2011 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 lays the foundation for the budget, aiding both the City Manager and Council in establishing priorities and allocating resources appropriately. This year's forecast reflects impacts from the recession that has been felt both nationally and worldwide. The recent economic turmoil has affected the City's ability to sustain the current level of services and programs over a long period of time within its revenue constraints.

An update to the LTFP will be provided along with the 1st quarter report for FY 2013. That report will provide preliminary final revenues and expenditures for FY 2011-12 as well as adjust the forecasts for revenues and expenditures for FY 2012-13 through FY 2016-17.

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 statement of current financial position; a trend analysis (for FY 2000-01 through FY 2009-10) and forecast including projections for the current fiscal year (FY 2010-11) and looking ahead six years through FY 2016-17. 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.

The following table displays the status of the recommended issues for study/action from the 2009 LTFP.

Description/Item	Status	Comments
Bring operating revenues and expenditures into alignment	Delayed	Bringing the operating position into balance will be the primary goal over the next budget cycle.
Long term funding source for new facilities and existing infrastructure	In Process	Parks Master Plan was completed in 2010. Streets and Public Works Master Plans have also been completed. Efforts are ongoing to identify funding sources for infrastructure, deferred maintenance and restoration needs. Specific projects will be proposed in accordance with the plan, as funding allows.
Labor cost containment alternatives	In Process	Negotiations underway for NCFA in 2011, All other groups will commence in the fall of 2011. Benefit cost containment is top priority
Establishing standards for prudent reserves	Complete	Established as part of Fiscal Policy document.
Impact of new development on service delivery and financial position	In Process	Master Plans for Parks, Streets and Public Works have been completed. Funding sources have yet to be identified for all project needs. Specific projects will be proposed in accordance with the various plans as funding allows.
Service delivery options	In Process	Researching various options of sharing resources with other local entities to provide services more efficiently.
Funding for capital equipment and major maintenance	Completed	Established as part of Fiscal Policy document.
Opportunities for revenue development	In Process	User Fee Study underway. Council review of fees scheduled for Fall, 2011. Other revenue development options are being reviewed.
Changes to organizational structure to enhance efficiency and streamline operations	Completed	Reorganizations across the City have been implemented to enhance efficiency, including Public Works, Parks & Recreation, Community Development, Police, City Manager, Human Resources, Fire, and Finance Departments.

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.

Recommendation
It is recommended the following fiscal policy be reviewed and accepted by Council.

Council Action
Move to accept the 2011 status update of 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 2011-13 proposed budget will have a negative operating position in both fiscal years. This situation will be addressed through efforts aimed at controlling labor costs and addressing opportunities for improved efficiencies.
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.	--	Staff is currently developing a 10 year equipment replacement schedule and will be revising contribution rates to match the schedule of replacement funding needed.
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.	√	
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.	√	
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 *(Cont'd.)*		
If funding is not available for operations and maintenance costs, the City will delay construction of proposed new facilities.	√	New projects are evaluated for operations and maintenance impacts. Future projects could be 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.	--	User Fee Study currently underway, and will be presented to the Council in Fall 2011.
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.
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 Fee 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.	√	A Water Rate Cost of Service Analysis is currently underway. Revised rates will be presented to the City Council July 19, 2011. Solid Waste and Recycling rates increased 4.90% effective July 1, 2010. The next adjustment is a 4.85% rate increase effective July 1, 2011.
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.	√	
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		
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 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.	√	
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.	√	
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 Resurfacing Program Fund.	√	The proposed budget includes $2.9 million in FY 2011-12 ($1.4 million from the Traffic Fund, and $1.5 million from the Materials Diversion Fund). The proposed budget for FY 2012-13 includes $3.6 million ($1.8 million from the Traffic Fund and $1.7 million from the Materials Diversion fund and $0.1 million from the Water Enterprise fund.
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.	√	
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.	√	
Legend: √ **=** *Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

Fiscal Policy Statement	Status	Comment
Debt Policies *(Cont'd.)*		
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.	√	
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 in compliance during 2011-12 but is projected to be drawn to $0 in FY 2012-13 unless additional expenditure reductions are initiated. The City is actively working on cost containment measures to keep in compliance with policy levels.
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 will be= $7.5 million, or 12 % of General Fund operating expenditures for FY 2011-12, and $7.6 million for FY 2012-13. Unless additional expenditure reductions are instituted, Emergency reserves will begin to be required to help meet the structural deficit in FY 2013-14.
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 $200,000 each year. This is under the $631,000 that should be maintained for FY 2011-12, and the $635,000 for FY 2012-13.
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 *(Cont'd.)*		
The City will comply with GASB 45 and establish an irrevocable trust to fund future retiree medical costs.	√	The Post Employment Benefit Fund was established to collect contributions from General Fund and proprietary funds to cover the cost of retiree medical benefits and other post-employment benefits for current and past employees. To fully fund the actuarial obligations, the contribution rates as a percent of payroll 3.0% at a discount rate of 7.75% (with CERBT prefunding approved by the City Council on May 18, 2010). The contribution rate budgeted for 2011-13 is 3.0% of payroll. The CERBT trust was opened in June 2010.
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 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.	√	Based on policy, a designated fund balance of $250,000 was established in addition to annual appropriations for this purpose. The City's actual experience was $105,996 in FY 2009-10 and we are projecting $269,081 for FY 2011-12 (Normalized to $200K due to early retirement program). The projected appropriation level in this budget cycle is $160,630. Proposed appropriations are $176,444 in 2011-12 and $176,471 in 2012-13.
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.	--	Projected 2010-11 reserve levels are $5.7 million. This amount is $197,000 or 3% less than the 80% confidence level goal of $5.9 million. During the 11-13 budget cycle, funding will be at the 75% confidence level.
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 *(Cont'd.)*		
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.	--	The methodology for the recovery of fleet replacement costs are currently under review by the consultant developing the Cost Allocation Plan and Fee Study. The reserve balance and planned replacement schedule will be evaluated to determine the necessary reserve requirements during the next budget cycle.
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.	--	The Golf Course Fund Balance is negative at the end of 2010-11 due to continued economic challenges. The Operating reserve is not projected to become positive in this budget cycle.
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.	√	Rate Stabilization Fund was utilized to soften rate impact of incorporating cost of repair to City streets caused by refuse and recycling vehicles, however the fund was fully replenished by Council action in January 2011.
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, which excludes contributions to reserves, the Street Resurfacing Program, capital projects, and debt service.	√	The Solid Waste and Materials Diversion Operating Reserve is fully funded according the Fund's established Fiscal Policy. The balance of this reserve will be a key consideration when future solid waste collection rates and MDF capital improvement plans are considered and established by Council.
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 *(Cont'd.)*		
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.
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 a 7-year capital maintenance schedule, the reserve was funded with a $162,000 contribution at the end of FY 2009-10 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).	√	Liability Reserve remains fully funded according to the Fund's Fiscal policy target levels.
Investment Policies		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	Adopted June 15, 2010. Revised policy to be brought to the Council on June 21, 2011.
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.	√	
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
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 *(Cont'd.)*		
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's liquidity ratio as of June 30, 2010 was 9.25:1.
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. A CAFR will be prepared in FY 2011-12.
Legend: √ **=** *Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

III: FINANCIAL TRENDS and FORECASTS 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 2001-2010 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 2000-01 through FY 2009-10, 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 (this may be revised after the Budget transmittal letter is finalized)

Through the strong leadership of the City Council and hard work by City staff, we have been able to make it through a national recession and still stay focused on serving the community. However, we are now facing even harder challenges as the recovery is erratic impacting property and sales tax revenues. Benefit costs are continuing significant increases, and looming cuts caused by the State's fiscal crisis are all adding pressure to an already highly strained workforce.

Over the past ten years, the City has incurred a number of FEMA eligible disasters. 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 have decreased every year since FY 2007-08. The most significant reduction has been in Property Tax revenues, which have decreased by over $6 million over the four year period. Additionally, Sales Tax and Business License Tax have also experienced large decreases. As the city and the nation begin the long recovery process, it is more important than ever to utilize tools such as the Long Term Financial Plan to make prudent financial decisions in both the near and long term.

In summary, the City continued to experience reduced revenues and limited economic growth, while seeing no reduction in the demand for public services. However, due to long range fiscal planning, ongoing controls over spending and an advantageous position in a strong economic niche market, the City remains in a relatively positive position compared to other cities. Some areas of concern include:

- Expenditure growth trends have outpaced revenue growth,
- Benefit costs, while more stable than previous years as a result of labor concessions, retirements and reorganizations, are still on the rise.
- One time revenues and fund balance will be used in the current year to support operations. The undesignated fund balance is projected to be depleted by the end of FY2012-13 unless additional reductions are implemented.
- Deferred infrastructure maintenance costs must be addressed.
- The General Fund contribution to CIP is relatively low, at less than $500 thousand per year.
- The City is somewhat reliant on elastic revenue sources, and these revenue sources are just now beginning to show recovery from the national recession, but are not expected to return to pre-recession levels within the forecast period.
- The State's deficit could have significant financial impacts to our City, and every other municipality in California.
- Although economists have declared the national recession is over, full-scale recovery in municipal revenues is not yet apparent. The LTFP assumes recovery to be relatively slow in the near term (FY 2011-12 and FY2012-13) with revenues beginning to return at a pace of 1.5% to 3.5% each year beginning in FY 2013-14.

We must plan with caution and take aggressive action to balance the budget for the upcoming years, keeping in mind potential fiscal opportunities and threats.

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.

Economic and Demographic Assumptions

The economic assumptions utilized in this forecast are summarized below:

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Population (Residential)	75,863	76,053	76,243	76,434	76,625	76,816
Property Tax (% Change)	-1.40%	1.00%	2.50%	3.00%	3.50%	4.00%
Sales Tax (% Change)	2.70%	1.90%	3.00%	3.50%	3.50%	3.50%
Transient Occupancy Tax (% Change)	2.50%	2.50%	3.00%	3.50%	4.00%	4.50%
Investment Earnings Rate	0.50%	0.50%	1.00%	1.50%	2.00%	2.50%
Inflation	1.40%	2.00%	3.00%	3.50%	3.50%	3.50%
Salaries (% Change)	-1.80%	0.60%	1.50%	1.50%	1.50%	1.50%
Healthcare Benefits (% Change)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
PERS Benefits (% Change)	18.30%	3.90%	11.90%	4.00%	1.50%	1.50%
Other Benefits (% Change)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Services & Supplies (% Change)	0.00%	0.00%	3.00%	3.50%	3.50%	3.50%
Capital Outlay (% Change)	0.00%	0.00%	3.00%	3.50%	3.50%	3.50%
Authorized Positions (# Change)	0	0	0	0	0	0

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 estimated to begin at a modest 1.4% in FY 2011-12 growing to 3.5% by FY 2014-15.

Population: Population is the residential total within the Napa city limits and is projected to increase at an average of 0.25% annually. Year-to-year population growth is a useful factor in predicting increases in revenue categories, such as Franchise Fees and Business Licenses.

No new positions: No new General Fund positions have been included in this forecast. Any new position would need to be funded either through another revenue source, or through offsetting budget reductions.

Factors Not Included In the Forecast

- This forecast is based on the General Fund operating revenues and expenditures 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 grants, 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.
5. Rebuilding undesignated fund balance to fiscal policy recommended levels.

- Only sizable commercial development in the pipeline or under construction with a high likelihood of becoming reality has been included. This includes the Meritage (anticipated for early 2013) and another sizable hotel development (e.g. St. Regis or Ritz Carlton) in 2014.
- Impacts from new development on staffing demands are not included in the forecast.

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

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, FY2010-11 revenues are projected to be $1.3 million under FY2009-10 levels, (excluding one-time revenues). Property tax and Charges for Services showed the largest declines related to the residential reassessments and the reduction in Parks and Recreation Self-sustaining program revenue. Transient occupancy tax revenues exhibited a 10% increase and continue to show strong recovery of tourism in the Napa valley. While the City of Napa has been somewhat shielded from the State's worsening economic condition, we are anticipating additional financial impacts as the State moves toward reducing the overwhelming deficit. Although recovery from the recession appears to be underway, fiscal year 2011-12 and 2012-13 will likely contain periods of economic fluctuation and continued fiscal challenges.

The financial forecast assumes a slow economic recovery during fiscal years 2012 and 2013. This assumption is based on the recovery already being felt in Transient Occupancy and Sales tax, offset in part by continued financial challenges currently affecting the state, and national economies.

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

- Slow recovery in housing market;
- Tight credit markets;
- Cautious consumer confidence and spending;
- High unemployment;
- Failing financial institutions;
- Erratic stock market.

Housing Market Downturn

Experts disagree if the housing market slowdown that began in 2008 has bottomed out, or just slowed down. Regardless, the National Association of Realtors reported that the national median price for existing homes for all housing types in the West was $192,100 in March 2011, down 11.2% from one year ago. In California, the median price paid for a home during the same timeframe was $293,570, down 4.4% from the previous year, and in Napa, the Median price is $306,820, down 10.7% from 2010. The Napa County Assessor completed writing down residential assessed values within the County in 2010 and will continue writing down commercial values over the next year, resulting in reduced property tax revenue growth for the City of Napa.

Tight 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.

Cautious Consumer Confidence and Spending

According to The Conference Board's February 2011 *Consumer Confidence Survey*™ indicates that the Consumer Confidence Index™, is slowly rising. The increase in the Present Situation Index, suggests that overall economic conditions are slowly moving in a positive direction.

High Unemployment

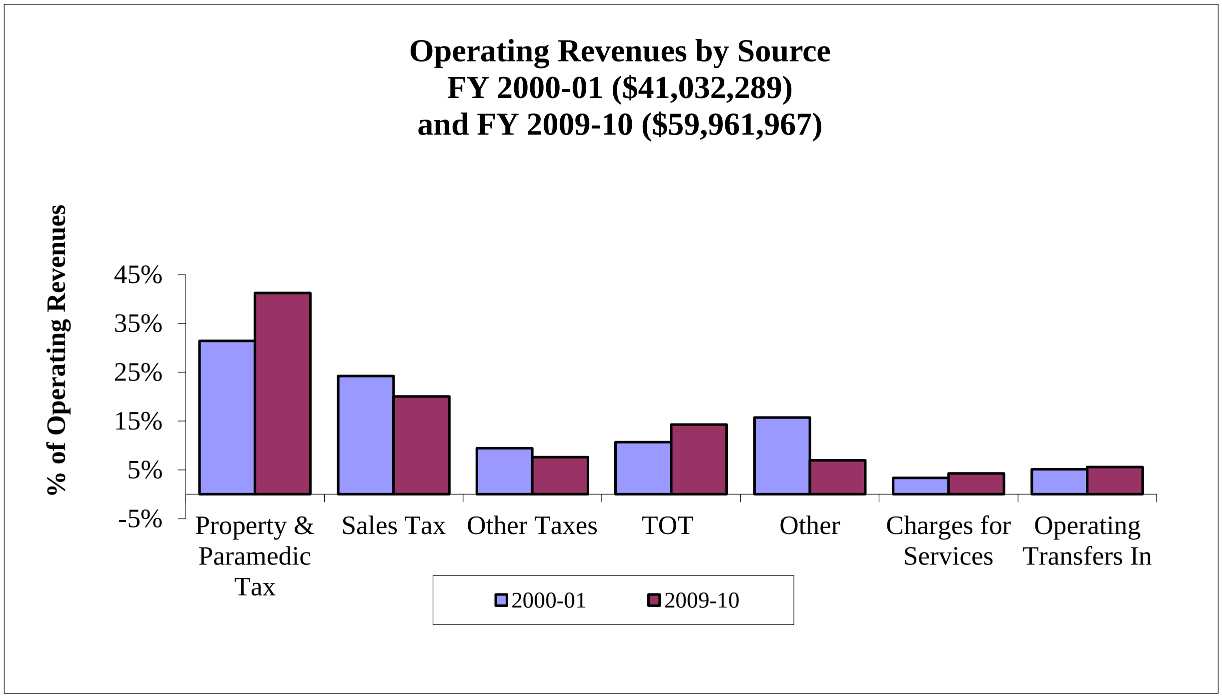
The U.S. unemployment continues to be high. The Labor Department reported the national unemployment rate remained around the 9 percent mark in April, 2011. Although moving in the right direction, high unemployment is expected to remain throughout the 2011-2013 budget cycle and beyond.

The State unemployment rate reached 11.9% in April of 2011. Napa County's unemployment rate was 9.6% down from 9.9% in April 2010.

Revenues & Expenditures

General Fund Operating Results – Revenues

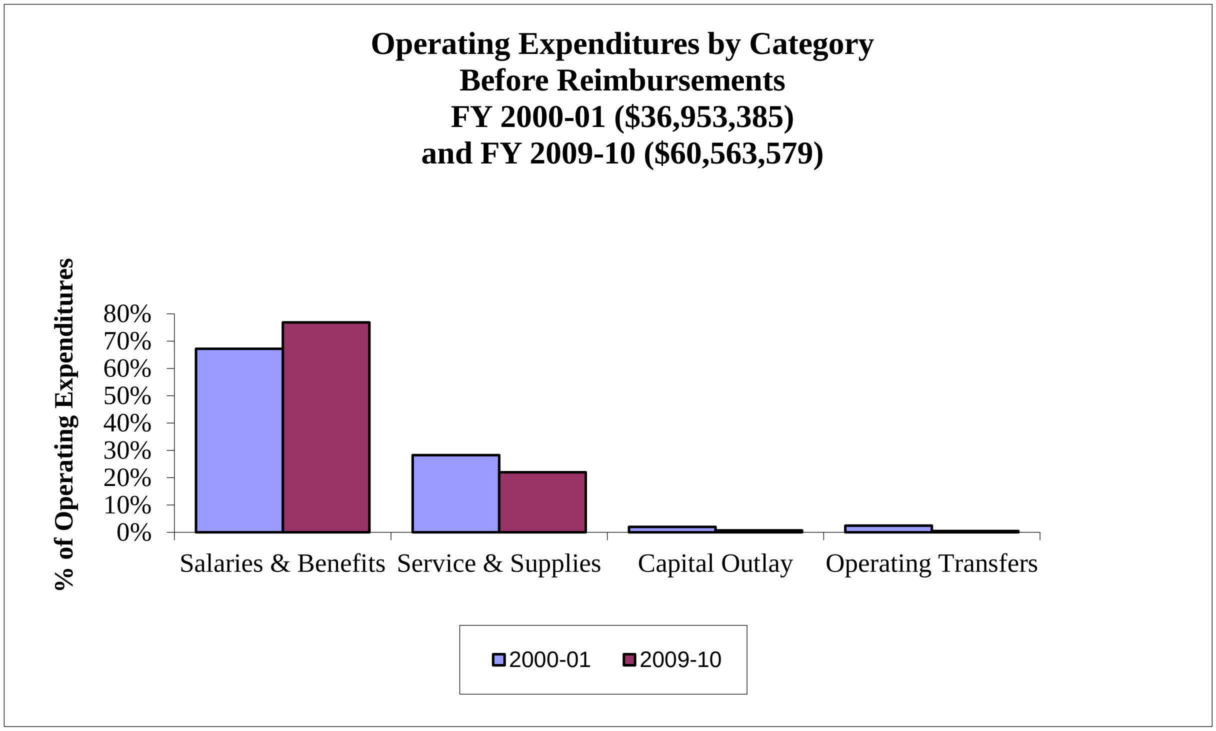
The General Fund's revenue sources with related percentages of total operating revenues are shown in the following chart. Taxes, including property, sales and other taxes make up the largest category of General Fund revenues at 83% of revenues generated in fiscal year 2009-10 as compared to 66% in the 2000-01 fiscal year.



The two largest sources of revenue to the City continue to be property and sales tax. While property and sales tax revenues have declined in the past two years, we are expecting flat growth in the near term, and slight recovery over the next five years. Transient occupancy tax revenue declined as a result of the recession, but has already shown healthy increases in FY2010-11, reflecting the return of strong tourism demand for Napa. There are a few 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. The following chart compares expenditures by category for the fiscal years 2000-01 and 2009-10.



The composition of General Fund operating expenditures by category has changed with the recent escalation of benefit costs when comparing fiscal year 2009-10 to fiscal year 2000-01. Driving this escalation was a 561% increase in the cost of benefits during the period from $2.7 million to $15.4 million. Cost of salaries increased 148% from $22.1 to $32.8 million for the period. As a result, salaries and benefits were approximately 79% of General Fund expenditures in 2009-10, an increase of 11 percentage points from 2000-01. The Services and Supplies category decreased by 10% during the ten-year period to account for 19% of total expenditures.

Summary of Trends & Indicators

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) excluding nonrecurring revenues, increased from FY 2003-04 through FY 2008-09 from $426 to $584. FY 2009-10 was impacted heavily by the national recession with tax revenues down by 3.6%, License & Permit revenues down by 40% and investment revenue down by 75%. Revenues for FY 2010-11 and forward are projected to increase slightly (approximately 2% per year) as the recovery from the national recession continues.
2	Property Tax Revenues	W	Although FY 2010-11 will show further decline (due to residential property reassessments), and FY 2011-12 will see another slight decrease due to commercial property reassessments, a slow but steady recovery is projected for FY 2012-13 and forward.
3	Sales Tax Revenues	C	Sales tax revenue trends have closely mirrored economic cycles. A decline in Sales tax revenue which began in FY 2007-08 leveled out in FY 2010-11 with sales tax earnings projected to come in near, or slightly over FY 2009-10 levels. All indicators point to continued slow recovery over the next six years. 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.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

Indicator Number	Description	Finding	Comments
General Fund Revenues - *(Cont'd.)*			
4	Transient Occupancy Tax Revenues	F	Transient Occupancy Tax receipts were down between FY 2007-08 and FY 2008-09 due to the recession, and then flattened out through FY 2009-10. In FY 2010-11 the City experienced a strong rise in tourism, resulting in a 10% growth in TOT revenue. A steady growth of 2.5% per year is projected for the next six years.
5	Business License Tax Revenue	W	The positive trend from FY 2000-01 through FY 2008-09 took a sharp turn downward in FY 2009-10 as the business community reacted to the national recession. Business license tax revenues are based on gross receipts of individual businesses. Revenue receipts in this budget cycle are projected to remain flat with only slight recovery.
6	Elastic Revenues	W	Elastic revenues are those that vary directly with fluctuations in the economy. As the City's property tax revenue has decreased from the recession's impact on property values, the City has become more dependent on elastic revenues such as sales and transient occupancy taxes.
General Fund Expenditures			
7	Expenditures Per Capita	C	Although positive measures were taken in FY 2008-09 and FY 2009-10 through labor concessions, retirements and departmental organizations to minimize the impact of revenue constraints, there is a risk of under investing in the City's infrastructure which could result in service disruption or unplanned repairs.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

Indicator Number	Description	Finding	Comments
General Fund Expenditures - *(Cont'd.)*			
8	Authorized Positions Per Capita	C	Authorized positions per capita have declined since 2008-09, and we are now at the point where staff and expenditure reductions are impacting our service levels. As economic recovery continues, the City needs to be ready to increase staff to ensure community needs are met.
9	Fringe Benefits as a Percentage of Operating Expenditures	U	Retirement benefit rates are projected to increase over the next few years as a result of CalPERS investment losses. Additionally, health insurance rates are projected to continue a steady climb over the next six years. Measures to mitigate the impacts of rising benefit costs to the General Fund continue to be considered.
10	Salary Expenditures as a Percentage of Operating Expenditures	F	Salary expenditures as a percentage of operating expenditures have remained relatively stable over time.
11	Capital Outlay as a Percentage of Operating Expenditures	W	A rating of Warning has been assigned to this indicator as the City may be at risk of foregoing needed capital investment in order to meet budget challenges.
General Fund Operating Position			
12	Operating Position	U	The City adopted several fiscal policies as part of the 2007-2009 budgets, 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 FY 2010-11 or in the next two year budget unless additional reductions or revenue enhancements are implemented.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

Indicator Number	Description	Finding	Comments
General Fund Operating Position - *(Cont'd.)*			
13	Unreserved Fund Balance/Emergency Reserve as a percentage of Budgeted Operating Expenditures	U	The forecast indicates that the undesignated fund balance will be used to balance the budget in FY 2010-11 and through the next budget cycle. If additional reductions are not initiated in this budget cycle, the unreserved fund balance will be fully depleted in FY 2012-13.
14	Liquidity Ratio	F	The City has been able to maintain a liquidity ratio well above 1:1 for the past ten years. The ratio is projected to continue at over 7:1 through the end of FY 2010-11.
15	Debt Service	F	The City has no current debt service in its General Fund.
Additional Indicators			
16	Assessed Property Value	U	With the slow recovery to the housing and credit markets, and reassessments to both residential and commercial property, recovery to assessed property value is not anticipated to begin recovery until FY 2012-13.
17	Population	F	Population growth has slowed in recent years as Napa is largely built out. The FY 2009-10 population was 75,485.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

Financial Trend Summary:

•	**Revenue Trends**		•	**Operating Position**	
1.	Revenue/Capita	C	12.	Operating Position	U
2.	Property Tax	W	13.	Fund Balance/Reserves	U
3.	Sales Tax	C	14.	Liquidity	F
4.	Transient Occupancy Tax	F	15.	Debt Service	F
5.	Business License Tax	W			
6.	Elastic Revenues	W			
•	**Expenditure Trends**		•	**Additional Indicators**	
7.	Expenditure/Capita	C	16.	Assessed Property Value	U
8.	Authorized Positions/Capita	C	17.	Population	F
9.	Fringe Benefits	U			
10.	Salary Expenditure	F			
11.	Capital Outlay	W			

Rating Changes
There were ten trend changes from the last fiscal year, eight of which were in a negative direction revised to reflect changes since the 2009 LTFP was prepared. Many of these revisions reflect the slow recovery to the recent recession.

Property Tax revenues were downgraded from Caution to Warning. This is based on the City's strong reliance on Property Tax revenues, and the uncertain speed of the recovery. Many experts are predicting another round of foreclosures this year, although how that might impact Napa waits to be seen.

Sales Tax Revenues were upgraded from a Warning rating to a Caution rating. This revenue experienced a steady year in FY 2010-11 and is poised for steady increases over the next six years.

Transient Occupancy Tax was upgraded from a Caution rating to a Favorable rating. FY 2010-11 is projecting TOT receipts of $9.2 million which is 10% over the FY 2010-11 budget. This strong showing in a still weakened economy is a definite step toward economic recovery for the City.

Business License Tax Revenue was downgraded from Caution to Warning. As Business license tax revenues are based on gross receipts of individual businesses, the recession impacted this revenue source over the past three years, and it is uncertain how quickly it will return to pre-recession levels.

Elastic Revenues were also downgraded from Caution to Warning. This indicator is strongly tied to Property Tax, as that is the City's largest stable revenue source.

Authorized positions per Capita was downgraded from Favorable to Caution. As a result of eliminating vacant positions and retirement incentives, the City is currently operating at a minimum staffing level. Sick leave, vacations and emergencies all affect the City's ability to maintain existing service levels.

Capital Outlay was downgraded from a Caution rating to a rating of Warning to reflect the increasing risk of under-investing in an aging infrastructure.

Operating Position was downgraded from Warning rating to a rating of Unfavorable. Additional expenditure reductions will be required to reduce the structural deficit as the Undesignated Fund Balance could be fully exhausted as early as FY2012-13.

Fund Balance / Reserve rating moving from Caution to Unfavorable. Closely tied to the Operating position rating, this indicator was also downgraded until additional expenditure reductions are put in place to erase the structural deficit.

The final downgrade is in the **Assessed Property Values** rating moving from Caution to Unfavorable. Property values have decreased by nearly 4% since 2008-09, and are not anticipated to begin recovery until FY 2012-13 due to a continued soft real estate market, and property revaluation conducted by the County on both residential and commercial properties.

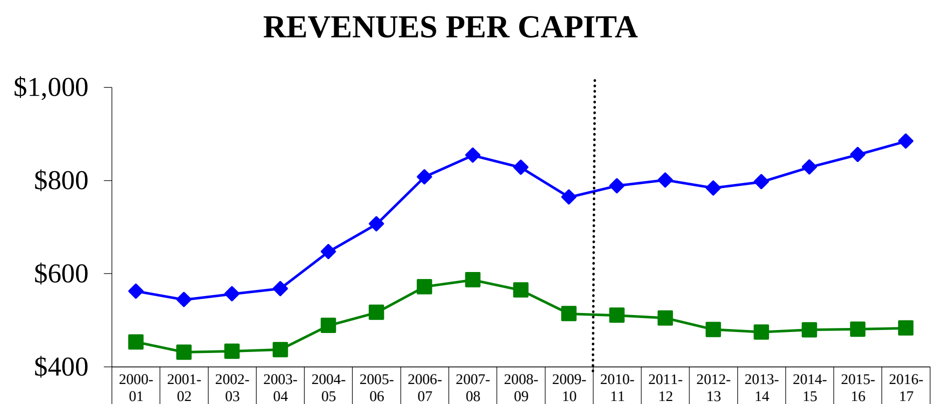
General Fund Revenues

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



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Actual Dollars	562	544	557	568	647	707	808	854	828	764	789	801	784	797	829	855	884
Constant Dollars	453	431	434	437	488	517	572	587	565	514	511	505	480	475	479	481	483

2011 Finding: Caution
2009 Finding: Caution

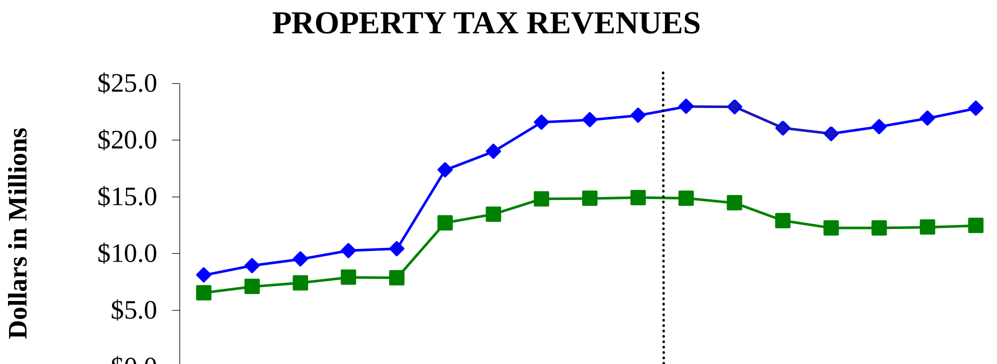
Description

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 from FY 2003-04 through FY 2008-09, from $426 to $584. FY 2009-10 was impacted heavily by the national recession with tax revenues down by 3.6%, License & Permit revenues down by 40% and investment revenue down by 75%. Revenues are projected to increase slightly over the next six years as the recovery from the national recession continues.

Indicator 2: Property Tax Revenues



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Actual Dollars	8.09	8.92	9.49	10.25	10.41	17.36	19.00	21.57	21.79	22.18	22.96	22.94	21.06	20.56	21.18	21.92	22.80
Constant Dollars	6.52	7.07	7.40	7.89	7.86	12.70	13.45	14.81	14.86	14.92	14.87	14.45	12.90	12.24	12.25	12.32	12.45

2011 Finding: **Warning**
2009 Finding: **Caution**

Description

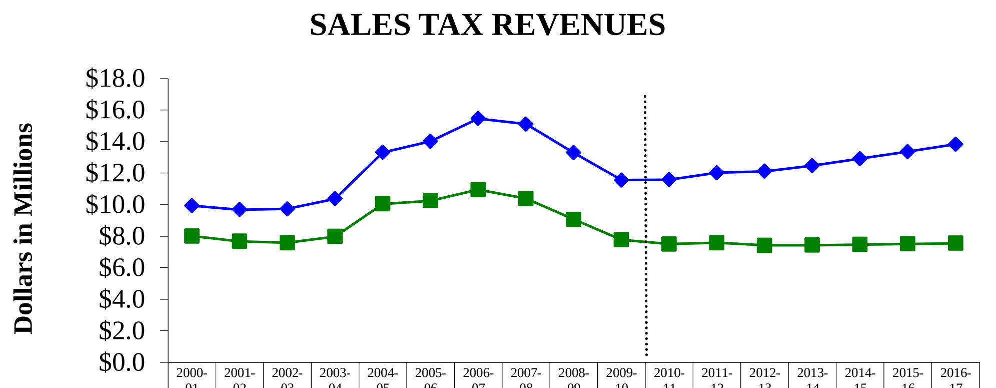
Property tax revenues are evaluated over time to measure the City's economic health. Constant dollars are examined in order to evaluate that part of the change that is not due to inflation. Property taxes are the City's largest source of revenue (23% before the addition of VLF in FY 2005-06 and 35% after 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.

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. Increases in property taxes were significantly impacted by the shift in the housing market caused by the recession. Although it is projected that FY2010-11 will show further decline (due to residential property reassessments) and FY 2011-12 will remain relatively flat (due to commercial property reassessments), a slow, but steady recovery is projected for FY 2012-13 forward. 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.

Property Tax continues to be the City's largest source of revenue and represented 38% of total revenues in FY 2009-10. As a result of the recession property valuation has suffered in the past year, with expected losses of 0.8% in FY 2010-11. 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 flat growth in the near term (FY2011-12 and FY 2012-13), then continued slow growth of assessed values resulting in increased property tax revenue over the six-year period.

Indicator 3: Sales Tax Revenues



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Actual Dollars	9.93	9.68	9.73	10.37	13.31	14.01	15.46	15.11	13.29	11.56	11.58	12.03	12.11	12.47	12.91	13.36	13.83
Constant Dollars	8.00	7.68	7.58	7.98	10.05	10.24	10.95	10.38	9.06	7.77	7.50	7.58	7.42	7.43	7.47	7.51	7.55

2011 Finding: Caution
2009 Finding: Warning

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 (20%) 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 8.75%, 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

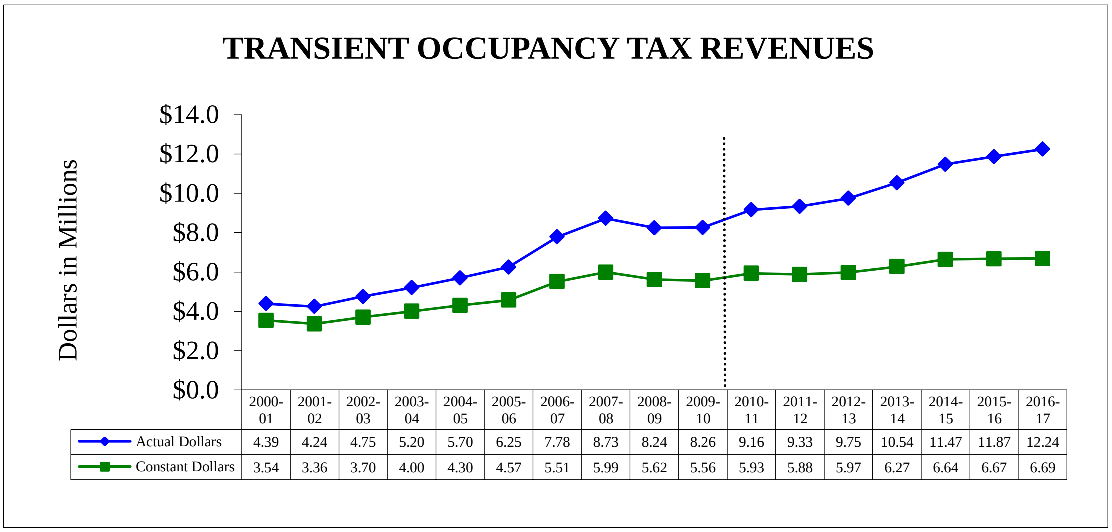
Napa's sales tax revenue is heavily dependent on the tourism industry and therefore tends to follow economic cycles. Revenues increased steadily through 2001, then declined as the economy lagged after 9/11 through about 2003-04, followed by a few years of positive growth through FY 2006-07. FY2007-08, however, began a decline that continued through FY 2009-10. Construction, which accounts for 24% of sales tax revenues lost almost $0.25 million from the prior year, while the other categories (General Retail, Food Products, Transportation and Business to Business) all experienced losses. Due to the slow recovery, sales tax receipts are expected to begin to rise at a slow pace over the next six years.

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)							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Base Sales Tax *(Includes Prop 172)*	$ 11,683	$ 11,967	$ 12,051	$ 12,413	$ 12,847	$ 13,297	$ 13,762
Incremental Increases:							
Hotels	-	31	56	85	122	122	122
Retail	-	45	145	156	156	156	156
Transportation	-	-	-	-	-	-	-
Food	-	-	18	18	18	18	18
Totals	$ 11,683	$ 12,043	$ 12,270	$ 12,672	$ 13,143	$ 13,593	$ 14,058
% Increase		3.07%	1.89%	3.28%	3.72%	3.42%	3.42%

Using the assumption of recessionary pressures continuing through 2012 with moderate economic expansion in subsequent years combined with planned commercial development, sales tax revenues are expected to see annual gains of between 1.5% and 3.91%. 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.

Indicator 4: Transient Occupancy Tax Revenues



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Actual Dollars	4.39	4.24	4.75	5.20	5.70	6.25	7.78	8.73	8.24	8.26	9.16	9.33	9.75	10.54	11.47	11.87	12.24
Constant Dollars	3.54	3.36	3.70	4.00	4.30	4.57	5.51	5.99	5.62	5.56	5.93	5.88	5.97	6.27	6.64	6.67	6.69

2011 Finding: **Favorable**
2009 Finding: **Caution**

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 (14%) 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 14%, of which the City receives 12%. The Tourism Improvement District (TID) receives the remaining 2% for use in promoting tourism in the Napa Valley.

Comments and Analysis

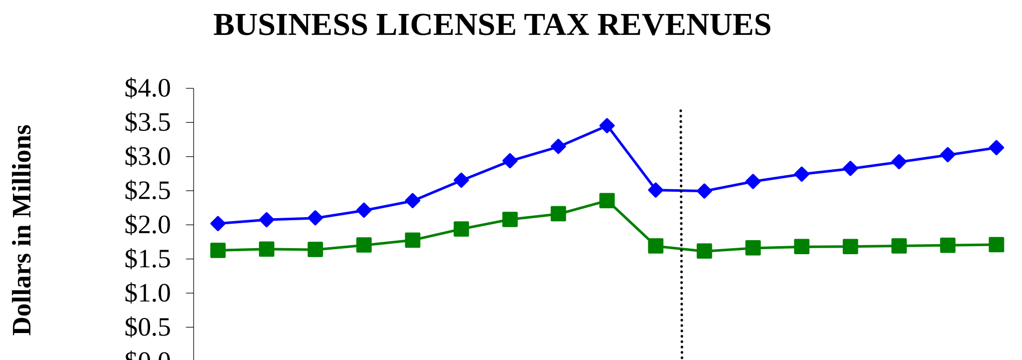
Napa's transient occupancy tax revenue is heavily dependent on the tourism industry and therefore tends to follow economic cycles. Revenues increased steadily through 2001, then declined as the economy lagged after 9/11. FY 2005-06 through FY 2007-08 showed an increase in tax, particularly with the development of new hotel properties in the City. Transient Occupancy Tax receipts were down between FY 2007-08 and FY 2008-09 due to the recession, and then flattened out through FY 2009-10. Overall the decline in FY 2008-09 was relatively minor compared to the more significant impact the recession had on other City revenues. The City has already experienced a rise in tourism in FY 2010-11 that is expected to continue at moderate levels over the next six years.

Projected new hotel development is expected to bring an incremental amount of transient occupancy tax revenue.

Transient Occupancy Tax Revenue Forecast (in thousands)							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Base Transient Occupancy Tax	$ 9,161	$ 9,390	$ 9,625	$ 9,914	$ 10,260	$ 10,671	$ 11,151
Incremental Increases:		69	253	756	1,351	1,338	1,241
Totals	$ 9,161	$ 9,459	$ 9,878	$ 10,670	$ 11,611	$ 12,009	$ 12,392
% Increase		3.3%	4.4%	8.0%	8.8%	3.4%	3.6%

Using the assumption of recessionary pressures continuing through 2012 with moderate economic expansion in subsequent years combined with planned hotel development, including the Meritage expansion in 2013 and another sizable hotel development (e.g. St. Regis or Ritz Carlton) in 2014, transient occupancy tax revenues are expected to see annual increases between
3.3% and 8.8%.

Indicator 5: Business License Tax Revenues



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Actual Dollars	2.02	2.07	2.10	2.21	2.35	2.65	2.93	3.15	3.45	2.51	2.49	2.63	2.74	2.82	2.92	3.02	3.13
Constant Dollars	1.63	1.64	1.64	1.70	1.77	1.94	2.08	2.16	2.35	1.69	1.61	1.66	1.68	1.68	1.69	1.70	1.71

2011 Finding: **Warning**
2009 Finding: **Caution**

Description

Business license tax revenue is a major revenue category (4.4%) 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.

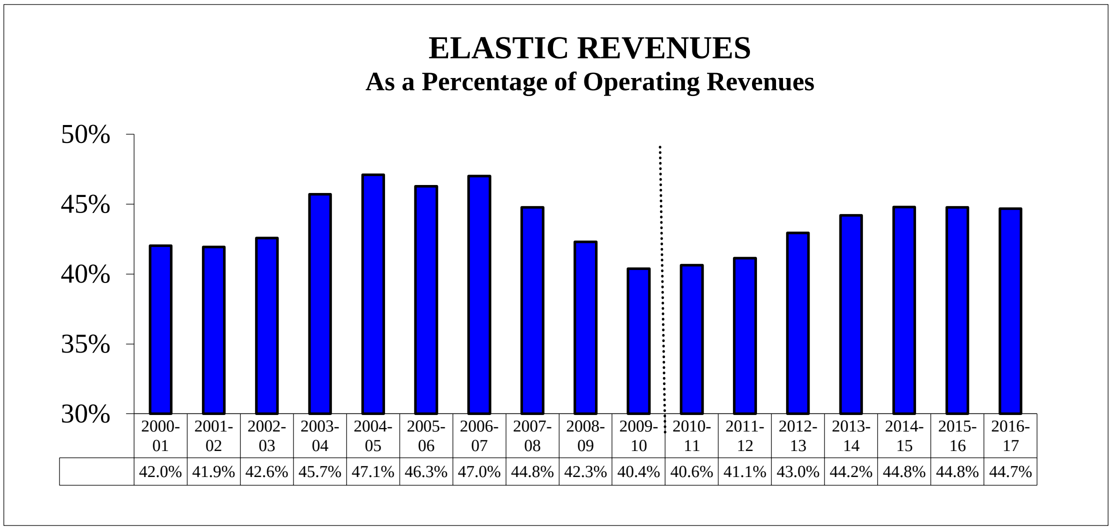
Comments and Analysis

The positive trend from FY 2000-01 through FY 2008-09 took a sharp turn downward in FY 2009-10 as the business community reacted to the national recession.

As Business License Tax revenues are based on gross receipts of individual business, we expect this revenue to remain flat in the near term, with modest recovery over the next five years (consistent with sales tax receipts). Additionally, the city is currently auditing local businesses to ensure accurate reporting of revenues and business license tax calculations.

Business license tax revenues are based on gross receipts of business conducted within the City. The city experienced a decrease of Business Tax Revenues in FY2009-10 and is projecting similar receipts for FY 2010-11 due to the recession hitting the business community. Recovery in Business License tax, similar to sales tax, is projected to be slow in FY 2011-12 and FY 2012-13, then slightly higher in the FY 2013-14 through FY 2016-17 time period.

Indicator 6: Elastic Revenues



2011 Finding: **Warning**
2009 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 remained between 42% and 47% between FY 2003-04 and FY 2007-08. Reductions in FY 2008-09 and FY 2009-10 resulted from the national recession, and the city became more reliant on other stable revenue sources (e.g. Property tax). Additionally, an emergency reserve policy exists 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.

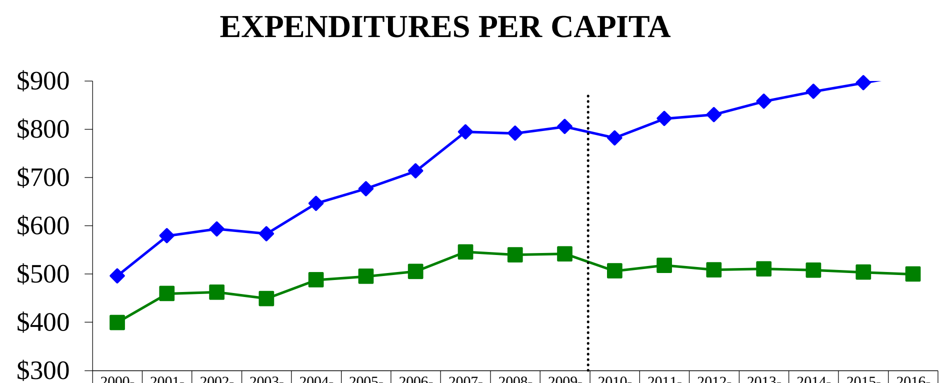
General Fund Expenditures

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



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Actual Dollars	496	579	594	584	646	677	714	795	792	806	782	822	830	858	879	896	915
Constant Dollars	400	459	462	449	488	495	505	546	540	542	507	518	509	511	508	504	500

2011 Finding: Caution
2009 Finding: Caution

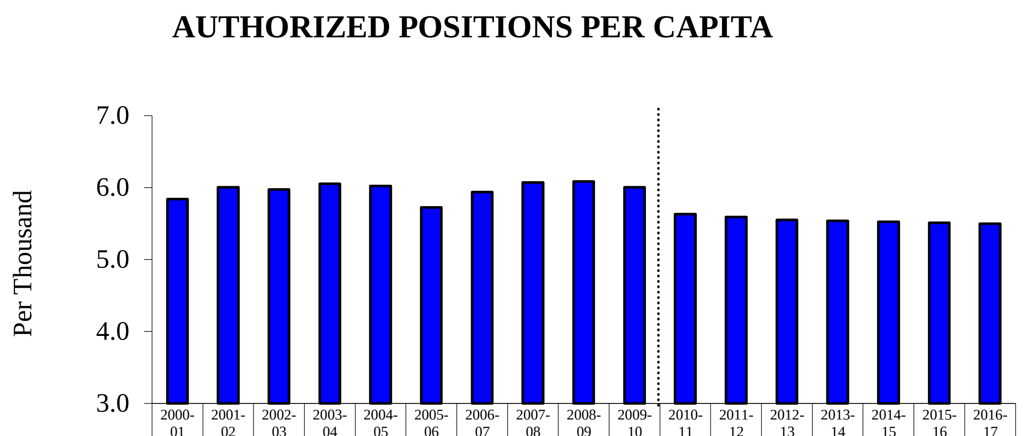
Description

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 in addition to rising medical insurance rates. Although there has been slow growth in population, the real cost to provide services to support capital and operational demands have increased disproportionately. Decisions made in FY 2008-09 and FY 2009-10 regarding labor concessions, retirements and departmental organizations essentially flattened the increases and are projected to continue to minimize the impact of future revenue constraints. Furthermore, there is a risk of under investing in the City's infrastructure which could result in service disruption r unplanned repairs. For these reasons we have assigned a "Caution" rating to this indicator.

Indicator 8: Authorized Positions Per Capita



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	5.8	6.0	6.0	6.1	6.0	5.7	5.9	6.1	6.1	6.0	5.6	5.6	5.5	5.5	5.5	5.5	5.5

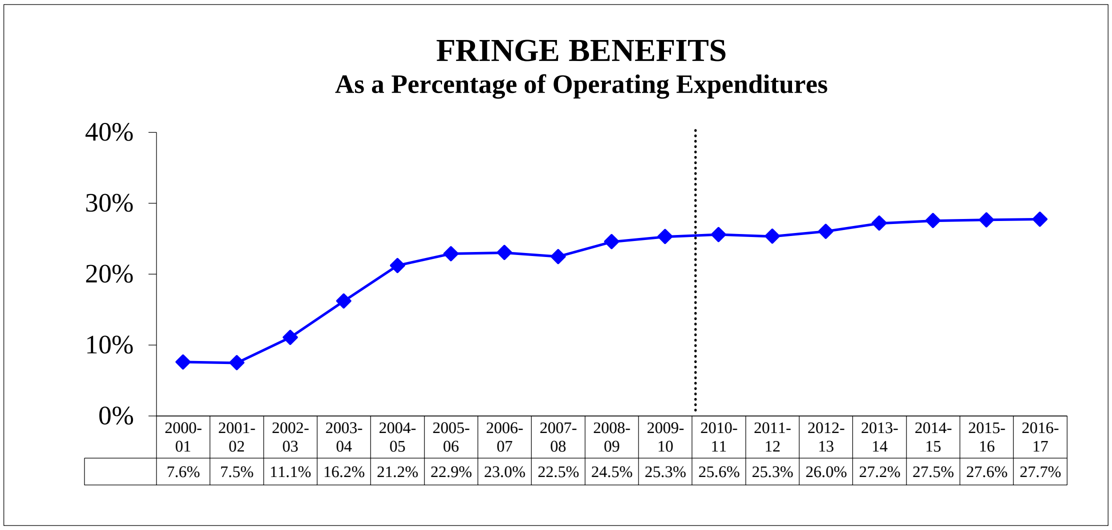
2011 Finding: **Caution**
2009 Finding: **Favorable**

Description
This indicator measures the number of full time 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 have declined since 2008-09, and we are now operating at a minimum staffing level, resulting in longer response time to citizen requests and ultimately negatively impacting service levels. As economic recovery continues, the City needs to be ready to increase staff to ensure community needs are met.

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



2011 Finding: Unfavorable
2009 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.

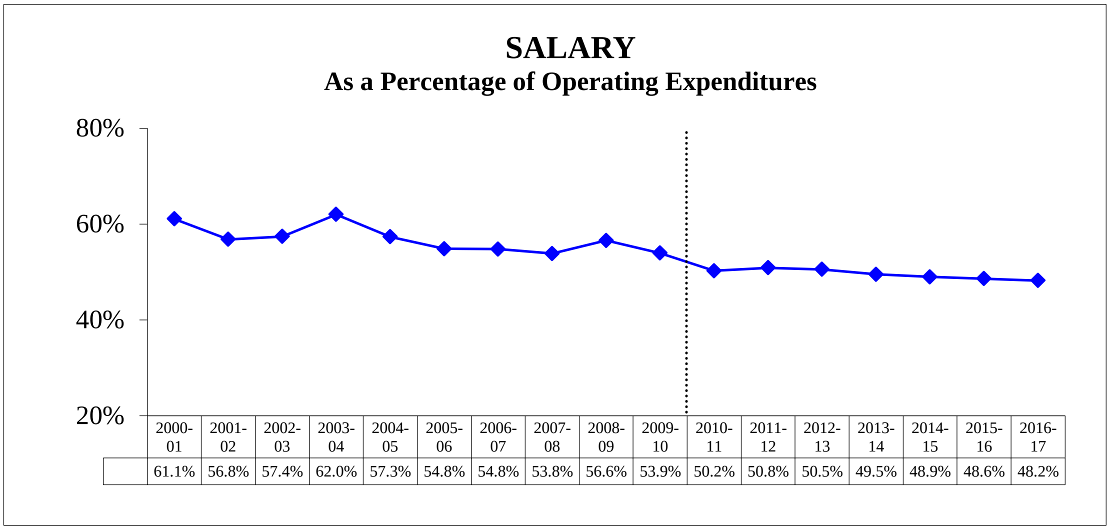
Comments and Analysis

Fringe benefit costs as a percentage to the City's total operating expenditures has experienced a significant increase over the past 10 years. 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 reinstated as part of the FY 2007-09 budget cycle. Staff expects retirement benefit costs to increase over the next few years as a result of CalPERS investment losses, then stabilize around 2015-16. Additionally, health insurance rates are projected to stabilize beginning in FY 2010-11 as a result of labor concessions that capped the City's contribution toward medical rates for most bargaining units. As a result, we have upgraded this rating to Warning for this indicator.

The employee benefits category reflects a moderate of growth over the forecast period. The growth rate is primarily a result of increases 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. Additionally, the market losses realized in recent years for CalPERS are so significant, it is estimated that the City will experience significant rate increases in 2011-12 and FY 2013-14.

Increases in health care costs are projected to continue at an average annual 5% in FY 2011-12 and FY 2012-13, reducing to 4% in FY 2013-14 and out. This reduction in medical rate increases is due to the medical insurance rate cap agreed to by the bargaining units in FY 2009-10 and FY 2010-11.

Indicator 10: Salary as a Percentage of Operating Expenditures



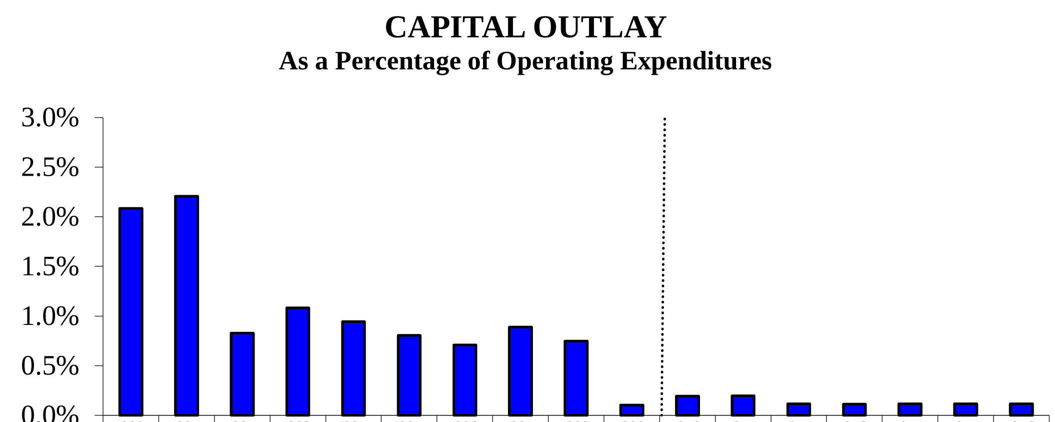
2011 Finding: **Favorable**
2009 Finding: **Favorable**

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 61.1% in FY 2000-01 ($20.9 million) to 53.9% in 2008 ($32.8 million) is offset entirely by the escalating cost of benefits discussed on the previous page. Overall, labor costs in FY 2000-01 were 68.6% of expenditures compared to 79.2% in FY 2009-10. Continued monitoring of this indicator is warranted since these expenditures represent the largest category of General Fund operating costs.

Salaries have continued to account for more than 50% of the City's operating expenditure budget. Even with the early retirements in FY 2009-10 the percentage of salaries to total expenditures is expected to be relatively consistent. Annual step increases have been included in the salary projections. No Cost of living was included for FY 2011-12 or FY 2012-13, however 1% was included in FY 2013-14 and FY 2014-15, increasing to 1.5% in FY 2015-16 and FY 2016-17.

Indicator 11: Capital Outlay



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	2.08%	2.21%	0.83%	1.08%	0.94%	0.81%	0.71%	0.89%	0.75%	0.10%	0.19%	0.20%	0.11%	0.11%	0.11%	0.12%	0.12%

2011 Finding: Warning
2009 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 0.10 percent of total operating expenditures to a high of just over two percent of operating expenditures during the past ten years. A rating of Warning 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.

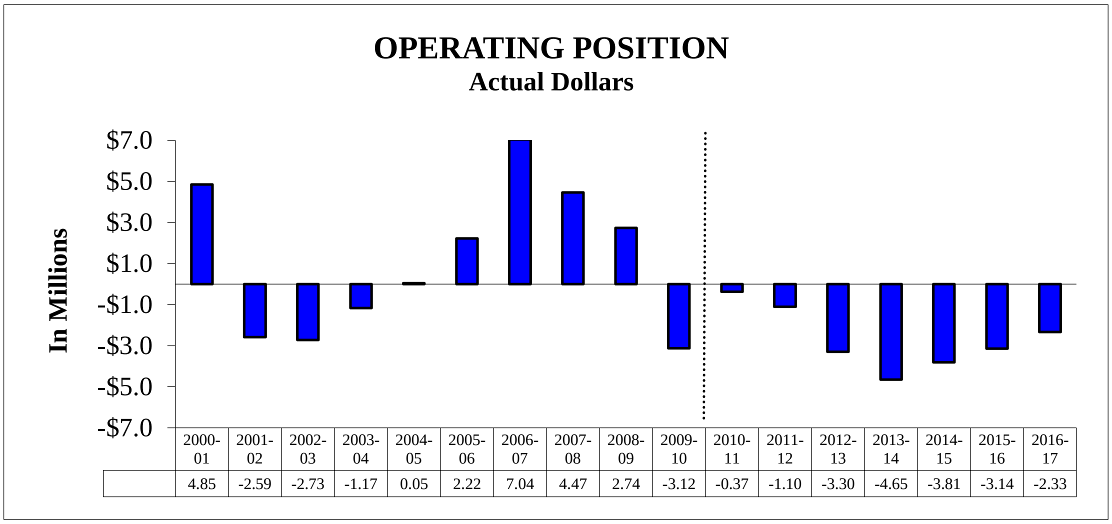
General Fund Operating Position

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



2011 Finding: **Unfavorable**
2009 Finding: **Warning**

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 2010-11 or the next two year budget cycle given the impact of the economic downturn.

Recommendation:

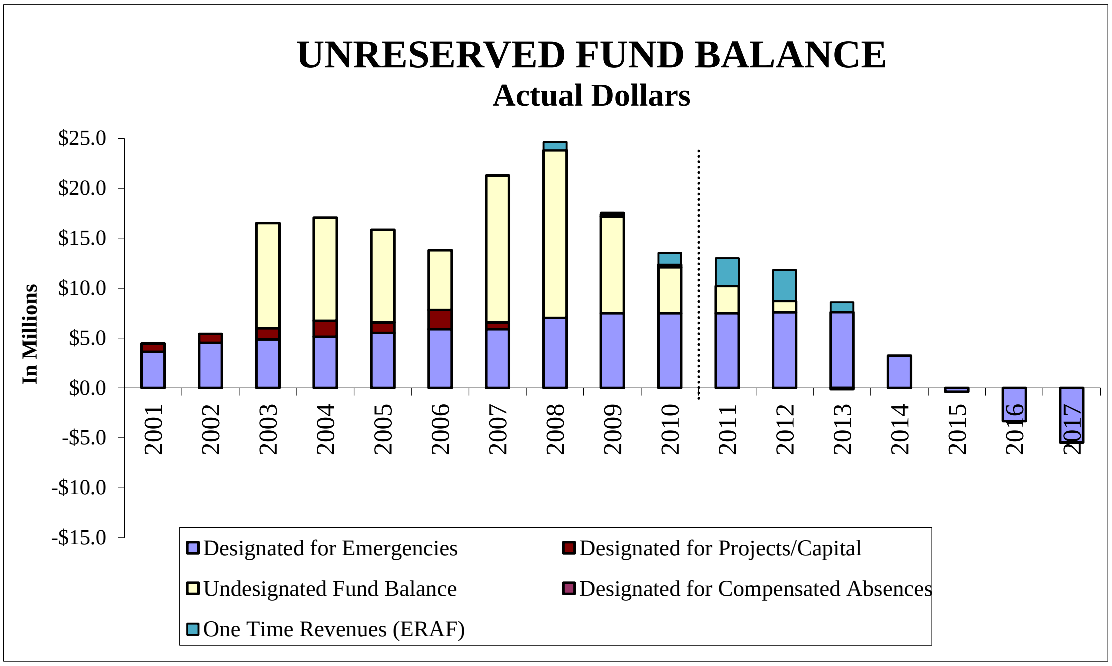
During a period of economic decline and reserves are utilized to balance a budget, steps should be taken at the earliest time possible to reverse negative trends. Staff will follow up with recommendations to address this situation in the next budget cycle.

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 2010-11 through 2016-17.

Labor costs are the primary driver of expenditures, which are projected to increase by an average of 1.7% 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.

Indicator 13: Unreserved Fund Balance/Reserve Funds



2011 Finding: **Unfavorable**
2009 Finding: **Caution**

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

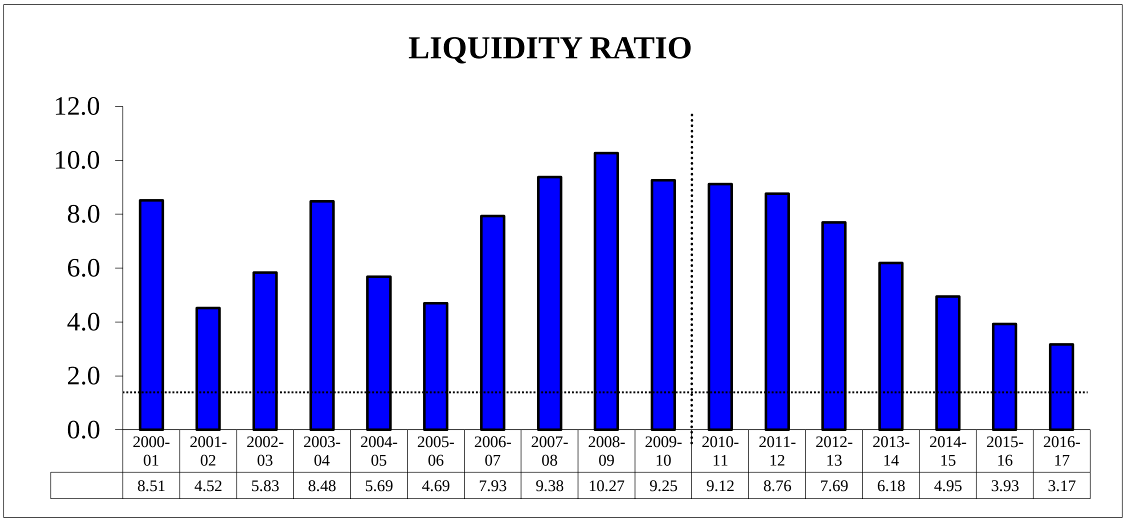
The City has a fiscal policy designating an amount equal to 12% of annual operating expenditures as an emergency reserve and has achieved full compliance since FY 2007-08. Fund Balance has been used to meet budget shortfalls in recent years. Since FY 2003-04, the City transferred reserves from the Building Reserve ($1.5 million), Capital Project Reserve ($2.3 million) and the Fleet Reserve ($1.4 million) to the General Fund to help fund the budget deficit until cost containment measures could be realized. Those borrowed reserves were fully replenished in the FY 2008 – 2010 budget cycle. The forecast indicates that the undesignated fund balance will be used to balance the budget in FY 2010-11 and fully depleted in the next two year budget cycle, which is the basis for the downgrade of finding for this indicator to Unfavorable.

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 in the next budget cycle.

The Operating Position discussed in the previous slide reflects a deficit in the City's operating position in fiscal year 2010 and continuing through 2017. 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.

Indicator 14: Liquidity Ratio



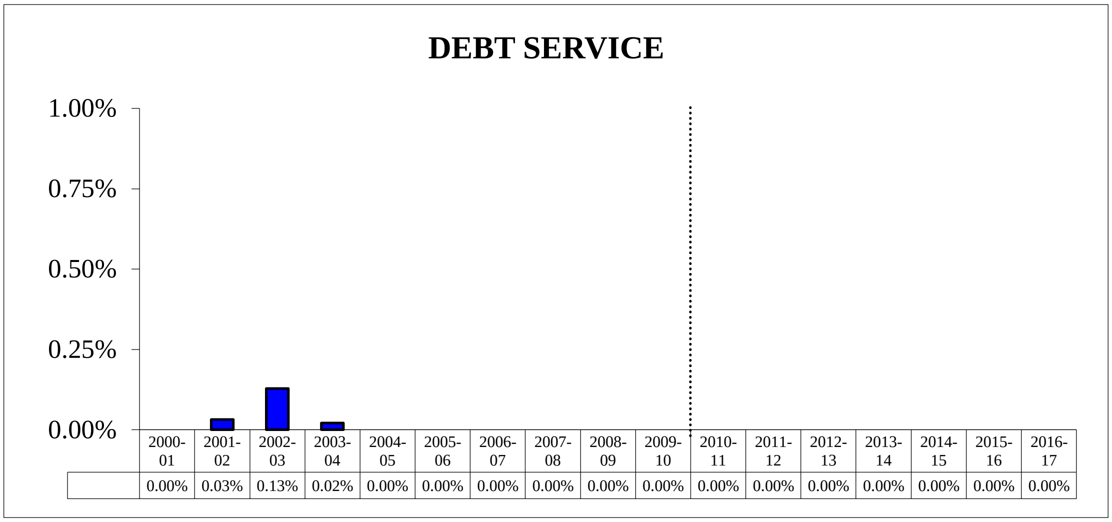
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	8.51	4.52	5.83	8.48	5.69	4.69	7.93	9.38	10.27	9.25	9.12	8.76	7.69	6.18	4.95	3.93	3.17

2011 Finding: **Favorable**
2009 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 than 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 9.25 at the end of fiscal 2010. Even with the structural deficit the City is still able to maintain a Liquidity measure well above the 1:1 policy level.

Indicator 15: Debt Service



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	0.00%	0.03%	0.13%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

2011 Finding: **Favorable**
2009 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.

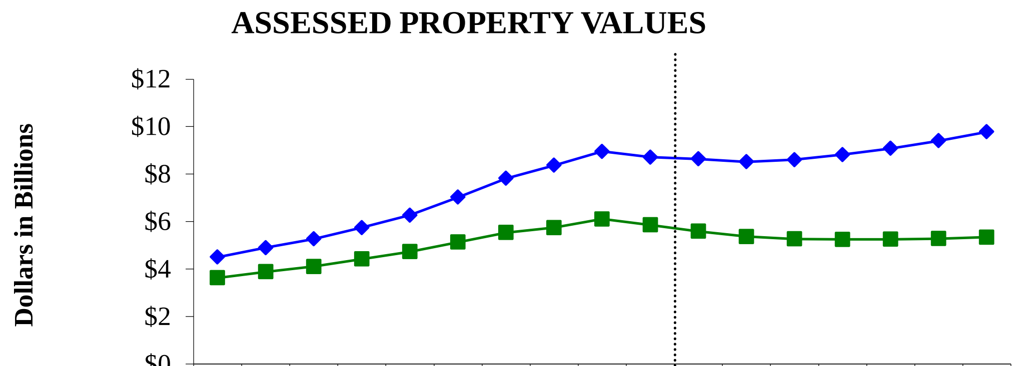
Because of the City's dependence on property tax revenues, the City's largest source of operating revenue (35%), a further analysis has been done on the change in assessed property values from year-to-year. Property values continue to trend upwards as they have done for the past several years.

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



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Actual Dollars	4.51	4.90	5.27	5.75	6.27	7.03	7.82	8.37	8.95	8.71	8.64	8.52	8.61	8.82	9.09	9.40	9.78
Constant Dollars	3.63	3.89	4.11	4.42	4.73	5.14	5.54	5.75	6.11	5.86	5.60	5.37	5.27	5.25	5.26	5.29	5.34

2011 Finding: **Unfavorable**
2009 Finding: **Caution**

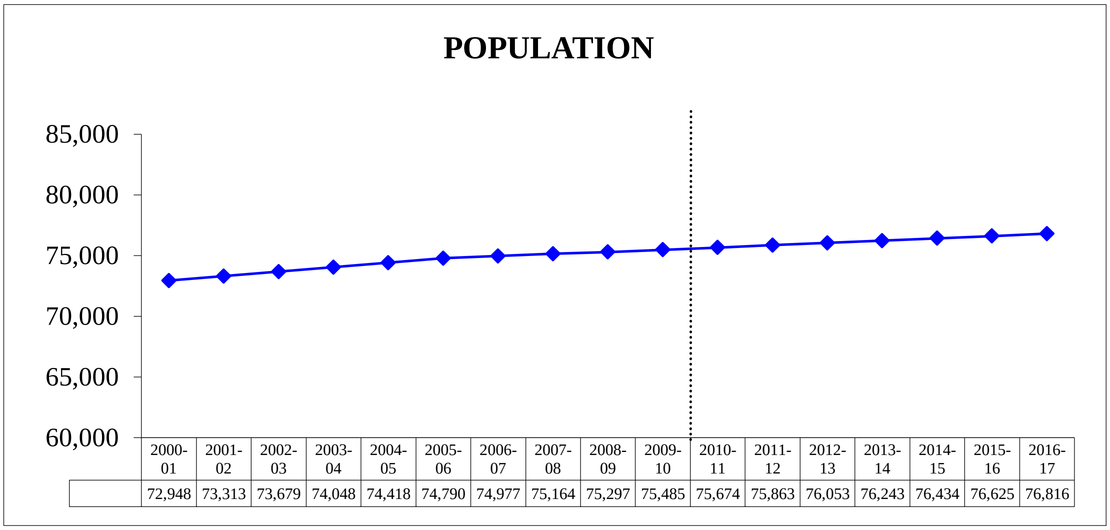
Description

Assessed property values, in both actual and constant dollars, are of primary importance to the City because property tax revenue, comprising 38% of the total General Fund operating revenues in fiscal year 2009-10, 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 valuation had been negatively impacting the City since FY 2008-09. With the unstable housing and credit markets, further decline is projected through FY 2011-12 due to revaluation of both residential and commercial properties. Recovery in FY 2012-13 and beyond is anticipated to be slow over the next few years.

Indicator 17: Population



2011 Finding: Favorable
2009 Finding: Favorable

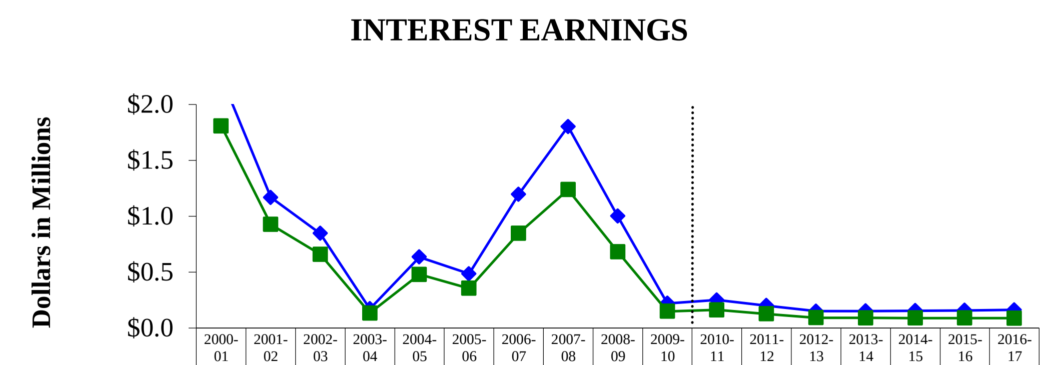
Description

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 slowly and steadily 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.

Interest Earnings

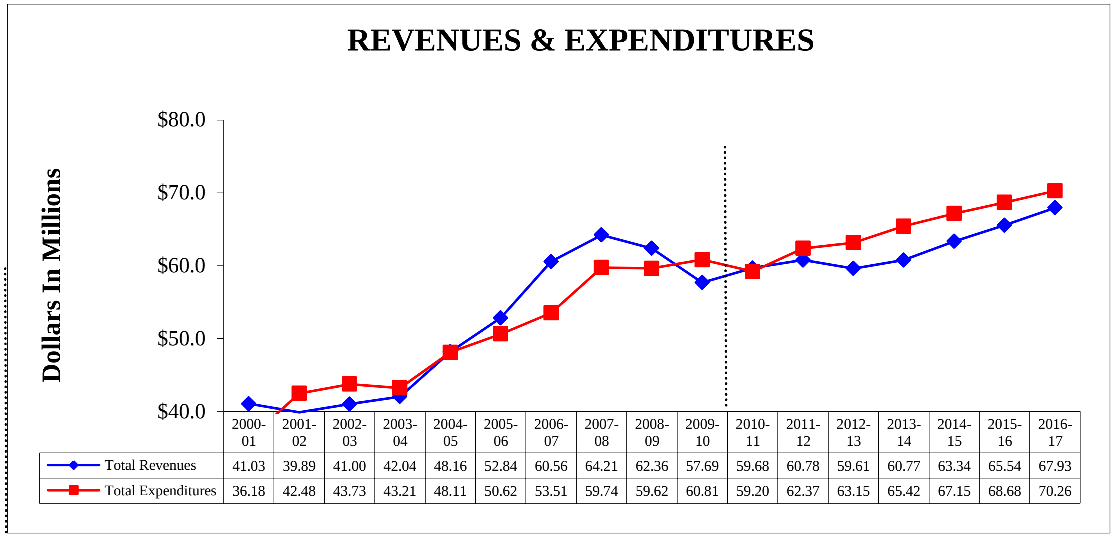


	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Actual Dollars	2.24	1.17	0.85	0.17	0.63	0.48	1.20	1.80	1.00	0.22	0.25	0.20	0.15	0.15	0.15	0.16	0.16
Constant Dollars	1.81	0.93	0.66	0.13	0.48	0.35	0.85	1.24	0.68	0.15	0.16	0.13	0.09	0.09	0.09	0.09	0.09

The City's investment policy, reviewed and adopted each year places emphasis of the investment of City funds on safety, liquidity and then yield, so an independent rating is not given for Interest earnings

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. Investment earnings are not expected to rebound until the City returns to a positive operating position.

Revenues & Expenditures



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Revenues	41.03	39.89	41.00	42.04	48.16	52.84	60.56	64.21	62.36	57.69	59.68	60.78	59.61	60.77	63.34	65.54	67.93
Total Expenditures	36.18	42.48	43.73	43.21	48.11	50.62	53.51	59.74	59.62	60.81	59.20	62.37	63.15	65.42	67.15	68.68	70.26

Total revenues are forecast to grow by an average annual increase of 2.4% per year.

While there is expected moderation of benefit costs, expenditures are projected to increase at an average annual rate of approximately 2.1% per year. Projected expenditures are based on a “hold the line” budget with no new General Fund positions, and no new programs throughout this plan.

As indicated on the graph, the forecast predicts that the City will experience a deficit position through 2017, given the assumptions in the model unless additional expenditure reductions are initiated.

IV: FINDINGS AND CONCLUSIONS

The information provided in the preceding pages indicates that the City of Napa is experiencing a period of fiscal challenge. The local economy is struggling to recover from the recent recession that had world-wide impacts.

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 a forecasted structural deficit continues through 2017, unless additional reductions are implemented.

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 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 $9 million over the next ten 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. An ongoing local, state or federal funding source to address the City's major maintenance or reconstruction projects needs to be identified.

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 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.

RECOMMENDED ISSUES FOR STUDY/ACTION

- Bringing operating revenues and expenditures into alignment.
- Long term funding sources for new facilities and existing infrastructure.
- Labor cost containment alternatives.
- 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.