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Honorable Mayor and Council Members:

I am pleased to present the Adopted City of Napa Budget for Fiscal Years 2011-12 and 2012-13. This document provides a comprehensive overview of City activities and programs during the twenty-four month period beginning July 1, 2011. The budget explains the City's organizational structure; includes program descriptions; provides an overview of the City's financial condition and defines 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.

The proposed budget reflects the priorities established by the City Council and citizens in prior workshops (see Council Priorities Section following this transmittal letter). Per Council direction, this spending plan balances the need to be responsive in providing services to residents, businesses and visitors with the realities of the "new normal" state of the economy and the limits of available resources. Development of this budget was a challenging exercise that presented continued difficult decisions in uncertain economic times.

The total budget including all funds ($171.5 million in FY 2011-12 and $170.5 million in FY 2012-13) includes City Council priorities, in addition to operational and capital funding to address the current and future needs of the community.

The total General Fund Operating Budget of $62.4 million in FY 2011-12 represents a 2% reduction in spending (-$1,000,000) compared to the FY 2010-11 adjusted budget. For FY 2012-13, the Proposed Budget projects an increase in spending of 1% ($787,000).

Key points

- Staffing levels will be reduced by 3.95 full time equivalent positions (FTE's) in FY 2011-12 and another 2.11 FTE's in FY 2012-13 (see Appendix "A" Staffing Analysis and Plan).
- There is no cost of living adjustment (COLA) factored into this two year budget for city employees.
- The proposed budget contains no recommended tax increases, major fee adjustments or new assessments.
- Revenue growth is projected to be flat in the coming year and grow slowly in subsequent years (See Long Term Financial Plan Appendix or Economic Assumptions in the Budget Overview Section).

- Operating expenditures will continue to exceed revenue levels requiring that reserves, set aside for that purpose, be used to balance the operating budget (details available in Budget Overview Section).
- Approved Decision Packages, or Departmental requests for additional positions, funding for new initiatives or service enhancements, are summarized in the Budget Overview Section following this letter. The total cost of all Decision Packages in FY 2011-12 is $1.13 million with $543,000 coming from the General Fund. In FY 2012-13 recommended Decision Packages total $0.89 million from all funds and $414,000 from the General Fund.
- The total program costs for Capital Improvements recommended in this two year budget is $17.5 million (see Section 10 - Five Year CIP). Contributions for projects within the General Fund amount to 11% of the total two year CIP.

State of the Economy

This budget was prepared under the pressure of the prolonged global economic crisis. While conditions are less bleak than when the previous budget was developed, revenue impacts – particularly in terms of property tax revenue – continue to be severe, with significant recovery still far down the road. Our ability to "grow out" of the revenue problem continues to be hampered by tight credit markets, limiting the opportunities for local economic development.

At the State level, ripple effects from the proposed criminal justice system realignment, threats to redevelopment funds, and shifting political pressures combine to create uncertainty. Revenues have begun to show recovery, but the State's massive debt looms over our City and every municipality in the state. The State's needs conflict with our goal of fiscal stability for the City of Napa.

State of the City

The City continues to experience reduced or, at best, flat 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.

While lay-offs and significant reductions in primary services have been limited, the City has reduced staff resources by nearly 40 positions over a four year period. Impacting some service levels under these circumstances is unavoidable. Where possible service impacts have been avoided or minimized by implementing structural changes or consolidation of operations; more effective use of technology; systems enhancement and alternative service delivery options. Some departments have simply had to prioritize services and make difficult choices. With City Council input and direction; some services have been preserved at the expense of others. Some examples of operational changes that have occurred as a result of this prolonged period of budget reductions follows:

- City Manager – Elimination of the Assistant City Manager for Development Services has removed a key contact resource for developers and those wishing to invest in the City, while increasing the span of control and workload for the City Manager and development related Department Heads.
- Public Works – The Transportation Engineering Division has been consolidated within the Development Engineering Division. Reduced staff levels have made it

difficult to address traffic counts, speed surveys and intersection studies in a timely manner.

- Police Department – Since FY 2008-09 the Department has lost a total of 8.5 full-time positions (5 sworn and 3.5 civilian). These changes have moved the department to use civilian personnel for duties previously provided by sworn staff. Citizens are now asked to complete reports at the station or through our website limiting contact with Police personnel. Developing specialized skills or assignments focused on proactive enforcement is more difficult since patrol functions are the highest priority and staffing levels in that division must be maintained. Succession planning has been made more difficult given the elimination of a mid level manager position.
- Fire Department – The elimination of 6 full-time personnel since FY 2008-09 makes it more difficult to operate since staffing levels routinely reach minimum standards. This makes it difficult to provide training, requires inefficient practices when responding to fire calls since additional staff from other units must be called more often; and prevention services have been reduced, including education programs in the schools.
- Parks and Recreation – The elimination of 13.2 full and part-time positions since FY 2008-09 has required that the department reduce standards for maintenance of City buildings; groups reserving the use of facilities for events must pay more to provide staff supervision and security; park maintenance teams have been reduced by one supervisor and one full maintenance team, reducing park and facility maintenance services which are now scheduled based on priority of public utilization. The pressure is made more difficult since the City's inventory of developed park land continues to grow.

Despite the challenging economy and the continued pressure to do more with less, some positive signs are on the horizon, new development projects have come to life in recent months and others are moving forward in the near future:

- Kaiser Data Center Phase III Addition – Kaiser will be expanding their existing facility in the Napa Valley Corporate Park by 54,000 square feet. This expansion and major remodel will provide state-of-the-art computer technology for Kaiser medical records. Work on the expansion will begin this Fall.
- Meritage Hotel - The hotel is expanding by 165 rooms, they are building an additional 17,150 square feet of meeting space, a 2,500 square foot fitness center and a four lane bowling alley. This project will provide 28,000 square feet of indoor and outdoor event space resulting in a significant economic boost greatly enhancing the City's ability to attract larger groups seeking a location for conference space in the Valley.
- Vino Bello – The condominium development will start up this June and with completion by September 15th. Half of the 66 additional units will be one bedroom and the other half studio rooms.
- Fresh 'n Easy – This 15,700 square foot grocery store provides a much needed retail presence in the River Park Shopping Center in the space vacated by Vallergas Store a number of years ago. This store, which opened in April, provides a major increase in service to customers in the neighborhood that have been calling for this type of development for years.
- Century Theatres - The City Council recently approved this highly anticipated 12 screen, 2,051 seat movie complex. The projected opening of the facility is Fall of 2012.

There continues to be major interest in the City of Napa from national retailers and the hospitality sector – many of whom are ready to move when credit arrangements can be made.

Summary

Developing a spending plan during these tumultuous times requires careful planning, long range vision and aggressive management of resources. The Budget proposed to the City Council reflects these standards. The Budget incorporates the findings illustrated in the adopted Long Range Financial Plan (See Appendix D for the most recently prepared LTFP). While recognizing that signs of economic recovery are beginning to surface as indicated in that analysis, the next budget cycle will still 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 thus far through efficiencies achieved by the infusion of one-time revenues, 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. Examples of external threats to the City's financial stability include: continuation of the sluggish economy which can be influenced by energy prices, international events and lending practices; increased pension and benefit costs; the state government which is facing staggering deficits which may result in massive social and health service cuts, or transfers of program responsibility to local government. In addition, there are serious current threats sponsored by the Governor that would eliminate the City's Redevelopment program. The redevelopment agencies have served to provide a much needed stimulus to the local economy and represent the single greatest source of funding for subsidized affordable housing.

Based on the tenuous nature of our financial position and our declining reserves, the City should not enter the subsequent budget cycle without achieving a positive operating position. The Long Term Financial Plan shows expenditures outpacing revenues for the next two fiscal cycles. We will need to make $3 million in cuts and concessions to achieve balance going into FY 2013-14 or we will deplete operating reserves and start using emergency reserves, already funded at minimum recommended levels.

To address projected shortfalls going into the 2012-2013 fiscal year, City staff will begin early in the next fiscal year to identify additional cost containment opportunities and revenue generation ideas to be presented to the City Council for consideration in March of 2012.

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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