2009 Long Term Financial Plan
Trends and Forecast Analysis

I: INTRODUCTION

This document is the City of Napa's Long Term Financial Plan (LTFP). Staff regularly updates the plan to provide an economic outlook to assist in planning for a successful future for the City of Napa. The entire City organization is committed to do all that is necessary to develop and stabilize our financial base because a strong financial foundation is essential to the provision of critical services to the community. In an environment of economic uncertainty, financial planning is always a prudent activity, and maintenance of the LTFP is essential to sound fiscal management. In general, budgetary problems will result when revenues do not keep pace with expenditures, but there is more to financial planning than trying to keep the budget in balance. In challenging times like these, a LTFP will seek to identify negative trends that can be addressed proactively to avoid serious long-term impacts.

Although financial plans are only as good as the assumptions and data utilized in establishing them, the development of a sound strategic plan will always be crucial to successful management of the City's resources.

Purpose of the Long Term Financial Plan

The LTFP takes a forward look at the City's General Fund operating revenues and expenditures. Its purpose is to identify financial trends, shortfalls, opportunities and issues so the City can proactively address them. It does so by projecting the future fiscal results of continuing the City's current service levels and policies, and providing a snapshot of what the future will look like as a result of the decisions made in the recent past.

The LTFP sets the stage for the upcoming budget process, aiding both the City Manager and Council in establishing priorities and allocating resources appropriately. This year's forecast addresses the current economic turmoil that is being felt both nationally and worldwide. The consequences of these events may affect the City's ability to sustain the current level of services and programs over a long period of time within its revenue constraints.

Components of this Long Term Financial Plan

The City's plan is focused on emerging issues and has been documented for public review to encourage input and feedback from various stakeholders.

This plan includes a fiscal policy section; a trend analysis based on actual audited data for the past 10 fiscal years (FY 1998-99 through FY 2007-08); a statement of current financial position; a forecast including projections for the current fiscal year (FY 2008-09) and looking ahead six years through FY 2014-15. The plan is not able to predict with certainty the City's fiscal future, rather it serves as a tool to highlight significant issues or problems that must be addressed if the City's goals are to be achieved.

This plan takes into consideration the ten-year trend data based on actual audited information as well as significant new development either in the pipeline or known to be commencing soon. It does not, however, speculate as to projects beyond what is certain at this time.

The Fiscal Policies section has been included to illustrate the City's compliance with the various policies. Preparing the necessary issue papers and policies to respond to identified issues will become the basis for work plan goals to be established in the future. Specific work efforts requiring the dedication of staff or other resources may be considered as the City Council reviews other program priorities.

The following table displays the status of the recommended issues for study/action from the 2008 LTFP:

Description/Item	Status	Comments
Bring operating revenues and expenditures into alignment	Delayed	Negative operating position is projected for the upcoming budget cycle.
Identify appropriate staffing levels for core programs and services	Completed	During the last budget cycle, needed staffing levels were identified and progress was made toward achieving staffing goals.
Long term funding source for new facilities and existing infrastructure	Hold	Parks Master Plan is underway. Efforts are ongoing to identify funding sources for infrastructure deferred maintenance and restoration needs.
Labor cost containment alternatives	In Process	Benefit plan alternatives under review. Negotiations underway for NCFA in 2009, NPOA will commence in 2010 and all other groups in 2011.
Establishing standards for prudent reserves	In Process	Established as part of Fiscal Policy document. Equipment replacement reserve and facility maintenance reserve policies will be developed during the upcoming budget cycle.
Impact of new development on service delivery and financial position	In Process	Napa Pipe Study completed. Parks Master Plan is underway.
Service delivery options	In Process	Researching various options of sharing resources with other local entities.
Funding for capital equipment and major maintenance	In Process	Six-year plan and funding to be developed during FY 2009-2011 budget cycle per Fiscal Policy.
Opportunities for revenue development	In Process	Adopted Fiscal Policy to adjust user fees and rates annually. Adopted non-development fee adjustment. Developer fee adjustment pending.
Funding to provide more timely compliance with Americans with Disabilities Act requirements	Completed	FY 07-09 Budget allocated $200K per year. Ongoing increasing appropriations will be considered in future budget cycles. Adopted plan in 2007-08.
Funding for medical retiree program (GASB 45)	Completed	Full funding has been appropriated and set aside in the 2007-09 budget and is anticipated to continue in the upcoming budget cycle.
Changes to organizational structure to enhance efficiency and streamline operations	Ongoing	Reorganization of Public Works, Community Development, Police, and Finance have been addressed and implemented.

II: FISCAL POLICY

Objective

To review the City's Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.

Background

As recommended by the Government Finance Officers Association (GFOA), City staff developed, and presented to Council, a set of Fiscal Policy statements that have been adopted to address the following areas:

- General Financial Goals
- Operating Budget Policies
- Revenue Policies
- Expenditure Policies
- Utility Rate and Fees Policies
- Capital Improvement Budget Policies
- Debt Policies
- Reserve Policies
- Investment Policies
- Accounting, Auditing & Financial Reporting Policies

GFOA further recommends that the adopted Fiscal Policy be reviewed on an annual basis in conjunction with the preparation of the Long Term Financial Plan and the City's budget process. This review is performed by staff in order to document proposed new policies identified through the preparation of the Long Term Financial Plan. Additionally, as circumstances change, there is sometimes a need to modify existing Fiscal Policy statements.

In an effort to present clear fiscal direction in a concise format, staff developed each policy to allow ease in implementation.

Recommendation

It is recommended the following revised fiscal policy be reviewed and adopted by Council.

Council Action

Move to accept the recommended revisions to the fiscal policy.

Fiscal Policy Statement	Status	Comment
General Financial Goals		
To maintain and enhance the sound fiscal condition of the City.	√	
Operating Budget Policies		
The City will adopt a balanced two-year budget by June 30 of every other year.	√	
A bi-annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
Current revenues will be sufficient to support current operating expenditures.	--	The current budget includes a negative operating position. It is projected to continue in the 2009-11 budget cycle.
Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant and equipment.	√	
The purchase of new or replacement capital equipment with a value of $25,000 or more and with a minimum useful life of two years will require City Council approval.	√	
The City will project its equipment replacement and maintenance needs for the next six years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.	--	This policy and practice will be developed during the up coming budget cycle.
The City will forecast its General Fund expenditures and revenues for each of the next six years and will update this forecast at least annually.	√	

Legend:
- √ Budget Complies with Fiscal Policy Standard
- -- Fiscal Policy Standard is not met in Budget
- \+ New / Revised Fiscal Policy

Fiscal Policy Statement	Status	Comment
Operating Budget Policies (continued)		
The City will review, on a bi-annual basis, the General Fund operating position (operating revenues less operating expenditures) to determine if funds are available to operate and maintain future public facilities.	√	
If funding is not available for operations and maintenance costs, the City will delay construction of proposed new facilities.	√	Projects previously in progress are being completed. New projects are being evaluated and some are being delayed due to a lack of operating resources.
Revenue Policies		
The City will strive to maintain a diversified and stable revenue base to shelter it from short-term fluctuations in any one revenue source.	√	
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate. Revenue estimates adopted by the City Council must be conservative.	√	
User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	--	Non-development fee adjustment adopted. Developer fee adjustment pending.
Non-recurring revenues will be used for non-recurring expenditures only. (Including capital and reserves).	--	Compliance will be achieved when the operating position is positive.

Legend:
√ Budget Complies with Fiscal Policy Standard
-- Fiscal Policy Standard is not met in Budget
\+ New / Revised Fiscal Policy

Fiscal Policy Statement	Status	Comment
Revenue Policies (continued)		
The City will annually identify developer fees and permit charges received from "non-recurring" services performed in the processing of new development. Revenue from these sources will be used to meet peak workload requirements.	√	
Utility Rates and Fees Policies		
The City will set fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual debt service used for capital assets and overhead charges.	√	Rates were adjusted to meet the cost of providing service. Water rates increased 4.2% (CPI) effective October 2008 and will be revised each October by CPI. Solid Waste and Recycling rates increased 3.45% effective September 1, 2008.
Expenditure Policies		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
Capital Improvement Budget Policies		
The City will make capital improvements in accordance with an adopted capital improvement program.	√	
The City will develop an annual six-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.	--	The six-year plan will be revised to include the details described in the 2009-11 budget cycle.
The Water Fund and the Materials Diversion fund may only use funds generated by their service charges, grants and other outside sources of funds to fund their CIP projects.	√	

Legend:
√ Budget Complies with Fiscal Policy Standard
-- Fiscal Policy Standard is not met in Budget
+ New / Revised Fiscal Policy

Fiscal Policy Statement	Status	Comment
Capital Improvement Budget Policies (continued)		
The City will use intergovernmental assistance to finance only those capital improvements that is consistent with the Capital Improvement Plan and City priorities, and who's operating and maintenance costs have been included in the budget.	--	Operating and maintenance costs will be factored into future intergovernmental project considerations.
The Council will review the Street Improvement Program every two years during budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Capital Project Fund – Street Improvement.	√	
The Park Acquisition & Development Fund, as well as other special development impact funds, may only be used to fund facilities included in a Master Plan.	√	Park Master Plan and City Facility Study are underway.
Debt Policies		
The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be documented and made available for City Council review.	√	
The City Council may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans must be repaid consistent with terms established in a written agreement.	√	
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, interfund loans or other self-supporting bonds instead of general obligation bonds when feasible.	√	

Legend:
√ Budget Complies with Fiscal Policy Standard
-- Fiscal Policy Standard is not met in Budget
\+ New / Revised Fiscal Policy

Fiscal Policy Statement	Status	Comment
Reserve Policies		
The General Fund Undesignated Fund Balance will be maintained at a level of between 2% - 5% of its operating budget. GFOA recommends a level of 5 to 15%.	√	Undesignated Fund Balance is projected to be 10% for FY 2008-09.
The City will maintain General Fund Emergency reserves at a level at least equal to 12% of budgeted operating expenditures. The primary purpose of these reserves is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.	√	Emergency Reserve = $7.9 million, or 12 % of General Fund operating expenditures for FY 2008-09.
A Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of the Contingency Reserve will be established as needed but shall not be less than 1% of General Fund operating expenditures.	--	Contingency Reserve will be maintained at $400,000 each year. This is approximately $200,000 below the policy target which will be reviewed in the next budget cycle.
The City will comply with GASB 45 and establish an irrevocable trust to fund future retiree medical costs.	--	Annual contributions are necessary to meet long term needs for the medical retiree program. Full appropriations were made in the 2007-09 budget cycle. Funds will be set aside in a reserve until the irrevocable trust is established.

Legend:
√ Budget Complies with Fiscal Policy Standard
-- Fiscal Policy Standard is not met in Budget
\+ New / Revised Fiscal Policy

Fiscal Policy Statement	Status	Comment
Reserve Policies (continued)		
A Compensated Absence Reserve will be established to accumulate funds to be used for payment of accrued benefits for separating employees. This reserve will be maintained at a level at least equal to ~~50% of the prior year end Vacation Liability balance.~~ <u>100% of the prior year's experience for vacation payout to separating employees and shall grow to no more than two times the prior three year average</u>.	+	Based on policy, a designated fund balance of $250,000 was established in addition to annual appropriations for this purpose. Adoption of the revision would eliminate the designation and annual appropriations be made based on the policy parameters. The range for appropriation in the current year would be from $80,700 to $269,000. FY 2008-09 appropriations are $215,500.
Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects the City. Council approved a revision to the Self-insurance reserve policy on May 6, 2008. The revision calls for reserve funding level goals to be modified to correspond with the format used by the City's actuary and that the reserve funding level goal for each program be no less than the target 80% confidence level appropriately discounted for investment income.	√	In 2008-09, base requirements of General Liability Reserve = $829,000 and Workers Compensation Reserve = $3.825 million will be achieved.
The City will maintain a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level adequate to replace all stock, per the pre-determined replacement schedule.	--	This reserve was restored through transfers of $1.4 million in the 2007-09 budget cycle. The reserve balance will be evaluated along with the replacement schedule to determine its appropriate reserve requirements during the next budget cycle.

Legend:
√ Budget Complies with Fiscal Policy Standard
-- Fiscal Policy Standard is not met in Budget
+ New / Revised Fiscal Policy

Fiscal Policy Statement	Status	Comment
Reserve Policies (continued)		
The City will establish Water Operating Reserves with minimum Reserve levels determined by independent studies approved by Council.	√	
The City will establish a Golf Course Operating Reserve to cover costs during a year when revenue is down due to limited play or adverse conditions. The reserve should be funded at a level at least equal to 10% of operating expenditures.	--	Golf Course Operating Reserve will be evaluated in the next cycle. The fund has experienced a positive operating position in the last two years.
The City will maintain a Rate Stabilization Reserve in the Solid Waste Fund. This reserve will be funded at a level of 5% of collection revenues to stabilize collection rates to avoid wide swings in rates over time.	√	
The City will maintain a Solid Waste/Materials Diversion Operating Reserve to cover unforeseen revenue shortfalls, increases in expenses, and potential environmental compliance expenditures. This fund does not have a separate "emergency reserve", and market volatility, emergency/disaster incidents and other circumstances would present immediate cash flow issues. Therefore, the reserve should be funded at a level of 25% of operating expenditures.	√	
The City will maintain a Capital Replacement Reserve in the Solid Waste Fund to provide for major renovation, modernization and/or rebuilding of the Napa MDF. This reserve is for projects that exceed $250,000 in any given year.	√	Based on a 30-year capital replacement plan, this reserve will be funded annually to address projected needs at a rate of $268,000 per year.

Legend:
√ Budget Complies with Fiscal Policy Standard
-- Fiscal Policy Standard is not met in Budget
+ New / Revised Fiscal Policy

Fiscal Policy Statement	Status	Comment
Reserve Policies (continued)		
The City will maintain a Capital Maintenance Reserve in the Solid Waste Fund to pay for planned capital improvement program repairs and maintenance at the Napa MDF. This reserve is for projects that do not exceed $250,000 in any given year.	√	Based on an 8-year capital maintenance schedule, the reserve is funded at a rate of $125,243 in FY 2008-09 with an annual escalator of 3.85%.
The City will maintain a Liability Reserve in the Solid Waste Fund to fund liabilities of the City for items related to the Solid Waste Fund. These include the final fulfillment of the City's legal obligations with regard to construction of the passive Hidden Glenn Park (site formerly referred to as Coombsville Dump).	√	
Investment Policies		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	Adopted June 17, 2008
The City Treasurer will invest the City's monies in accordance with applicable laws and adopted investment policies and direct the investment of bond or note monies on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	
Accounting, Auditing & Financial Reporting Policies		
The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	√	

Legend:
√ Budget Complies with Fiscal Policy Standard
-- Fiscal Policy Standard is not met in Budget
+ New / Revised Fiscal Policy

Fiscal Policy Statement	Status	Comment
Accounting, Auditing & Financial Reporting Policies (continued)		
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
Maintain a good credit rating in the financial community.	√	Standard & Poor's = AA- for 2007 Water Revenue Bond issuance. General Fund rating has not been secured as there has been no recent City-backed debt issuance.
Maintain a liquidity ratio of at least 1:1	√	The City currently maintains an 9:1 ratio.
An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report (CAFR), including an audit opinion.	--	Independent audited Basic Financial Statements are now prepared. With the advent of the new financial system, the CAFR will be prepared.

Legend:
√ Budget Complies with Fiscal Policy Standard
-- Fiscal Policy Standard is not met in Budget
+ New / Revised Fiscal Policy

III: FINANCIAL TREND ANALYSIS

Objective

Utilizing the International City Management Association's (ICMA) Financial Trend Monitoring System, we have provided a comprehensive Financial Trend Report, including specific recommendations to address those trends considered unfavorable or where a warning trend has been observed. Ratings assigned to each trend include: Favorable (F), Unfavorable (U), Warning (W), or Caution (C).

Background

As part of the long-term financial plan update process, the City's financial trends have been analyzed for the past ten years. Many factors are utilized in order to analyze the financial condition of the City of Napa. These factors include:

- The economic condition of the City;
- Types and amounts of revenues and whether they are sufficient and the right mix to support the constituents of the City;
- Expenditure levels and whether these expenditures are sufficient to provide the citizens of Napa with the desired level of services in the future, especially considering the City's diversity of programs;
- Fund balances and reserve levels and whether they are sufficient to protect the City against an economic downturn and /or natural disaster.

Three major areas of the General Fund analyzed include:

General Fund Revenues	The accumulation of financial resources that fund those services that have the greatest impact upon the citizens of Napa including police, fire, public service and maintenance, and recreation.
General Fund Expenditures	The application of financial resources towards the cost of providing the services of police, fire, public service and maintenance, recreation, and other services.
General Fund Operating Position	The ability of the City to balance current revenues with current expenditures, maintain adequate reserve levels, and to cover short-term liabilities.

Additional indicators affecting General Fund operations will also be analyzed as part of this report.

The 1999-2008 financial trend analysis combines several sources of data into a meaningful overview of the General Fund's current financial position, and assists the City Administration and Council in making determinations that will lead to adoption of

City fiscal policies. Reports examined as part of this analysis include those from FY 1998-99 through FY 2007-08, combining information from budgets and financial reports, annual State Controller's Reports, and the International City Management Association's (ICMA) Trend Monitoring System. One of the following ratings will be assigned to each indicator:

Favorable: This trend is **positive** with respect to the City's goals, policies, and national criteria.

Caution: This rating is used when there are factors influencing the indicator that may not be apparent in existing trend, but could result in a **change** of status from a **positive** to a **negative** direction in the future.

Warning: This rating indicates that a trend has **changed** from a positive direction and is going in a direction that may have an **adverse** effect on the City's financial condition. The City also uses this rating to indicate that, although a trend may appear to be favorable, it is not yet in conformance with adopted fiscal policies.

Unfavorable: This trend is **negative**, and there is an immediate need for the City to take corrective action.

Overview of the City's Financial Condition

Through the strong leadership of the City Council and hard work by City staff, we have been able to maintain sound financial health over the past 10 years. However, State budget cuts and rising benefit costs have had a significant impact on Napa.

Over the past ten years, the City has incurred a number of FEMA eligible floods and an earthquake. The expenditures and related FEMA reimbursements have been reflected in the General Fund. Because these occurrences are sporadic and can skew trends, the costs and related expenditures are not reflected in the trends and projections

The General Fund's operating revenues increased 8.9%, or $5.2 million in FY 2007-08. This change was primarily due to an increase of transient occupancy tax revenue of 12% and property tax increase of 9.1%. However, these increases were offset by a decline in sales tax, including in-lieu sales tax from the "Triple Flip," of 1.4%. The fund's operating expenditures increased 11.4%, or $6.2 million. Salary and benefit costs increased $3.9 million and accounted for most of the operating increase.

In summary, the City's current financial condition is satisfactory due to sufficient fund balance. However, some areas of concern include:

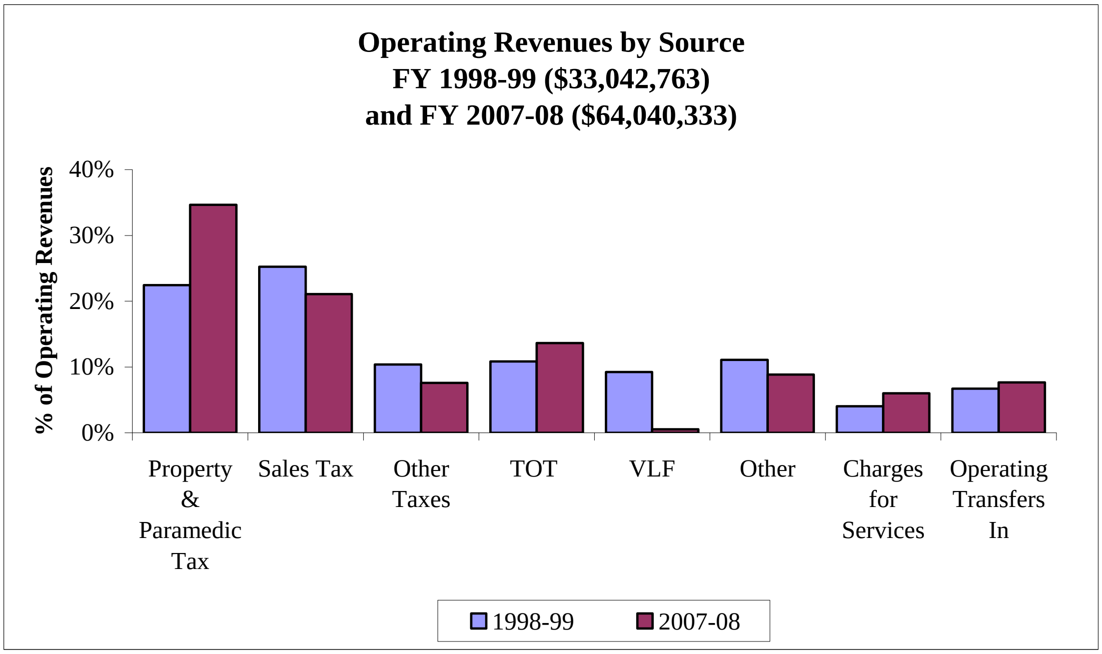
- Expenditure growth trends have outpaced revenue growth,
- Benefit costs, while more stable than previous years, are still on the rise.
- Reserves will be used in the current year to support operations. These reserves are being restored in the current budget cycle.

- Infrastructure maintenance costs must be addressed.
- The General Fund contribution to CIP is relatively low, at $1.2 million per year.
- The City adopted a reserve policy as part of the 2007-09 budget process which provides for GASB 45 compliance and the establishment of an irrevocable trust to fund future retiree medical costs. The 2007-09 budget appropriated sufficient funds to meet the annual required contributions for the period ($1.4 million per year). An updated actuarial analysis is underway for the upcoming budget cycle and it is anticipated that the required annual contributions will be funded.
- The City is very reliant on elastic revenue sources, and these revenue sources are beginning to decline due to the national economic crisis.
- The State Legislature adopted a budget for fiscal year 2009-10 which is still reliant on borrowing and contingent on a vote of the people.
- The national recession is one of the worst in decades. The federal government has taken unprecedented measures to first shore up the financial markets and then to stimulate the economy. It is unclear what the long term impacts of these measures and this recession will be.

We must plan with caution for the upcoming years, keeping in mind potential fiscal opportunities and threats.

General Fund Operating Results – Revenues

The General Fund's revenue sources with related percentages of total operating revenues are shown in the following chart. Taxes, including property, sales and other taxes make up the largest category of General Fund revenues at 77% of revenues generated in fiscal year 2007-08 as compared to 69% in the 1998-99 fiscal year.

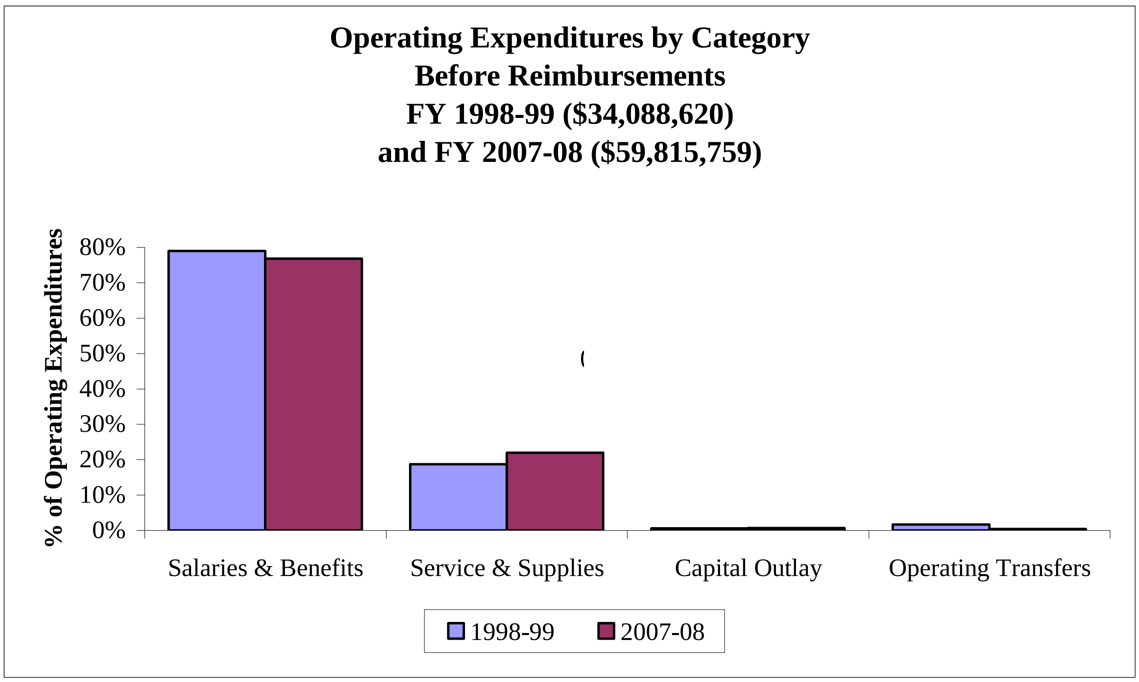


The two largest sources of revenue to the City continue to be property and sales tax. Included in the property tax category for FY 2007-08 is $5.9 million in backfilled VLF revenue from the State. While growth in property tax revenues has been steady, sales tax revenue growth has been uneven. Transient occupancy tax revenue has shown healthy increases since 1998, reflecting the strong tourism demand for Napa. There are a number of new development projects expected to be completed over the next six years which will contribute to City revenue growth.

General Fund Operating Results – Expenditures

The majority of the City's operating costs reside in the General Fund. Total General Fund expenditures increased 29%, or $15.2 million to $68.4 million from the prior year. The fund's operating expenditures increased 11.6%, or $6.2 million. Salary and benefit costs increased $3.9 million and accounted for most of the operating increase.

The following chart compares expenditures by category for the fiscal years 1998-99 and 2007-08.



The composition of General Fund operating expenditures by category has changed with the recent escalation of benefit costs when comparing fiscal year 2007-08 to fiscal year 1998-99. Driving this escalation was a 257% increase in the cost of benefits during the period from $3.8 million to $13.4 million. Cost of salaries increased 53% from $21 to $32 million for the period. As a result, salaries and benefits were approximately 77% of General Fund expenditures in 2007-08, an increase of 5 percentage points from 1998-99. A portion of this increase stems from adding 48 full time positions to maintain service level to the citizens of the City of Napa over the ten year period. The Services and Supplies category decreased by 3 percentage points during the ten-year period to account for 22% of total expenditures.

Summary of Trends

The following pages contain a listing of the indicators analyzed as part of this financial trend analysis and a brief summary of the rating assigned to each indicator. An expanded discussion of each indicator follows the summary.

Indicator Number	Description	Finding	Comments
General Fund Revenues			
1	Revenues Per Capita	C	Revenues per capita (constant dollars) reflected increases since fiscal 2002-03, after two years of decline following 9/11. The current economic environment indicates a decline in General Fund revenues will occur in 2008-09 and 2009-10 and begin a modest recovery in 2010-11.
2	Property Tax Revenues	C	Property tax revenues have increased steadily since 1998. However, with the current housing market decline and the tightening of the credit market, the strong trend is expected to level off.
3	Sales Tax Revenues	W	Sales tax revenue trends have followed economic cycles. FY 2007-08 saw a 1.4% decline in this revenue and the downward trend is expected to continue throughout the current recession. Because of the City's dependency on tourism, it is important to continue our efforts to diversify our tax base while continuing to enhance our attractiveness as a tourism destination.
4	Transient Occupancy Tax Revenues	C	Revenue growth in this category has been steadily increasing. However, the current recession has flattened this revenue trend in 2008-09. Again, this revenue is primarily based on the tourism industry.
5	Business License Tax Revenue	C	Revenue in this category experienced growth since 2004-05. Because this tax is based on gross receipts of businesses, the current economic downturn will likely impact the growth of this revenue.

F Favorable
C Caution
W Warning
U Unfavorable

Indicator Number	Description	Finding	Comments
6	Elastic Revenues	C	Heavy reliance on these revenues, 42.4% in FY 2007-08, exposes the City to income fluctuations due to economic uncertainty. New development underway is expected to increase this percentage.
General Fund Expenditures			
7	Expenditures Per Capita	C	Expenditures per capita are trending upwards due primarily to restoration of previously frozen positions. This restoration brings General Fund service level to the FY 2004-05 level.
8	Authorized Positions Per Capita	F	Authorized positions per capita have varied very little per year until FY 2004-05 to 2005-06 with the freezing of 30 positions (8%). 29 positions were added in FY 2007-08.
9	Fringe Benefits as a Percentage of Operating Expenditures	U	FY 2007-08 benefit costs were 22.3% of total expenditures, down slightly from the previous year (0.7%).The small decline in growth of fringe benefit expenditures is primarily due to the slight leveling of PERS rates. Ongoing increases in health care are expected as well as a jump in CalPERS rates in FY 2011-12.
10	Salary Expenditures as a Percentage of Operating Expenditures	F	Salary expenditures were down 1% as a percentage of total expenditures. However, salaries increased by 9.7% or $2.1 million in 2008 due primarily to restoration of 29 positions frozen in the FY 05-06 budget.
11	Capital Outlay as a Percentage of Operating Expenditures	C	Capital outlay has not been above 2.21% of operating expenditures over the last ten years. It is anticipated that the City will establish a policy during the upcoming budget cycle to assure that

F Favorable
C Caution
W Warning
U Unfavorable

Indicator Number	Description	Finding	Comments
			equipment is replaced in a timely manner to avoid inefficiencies and more costs in the future.
<u>General Fund Operating Position</u>			
12	Operating Position	W	The City has experienced a number of years with operating deficits, but achieved an operating surplus in FY 2006-07 and 2007-08. This trend has reversed in 2008-09 and is projected to continue.
13	Unreserved Fund Balance/Emergency Reserve as a percentage of Budgeted Operating Expenditures	C	The City adopted a formal reserve policy as part of the 2007-09 budget process. It is recommended that the City continue to build reserves to the appropriate levels.
14	Liquidity Ratio	F	The liquidity ratio was over 9% at 2007-08 year end. Financial rating agencies recommend cities maintain a ratio minimum of 1:1.
15	Debt Service	F	The City has no current debt service in its General Fund.
<u>Additional Indicators</u>			
16	Assessed Property Value	C	Assessed values have gained an average of 9% per year during the past ten years. Strong real estate demand fueled by low mortgage rates contributed to its strength. This trend is expected to flatten with the current housing and credit markets.
17	Population	F	Population growth has slowed in recent years as Napa is largely built out. The FY 2007-08 population was 77,106.

F Favorable
C Caution
W Warning
U Unfavorable

Financial Trend Summary:

- **Revenue Trends**

1.	Revenue/Capita	C
2.	Property Tax	C
3.	Sales Tax	W
4.	Transient Occupancy Tax	C
5.	Business License Tax	C
6.	Elastic Revenues	C

- **Expenditure Trends**

7.	Expenditure/Capita	C
8.	Authorized Positions/Capita	F
9.	Fringe Benefits	U
10.	Salary Expenditure	F
11.	Capital Outlay	C

- **Operating Position**

12.	Operating Position	W
13.	Fund Balance/Reserves	C
14.	Liquidity	F
15.	Debt Service	F

- **Additional Indicators**

16.	Assessed Property Value	C
17.	Population	F

Rating Changes

There were 7 trend changes from the last fiscal year, 6 of which were in a negative direction revised to reflect changes since the 2008 LTFP was prepared. Many of these revisions reflect the transition to the current recession.

Revenue Per Capita was downgraded from a Favorable rating to a rating of Caution. While this indicator continued to grow in 2007-08, it was at a slower rate than the previous fiscal year.

Sales Tax Revenues were downgraded from a Caution rating to a Warning rating. This revenue experienced a 1.4% decline in 2007-08 which is expected to continue during this recession.

Transient Occupancy Tax Revenues were downgraded from a Favorable rating to a Caution rating. While this revenue experienced 12% growth in 2007-08, this growth has flattened in 2008-09.

Business License Tax Revenues were downgraded from a Favorable rating to a Caution rating. While this revenue experienced 8% growth in 2007-08, the growth rate is lower than the two previous years and is expected to be impacted throughout this recession.

F Favorable
C Caution
W Warning
U Unfavorable

Authorized Positions Per Capita were upgraded from Unfavorable to a Favorable rating. Authorized positions per capita had increased from 5.8 to 5.6 per thousand from 1999 to 2006. Positions were added during the 2007-09 budget cycle which brought the authorized positions per capita to 6.0 in 2007-08 and more in line with service levels provided in 2002 through 2005.

Operating Position was downgraded from a Caution rating to a rating of Warning. The City has experienced a number of years with operating deficits, but achieved an operating surplus in FY 2006-07 and 2007-08. This trend has reversed in 2008-09 and is projected to continue.

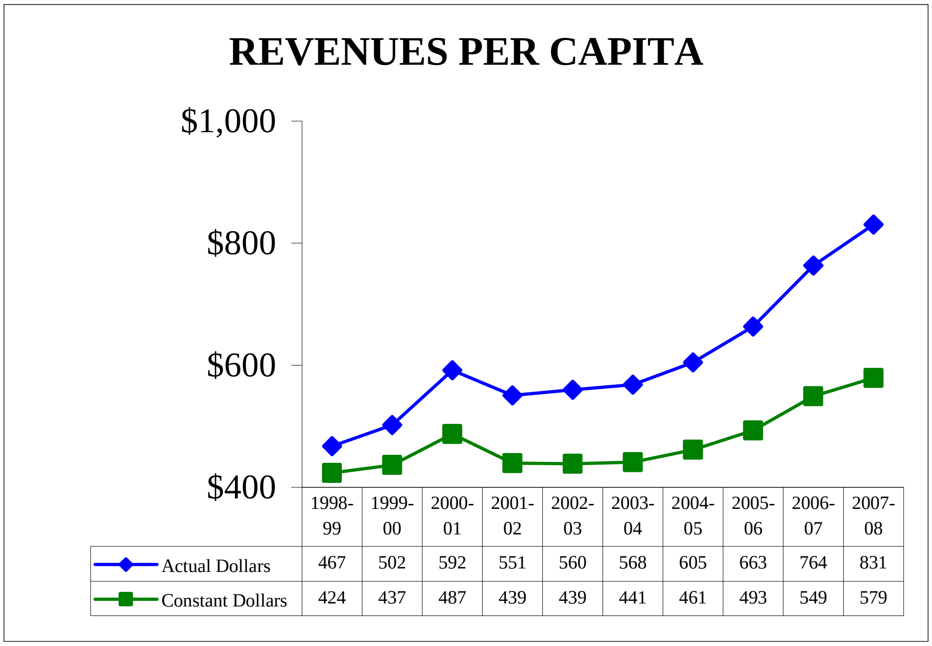
General Fund Revenues

General Fund revenues finance the majority of the daily operations of the City. As a result, changes in revenue levels and composition of these revenues will have a significant impact on the City's ability to provide services to the citizens of Napa. The dollar amount received is important, but the type of revenue received also plays an important role in the financial stability of the City. Revenues should be balanced between those that change as the economy shifts (elastic) and those that flow independently of economic activity (inelastic). General Fund revenues should also come from diverse sources within the community and be sufficiently flexible to finance expenditures as the needs of the City change.

The following section evaluates eight indicators used to determine the financial condition of the City's revenue base. A detailed revenue analysis is provided for the following indicators:

- Revenues Per Capita
- Property Tax Revenues
- Sales Tax Revenues
- Transient Occupancy Tax Revenues
- Business License Tax Revenues
- Elastic Revenues as a Percentage of Operating Revenues

Indicator 1: Revenues Per Capita



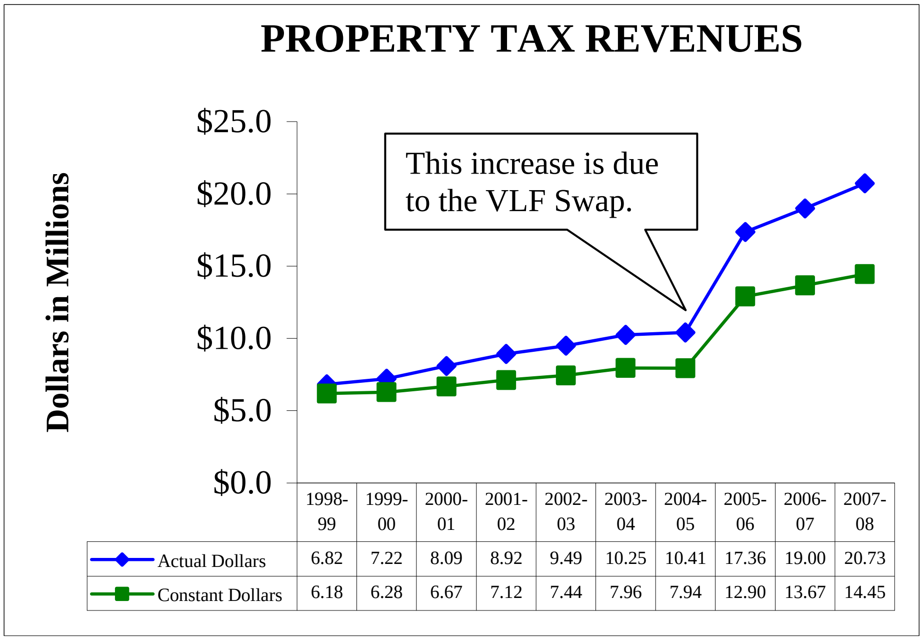
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Actual Dollars	467	502	592	551	560	568	605	663	764	831
Constant Dollars	424	437	487	439	439	441	461	493	549	579

Finding: **Caution**
2008 Finding: **Favorable**

Description
Revenues per capita in constant dollars are a measure of the City's ability to maintain current service levels. Constant dollars reflect the real changes in operating revenue after adjusting for inflation. An increase in constant dollar revenues normally means a city will be able to respond positively to increasing service demands. Conversely, a decrease in constant dollars may indicate that revenue yields are not sufficient to maintain existing levels of service.

Comments and Analysis
Revenues per capita (constant dollars), excluding nonrecurring revenues, have increased since 1999, from $424 to $581 in 2008, although there was a dip from 2001 to 2003 due to a lagging economy. 2008 saw an increase in transient occupancy tax revenues of 12.2% (compared to 24.5% increase in FY 2006-07), an increase in property tax revenues of 9.1%, and a decrease in sales tax revenues of 1.4% (following an increase of 13.4% in FY 2006-07). This has resulted in an increase of 5% in revenues per capita from 2006-07 to 2007-08 compared to an 11% increase in the previous fiscal year. While we continue to see an increase in revenues per capita, General Fund revenues are forecast to decline in FY 2009-10 and experience a modest recovery in FY 2010-11.

Indicator 2: Property Tax Revenues



	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Actual Dollars	6.82	7.22	8.09	8.92	9.49	10.25	10.41	17.36	19.00	20.73
Constant Dollars	6.18	6.28	6.67	7.12	7.44	7.96	7.94	12.90	13.67	14.45

Finding: **Caution**
2008 Finding: **Caution**

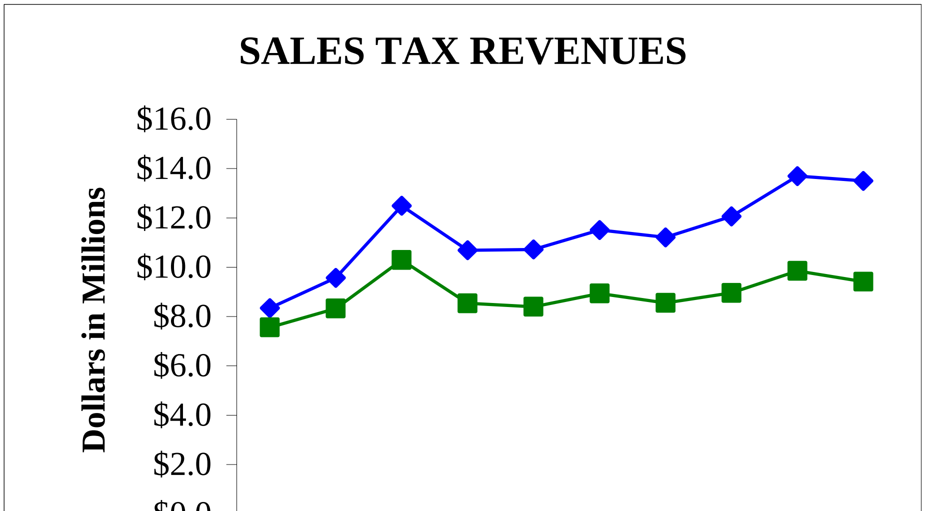
Description

Property tax revenues are evaluated over time to measure the City's economic health. Constant dollars are examined in order to evaluate that part of the change that is not due to inflation. Property taxes are the City's largest source of revenue (23% before the addition of VLF and 35% after the addition) and are relatively inelastic in that they should remain constant as the economy changes. By State law (Proposition 13), the County levies property taxes at one percent of full market value at the time of purchase. Assessed values can be increased by no more than two percent per year. The City also has the authority to impose an excess property tax levy to pay debt service on voter-approved debt. Currently, no such debt exists. From 1992 through 2008, the cumulative ERAF shift has totaled $34.8 million.

Comments and Analysis

Sales of appreciated real estate resulted in increased assessed values and a corresponding increase in property tax revenue for the City. The significant growth for FY 2005-06 resulted from property taxes received in exchange for permanently lost Vehicle License Fee (VLF) revenue. In addition, property tax revenue for FY 2004-05 and FY 2005-06 reflect a two year loss of property taxes to the State (ERAF III) of $909,000 per year. Without these unusual items, property tax revenue increased by 20% from 2005 to 2007, and has increased an average of 12% annually since 1999. Factors that contributed to a favorable housing market included strong demand for Wine Country property and mortgage rates that remained near 40 year lows. However, we expect the strong revenue trend to level as the credit market and the housing market remain in decline. It is important to note that new property tax revenue due to development located within the Napa Community Redevelopment Agency project areas' boundaries are revenue sources for the respective project areas and provide the funding source for debt issuance to allow for redevelopment.

Indicator 3: Sales Tax Revenues



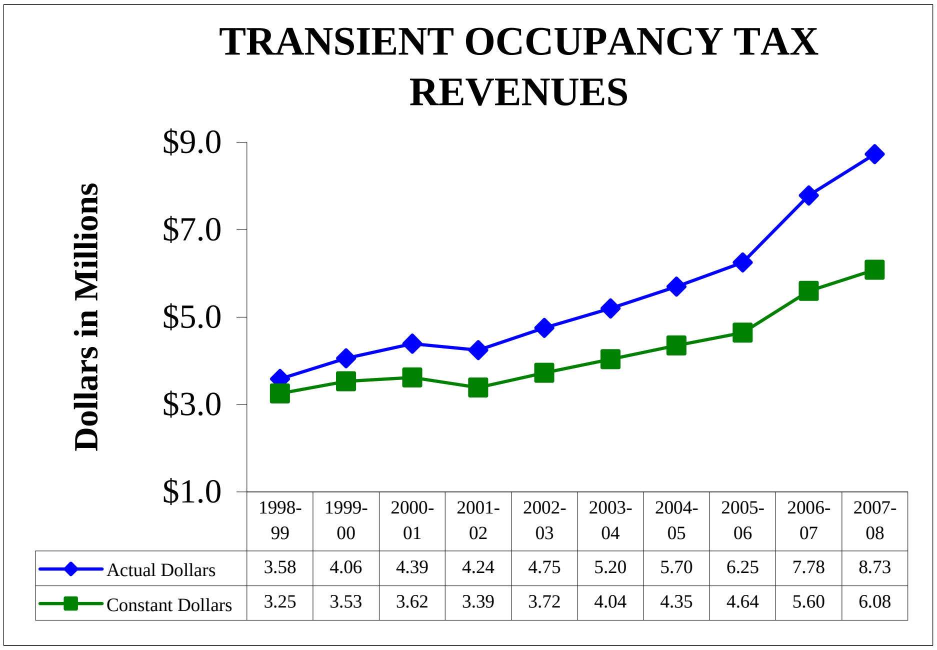
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Actual Dollars	8.34	9.57	12.49	10.69	10.72	11.51	11.21	12.06	13.69	13.50
Constant Dollars	7.56	8.33	10.29	8.53	8.40	8.94	8.55	8.96	9.85	9.41

Finding: **Warning**
2008 Finding: **Caution**

Description
Sales tax revenue is a strong indicator of the city's economic health. Sales taxes are the City's second largest source of revenue (21%) and are elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the sales tax revenue changes not related to inflation. The State Board of Equalization levies the sales tax on most retail sales with principal exemptions applying to sales of food for home consumption and prescription drugs. The overall Napa County sales tax rate is 7.75%, of which the City receives the 1% local portion. The city also receives a portion of the 0.5% earmarked for public safety as mandated by the State.

Comments and Analysis
Napa's sales tax revenue is heavily dependent on the tourism industry and therefore tends to follow economic cycles. Revenues increased steadily through 2001, then declined as the economy lagged after 9/11. Recent years have shown an increase in sales tax. However, FY 2007-08 saw a 1.4% decline in sales tax revenues. Restaurants, service stations and department stores are the largest economic segments. New automobile sales, which accounted for 11.1% of sales tax revenues in 2002, have declined to 9% in 2008, reflecting the poor showing of domestic auto sales.   General retail sales, which accounts for 28.6% of sales tax revenues, lost 7.6% from the prior period while transportation gained 6.6%; the entire gain due to a 27.6% increase in taxable sales from service stations. Food product sales were up 2.3% from the previous period, due to a 33.1% increase in liquor store taxable sales. Due to the continuing decline in the economy, sales tax receipts are expected to further decline in both fiscal years 2008-09 and 2009-10.

Indicator 4: Transient Occupancy Tax Revenues



	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Actual Dollars	3.58	4.06	4.39	4.24	4.75	5.20	5.70	6.25	7.78	8.73
Constant Dollars	3.25	3.53	3.62	3.39	3.72	4.04	4.35	4.64	5.60	6.08

Finding: **Caution**
2008 Finding: **Favorable**

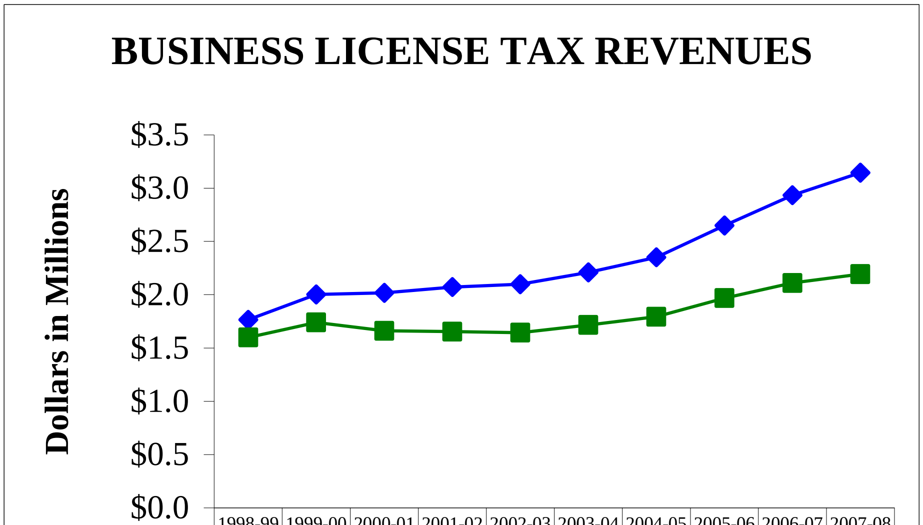
Description

Transient occupancy tax revenue (TOT) is a strong indicator of the city's economic health. This revenue source is the City's third largest source of revenue (13%) and is elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the tax revenue changes not related to inflation. The City of Napa levies the tax on rooms at hotels, motels, bed and breakfasts and vacation rentals within the City. The tax rate is 12%, of which the City receives 100%.

Comments and Analysis

Napa's transient occupancy tax revenue is heavily dependent on the tourism industry and therefore tends to follow economic cycles. Revenues increased steadily through 2001, then declined as the economy lagged after 9/11. Recent years have shown an increase in tax, particularly with the development of new hotel properties in the City. Transient Occupancy Tax receipts increased 12.2% or $0.9 million from FY 2006-07 to FY 2007-08. However, with the declining consumer confidence and rising unemployment rates, it is expected that Transient Occupancy Tax revenues will decline in FY 2008-09 and begin to recover in FY 2009-10 due to additional hotels coming online, including the Avia and Westin.

Indicator 5: Business License Tax Revenues



	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Actual Dollars	1.77	2.00	2.02	2.07	2.10	2.21	2.35	2.65	2.93	3.15
Constant Dollars	1.60	1.74	1.66	1.65	1.64	1.72	1.79	1.97	2.11	2.19

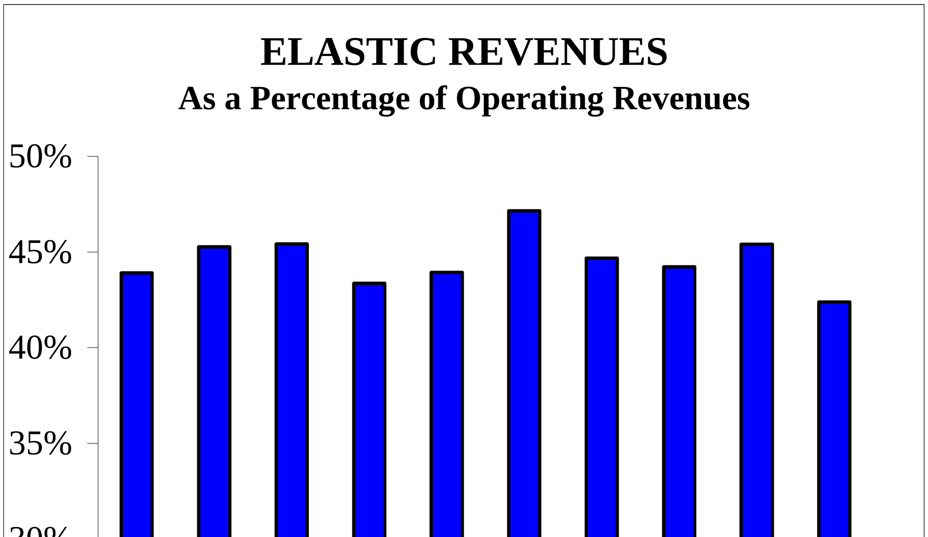
Finding: **Caution**
2008 Finding: **Favorable**

Description
Business license tax revenue is a major revenue category (4%) that factors into the analysis of the City's economic health. Constant dollars are utilized in evaluating the part of the change not related to inflation. This tax is generally based on gross receipts of individual business within the City. Much like sales tax revenues, business license tax revenues are relatively elastic as they vary directly with changes in the economy.

Comments and Analysis
The five-year trend for these revenues remains positive due to the growing economy. Further, the City began an audit campaign in fiscal year 2004-05 that has increased the number of licenses issued by 2,183 or 36%, from 6,046 to 8,229 licensed businesses from 2004-05 to January 2009.

As Business License Tax revenues are based on gross receipts of individual business, we expect this revenue to decline as consumer confidence continues to wane and more businesses downsize and close their doors.

Indicator 6: Elastic Revenues



1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
43.9%	45.3%	45.4%	43.4%	43.9%	47.1%	44.7%	44.2%	45.4%	42.4%

Finding: **Caution**
2008 Finding: **Caution**

Description
Elastic revenues are those that vary directly with fluctuations in the economy. This category includes sales taxes, transient occupancy taxes (TOT), business license taxes, and license and permits. During times of inflation, a high percentage of elastic revenues is desired in order to insulate the City from the higher prices found in the market. During a recession or periods of slow economic growth, elastic revenues tend to decline.

Comments and Analysis
Elastic revenues as a percentage of operating revenues climbed steadily from 1995-96 to 2000-01. Since that time, the percentage has varied with the economy, and is now lower than we have seen in the past 10 years. However, this reduced percentage in 2007-08 is primarily due to the growth of other stable revenues sources, such as property tax. The City remains heavily dependent on the tourism industry, which is expected to continue. A reliance on elastic revenues exposes the City to income fluctuations as a result of economic uncertainty. New projects underway are expected to significantly increase TOT revenue. Based on an expected continuing growth of elastic revenues as a percentage of total revenues, we have assigned a Caution rating for this indicator. An emergency reserve policy has been established to provide adequate support for core City services through an economic decline spanning two or more years or in the case of a local emergency.

Recommendation:

Staff should evaluate the economic development strategies that would diversify the tax base providing more economic stability and security. In addition, the City should maintain a strong and stable commitment to funding and maintaining reserves for use during economic downturns when elastic revenues are impacted.

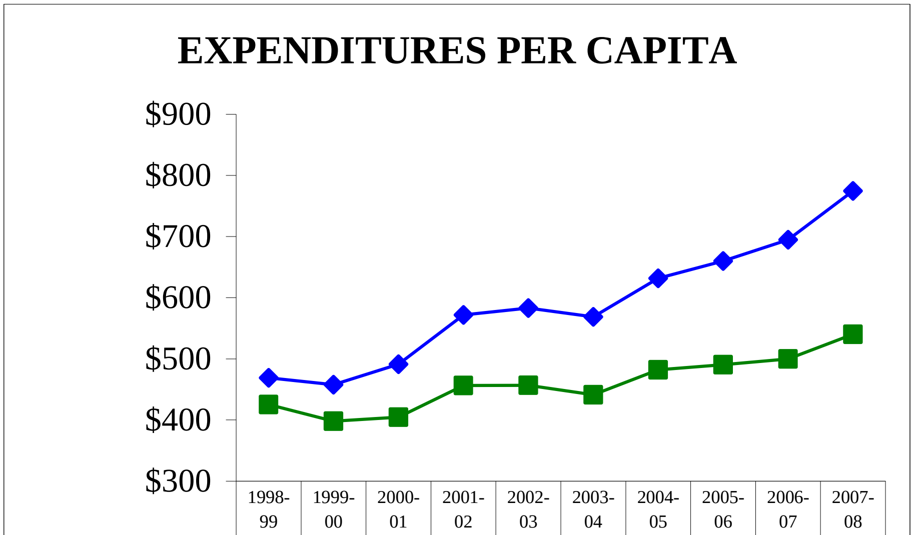
General Fund Expenditures

General Fund expenditures are largely indicative of the level and types of services the City provides. Changes in the total dollar amount of expenditures can indicate a shift in the level of services delivered, either because demand has changed or because the cost of maintaining existing services has increased or decreased. Therefore, the analyses that follow show not only the change in total dollars, but changes in the types of expenditures for the past fiscal year.

A full expenditure analysis is provided for the following:

- Expenditures Per Capita
- Authorized Positions Per Capita
- Fringe Benefits as a Percentage of Operating Expenditures
- Salary as a Percentage of Operating Expenditures
- Capital Outlay as a Percentage of Operating Expenditures

Indicator 7: Expenditures Per Capita



	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Actual Dollars	469	458	491	572	583	569	632	660	695	775
Constant Dollars	425	398	405	456	457	441	482	490	500	540

Finding: **Caution**
2008 Finding: **Caution**

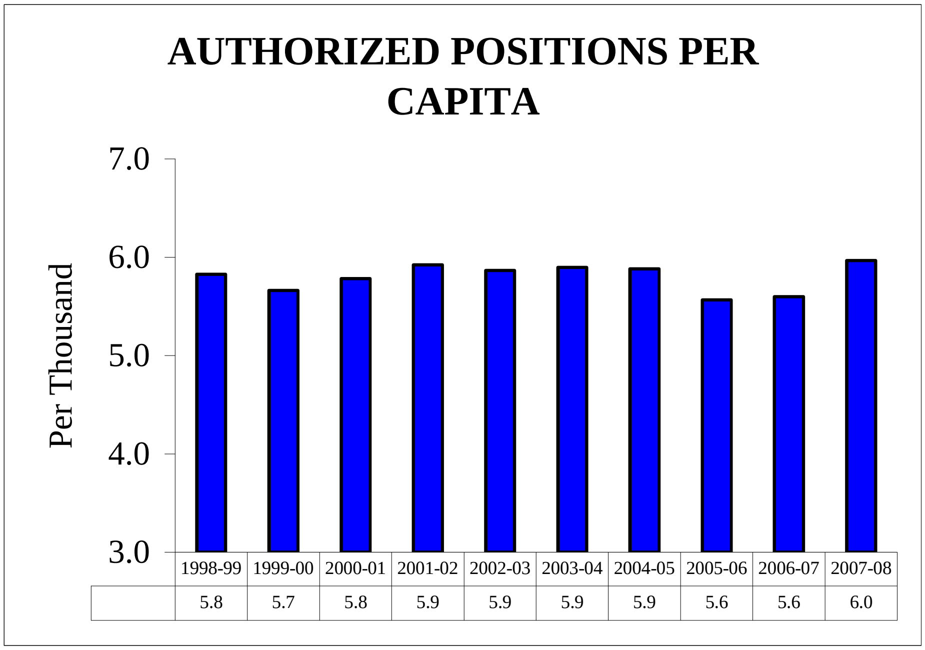
Description

Expenditures per capita demonstrate the change in expenditures relative to the change in population. This indicator analyzes the demand for City services as the population changes. Increasing per capita expenditures may indicate the costs of maintaining existing service levels are rising or service levels are changing to reflect new demands. A decrease in expenditures per capita could signal the City's inability to maintain current service levels, or that the City is maintaining current service levels with added efficiency.

Comments and Analysis

Employee benefit costs have increased, primarily due to significant increases in CalPERS pension contribution rates as a result of investment losses. Although there has been slow growth in population, the real cost to provide services to support capital and operational demands have increased disproportionately. CalPERS rates have stabilized due to the new CalPERS rate smoothing model. Health insurance rates, however, are projected to continue to increase at a 10% annual average rate. Expenditures per Capita have been relatively stable on a constant dollar basis; however it is expected to increase due to the 29 positions added in FY 2007-08. For this reason we have assigned a "Caution" rating to this indicator. Additionally, with the significant investment losses experienced by CalPERS in the current fiscal year (30% as of March 2009), rates are expected to rise in FY 2011-12.

Indicator 8: Authorized Positions Per Capita



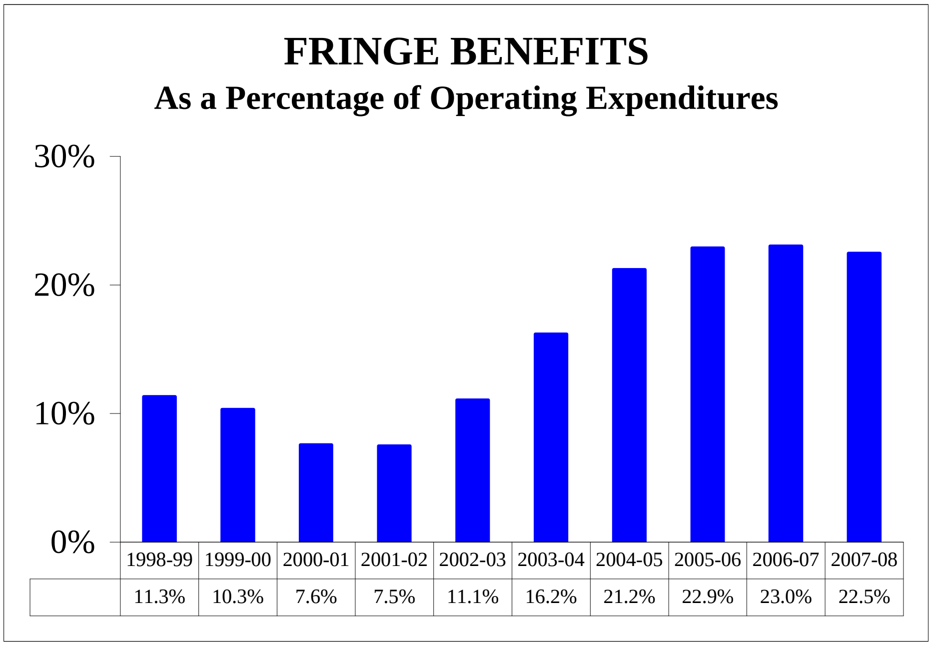
Finding: **Favorable**
2008 Finding: **Unfavorable**

Description
This indicator measures the number of authorized positions per capita. If this figure is rising, it could indicate that the City is becoming more labor intensive or that employee productivity is declining. Conversely, if this figure is declining, it could indicate that employee productivity is increasing; a need for more employees to respond to additional service demands; or the City is becoming less labor intensive. Although a downward trend may indicate that City staff is becoming more efficient at maintaining current service levels, the employee level should not get so low that service levels cannot be maintained.

Comments and Analysis
Authorized positions per capita had decreased from 5.8 to 5.6 per thousand from 1999 to 2007. In the FY 2005-07 budget process, 30 positions were frozen (8%), which was the primary reason for the decrease. Despite the decrease of positions, demand for maintenance of new facilities, such as parks, had increased. Twenty nine positions were added during the FY 2007-09 budget process as well as several more subsequently. These additional positions brought the authorized positions per capita level to 6.0 per thousand residents in Napa which is 0.1 more than in fiscal years 2001-02 through 2004-05 when the freezing of positions began.

Recommendation:
As demand continues to grow in every area, care should be taken to add staff where the need is most critical.

Indicator 9: Fringe Benefits as a Percentage of Operating Expenditures



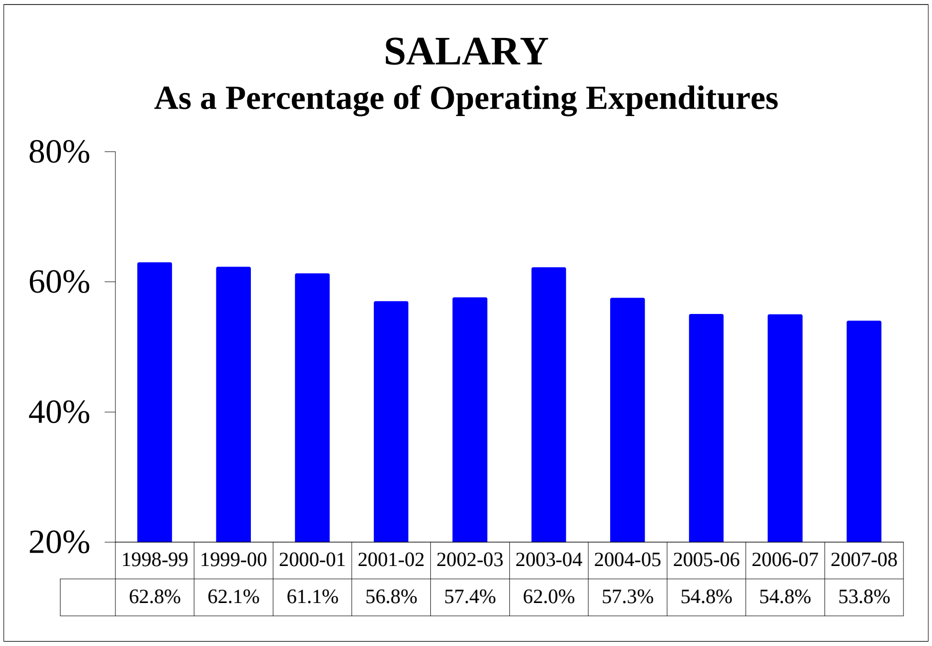
Finding: **Unfavorable**
2008 Finding: **Unfavorable**

Description
Fringe benefits include the City's share of payroll taxes, pension plan costs, medical, life and disability insurance, and workers' compensation funding. Fringe benefits are directly related to salaries and wages, so changes in the percentage rate reflect a change in the benefits package or the City's cost in maintaining its benefits.

Comments and Analysis
Fringe benefit costs as a percentage to the City's total operating expenditures declined from 1999 to 2002, primarily due to CalPERS' super funded status, the percentage then increased dramatically due to health care, workers compensation and retirement cost increases. The increase from 2004 to 2005 was $1.3 million in total, or 12%. The percentage increase was modest in FY 2005-06 and actually declined in 2006-07 due to 30 frozen positions. Twenty nine positions were added as part of the FY 2007-09 budget cycle. Staff expects retirement benefit costs to stabilize through 2010-11 due to the CalPERS rate smoothing model but anticipates a significant rate increase in 2011-12 as a result of CalPERS investment losses during FY 2008-09. Additionally, health insurance rates are projected to continue to increase at double digit rates. As a result, we have assigned an unfavorable rating to this indicator.

Recommendation:
It is recommended that staff pursue cost containment alternatives with labor to reduce benefit cost and create capacity for other operating needs.

Indicator 10: Salary as a Percentage of Operating Expenditures



Finding: **Favorable**
2008 Finding: **Favorable**

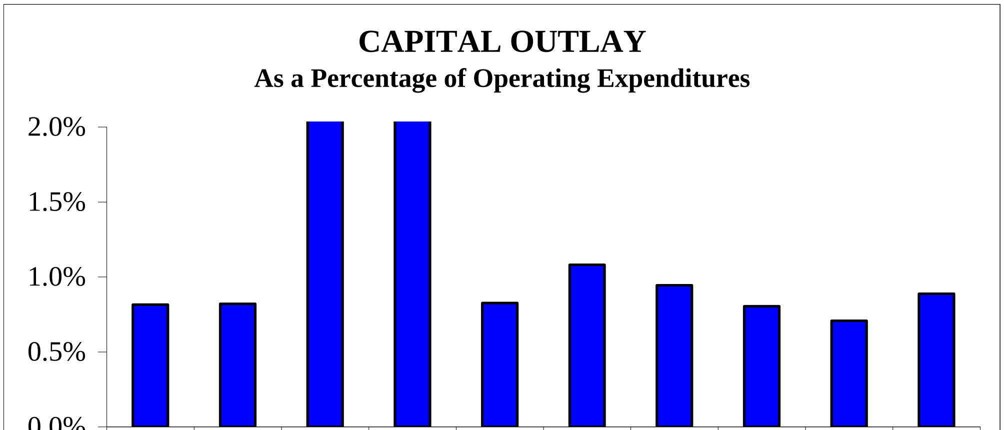
Description

These expenditures include salary and wages paid to regular, part-time, and temporary staff and represent over 56% of General Fund disbursements. Any changes in salary expenditures will have a material impact on the City's finances.

Comments and Analysis

Salary expenditures as a percentage of operating expenditures has remained relatively stable over time, and decreased in 2005-06 due to frozen positions which reduced the City's workforce by 8% from FY 2003-04. The reduction in salary costs as a percentage of expenditures from 62.8% in 1999 ($20.9 million) to 53.8% in 2008 ($32.1 million) is offset entirely by the escalating cost of benefits discussed on the previous page. Overall, labor costs in 1999 were 74.1% of expenditures compared to 76.3% in 2008. Continued monitoring of this indicator is warranted since these expenditures represent the largest category of General Fund operating costs. A rating of Favorable has been assigned to this indicator as the trend has shown a decrease.

Indicator 11: Capital Outlay



	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	0.82%	0.82%	2.08%	2.21%	0.83%	1.08%	0.94%	0.81%	0.71%	0.89%

Finding: Caution
2008 Finding: Caution

Description
Capital outlay does not include capital project expenditures for the construction of improvements or buildings, or for infrastructure such as streets or storm drains. Additionally, this category does not include replacement vehicles as the City has a Vehicle Replacement Policy that provides a mechanism for that funding. The purpose of capital outlay in the operating budget is to replace worn equipment or to add new equipment. The ratio of capital outlay to net operating expenditures is an indicator as to whether worn or obsolete equipment is being replaced. A decline in this ratio over a period of years may indicate that capital outlay needs are being deferred and that inefficient or obsolete equipment is being utilized. This would not only have the effect of lowering productivity, but could also expose the City to greater liability.

Comments and Analysis
Spending on capital outlay has been inconsistent, ranging from a low of 0.82 percent of total operating expenditures to a high of just over two percent of operating expenditures during the past ten years. While progress was made in 2007-08, a rating of Caution has been assigned to this indicator as the City may be at risk of foregoing needed capital investment in order to meet budget challenges in this economic climate.

Recommendation:
The guidelines established by ICMA indicate that a city should spend roughly 1.5% of operating expenditure on capital outlay. Napa should monitor spending patterns to ensure that equipment replacement is not deferred inappropriately.

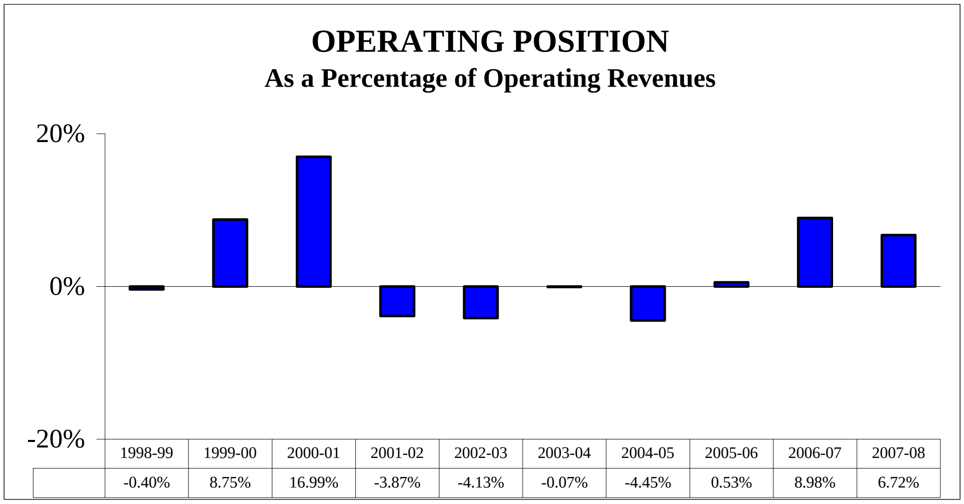
General Fund Operating Position

Operating position is defined as the City's ability to balance current revenues against current expenditures, maintain adequate reserve levels, and cover short-term liabilities with short-term assets.

A complete analysis is provided in this section, and the following indicators are examined in detail:

- Operating Position as a Percentage of Operating Revenues
- Unreserved Fund Balance/Reserve Funds
- Liquidity Ratio
- Debt Service

Indicator 12: Operating Position



Finding: **Warning**
2008 Finding: **Caution**

Description

This indicator measures the City's ability to balance operating revenues, excluding fund balances from the prior year, against operating expenditures. When operating revenues exceed operating expenditures an operating surplus is achieved. A deficit occurs when the reverse happens and the City is forced to utilize available fund balances from prior years. This analysis is performed for the General Fund only, as this is where the majority of operating activity takes place. It excludes transfers to and from the Capital Improvement Program and revenues and expenditures related to natural disasters which have occurred in the City. A deficit would be of serious concern for the City's ability to balance its budget.

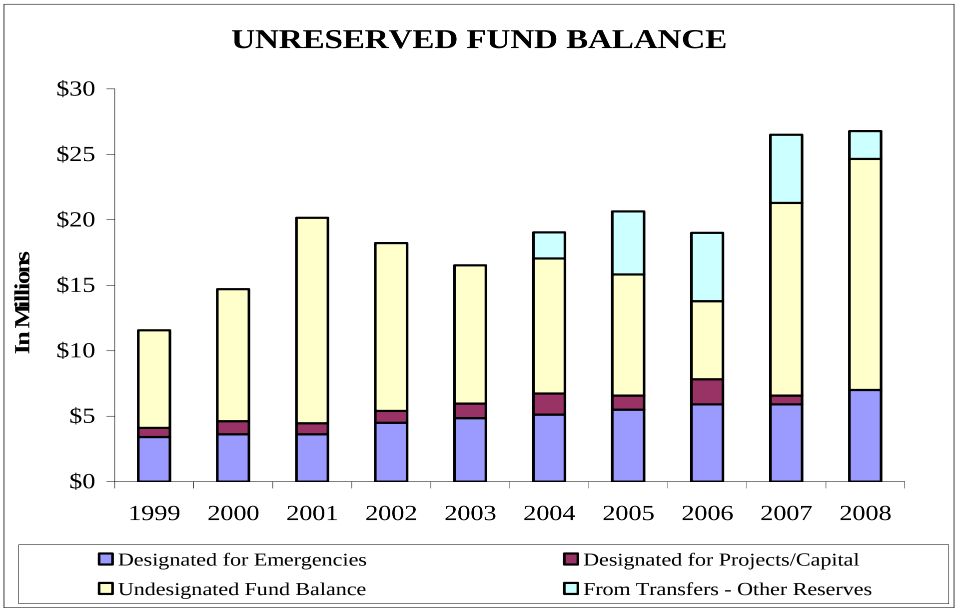
Comments and Analysis

The City has experienced a number of years with operating deficits, however, due to the freezing of 30 positions and a 24.5% increase in transient occupancy tax revenue as well as healthy increases in sales tax, property tax and business license revenue, the City has achieved an operating surplus in FY 2007-08 of approximately $4.3 million. Historically, expenditures have risen at a faster pace than revenues, requiring budget balancing measures that have impacted City service levels. The City adopted several fiscal policies as part of the 2007-09 budget including an operating budget policy establishing a goal that current revenues will be sufficient to support current operating expenditures. This policy reflects a commitment to maintain a positive operating position. This goal will not be met in 2008-09 or the next two year budget cycle given the current economic downturn.

Recommendation:

During a period of economic decline and reserves are utilized to balance a budget, steps should be taken at the earliest time possible to reverse negative trends. Staff will follow up with recommendations to address this situation.

Indicator 13: Unreserved Fund Balance/Reserve Funds



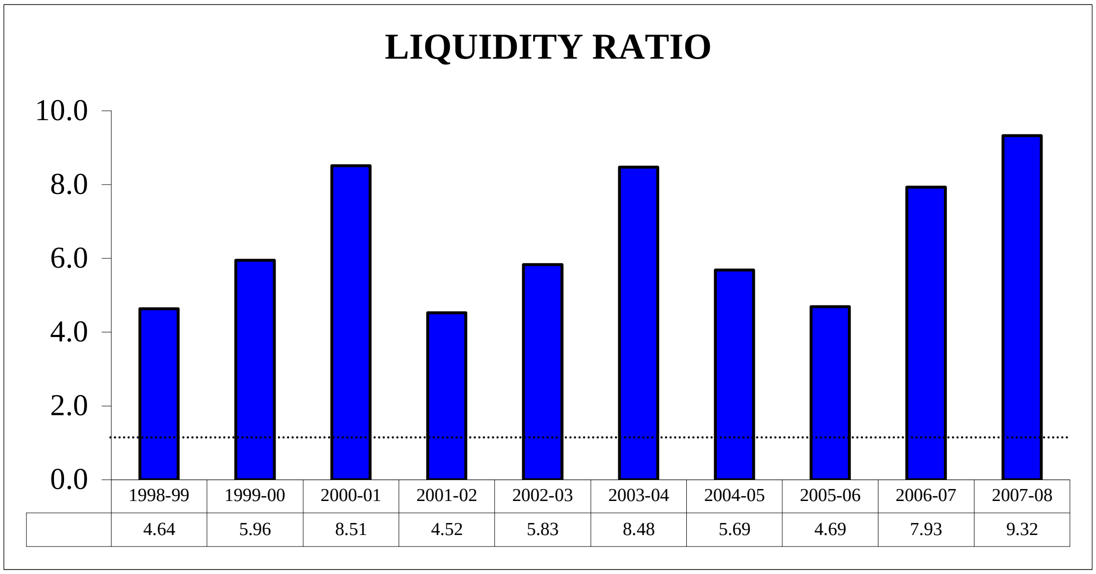
Finding: **Caution**
2008 Finding: **Favorable**

Description
Unreserved Fund Balance refers to those dollars available for use in the event of a financial emergency, short-term revenue fluctuations or an economic downturn. The City attempts to operate each year at a surplus to ensure the maintenance of adequate fund balance and reserve levels.

Comments and Analysis
The City recently adopted a fiscal policy designating an amount equal to 12% of annual operating expenditures as an emergency reserve and has achieved full compliance in FY 2007-08. Fund Balance has been used to meet budget shortfalls in recent years. Since FY 2003-04, the City transferred reserves from the Building Reserve ($1.5 million), Capital Project Reserve ($2.3 million) and the Fleet Reserve ($1.4 million). These transfers account for $5.2 million of reserves at June 30, 2007 or 22% of unreserved fund balance. Funds have been budgeted in FY 2007-08 and FY 2008-09 to restore those reserve accounts. This indicator has been downgraded from a Favorable rating to a rating of Caution. The fact that formal reserve policies have been adopted as part of the 2007-09 budget cycle and the reserves have been fully funded resulted in the Favorable rating. However, the forecast indicates that the reserves will be used to balance the budget in 2008-09 and the next two year budget cycle leading to the downgraded rating of Caution.

Recommendation:
During a period of economic decline and reserves are utilized to balance a budget, steps should be taken at the earliest time possible to reverse negative trends. Staff will follow up with recommendations to address this situation.

Indicator 14: Liquidity Ratio

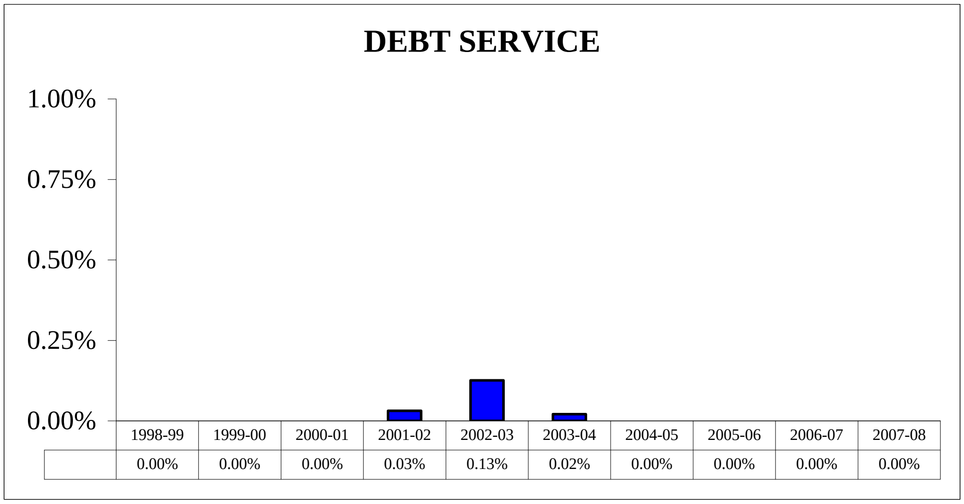


Finding: **Favorable**
2008 Finding: **Favorable**

Description
Liquidity measures the City's ability to meet short-term obligations. Liquidity is measured by comparing current assets to current liabilities. Current assets include cash, short-term investments, accounts receivable, and other assets that can be rapidly converted to cash. Current liabilities include accounts payable, accrued wages, accrued expenses, and deposits, all obligations that can be immediately demanded for payment. A liquidity ratio of less then 1:1 can indicate insolvency and is cause for alarm. A ratio above that is considered favorable.

Comments and Analysis
The City has been able to maintain a liquidity ratio well above 1:1 for the past ten years. The ratio stood at a healthy 9.32 at the end of fiscal 2008.

Indicator 15: Debt Service



Finding: **Favorable**
2008 Finding: **Favorable**

Description
Debt service includes the principal and interest payments from General Fund obligations of the City. It is analyzed as a percentage of operating revenues, the base against which the size of the debt service payment can be measured and compared.

Comments and Analysis
The City's ratio of debt service to operating revenues is zero and the City has capacity to issue debt.

Additional Indicators

Two additional indicators are analyzed to provide information on the financial condition of the City.

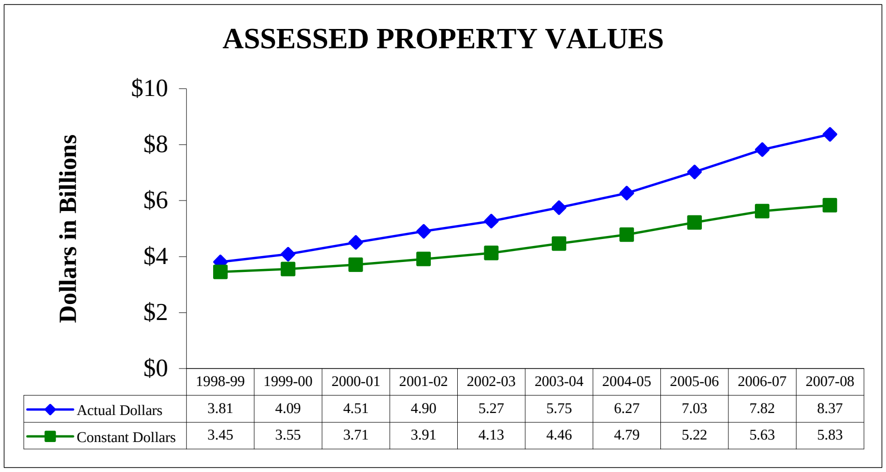
Because of the City's dependence on property tax revenues, the City's largest source of operating revenue (35%), a further analysis has been done on the change in assessed property values from year-to-year. Property values continue to trend upwards as they have done for the past several years.

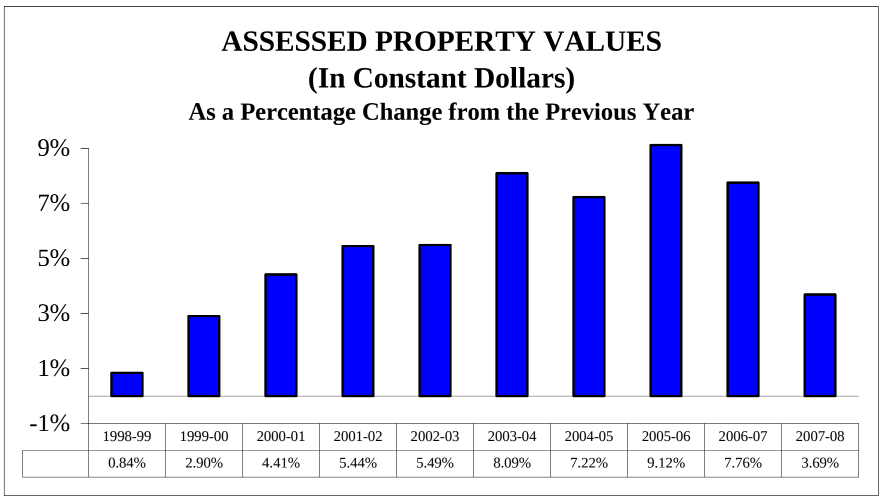
Finally, the population of the City has been analyzed over time to determine its impact on the tax base as well as the effects on additional service demands.

The following indicators are detailed in this section:

- Assessed Property Values
- Population

Indicator 16: Assessed Property Values





Finding: Caution
2008 Finding: Caution

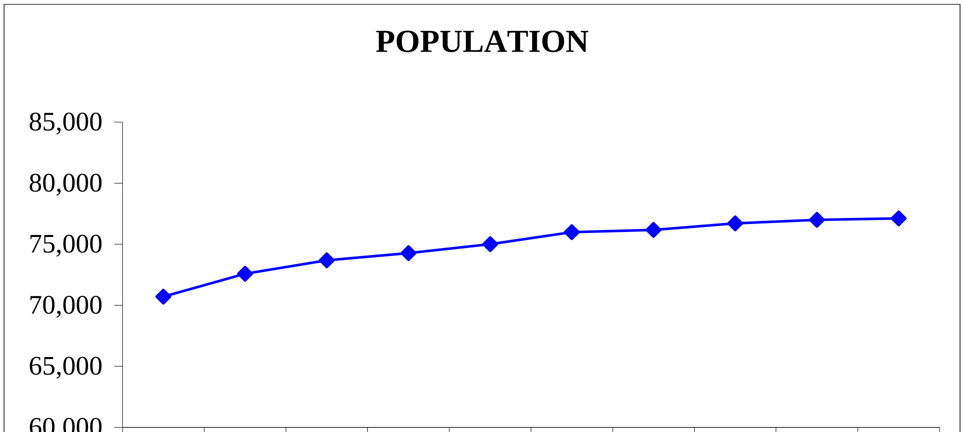
Description

Assessed property values, in both actual and constant dollars, are of primary importance to the City because property tax revenue, comprising 35% of the total General Fund operating revenues in fiscal year 2007-08, is the City's largest source of revenue. The effect of declining property values on total General Fund revenues is a significant concern considering the city's reliance on property taxes. Likewise, a positive trend indicates an improvement in the City's financial condition.

Comments and Analysis

Real estate appreciation has been positive for the City due to the strong housing market in California during recent years. With the housing and credit markets now in decline, it is expected that the City will experience slowed growth in assessed property values over the next few years. The potential for negative growth exists as the County Assessor has and may continue to reassess properties throughout the city resulting in lower assessed values and lower property tax revenues for the City.

Indicator 17: Population



	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	70,700	72,585	73,675	74,271	75,001	75,985	76,167	76,705	76,997	77,106

Finding: **Favorable**
2008 Finding: **Favorable**

Description
The exact relationship between population change and other economic and demographic factors is uncertain. However, a sudden increase in population can create immediate pressures for new capital expenditures and higher levels of service. Conversely, a rapid decline in population allows for a smaller tax base for spreading City costs that cannot be reduced in the short run, such as debt service, pensions, and governmental mandates.

Comments and Analysis
Population growth in the City has progressed steadily and slowly in recent years, averaging less than 1% per year. As a result, the City has not had to increase expenditures unreasonably to provide increased service levels to the residential population. Staff should monitor future growth based on residential and commercial development activity to identify changing trends that may impact service demands.

IV: FINANCIAL FORECAST

An updated financial forecast for the General Fund has been prepared to reflect economic projections of the City's future financial condition. The General Fund provides the resources to pay for most City services such as police services, street maintenance, park maintenance, recreational and other critical programs. The General Fund is also the most vulnerable to outside influences, such as State and Federal takeaways, downturns in the economy, taxpayer initiatives and other factors.

Development of the Financial Forecast

An updated financial forecast for the fiscal years 2009 through 2015 has been developed for the General Fund. The objective of the financial forecast is to provide a frame of reference for evaluating the City's financial condition as a basis for decision-making.

The forecast presented uses the present level of services and capital needs as the baseline. Inflation and historical analysis are used to predict expenditure patterns while revenues are projected by trend or by specific known events. Information regarding economic indicators and the performance of the economy, as a whole, over the forecast period was taken from the California Department of Finance and the Napa County Auditor/Controller's office, the City's Community Development and Economic Development Departments.

Overall, revenues remained stable in Fiscal Year 2007-08. Total General Fund revenues increased by 9.33% over the prior year. Property tax revenues and transient occupancy tax revenues showed 9.3% and 12.2% increases respectively while sales tax revenues declined by 1.4%. While the City of Napa has been somewhat shielded from the State's worsening economic condition, evidence is beginning to emerge in fiscal year 2008-09 that consumer and business confidence are eroding and that economically sensitive revenue sources such as sales tax and TOT are at risk. Sales tax revenue in the City of Napa has weakened in recent quarters, hotel occupancy tax revenues are flat; and growth in assessed property values is slowing. Based on these trends, fiscal year 2008-09 will likely present revenue challenges.

The financial forecast assumes a continuation of the economic downturn during fiscal years 2009 and 2010. This assumption is based on the financial dislocations currently affecting the state, national and global economies. On the local level, evidence is building that economically sensitive revenue sources such as sales tax transient occupancy tax are trending downward. It is anticipated that an economic recovery will begin sometime in fiscal year 2010/11.

The current major issues facing the national, state and local economies include:

- Severe housing market downturn
- Tightening credit markets

- Freefalling consumer confidence and spending
- Rising unemployment
- Failing financial institutions
- Significant decreases in the stock market

Housing Market Downturn

The housing market slowdown that began in 2005 has worsened and may continue well into 2010. The National Association of Realtors reported that the national median price for existing homes for all housing types was $191,600 in September 2008, down 9% from one year ago when the median was $210,500. In California, the median price paid for a home during the same timeframe was $283,000, down 6% from the previous month, and down 34.2% from September 2007. The Napa County Assessor has begun writing down assessed values within the County and is expected to continue writing down values over the next year or two, resulting in reduced property tax revenue growth for the City of Napa.

Tightening Credit Market

The credit market crisis is due in large part to the collapse of collateralized debt obligations that were based on risky mortgage loans. Financial institutions' investments in these and other ill-considered financial instruments have led to insolvency and illiquidity among lenders. While governments and central banks have taken, and are expected to take, further dramatic action to prop up the global financial system, there is consensus that it will take a long time to return to normal lending practices.

Falling Consumer Confidence

According to The Conference Board's February 2009 *Consumer Confidence Survey*™ indicates that the Consumer Confidence Index™, which was relatively flat in January, reached an all-time low in February (Index began in 1967). The decline in the Present Situation Index, driven by worsening business conditions and a rapidly deteriorating job market, suggests that overall economic conditions have weakened even further this quarter. Looking ahead, increasing concerns about business conditions, employment and earnings have further sapped confidence. In addition, inflation expectations, which had been easing over the past several months, have moderately picked up. All in all, not only do consumers feel overall economic conditions have grown more dire, but just as disconcerting, they anticipate no improvement in conditions over the next six months.

Rising Unemployment

The jump in the U.S. unemployment rate to the highest level in a quarter century last month suggests the recession is deeper than originally thought. The Labor Department reported the unemployment rate rose to 8.1 percent in February as employers reduced payrolls by 651,000. Losses have now exceeded 600,000 for three straight months, the first time that's happened since collection of the data began in 1939.

The preliminary State unemployment rate reached 10.6% in January of 2009. Napa County's preliminary unemployment rate was 8.5% up from 5.2% in September 2008. Unemployment in the City of Napa is slightly higher than the County at 8.8% up from 5.4% in September 2008.

Economic and Demographic Assumptions

The economic assumptions utilized in this forecast are summarized below:

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Population (Residential)	77,879	78,268	78,660	79,053	79,448	79,846
Property Tax (% Change)	1.00%	2.00%	3.00%	3.00%	3.00%	3.00%
Sales Tax (% Change)	-2.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Transient Occupancy Tax (% Change)	0.00%	2.00%	3.00%	3.00%	3.00%	3.00%
Investment Earnings Rate						
Salaries (% Change)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Healthcare Benefits (% Change)	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
PERS Benefits (% Change)	2.00%	2.00%	7.00%	2.00%	2.00%	2.00%
Other Benefits (% Change)	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Services & Supplies (% Change)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Capital Outlay (% Change)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Authorized Positions (# Change)	2	2	2	2	2	2

Inflation (Consumer Price Index): Inflation is the measure of the increase in cost of goods and services. Inflation impacts many revenue and most expenditure categories and is the foundation for many of the assumptions throughout the forecast period. Inflation is projected to average 3% per year.

Population: Population is the residential total within the Napa city limits and is projected to increase at an average of 0.5% annually. Year-to-year population growth is a useful factor in predicting increases in revenue categories, such as Franchise Fees and Business Licenses.

Factors Not Included In the Forecast

- This forecast is based on the General Fund only. Disaster related Federal Emergency Management Agency (FEMA) and State of California Office of Emergency Services (OES) revenues and expenditures are not included.

- Other nonrecurring revenues and expenditures have been eliminated such as major development fees and expenditures, one time transfers to rebuild reserves, and certain studies such as the Downtown Specific Plan.

- The forecast does not include the cost of fiscal changes that the City may want to consider, including:

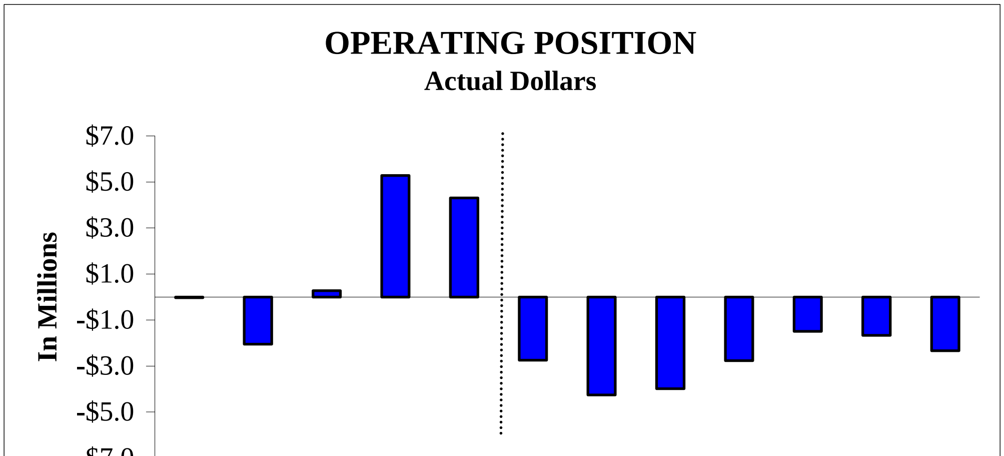
1. Establishing equipment and other infrastructure replacement funds.
2. Increasing General Fund contribution to the CIP.
3. New or enhanced programs.
4. Potential state impacts.

- Only sizable commercial development in the pipeline or under construction with a high likelihood of becoming reality has been included. This includes the Avia and Ritz Carlton hotel developments.

- Impacts from new development on staffing demands are not included in the forecast.

Forecast Summary and Results

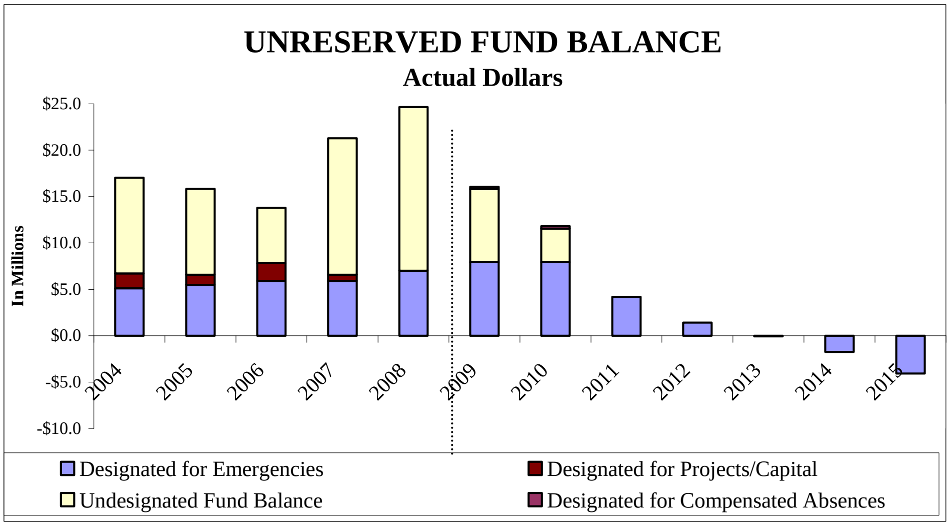
Operating position refers to the City's ability to match revenues to expenditure levels, i.e. if revenues exceed expenditures, the City will have an operating surplus. The opposite is true if revenues fall below expenditures, then the result is an operating deficit. Over the forecast period, the City's revenue and expenditure projections generate a deficit in operating position for fiscal years 2008-09 through 2014-15.



2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
-0.03	-2.05	0.27	5.28	4.30	-2.75	-4.26	-3.99	-2.77	-1.49	-1.67	-2.34

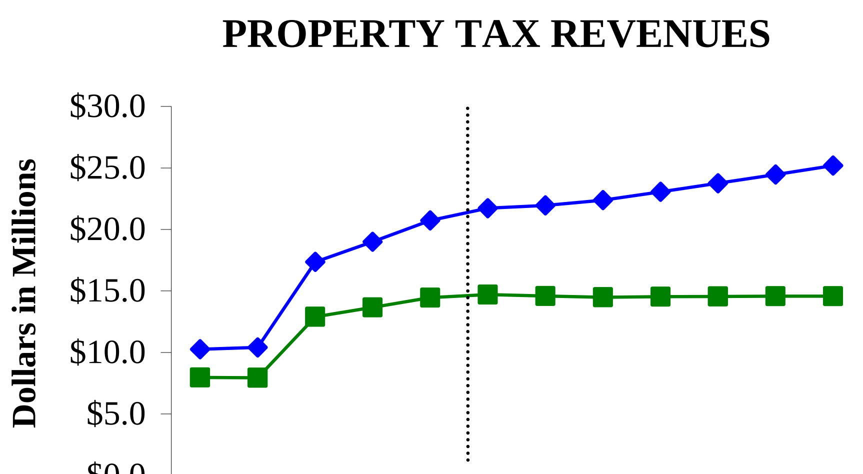
Increases in labor costs are the primary driver of expenditures, which are projected to increase by an average of over 5.7% per year, which includes adding 2 new positions per year. Any additional enhancements to service level will reduce the projected operating position. In addition, the revenue forecast could be further affected by delays in new development underway, new property development not yet underway, the strength in the real estate market, and the level of tourism beyond that anticipated as part of the new hotel properties that are included in the forecast.

Unreserved Fund Balance



The Operating Position discussed in the previous slide reflects a deficit in the City's operating position in fiscal year 2009 and continuing through 2015. The Operating Position projection has not taken into account any reserves that may need to be used to cover natural disasters such as a flood. One time uses of the unreserved fund balance that have been budgeted for in the FY 2008/09 budgets have been included in this projection.

Property Tax Revenues

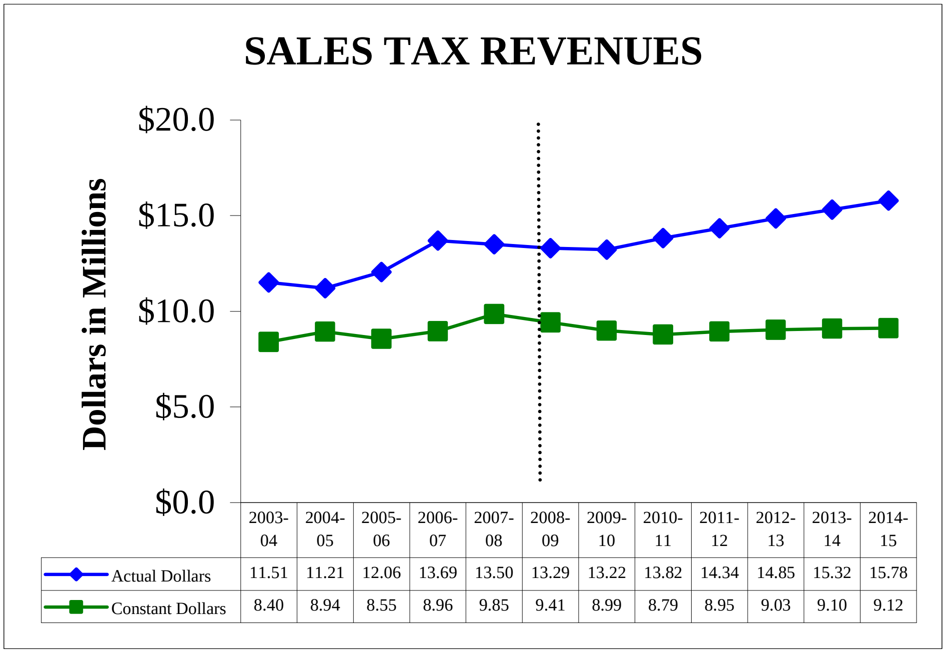


	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Actual Dollars	10.25	10.41	17.36	19.00	20.73	21.73	21.95	22.39	23.06	23.75	24.46	25.20
Constant Dollars	7.96	7.94	12.90	13.67	14.45	14.70	14.59	14.50	14.53	14.55	14.56	14.58

Property Tax continues to be the City’s largest source of revenue and represented 35% of total revenues in FY 2007-08. As a result of the escalation of home valuation and historically low mortgage rates during the last few years, property taxes have increased dramatically, with the expected gain of 4.8% in 2009. A new element was also introduced in this revenue category when the State reduced the Vehicle License Fee from 2% to .65% statutorily in 2005. This difference was paid with Property Tax backfill commonly known as VLF In-Lieu Swap. Since payments are pegged against assessed value growth, VLF became a component of Property Tax revenue effective 2005. The forecast assumes continued slower growth of assessed values resulting in increased property tax revenue over the six-year period. The cumulative shift of Napa’s General Fund property tax to schools in the form of Educational Relief Augmentation Fund (ERAF) totals $43.7 million as of fiscal year 2007-08.

Property taxes increased by $1.89 million or 9.3% from FY 2006-07 to FY 2007-08. Although the City of Napa’s assessed values remain healthy for fiscal year 2008-09, preliminary data indicates growth in assessed values will be slowed significantly, especially as the County Assessor continues to write down the inflated assessed home values in Napa County.

Sales Tax Revenues



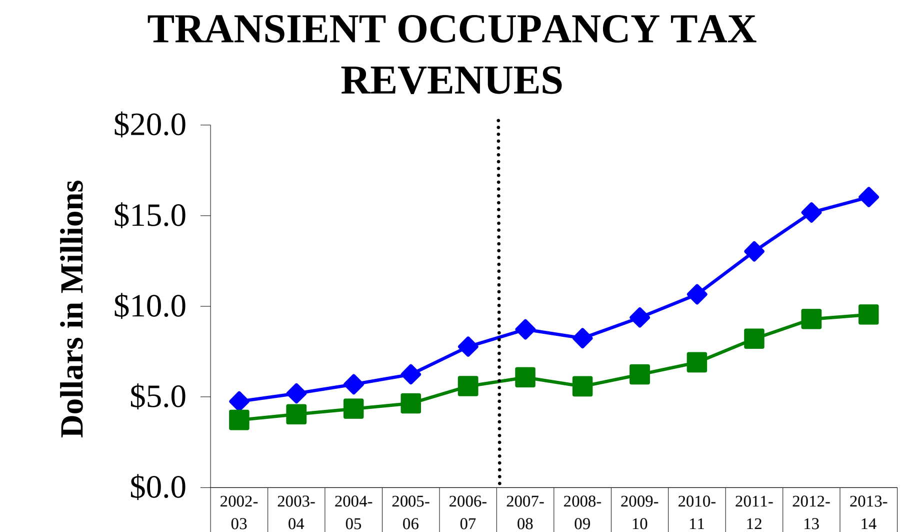
Sales tax is one of the City's most economically sensitive revenue sources and continues to be the City's second largest revenue source. Projected new development is expected to bring an incremental amount of sales tax revenue.

Sales Tax Revenue Forecast
(in thousands)

	Audited 2007-08	Projected 2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Base Sales Tax (Includes Prop 172)	$ 13,502	$ 13,293	$ 13,027	$ 13,418	$ 13,820	$ 14,235	$ 14,662	$ 15,102
Incremental Increases:								
Hotels	-	-	45	86	134	213	242	254
Retail	-	-	100	265	316	330	337	349
Transportation	-	-	-	-	-	-	-	-
Food	-	-	50	52	67	73	75	77
Totals	$ 13,502	$ 13,293	$ 13,222	$ 13,820	$ 14,337	$ 14,850	$ 15,316	$ 15,782
% Increase		-1.55%	-0.53%	4.53%	3.74%	3.58%	3.14%	3.04%

Using the assumption of recessionary pressures continuing through 2010 with moderate economic expansion in subsequent years combined with planned commercial development, sales tax revenues are expected to see annual gains of between -1.55% and 4.53%. Again, we emphasize the need to continue to seek ways to diversify the tax base to mitigate Napa's high reliance on elastic tax revenues.

Transient Occupancy Tax Revenues



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Actual Dollars	4.75	5.20	5.70	6.25	7.78	8.73	8.24	9.38	10.66	13.03	15.18	16.02
Constant Dollars	3.72	4.04	4.35	4.64	5.60	6.08	5.57	6.24	6.90	8.21	9.30	9.54

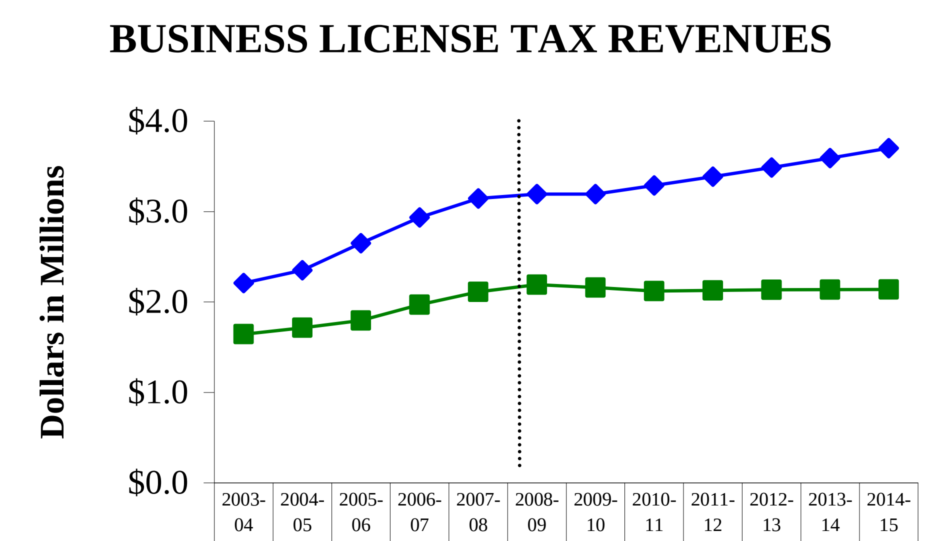
Transient occupancy tax is the other of the City's most economically sensitive revenue sources and is the City's third largest revenue source. Projected new hotel development is expected to bring an incremental amount of transient occupancy tax revenue.

Transient Occupancy Tax Revenue Forecast
(in thousands)

	Audited 2007-08	Projected 2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Base Transient Occupancy Tax	$ 8,725	$ 8,242	$ 8,242	$ 8,407	$ 8,659	$ 8,919	$ 9,186	$ 9,462
Incremental Increases:	-	-	1,143	2,252	4,366	6,258	6,836	6,991
Totals	$ 8,725	$ 8,242	$ 9,384	$ 10,659	$ 13,025	$ 15,176	$ 16,023	$ 16,452
% Increase		-5.5%	13.9%	13.6%	22.2%	16.5%	5.6%	2.7%

Using the assumption of recessionary pressures continuing through 2010 with moderate economic expansion in subsequent years combined with planned hotel development, including the Meritage expansion, Avia Hotel, and Ritz Carlton, transient occupancy tax revenues are expected to see annual increases between -5.5% and 22.2%.

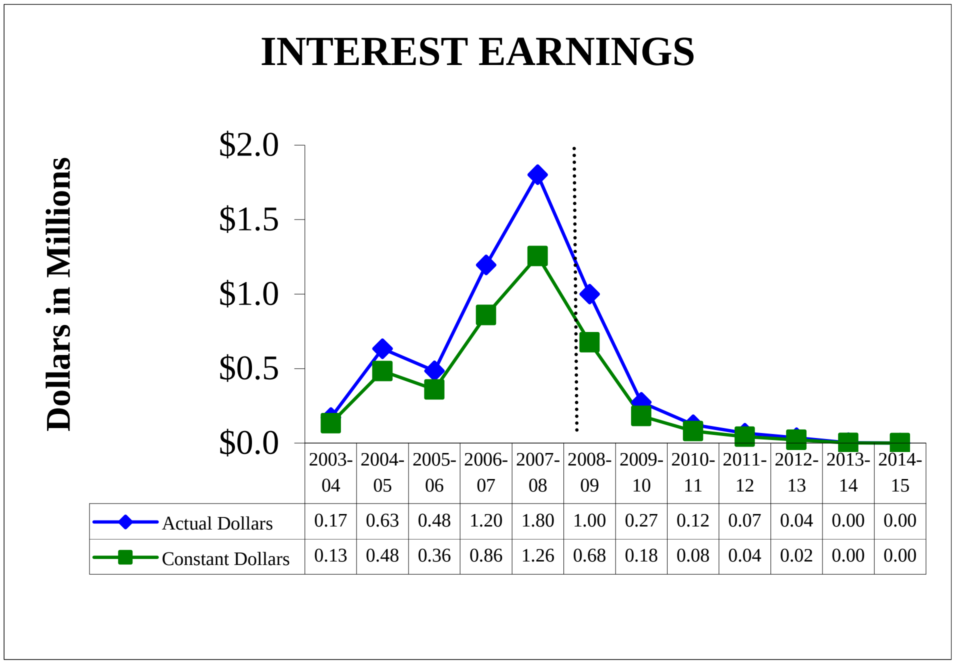
Business License Tax Revenues



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Actual Dollars	2.21	2.35	2.65	2.93	3.15	3.19	3.19	3.29	3.39	3.49	3.59	3.70
Constant Dollars	1.64	1.72	1.79	1.97	2.11	2.19	2.16	2.12	2.13	2.13	2.14	2.14

Business license tax revenues are based on gross receipts of business conducted within the City. The average increase realized in fiscal years 2005-06 and 2007-08 was 11%. This increase is greater than inflation due to an audit program which increased the business licenses issued and the amounts paid. It is anticipated that future growth will occur at a rate of 3.0%.

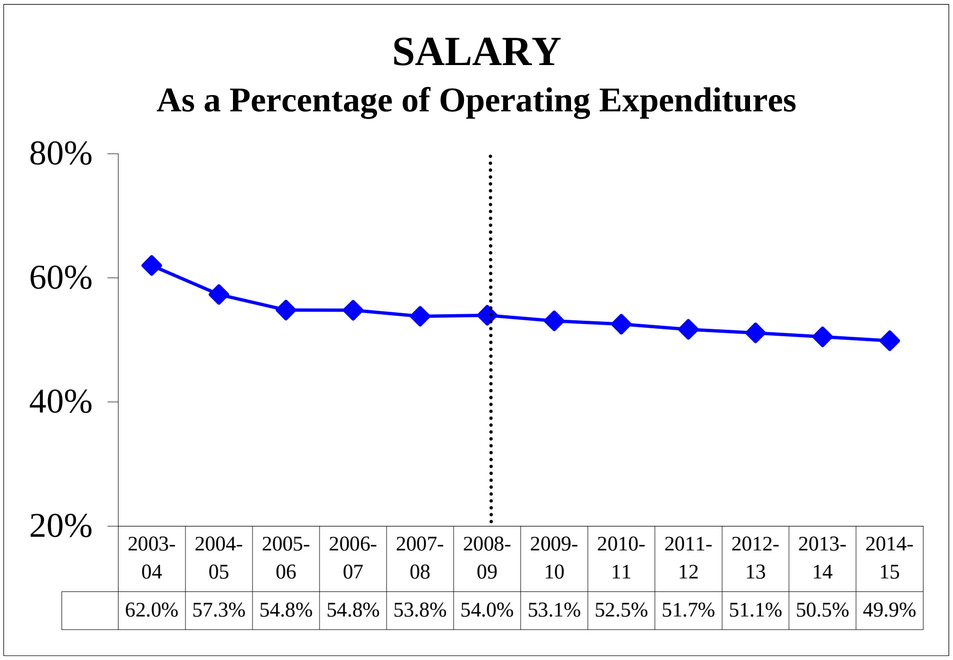
Interest Earnings



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Actual Dollars	0.17	0.63	0.48	1.20	1.80	1.00	0.27	0.12	0.07	0.04	0.00	0.00
Constant Dollars	0.13	0.48	0.36	0.86	1.26	0.68	0.18	0.08	0.04	0.02	0.00	0.00

This revenue is based on the earnings generated by the investment of cash on hand. The General Fund portfolio is made up of accumulated revenues in excess of expenditures. It is also comprised of funds committed for Capital Improvement Projects and other purposes, but not spent. Much of the portfolio is invested in short-term instruments because of these commitments; therefore, has realized lower yields. Low interest rates have contributed to a decline in overall yield. In 2006-07 the City's revenues, particularly TOT and Sales Tax came in higher than expected, while the expenditures came in approximately 10% below budget. The spike in interest earnings in FY 2006-07 is attributed to the additional funds invested and higher interest rates.

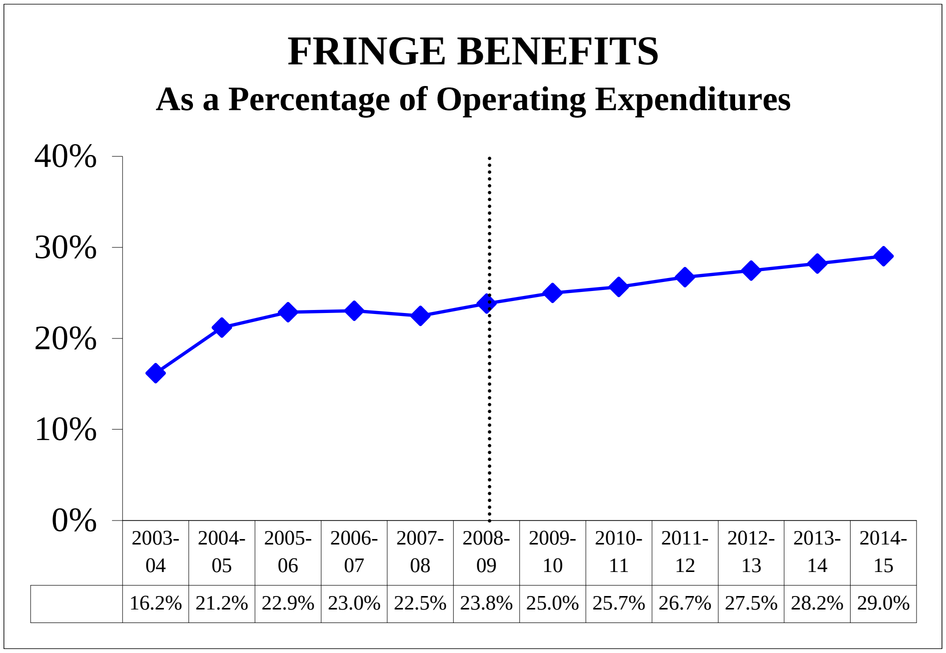
Salary as a Percentage of Operating Expenditures



2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
62.0%	57.3%	54.8%	54.8%	53.8%	54.0%	53.1%	52.5%	51.7%	51.1%	50.5%	49.9%

Salaries have continued to account for more than 50% of the City's operating expenditure budget. Even with the release of 29 of the 30 frozen positions and 2 new positions per year beginning in FY 2008-09, the percentage of salaries to total expenditures is expected to be relatively consistent. Annual step and cost of living increases of 2% have been included in the salary projections.

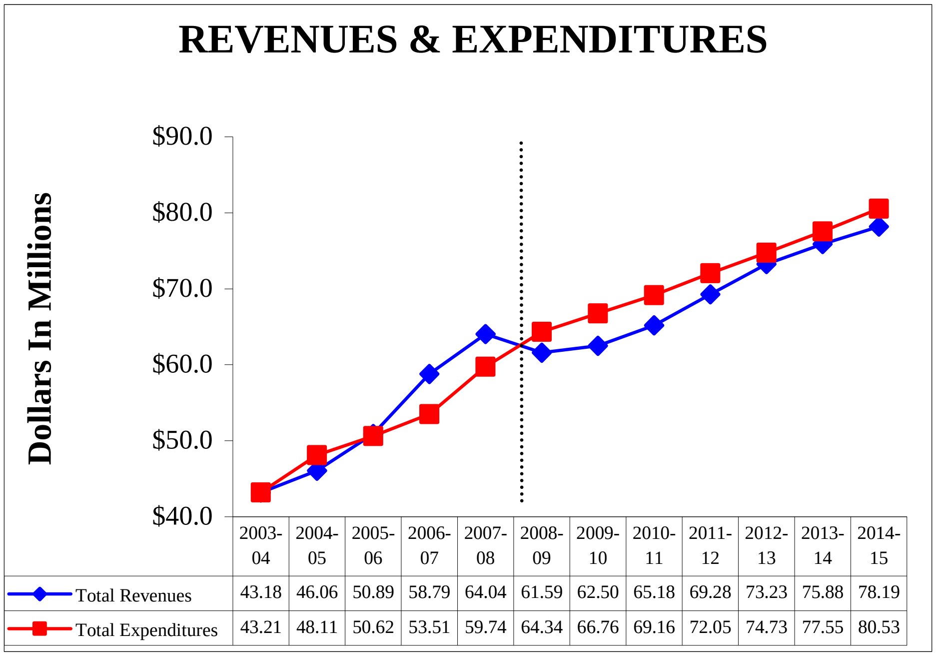
Fringe Benefits as a Percentage of Operating Expenditures



The employee benefits category reflects a moderation of growth commencing fiscal 2008 of the forecast period. The growth rate from the period between 2003 and 2007 is primarily a result of a significant increase in the California Public Employee Retirement System (CalPERS) employer rates. These rates vary, based on the market performance of CalPERS assets, the number of City employees covered by the retirement system, their base wage rates and other factors. This increase is attributed to investment losses in the stock market sustained by CalPERS. Since state law requires that PERS be fully funded, participating agencies like Napa, other cities and counties and the State government are required to make up market losses through increased employer contribution rates. As a result of these large fluctuations in employer rates, CalPERS has implemented additional smoothing in their actuarial calculations, thereby, minimizing the annual effects of investments returns on annual employer contribution rates. However, the market losses realized year to date for CalPERS in 2008-09 are so significant, it is estimated that the City will experience a significant rate increase in 2010-11. A 5% rate increase is used for this forecast.

Increases in health care costs are projected to continue to be significant at an average annual 10% growth rate.

Revenues & Expenditures



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Total Revenues	43.18	46.06	50.89	58.79	64.04	61.59	62.50	65.18	69.28	73.23	75.88	78.19
Total Expenditures	43.21	48.11	50.62	53.51	59.74	64.34	66.76	69.16	72.05	74.73	77.55	80.53

Total revenues are forecast to grow by an average annual increase of 6.0% per year. Economic expansion from hotel development projects contribute significantly to overall operating position.

While there is expected moderation of benefit costs, expenditures are projected to increase at an average annual rate of over 5% per year. Projected expenditures include an additional 2 positions per year thereafter. No new programs are assumed.

As indicated on the graph, the forecast predicts that the City will experience a deficit position through 2015, given the assumptions in the model.

V: FINDINGS AND CONCLUSIONS

The information provided in the preceding pages indicates that the City of Napa is experiencing a period of fiscal change. The local economy had improved as reflected in strong revenue growth across the board. However, the current economic challenges have begun to impact the City's elastic revenues and even property tax which generally is not considered elastic in its nature.

Over-reliance on elastic revenue (sales, transient occupancy) has been moderated by the significant growth in property tax revenue over the last decade. This has resulted from increased property values reflecting the quality of life in Napa. In addition, the State, in contrast to past practice, has actually taken steps that benefit the City by replacing lost vehicle license revenue with equivalent property tax revenue adjustments. This transfer allows future revenue growth to be based on property values rather than population growth, a distinct advantage to this City.

This report reflects the impact of the current recession on the City of Napa and reiterates the need to maintain adequate reserves for such events. It must be noted that forecasted expenditure growth continues to outpace forecasted revenue growth when only a 2% salary growth is predicted. This is a condition that cannot be allowed to continue.

It should also be noted that the above report focused on the City's ability to provide for operating service delivery programs that are currently in effect using existing sources of revenue. Clearly there is a need for the growth of current programs. The City has committed to building additional facilities including a fire station, parks, trails and bridges, but we have not allowed for sufficient new staff to meet the increasing demands.

In addition, the report does not identify or quantify the lack of funds necessary to provide for the capital projects needed to meet expanding program requirements and to repair, maintain, and in some cases replace existing infrastructure. For example, a recent evaluation of the City's street inventory has identified the need for $12 million per year over the next 10 years to bring local streets to acceptable operating condition and allow for needed preventative maintenance of the remainder of the road system. Funding for street maintenance not provided by State bonds or gas tax proceeds must compete for limited funding within the General Fund. Failure to address these infrastructure needs on a timely basis will result in increased liability and rapidly escalating costs as relatively inexpensive preventative maintenance projects become reconstruction projects due to deferred spending. Public Works is restructuring in order to place more focus and concentrated effort into the street program. However, this will not eliminate our total need for an ongoing local, state or federal funding source to address the City's major maintenance or reconstruction needs.

The following actions that have been identified in this report warrant consideration by the City Council and City staff in order to stabilize and secure the City's fiscal future. Some can be studied and implemented in the immediate future as part of the pending budget review; others will require considerable study and evaluation involving interested stakeholders. The status quo is not acceptable. A combination of measures aimed at increasing revenues and / or reducing expenditures must be identified and implemented during the next budget cycle to avoid serious financial problems.

VI: RECOMMENDED ISSUES FOR STUDY/ACTION:

- Bringing operating revenues and expenditures into alignment.
- Identifying appropriate staffing levels for core services and programs
- Long term funding source for new facilities and existing infrastructure
- Labor cost containment alternatives
- Ongoing establishment of standards for prudent reserves
- Impact of new development on service delivery and financial position
- Various options for sharing resources with other local entities
- Funding for capital equipment and major maintenance
- Opportunities for revenue development
    - Fees
    - Strengthen tax base
    - Tax options
    - Collection practices
- Changes to the organizational structure to enhance efficiency and streamline operations