedule of Proposed Interfund Advances

Fiscal Year 2007-2008

From:			Purpose	To:		
23	Park Acquisition - Quad 1	\$ 306,000	Fund Project	15	Golf	\$ 306,000
Total Interfund Advance				Total Interfund Advance		
				\$ 306,000		

This advance bears interest at the rate of 0.0% and is payable in 10 equal annual installments of \$30,600 beginning July 2008.

Schedule of Proposed Interfund/Interagency Transfers - All City Funds

Fiscal Year 2008-2009

From:			Purpose	To:		
12	Redevelopment	\$ 90,000	Operating	11	General Fund	\$ 90,000
12	Redevelopment	301,698	City Admin	11	General Fund	301,698
21	Risk Management	302,955	City Admin	11	General Fund	302,955
25	Gas Tax	664,890	Operating	11	General Fund	664,890
27	City CDBG	17,445	City Admin	11	General Fund	17,445
34	Fleet Management	162,407	City Admin	11	General Fund	162,407
35	Central Stores	63,505	City Admin	11	General Fund	63,505
43	Parking Fund	44,648	City Admin	11	General Fund	44,648
51	Solid Waste	743,485	City Admin	11	General Fund	743,485
91	Water	1,585,695	City Admin	11	General Fund	1,585,695
70s	Lighting and Landscaping	14,547	City Admin	11	General Fund	14,547
Subtotal				General Fund Subtotal		
				3,991,275		
11	General Fund	1,300,000	Operating	26	Capital Projects	1,300,000
General Fund Subtotal				Subtotal		
				1,300,000		
13	Redevelopment	570,970	Operating	60	HACN 20% Set Aside	570,970
18	Redevelopment - Debt Service	221,669	Fund Project	12	Redevelopment - Capital	221,669
18	Redevelopment - Debt Service	886,675	Operating	13	Redevelopment - Set Aside	886,675
14	Vouchers	211,000	City Admin	11	General Fund	211,000
23	Inclusionary Impact Fees	50,000	Operating	82	Local Housing	50,000
23	Development Impact Fund	5,520,000	Fund Project	26	Capital Projects	5,520,000
25	Gas Tax	1,005,000	Fund Project	26	Capital Projects	1,005,000
27	CDBG Fund	200,000	Fund Project	26	Capital Projects	200,000
51	Solid Waste/Materials	50,000	Fund Project	26	Capital Projects	50,000
91	Water	200,000	Fund Project	26	Capital Projects	200,000
27	City CDBG	182,092	Operating	50	HACN CDBG	182,092
27	City CDBG	44,403	Operating	82	Local Housing	44,403
60	HACN 20% Set Aside	100,000	Operating	82	Local Housing	100,000
81	Laurel Manor	54,912	Operating	14	Vouchers	54,912
81	Laurel Manor	100,000	Operating	82	Local Housing	100,000
88	Housing Reserve	76,048	Operating	14	Vouchers	76,048
Subtotal				Subtotal		
				9,472,769		
Total Transfers Out				Total Transfers In		
				\$ 24,236,813		

Schedule of Proposed Equity Transfers

Fiscal Year 2008-09

From:			Purpose	To:		
11	General Fund	\$ 500,000	Restore Reserve	21	Risk Reserve	\$ 500,000
11	General Fund	750,000	Restore Reserve	26	Building Reserve	750,000
11	General Fund	500,000	Restore Reserve	26	Capital Projects	500,000
11	General Fund	784,900	Fund Project	26	Project: Financial System	784,900
11	General Fund	700,000	Restore Reserve	34	Fleet Management	700,000
Total Equity Transfer Out				Total Equity Transfer In		
				\$ 3,234,900		

*THIS PAGE
INTENTIONALLY
LEFT BLANK*