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Honorable Mayor and Council Members:

I am pleased to present the Adopted City of Napa Budget for Fiscal Years 2009-10 and 2010-11. The document itself is designed to provide a comprehensive overview of City activities and programs during the twenty-four month period beginning July 1, 2009. The budget explains the City's organizational structure, includes basic program descriptions and provides an overview of the City's finances and related budget priorities and issues. These elements combine to enhance the utilization of this document as a communication device, a financial plan, a policy tool and an operations guide for the City Council and the Citizens of Napa.

This budget balances the need to be responsive to the service requirements of residents, businesses and visitors in our community with the need to operate within the limits of available resources. Development of this budget was a challenging exercise that presented difficult decisions and yet still maintains, and in some areas enhances, the excellent service levels currently in place.

The adopted Budget reflects the desires and priorities established by the City Council and citizens in prior workshops, tempered by the realities of an economy impacted by severe challenges at every level. The total Budget including all funds (\$170.2 million in 2009-10 and \$160.6 million in 2010-11) includes recommendations from the adopted Long Term Financial Plan and City Council priorities, in addition to operational and capital funding to address the current and future needs of the community. The total General Fund Budget of \$65.9 million in FY 2009-10 represents (-1%) reduction in spending or (-\$930,000) compared to the first year of the last approved spending plan in FY 2008. The second year of the adopted Budget includes a 4% or \$2.4 million increase.

State of the Economy

Preparation of this budget was made more difficult since it is being prepared in the midst of a global economic crisis with weakening financial conditions at every level. Even the global economy is projected to contract this year for the first time since WWII. Experts believe we are experiencing not only the longest, but the most painful recession in modern history. At a national level the continued downturn in industrial capacity combined with continually weaker labor markets, a drop-off in consumer spending, the crumbling housing market and a prolonged credit freeze ensure that the economy will not recover until well into the next fiscal year.

At the State level, the condition of the economy is no better and the impact to a weakened State government could be severe. All major sources of revenue are in decline. The State Budget is, as is typical, a shambles. Projected State deficits could reach record proportions in the near term and the dysfunctional nature of the State financial structure and budgetary management/controls will quite possibly result in epic

political and programmatic conflict with potential impacts to the fiscal stability of local government.

State of the City

The City is not immune to the impacts of the downturn in the economy. As will be outlined in this document, the City is experiencing diminished revenues, reduced growth rates and increased 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 is in a relatively positive position to weather the poor economy with limited impacts to public services.

The City of Napa is now poised to gain from the major public and private investments that have been made in our community. Each of the following new projects will generate much needed economic support over the next few years and, at least partially, insulate us from the negative economic impacts described above:

Avia Hotel (1400-1500 1st St.) – a five story 148 room all suites hotel with 2,000 square feet of meeting space, a business center and 12,000 sq. ft. of ground floor retail.

Westin Verasa Napa Hotel (1314 McKinstry St.) – A four diamond 160 room condo hotel on a 4.62 acre site adjacent to the Napa River. The Verasa has 3,700 square feet of restaurant/lounge, 17,000 square feet of meeting space and underground parking.

Ritz Carlton Napa (Corner of 1st St. and Silverado Trail) – The entitlement process is complete and construction should begin within six months on this five star resort hotel. The Ritz will include 350 rooms, meeting and banquet facilities, restaurants and retail with parking underground.

River Front Development (600-700 Main St.) – Mixed use riverfront development with 44,000 sq. ft. of ground floor retail, 30,000 sq. ft. of office space and 50 residential units all served with structured parking.

Oxbow Public Market (606-644 1st St.) – Specialty market with 30,000 sq. ft. of retail and activity areas including an 8,000 sq. ft. deck.

Zeller Building (1315-1321 1st St.) – Two story 12,000 sq. ft. office building with a plaza, a clock tower and ground floor retail.

Main Street West (corner of Main and Clinton Streets.) – Three story 38,000 sq. ft. mixed use building with offices over ground floor retail.

As a result of this investment in our community and the standing enjoyed by Napa Valley as an outstanding business and vacation destination, the City will be able to withstand the most severe impacts of the spiraling economy and begin slowly growing once again, hopefully, by the middle of the next fiscal year.

Summary

Developing a spending plan during these tumultuous times requires careful planning, long range vision and aggressive management of resources. The Budget adopted by City Council reflects these standards. The Budget incorporates the findings illustrated in the adopted Long Range Financial Plan (See Appendix E for abbreviated version of LTFFP). As indicated in that analysis, the next budget cycle will include short term operating shortfalls; it will be necessary to draw down *rainy day reserves* established for that purpose.

The impact to those reserves has been limited through efficiencies achieved by organizational restructuring and application of new technology or updated systems. And yet, we must remember that the changes to the economic climate occur quickly and this demands we be prepared to monitor and react to continuing economic threats. The City cannot enter the subsequent budget cycle without achieving a positive operating position. To that end we will begin early in the next fiscal year to identify additional cost containment opportunities and revenue generation ideas. The City Administration is committed to continuing the management of the economic resources of this City in a conservative and responsive manner. The City Council will be apprised on an ongoing basis of the status of these efforts. I welcome your input, your advice and your guidance.

Acknowledgements

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



Mike Parness
City Manager

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

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