2012 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 continues a cautious recovery from the recession that has been felt both nationally and worldwide. The recent economic turmoil had negative impacts on the City's services and programs, and we will need to continue to make tough decisions to ensure we operate with our current revenue projections as the recovery continues.

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 2001-02 through FY 2010-11) and forecast including projections for the current fiscal year (FY 2011-12) and looking ahead six years through FY 2017-18.

The LTFP 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 2011 LTFP.

Description/Item	Status	Comments
Bring operating revenues and expenditures into alignment	In Process	Bringing the operating position into balance is the primary goal going into the next budget cycle. The City has made many efforts through departmental cuts and reorganizations, labor concessions and pursuing shared services and has made progress in balancing the budget.
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	The labor groups agreed to concessions through negotiations on existing MOUs over the past two years. Negotiations are currently underway with most labor groups. Benefit cost containment is top priority.
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. The loss of Redevelopment Agency Funds will impact the City's ability to fund infrastructure to support development (other funding tools will be pursued).
Service delivery options	In Process	Researching various options of sharing resources with other local entities to provide services more efficiently.
Opportunities for revenue development	In Process	User Fee Study underway. Council review of fees scheduled for Spring, 2012. Additionally shared services contracts with other public agencies (e.g. American Canyon) have been negotiated and will be phased in over the next few years.

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. Staff is recommending that the Fiscal Policy Statements be amended as follows:

<u>Operating Budget Policies</u>

A policy has been added specifying the transfer of Working Capital or Undesignated Fund Balance of the Water Enterprise Fund that is above 90 days of operating costs or 25% of annual operating and maintenance costs into the Capital Improvement Reserve. This transfer will be completed each year as part of the year end close process. *(Reference page 6)*

<u>Utility Rates and Fee Policies</u>

A policy has been added specifying that water rates shall be established at a level that supports operating costs as well as capital investment in the system equal to or greater than the level of annual depreciation of the system assets based on the average of the previous five years. *(Reference page 7)*

Reserve / Fund Balance Policies
A policy has been added specifying the transfer of Undesignated Fund Balance in the General Fund that is above 5% of the Operating budget, as reviewed and approved by Council, to one time expenditure accounts like Reserves or Capital Projects rather than subsidizing operations as reviewed and approved by Council. This transfer will be completed each year as part of the year end close process. *(Reference page 9)*

A policy has been added creating a Capital Facilities Replacement Reserve to provide funds for the expansion of existing city facilities or the creation/renovation/acquisition of new facilities that meet the workforce needs of city services. Amounts transferred to this fund shall be from the general fund's undesignated reserve. *(Reference page 11)*

A policy has been added designating the City Manager (or his designee) as the authority to expend Water Enterprise Emergency Reserves to address critical needs within the water system. In accordance with NMC 2.91.04, the item will be taken to Council at the first feasible time at a regularly scheduled council meeting. *(Reference page 12)*

Staff anticipates that the specific Fiscal Policy for the Solid Waste and Materials Diversion Fund will be revised in the summer of 2012 largely because of major necessary capital upgrades to the Materials Diversion Facility (MDF) composting system but also to make it more consistent with the policy and practices for other major City enterprise fund such as Water. The costs of these major upgrades to the MDF is not yet known but will be forthcoming from an independent analysis by CH2M Hill Engineering as well as the potential impact of a State energy grant, both of which should be known by June 2012.

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

Council Action
Move to accept the 2012 status update and revisions to the fiscal policy.

Fiscal Policy Statement	Status	Comment
General Financial Goals		
To maintain and enhance the sound fiscal condition of the City.	--	The 2011-13 Budget has a negative operating position in both fiscal years. This situation is being addressed through efforts aimed at controlling labor costs, reducing operating costs (by reducing positions or services) and pursuing opportunities for shared services. *(Reference: Section V: Gap Closing Measures) Structural budget balance will be achieved in FY12/13.*
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 Budget has a negative operating position in both fiscal years. As noted above, this situation will be addressed during the Mid-cycle Review (June, 2012) with new revenues (shared services), programmatic reductions and labor concessions.
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 has developed a 10 year equipment replacement schedule and will be revising contribution rates to match the schedule of replacement funding needed in the next budget cycle (2013-2015),
The City will forecast its General Fund expenditures and revenues for each of the next six years and will update the Long Term Financial Plan forecast at least annually.	√	
Legend: √ **=** *Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

Operating Budget Policies *(Cont'd.)*		
The City will review, on a bi-annual basis, the General Fund operating position (operating revenues less operating expenditures) to determine if funds are available to operate and maintain future public facilities.	√	
If funding is not available for operations and maintenance costs, the City will delay construction of proposed new facilities.	√	New projects are evaluated for operations and maintenance impacts. Future projects could be delayed due to a lack of operating resources.
The Working Capital or Undesignated Fund Balance for the Water Enterprise Fund is to be maintained at a minimum 45-90 days of operating expenses or 12.3 to 25 percent of Operating and Maintenance costs.	√	The June 30, 2011 balance is greater than 12.3% of Operating and Maintenance costs.
The City will transfer Working Capital or Undesignated Fund Balance of the Water Enterprise Fund that is above 90 days of operating costs or 25% of annual operating and maintenance costs into the Capital Improvement Reserve.	+	Working capital above 25% of annual operating and maintenance costs will be transferred to Capital Improvement Reserve as part of the year end close process.
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 Spring 2012.
Non recurring revenues will be used for non-recurring expenditures only. (Including capital and reserves)	√	
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.	√	

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

Fiscal Policy Statement	Status	Comment
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 was presented to the City Council during the summer of 2011. Solid Waste and Recycling rates increased 4.85% effective July 1, 2011.
Water rates shall be established at a level that supports operating costs as well as capital investment in the system equal to or greater than the level of annual depreciation of the system assets based on the average of the previous five years.	+	Rates adopted in September 2011 support operating costs as well as funding $3 million in capital improvements that is above the annual depreciation. ($3.1 million)
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.	√	
The City shall contract with outside consultants for peaks in workload, when a project is limited in term and/or scope, or when specialized expertise is necessary and it is more cost- effective to hire a consultant than add a full- time staff position. Conversely, for longer term needs (3-5 years) and when it becomes more cost-effective, the City shall consider adding full -time staff.	√	
Capital Improvement Budget Policies		
The City will make capital improvements in accordance with an adopted capital improvement program.	√	
The City will develop an annual five-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.	√	
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 *(Cont'd.)*		
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and who's 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 Street Resurfacing Budget includes transfers of $2.9 million in FY 2011-12 ($1.4 million from the Traffic Fund, and $1.5 million from the Materials Diversion Fund). The Budget for FY 2012-13 includes transfers of $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 or a recommendation by the Parks and Recreation Commission and subsequently approved by City Council.	√	
The Water Fund shall propose a budget that includes a minimum investment in infrastructure of $3 million annually for five years starting in FY 2012-13 to be funded by rate based revenue and connection fees from development.	√	The FY2011-12 budget invests $3 million in Capital Improvements.
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/Fund Balance Policies		
In accordance with GASB 45, Unrestricted Fund Balance is assigned to the following categories: committed, assigned and unassigned. The City shall reduce committed or assigned fund balance first only if the expenditures incurred are for the purpose for which the funds were originally committed or assigned. Otherwise, unassigned fund balance shall be reduced first, followed by assigned, and then committed.	√	*Nonspendable* funds are not in a spendable form (such as inventory) or are required to be maintained intact (endowment). *Restricted* funds are constrained to specific purposes by their providers (such as grantors, bondholders, and enabling legislation). *Committed* funds have constraints imposed by formal action of Council. *Assigned* funds are amounts constrained only by the City's intent for specific purpose expressed by the council or delegated authority. *Unassigned* are residual funds available for any purpose and are not otherwise categorized above. Fuller definitions regarding GASB Statement 45 fund classifying categories are included in the FY 2010-11 financial statements.
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% in total reserves, including the Emergency Reserve. The City will transfer Undesignated Reserves in excess of 5% of the operating budget to one time expenditure accounts like Reserves or Capital Projects as reviewed and approved by the Council. This transfer will be completed each year after the audit of the Financial Statements is complete.	-- +	Undesignated Fund Balance is projected to be in compliance during 2011-12 but is projected to be drawn to less than 2% of the operating budget 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, with plans to move the FY 2012-13 Undesignated Fund Balance into compliance with the Mid Cycle Review to be presented to the Council in June, 2012.

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/Fund Balance Policies *(Cont'd.)*		
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, such as a natural disaster, that could not be reasonably foreseen during preparation of the budget. The use of the General Fund Emergency Reserve must be approved by City Council.	√ --	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. The City is actively working on cost containment measures to keep in compliance with policy levels, with plans to move the FY 2013-14 Emergency Reserve into compliance with the Mid Cycle Review to be presented to the Council in June, 2012.
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. Compliance will be achieved as the economy improves.
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 obligation, the contribution rate as a percent of payroll 3.0% for FY 2011-13 with an assumed discount rate of 7.75%. The City made its initial contribution to the California Employers' Retirement Benefit Trust (CERBT) in June 2010.
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/Fund Balance Policies *(Cont'd.)*		
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 years' 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. FY 2011-12 has a reserve of $224,230, which will be increased to $250,000 in FY 2012-13.
Fund Balance amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, are to be reported as Assigned Fund Balance. The Finance Director is designed the authority to "assign" amounts to be used for specific purposes. Those amounts are to be reported in the financial statements as "Assigned Fund Balance" in compliance with GASB Statement 54.	√	
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.	--	FY 2011-12 reserve levels are $5.2 million. This amount is $246K or 3.6% less than the 80% confidence level goal of $5.5 million. Compliance will be achieved as the economy improves.
A Capital Facilities Replacement Reserve shall be established for the purpose of providing funds for the expansion of existing city facilities or the creation/renovation/acquisition of new facilities that meet the workforce needs of city services. Amounts transferred to this fund shall be from the general fund's undesignated fund balance.	+	
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/Fund Balance 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 a Water Capital Improvement Reserve to pay for unforeseen cost escalations to CIP projects and future compliance projects. The reserve will be maintained at a minimum level of 10-20% of annual capital improvements to the Water System.	√	The funding level in FY 2011-12 is $4,697,246. which equates to a 20% Reserve and $4.1 million for compliance projects.
The City will establish a Long Term Water Supply Reserve and set aside $200,000 annually from the operating fund	√	The funding level in FY 2011-12 is $400,000
The City will establish a Water System Renewal and Replacement Reserve for unforeseen and unbudgeted replacements or repairs. The reserve will be maintained at a minimum level of 10-20% of annual capital improvements to the Water System.	√	The funding level in FY 2011-12 is $400,000, which equates to 13.5%
The City will establish a Water Fund Emergency Reserve to fund operating or capital expenditures required as a result of unbudgeted financial liability. The reserve will be maintained at a level of 5-10% of annual operating expenditures excluding debt service	√	The funding level in FY 2011-12 is $960,000 which equates to 5.6%
The City Manager (or his designee) has the authority to expend Water Enterprise Emergency Reserves to address critical needs within the water system. In accordance with NMC 2.91.04, the item will be taken to Council at the first feasible time at a regularly scheduled council meeting	+	Emergency repairs to the water system can represent an immediate need and may need to be executed at the highest staff level, then reported to council.
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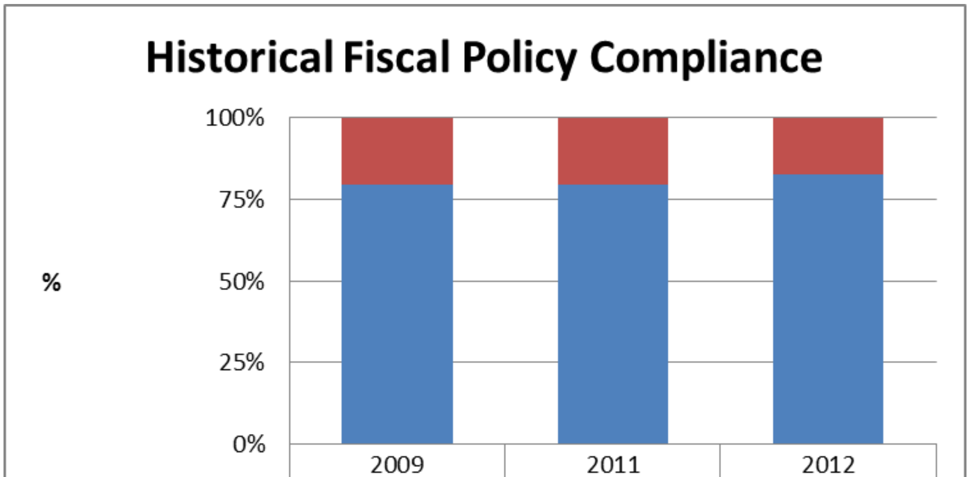
Fiscal Policy Statement	Status	Comment
Reserve/Fund Balance Policies *(Cont'd.)*		
The City will establish a Golf Course Operating Reserve to cover costs during a year when revenue is down due to limited play or adverse conditions. The reserve should be funded at a level at least equal to 10% of operating 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 is utilized to soften (phase in) needed rate impacts. FY 2011-12 anticipated $16.6 million in collection revenues, and has a reserve of 5% ($830K)
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 (at 55% of operating expenditures). 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. It is anticipated that the funds in excess of the 25% reserve funding requirement will be needed for a one-time transfer to the Fund's Capital Improvement reserves for necessary upgrades the City's Materials Diversion Facility.
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, as set in policy approved by City Council.	√	
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, as set in policy approved by City 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/Fund Balance Policies *(Cont'd.)*		
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 21, 2011. Revised policy to be brought to the Council in June, 2012.
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.	√	This is analyzed and verified quarterly and presented to Council as part of the Quarterly Investment Report.
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.	√	
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, 2011 was 5.79:1.
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 full 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*



	2009	2011	2012
Out of Compliance	20%	20%	18%
Compliant	80%	80%	82%

The above graph tracks the City's compliance with their fiscal policies. Both the FY 2009 and 2011 LTFP updates reflected the City's compliance at 80%. In the current update, compliance was increased by 2% to 82%.

III: FINANCIAL TREND ANALYSIS

Objective

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

Background

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

- The economic condition of the City;
- Types and amounts of revenues and whether they are sufficient and have 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 2002-2011 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 2001-02 through FY 2010-11, combining information from budgets and financial reports, annual State Controller's Reports, and the International City Management Association's (ICMA) Trend Monitoring System. One of the following ratings will be assigned to each indicator:

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

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

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

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

Overview of the City's Financial Condition

Through the strong leadership of the City Council and hard work by City staff, we have been able to make it through a national recession and still stay focused on serving the community. However, we still face continuing challenges as the recovery is erratic, with uncertain impacts on property and sales tax revenues. Additionally, benefit costs are continuing to project significant increases, and looming cuts caused by the State's fiscal crisis (e.g. the dissolution of the Redevelopment Agency) are all adding pressure to an already highly strained workforce. 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.

The City's General Fund operating revenues decreased in both FY 2008-09 and FY 2009-10; however, turned the corner with a small increase in FY 2010-11. The most significant increase was in Transient Occupancy Tax (TOT) revenues, which showed an increase of 19% ($1.61 Million) over FY 2009-10 receipts. Additionally, Sales Tax also rebounded by approximately 5% over FY 2009-10 ($0.63 Million) helping offset the reduced Property Tax revenues (-$1.29 Million).

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

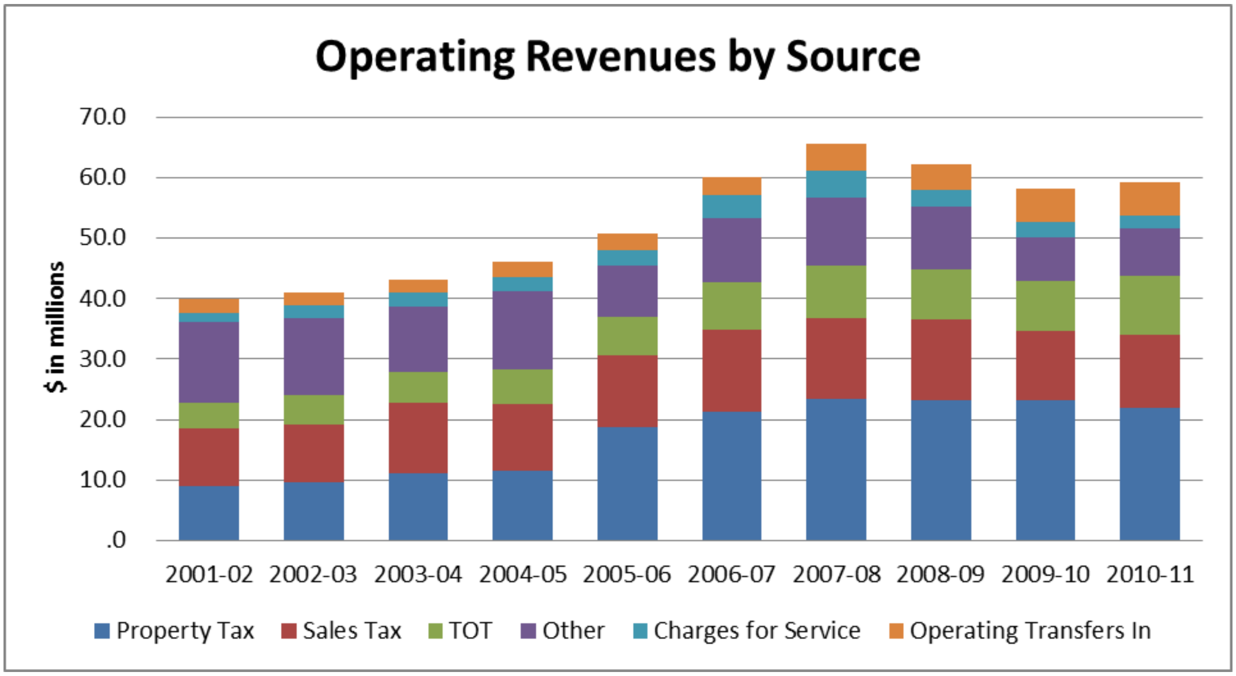
In summary, although the City experienced limited economic growth, the demand for city provided public services continues to expand. Due to long range fiscal planning, ongoing controls over spending and an advantageous position in a strong economic niche market, the City remains in a relatively positive position compared to other cities. Some areas of concern include:

- Expenditure growth trends have outpaced revenue growth.
- Benefit costs, while still on the rise, are more stable than previous years as a result of labor concessions and staff reductions (retirements and reorganizations).
- Undesignated 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 FY2013-14 unless additional reductions are implemented.
- Deferred infrastructure maintenance costs must be addressed.
- The General Fund contribution to CIP is relatively low (approximately 0.75%), at less than $0.5 million 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.
- The State's deficit could have significant financial impacts to our City, and every other municipality in California, through reduced program funding or unfunded mandates.
- 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.

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 81% of revenues generated in fiscal year 2010-11.

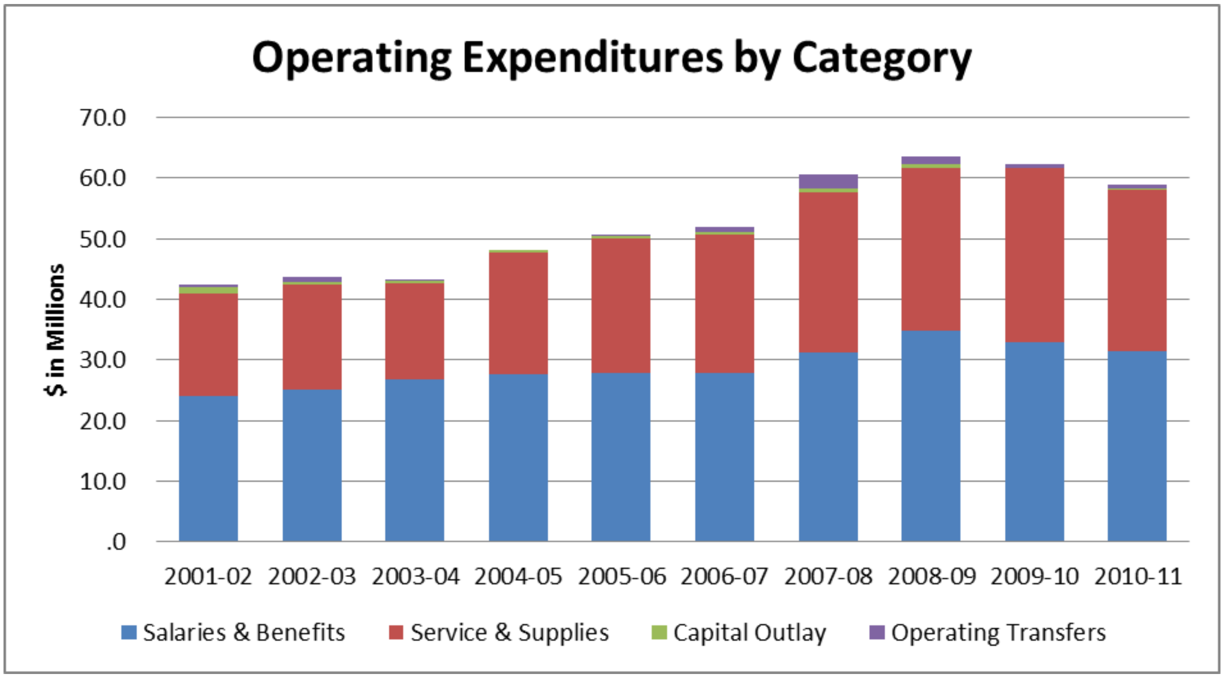


The two largest sources of revenue to the City continue to be property and sales tax. While property tax revenues have leveled out (after years of decline related to the recession), sales tax revenue growth has shown signs of the economic rebound, as the pent up demand from the recession is met. Transient occupancy tax revenue has rebounded nicely since 2008, reflecting the return of strong tourism demand for Napa. Additionally, there are a number of new development projects expected to be completed over the next six years which will contribute to City revenue growth.

General Fund Operating Results – Expenditures

The majority of the City's operating costs reside in the General Fund. Total General Fund expenditures decreased 5%, (-$3.3 million) to $59 million from the prior year (FY 2009-10). Salary and benefit costs decreased $3.2 million due to position reductions, retirements, and a high level of vacancies which accounted for most of the operating decrease.

The following chart compares expenditures by category for the fiscal years 2001-02 through 2010-11.



The composition of General Fund operating expenditures by category has changed with the recent escalation of benefit costs when comparing fiscal year 2010-11 to fiscal year 2001-02. Driving this escalation was a 369% increase in the cost of benefits during the period from $3.2 million to $14.9 million. Cost of salaries increased 30% from $24 to $31.4 million over the ten-year period. As a result, salaries and benefits were approximately 78.6% of General Fund expenditures in 2010-11, an increase of 16 percentage points from 2001-02. A portion of this increase stems from adding 39 full time positions to maintain service levels to the citizens of the City of Napa over the ten year period. The Services and Supplies category decreased by 14 percentage points (-$2.8 million) during the ten-year period to account for 20% 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. *(see page 17 for the definitions of the indicator ratings.)*

The table below is a summary of the indicators and the assigned ratings over the past three LTFPs. The ratings between 2011 and 2012 stayed constant, as the recession pressures eased, but the economy has not totally stabilized. As the recovery continues, the indicators will be upgraded as stability is achieved.

INDICATOR	2009	2011	2012
Revenues per Capita	C	C	C
Property Tax Revenues	C	W	W
Sales Tax Revenues	W	C	C
Transient Occupancy Tax Revenues	C	F	F
Business License Tax Revenue	C	W	W
Elastic Revenues	C	W	W
Expenditures Per Capita	C	C	C
Authorized Positions per Capita	F	C	C
Fringe Benefits as a Percentage of Operating Expenditures	U	U	U
Salary Expenditures as a Percentage of Operating Expenditures	F	F	F
Capital Outlay as a Percentage of Operating Expenditures	C	W	W
Operating Position	W	U	U
Unreserved Fund Balance / Emergency Reserve as a percentage of Budgeted Operating Expenditures	C	U	U
Liquidity Ratio	F	F	F
Debt Service	F	F	F
Assessed Property Value	C	U	U
Population	F	F	F

Indicator Number	Description	Finding	Comments
General Fund Revenues			
1	Revenues Per Capita	C	Revenues per capita (constant dollars), excluding nonrecurring revenues, increased between 2002, from $441 to $612 in 2008. FY 2009 and FY 2010 revenues were significantly impacted by the recession, with 2011 showing some positive signs of recovery.
2	Property Tax Revenues	W	Although FY 2010-11 showed further decline due to residential property reassessments. FY 2011-12 will see a slight increase ($0.6 million) as housing prices and sales appear to have remained fairly constant over the past 12 months. A slow but steady recovery is projected for FY 2012-13 and forward.
3	Sales Tax Revenues	C	Napa's sales tax revenue tends to follow economic cycles. Sales Tax receipts showed a slight increase in FY 2010-11 as the recession eased, and tourism rebounded, however caution is still warranted as we continue the economic recovery.
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 rise in tourism, resulting in a 10% growth in TOT revenue.
5	Business License Tax Revenue	W	Business license tax revenues are based on gross receipts of individual businesses. Revenues took a sharp turn downward in FY 2009-10 as the business community reacted to the national recession. Receipts in FY 2010-11 were essentially flat.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

General Fund Revenues - *(Cont'd.)*			
6	Elastic Revenues	W	Elastic revenues are those that vary directly with fluctuations in the economy. As the City's property tax revenue has been impacted 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.
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	Fringe benefit costs as a percentage to the city's total operating expenditures has experienced a significant increase over the past 10 years.
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.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

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 was not met in FY 2010-11, nor will it be met in the next two year budget unless additional reductions or revenue enhancements are implemented.
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 2011-12 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 2013-14.
14	Liquidity Ratio	F	Liquidity is measured by comparing current assets to current liabilities. A liquidity ratio of less than 1:1 can indicate insolvency. A ratio above that is considered favorable. The City has been able to maintain a liquidity ratio well above 1:1 for the past ten years.
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, a slow recovery to assessed property value is anticipated to continue over the next six years.
17	Population	F	Population growth has slowed in recent years as the poor economy has stifled economic activity. The population from the 2010 census placed Napa's population at 76,915.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

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 no trend changes from the last fiscal year. This consistency is a result of the recession easing and beginning the slow road to economic recovery. Although the recovery is projected to continue, the City needs to remain cautious over the next few years to ensure the stability of the recovery is assured before we upgrade the ratings of the trends.

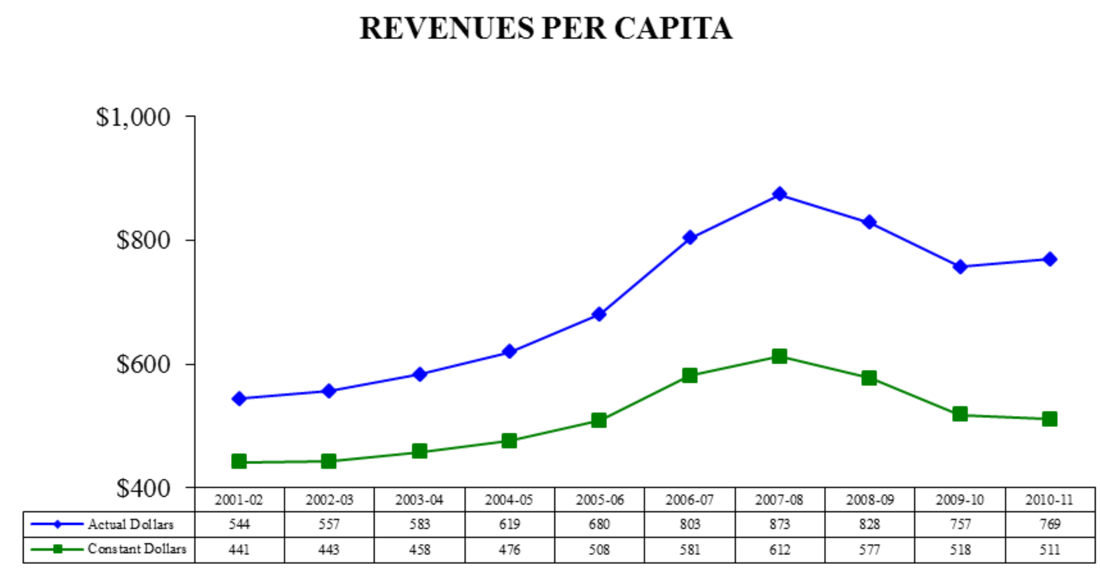
General Fund Revenues

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 six 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



	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Actual Dollars	544	557	583	619	680	803	873	828	757	769
Constant Dollars	441	443	458	476	508	581	612	577	518	511

2012 Finding: Caution
2011 Finding: Caution

Description

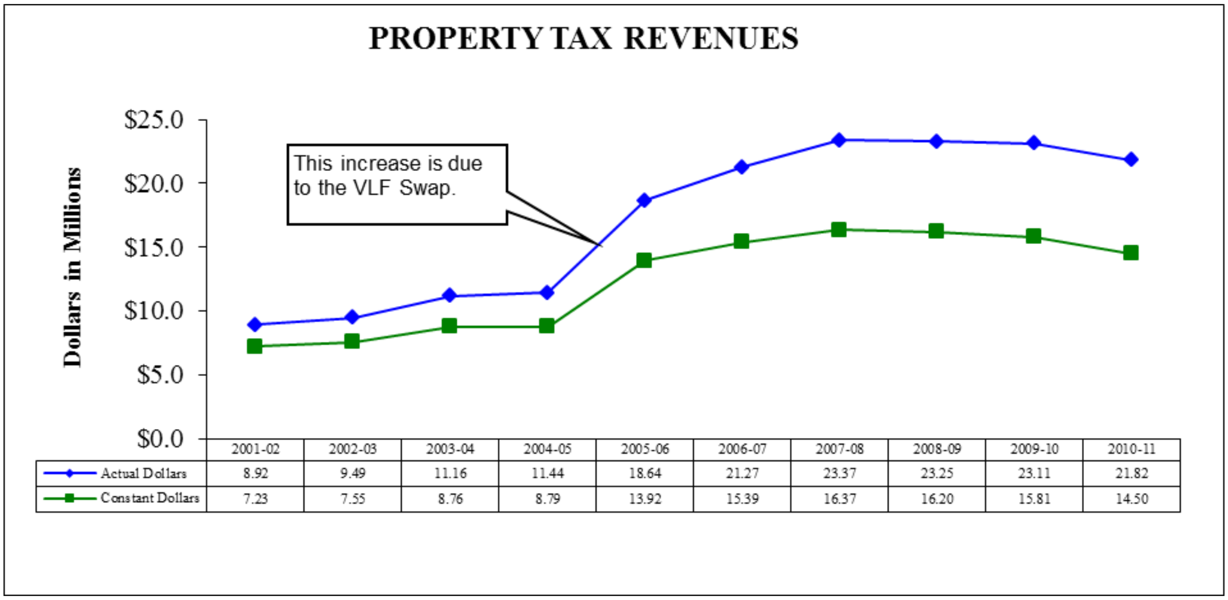
Revenues per capita in constant dollars are a measure of the City's ability to maintain current service levels. Constant dollars reflect the real changes in operating revenue after adjusting for inflation. An increase in constant dollar revenues normally means a city will be able to respond positively 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, increased between 2002, from $441 to $612 in 2008. The strong increases in 2007 and 2008 were related to an increase in property tax and transient occupancy tax revenues. 2009 and 2010 revenues were significantly impacted by the recession, with 2011 showing some positive signs of recovery.

The 2011 rating of Caution continues in 2012 for this indicator until the recovery from the recession becomes more established.

Indicator 2: Property Tax Revenues



	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Actual Dollars	8.92	9.49	11.16	11.44	18.64	21.27	23.37	23.25	23.11	21.82
Constant Dollars	7.23	7.55	8.76	8.79	13.92	15.39	16.37	16.20	15.81	14.50

2012 Finding: **Warning**
2011 Finding: **Warning**

Description

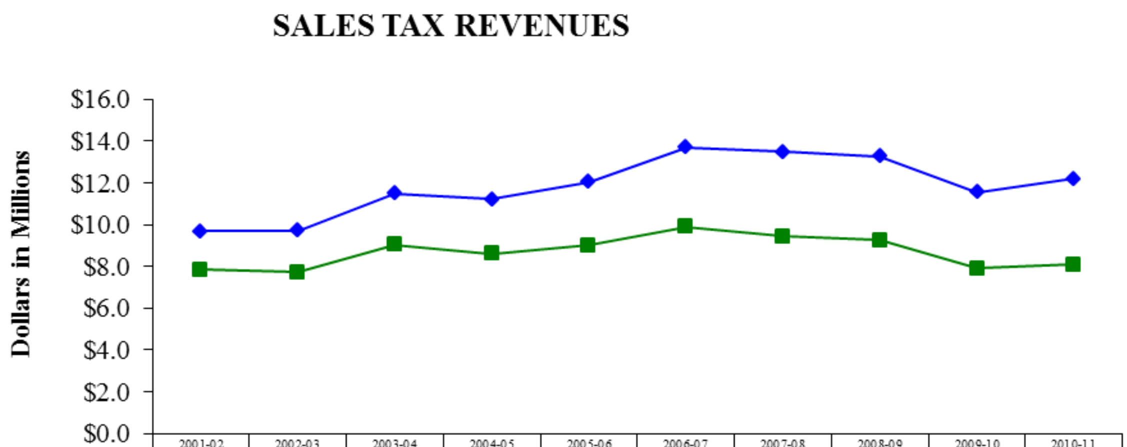
Property tax revenues are evaluated over time to measure the City's economic health. Constant dollars are examined in order to evaluate that part of the change that is not due to inflation. Property taxes are the City's largest source of revenue (23% before the addition of VLF in FY 2005-06 and 35% after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

Although FY 2010-11 showed further decline due to residential property reassessments, FY 2011-12 will see a slight increase. Furthermore, a slow but steady recovery is projected for FY 2012-13 and forward. 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.

The 2011 rating of Warning continues in 2012 for this indicator until the recovery from the recession becomes more established.

Indicator 3: Sales Tax Revenues



	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Actual Dollars	9.68	9.73	11.51	11.21	12.06	13.70	13.50	13.29	11.56	12.19
Constant Dollars	7.85	7.74	9.03	8.61	9.00	9.91	9.46	9.26	7.91	8.10

2012 Finding: **Caution**
2011 Finding: **Caution**

Description

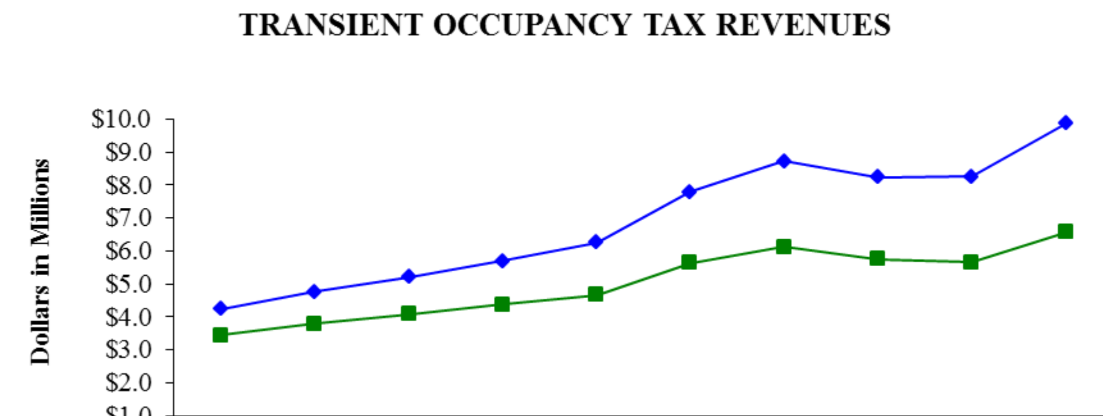
Sales tax revenue is a strong indicator of the city's economic health. Sales taxes are the City's second largest source of revenue (21%) and are elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the sales tax revenue changes not related to inflation.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

Comments and Analysis

Napa's sales tax revenue is heavily dependent on the tourism industry and therefore tends to follow economic cycles. Revenues were growing through FY 2006-07. FY2007-08, however, began a decline that continued through FY 2009-10. Sales Tax receipts showed an increase in FY 2010-11 as the recession eased.

The 2011 rating of Caution continues in 2012 for this indicator until the recovery from the recession becomes more established.

Indicator 4: Transient Occupancy Tax Revenues



	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Actual Dollars	4.24	4.75	5.20	5.70	6.25	7.78	8.73	8.24	8.26	9.87
Constant Dollars	3.44	3.78	4.08	4.38	4.67	5.63	6.11	5.74	5.65	6.56

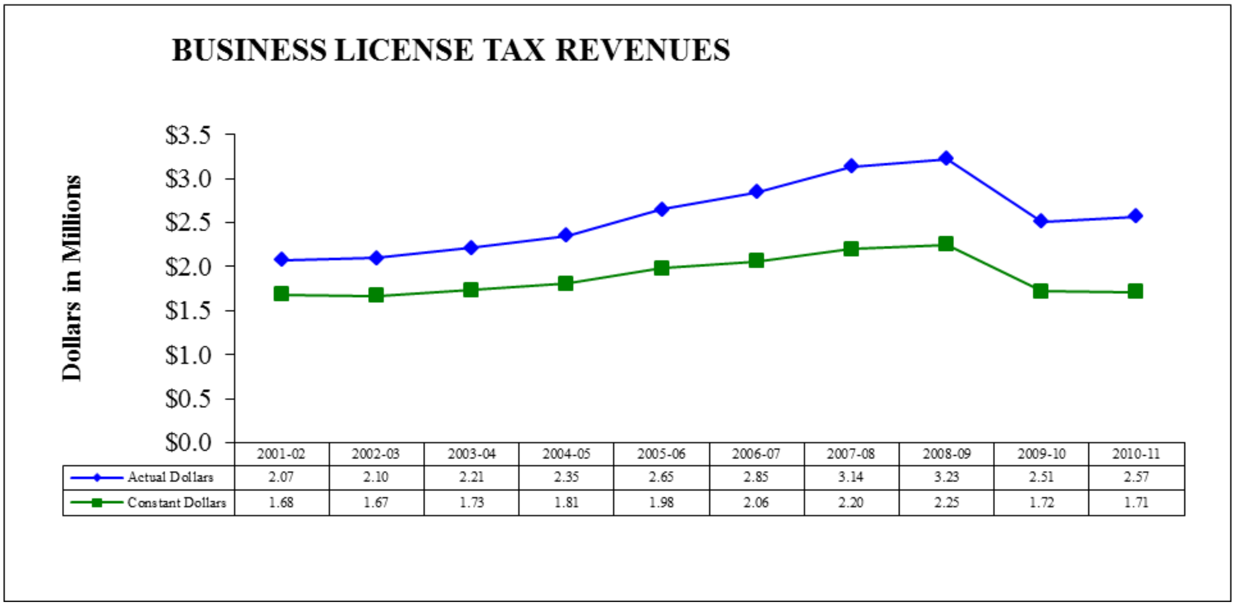
2012 Finding: **Favorable**
2011 Finding: **Favorable**

Description
Transient occupancy tax revenue (TOT) is a strong indicator of the city's economic health. This revenue source is the City's third largest source of revenue (13%) and is elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the tax revenue changes not related to inflation. The City of Napa levies the tax on rooms at hotels, motels, bed and breakfasts and vacation rentals within the City. The tax rate is 14%, of which the City receives 12%.

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 through FY 2007-08, 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 experienced a rise in tourism in FY 2010-11.

The 2011 rating of Favorable continues in 2012 reflecting strong recovery of TOT receipts.

Indicator 5: Business License Tax Revenues



	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Actual Dollars	2.07	2.10	2.21	2.35	2.65	2.85	3.14	3.23	2.51	2.57
Constant Dollars	1.68	1.67	1.73	1.81	1.98	2.06	2.20	2.25	1.72	1.71

2012 Finding: Warning
2011 Finding: Warning

Description

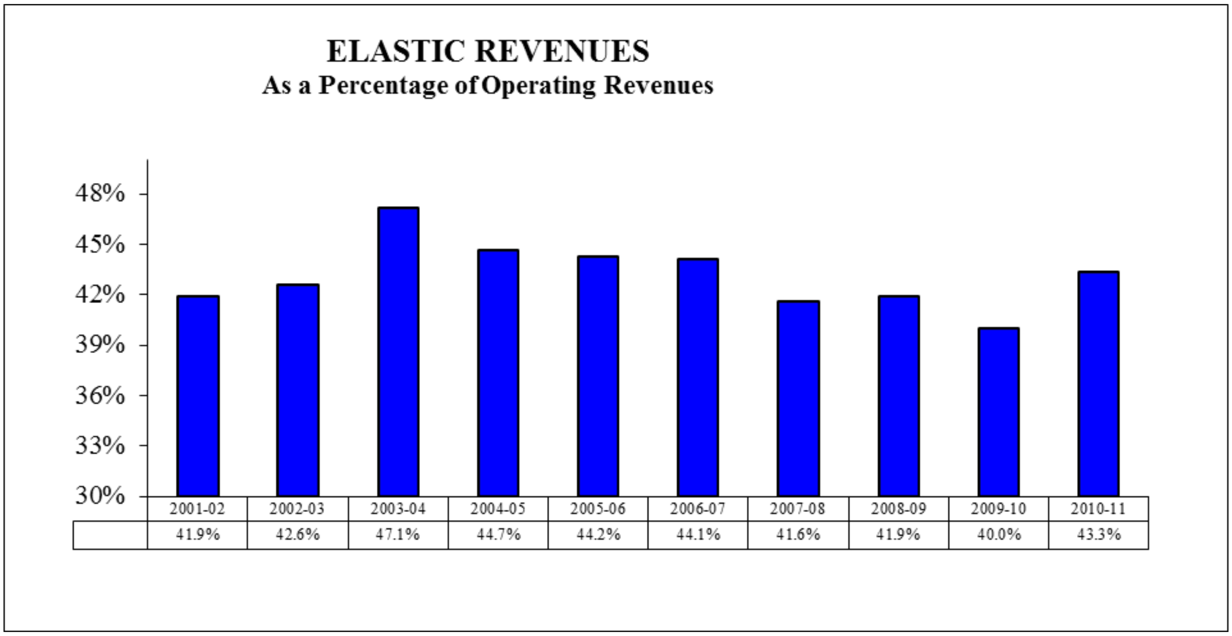
Business license tax revenue accounts for approximately (4%) of the City's revenues, and is a good indicator of the City's economic health. Constant dollars are utilized in evaluating the part of the change not related to inflation. This tax is generally based on gross receipts of individual business 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 2001-02 through FY 2008-09 took a sharp turn downward in FY 2009-10 as the business community reacted to the national recession. Receipts were essentially flat in FY 2010-11.

The 2011 rating of Warning continues in 2012 for this indicator until the recovery from the recession becomes more established.

Indicator 6: Elastic Revenues



2012 Finding: **Warning**
2011 Finding: **Warning**

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 40% and 47% between FY 2001-02 and FY 2010-11. Reductions in FY 2007-08 and FY 2009-10 resulted from the national recession, and the city became more reliant on more 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, although the City has been cautious against using reserves to ensure they are available for truly devastating economic conditions.

The 2011 rating of Warning continues in 2012 for this indicator until the recovery from the recession becomes more established.

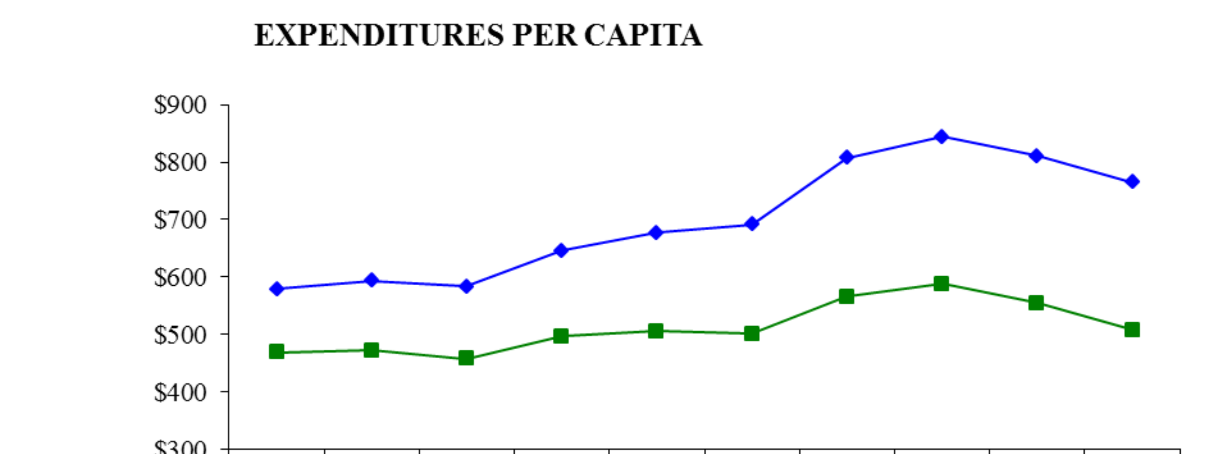
General Fund Expenditures

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



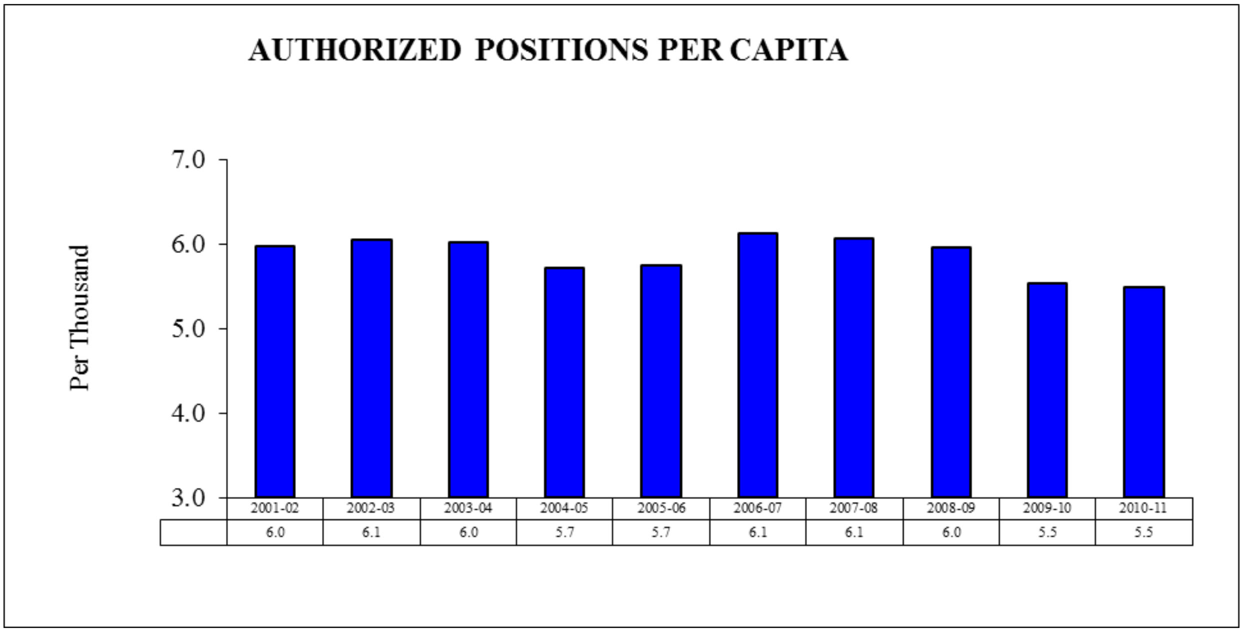
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Actual Dollars	579	594	584	646	677	692	808	844	810	765
Constant Dollars	470	472	458	497	505	501	566	588	554	508

2012 Finding: **Caution**
2011 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
Between FY 2006-07 and FY 2008-09, the real cost to provide services to support capital and operational demands increased disproportionately. Decisions made in FY 2008-09, FY 2009-10, and FY 2010-11 regarding labor concessions, retirements and departmental organizations essentially flattened the increases and are projected to continue to mitigate the impact of future revenue constraints. However, in response to fiscal pressures caused by the recession, there is a risk of under investing in the City's infrastructure which could result in service disruption or unplanned repairs. For these reasons the "Caution" rating continues for this indicator.

Indicator 8: Authorized Positions Per Capita



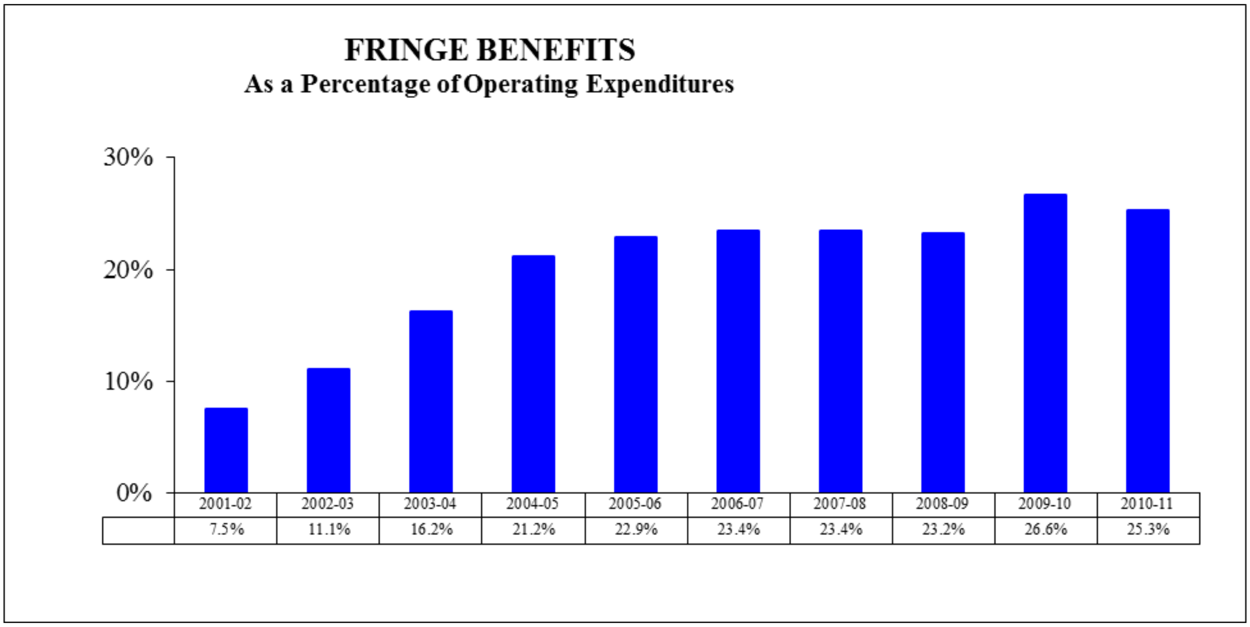
2012 Finding: Caution
2011 Finding: Caution

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

Comments and Analysis
Authorized positions per capita 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.

The 2011 rating of Caution continues in 2012 for this indicator until the recovery from the recession becomes more established and authorized positions are able to be restored.

Indicator 9: Fringe Benefits as a Percentage of Operating Expenditures



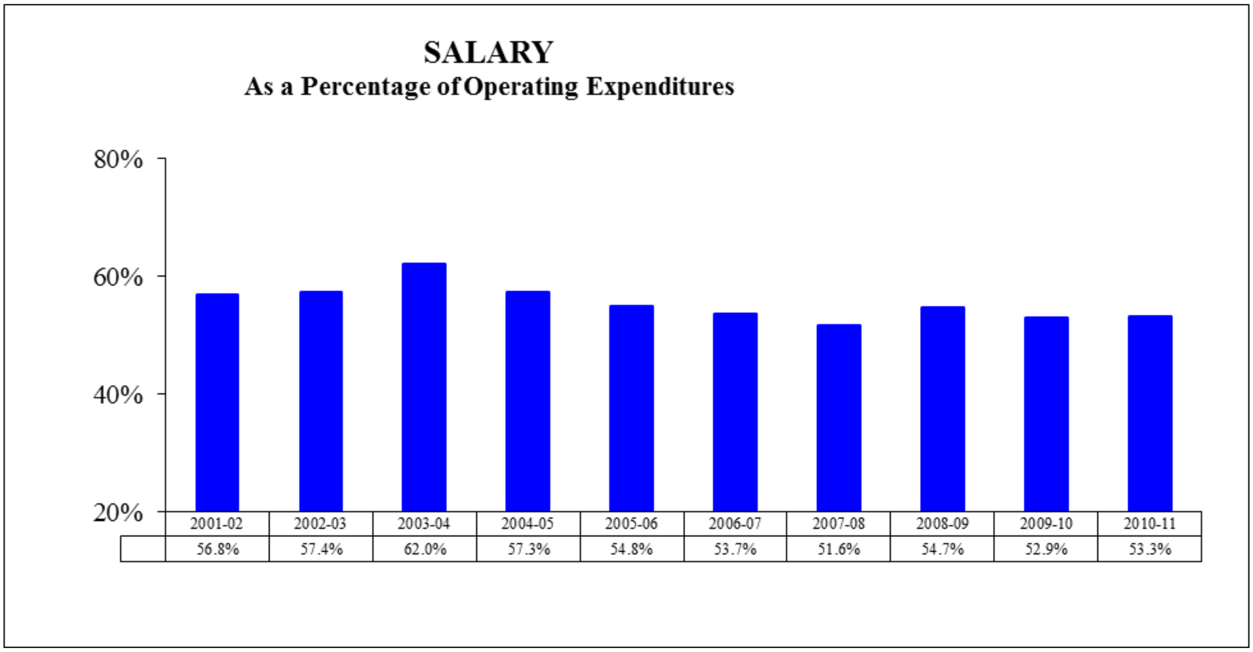
2012 Finding: **Unfavorable**
2011 Finding: **Unfavorable**

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 increases slowed somewhat between FY 2005-06 and FY 2009-10 due to the adjustment of Retiree Medical packages and the elimination of over 30 positions.

The 2011 rating of Unfavorable continues in 2012 for this indicator until the ongoing labor negotiations are complete and the City's future contribution requirements are known.

Indicator 10: Salary as a Percentage of Operating Expenditures



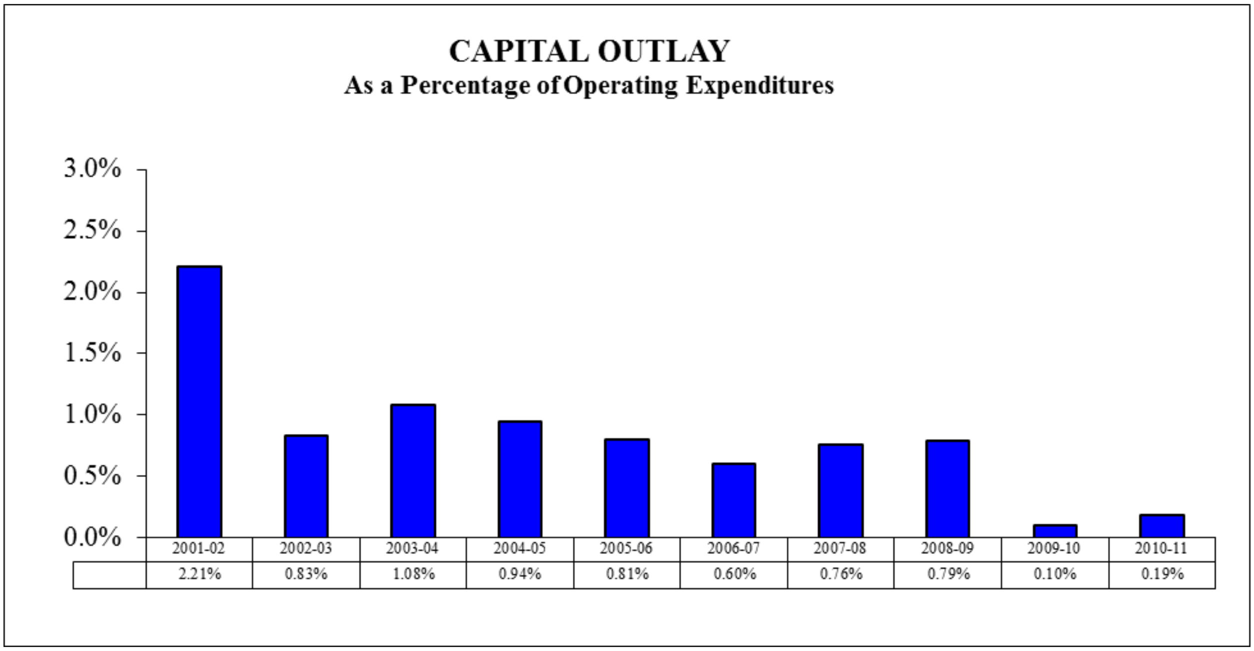
2012 Finding: **Favorable**
2011 Finding: **Favorable**

Description
These expenditures include salary and wages paid to regular, part-time, and temporary staff and represent over 50% 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 ten year impact of salary (as a percentage of operating expenditures) has been essentially flat, decreasing from 56.8% in FY 2001-02 to 53.3% in FY 2010-11. Continued monitoring of this indicator is warranted since these expenditures represent the largest category of General Fund operating costs.

The 2011 rating of Favorable continues in 2012 for this indicator as the consistency over ten years demonstrates active management of salary costs.

Indicator 11: Capital Outlay



2012 Finding: Warning
2011 Finding: Warning

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% of total operating expenditures to a high of just over 2% 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.

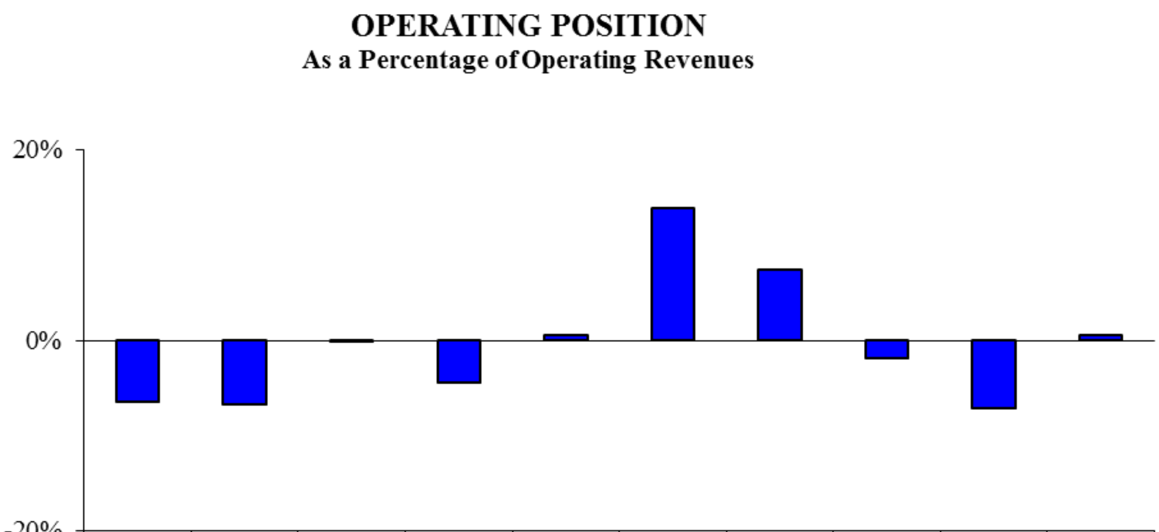
General Fund Operating Position

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



	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	-6.49%	-6.65%	-0.07%	-4.45%	0.53%	13.85%	7.50%	-1.93%	-7.09%	0.53%

2012 Finding: **Unfavorable**
2011 Finding: **Unfavorable**

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 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.

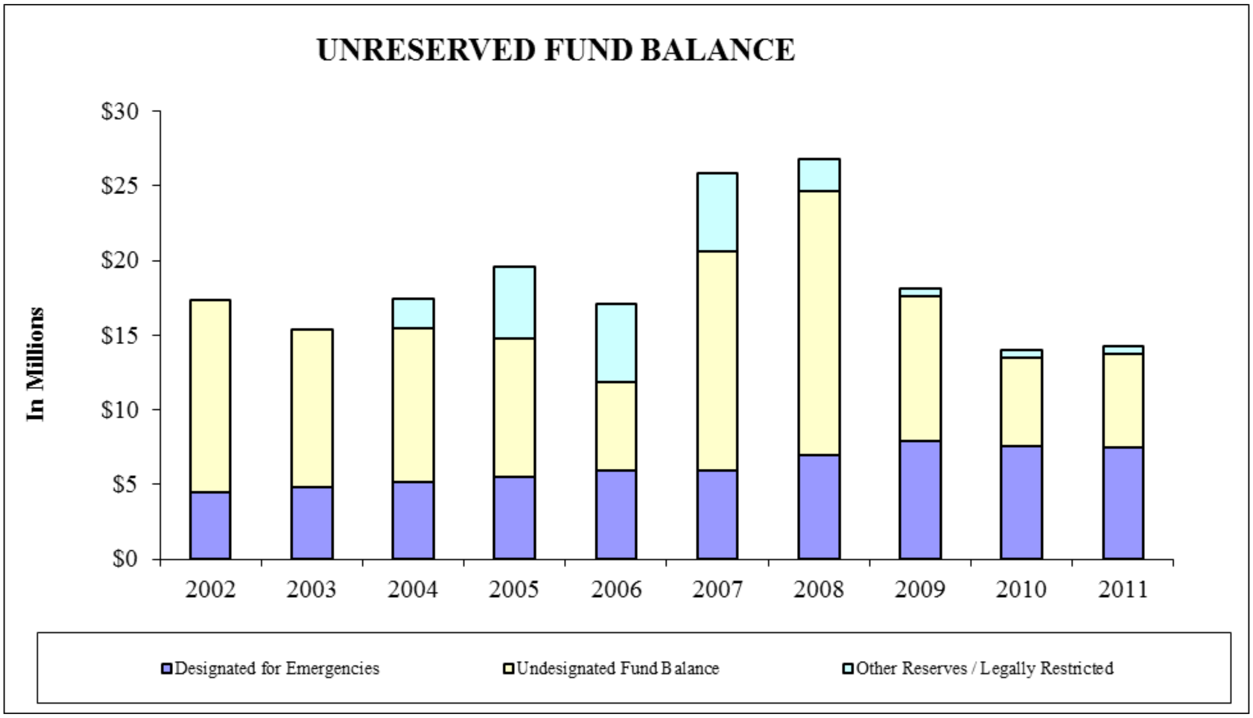
Comments and Analysis

The City has experienced a number of years with operating deficits, however, due to the high number of vacancies held open in FY 2010-11 as well as departmental expenditure reductions, the City was able to book a positive operating position. Expenditures in FY 2011-12 are again expected to outpace revenues.

Recommendation:

During a period of economic decline when reserves are utilized to balance a budget, steps should be taken at the earliest time possible to reverse negative trends. Staff is pursuing cost containment and expenditure reductions to address this situation in the next fiscal year.

Indicator 13: Unreserved Fund Balance/Reserve Funds



2012 Finding: Unfavorable
2011 Finding: Unfavorable

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.

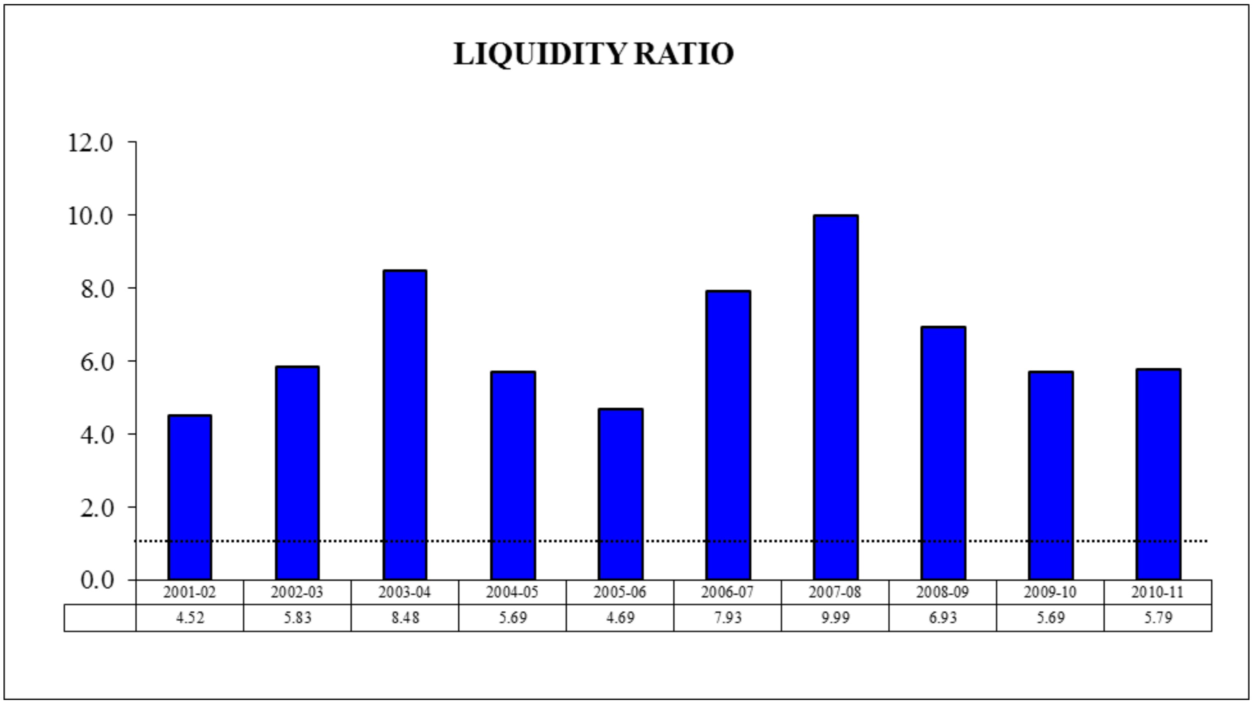
Comments and Analysis

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 the policy was implemented in FY 2007-08. Fund Balance has been used to meet budget shortfalls in recent years. Since FY 2003-04, the City transferred reserves from the Building Reserve ($1.5 million), Capital Project Reserve ($2.3 million) and the Fleet Reserve ($1.4 million) 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 2007 – 2009 budget cycle. The forecast indicates that the undesignated fund balance will be used to balance the budget in FY 2011-12 and fully depleted in the next two year budget cycle, which is the basis for this indicator remaining Unfavorable.

Recommendation:

During a period of economic decline when 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 next section (IV: Financial Forecast) projects a deficit in the City's operating position in fiscal year 2012 and continuing through 2018.

Indicator 14: Liquidity Ratio

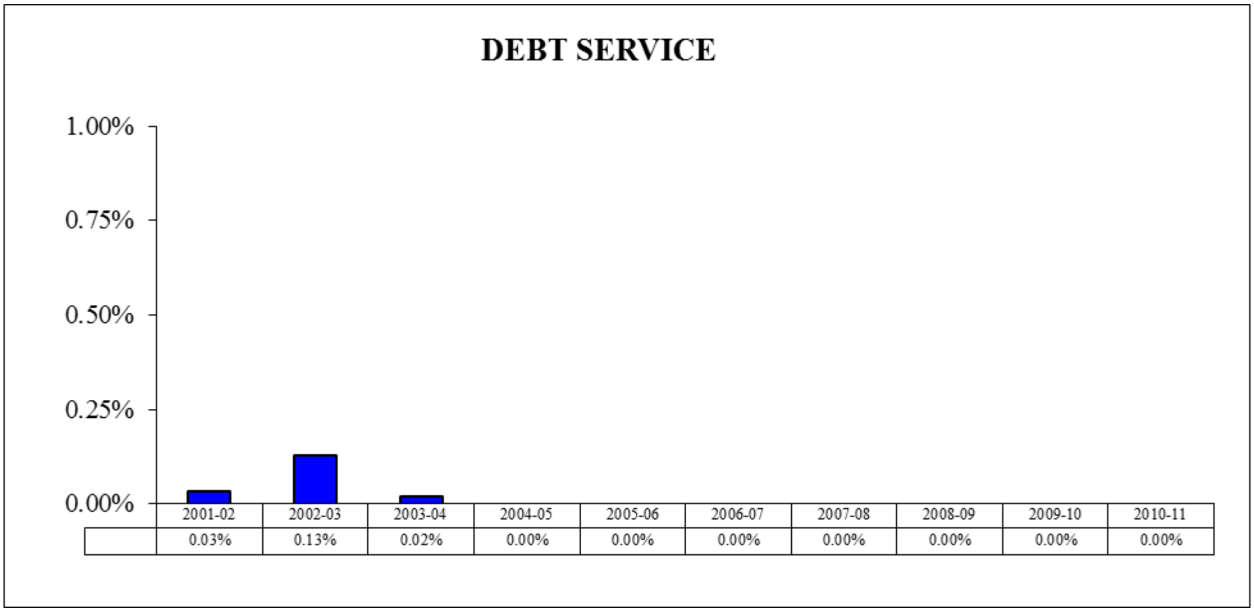


2012 Finding: **Favorable**
2011 Finding: **Favorable**

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 5.79 at the end of fiscal 2011. 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



2012 Finding: Favorable
2011 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.

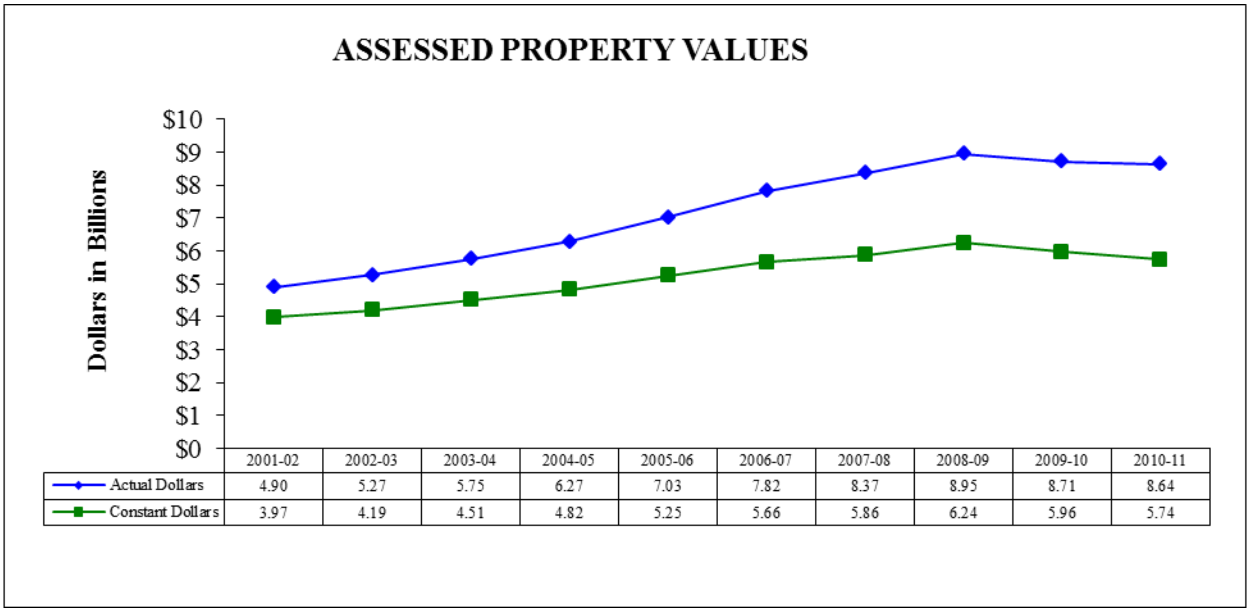
Because of the City's dependence on property tax revenues, the City's largest source of operating revenue (35%), a further analysis has been done on the change in assessed property values from year-to-year. Property values continue to trend upwards as they have done for the past several years.

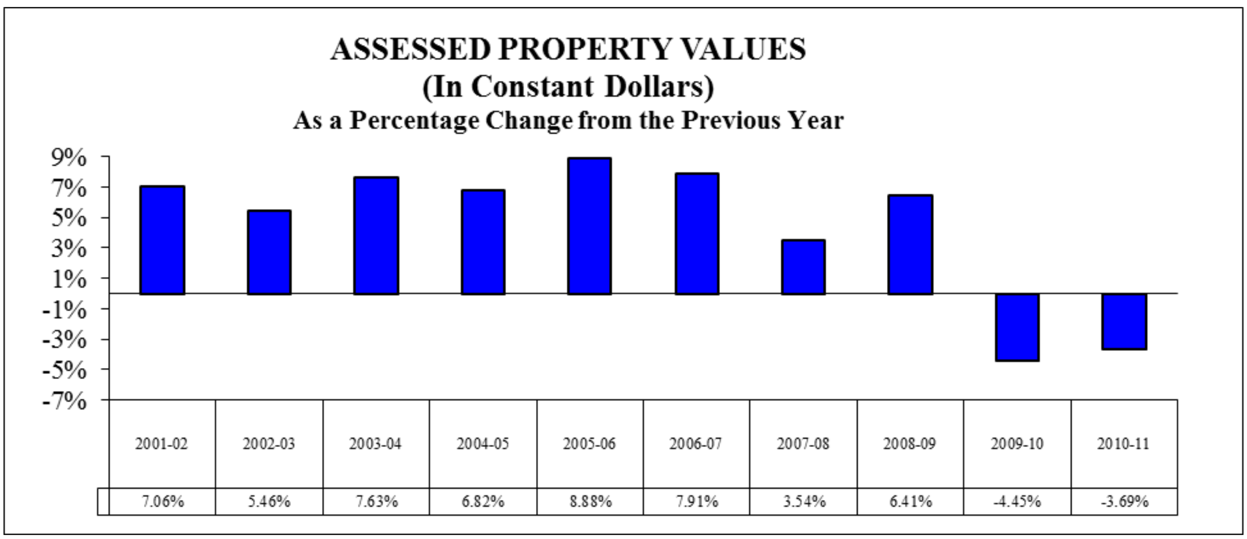
Finally, the population of the City has been analyzed over time to determine its impact on the tax base as well as the effects on additional service demands.

The following indicators are detailed in this section:

- Assessed Property Values
- Population

Indicator 16: Assessed Property Values





2012 Finding: Unfavorable
2011 Finding: Unfavorable

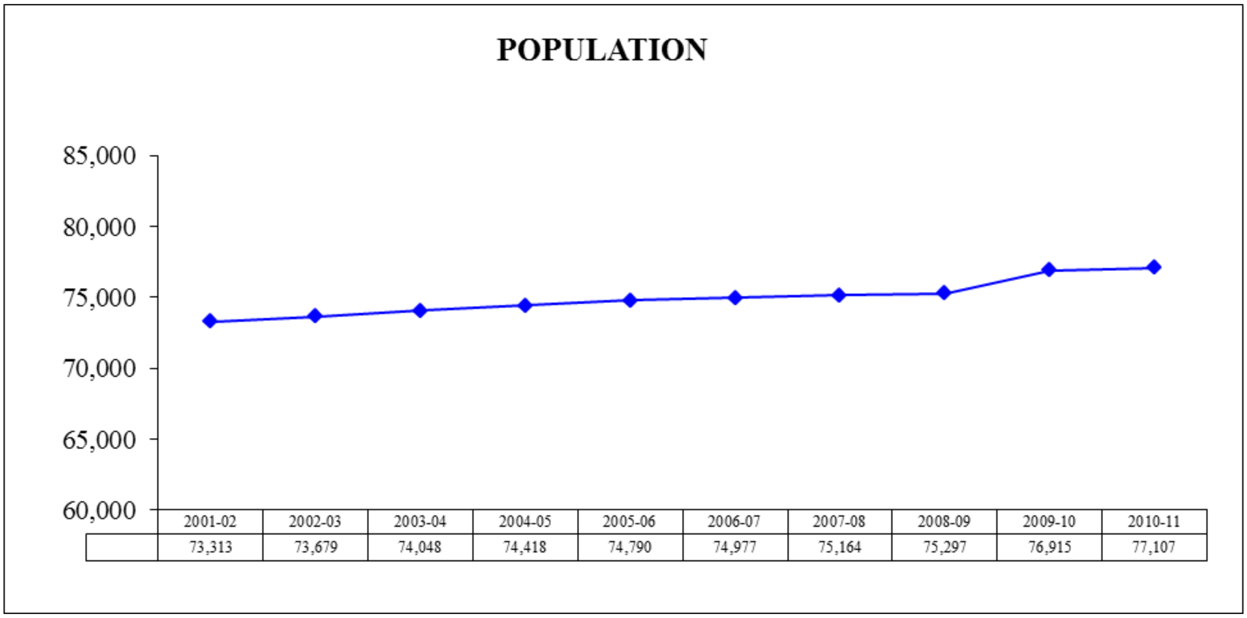
Description

Assessed property values, in both actual and constant dollars, are of primary importance to the City because property tax revenue, comprising 37% of the total General Fund operating revenues in fiscal year 2010-11, 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.

Comments and Analysis

Real estate valuation had been negatively impacting the City since FY 2008-09. The housing and credit markets appear to have stabilized in FY 2011-12. Positive, but slow recovery in FY 2012-13 and beyond is anticipated.

Indicator 17: Population



2012 Finding: **Favorable**
2011 Finding: **Favorable**

Description

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

Comments and Analysis

Population growth in the City has progressed steadily and slowly in recent years, averaging less than 1% per year, with a slight “true-up” bump in FY 2009-10 resulting from the 2010 Census. As a result, the City has not had to increase expenditures unreasonably to provide increased service levels to the residential population. Staff should monitor future growth based on residential and commercial development activity to identify changing trends that may impact service demands.

IV: FINANCIAL FORECAST

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

Development of the Financial Forecast

An updated financial forecast for the fiscal years 2012 through 2018 has been developed for the General Fund. The objective of the financial forecast is to provide a frame of reference for evaluating the City's financial condition as a basis for decision-making.

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

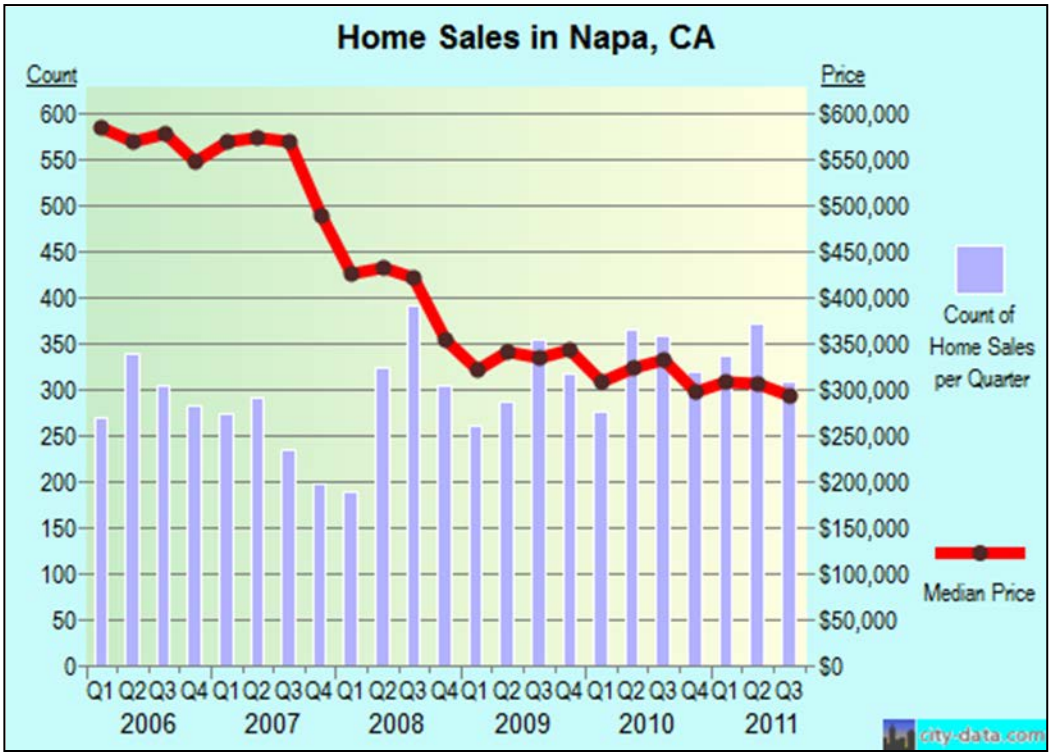
The financial forecast assumes a continuation of the slow economic recovery which began in FY 2010-11 through the remainder of the plan (FY 2017-18). On the local level, evidence is building that economically sensitive revenue sources such as sales tax transient occupancy tax are trending upward. Those positive trends, coupled with structural budget adjustments planned for FY 2012-13, provides for a financial forecast that enables projected revenues to equal or exceed projected expenditures, thereby adding to reserves. Regardless of the positive trend, expenditure growth is projected to outpace revenue growth throughout the plan, causing a continuing dependency on reserves.

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

- Slow recovery of the Housing Market / Assessed valuation
- Tight credit markets
- Cautious consumer confidence and spending
- High unemployment
- Erratic stock market

Slow Recovery of Housing Market / Assessed valuation

The median assessed valuation went into free fall in 2007 appears to have turned the corner. DQNews reported that the median price for existing homes for all housing types in the City was $286,000 in January 2012, up 4% from one year ago when the median was $275,000. Statewide, the median price paid for a home during the same timeframe was $236,000, down 4% from the previous month, and down 1.3% from January 2011. The LTFP assumes a slow recovery of 1% per year from FY 2012-13 through FY 2017-18.



Tight Credit Market

The recent credit market crisis, caused in large part to the collapse of collateralized debt obligations that were based on risky mortgage loans, have continued to impact financial institutions' willingness to make new loans. While governments and central banks have taken 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

According to The Conference Board's February 2012 *Consumer Confidence Survey*™ indicates that the Consumer Confidence Index™, is at a 12-month high. This increase is driven by increasing consumer optimism in business conditions, the outlook for the labor market, and in their own incomes. There is a strong correlation between consumer confidence and unemployment; the rise in confidence in recent months has been concurrent with an improvement in the monthly unemployment numbers.

High Unemployment

The unemployment rate has fallen 0.7% over the past year from 9.0% in February 2011 to 8.3% in February 2012, however stubbornly remains over the 8% mark.

The preliminary State unemployment rate reached 10.9% in January of 2012. Both the City and County of Napa's preliminary unemployment rate was 9.0% up from 8.8% in August 2011.

Economic and Demographic Assumptions

The economic assumptions utilized in this forecast are summarized below:

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Comments
Population (Residential)	77,493	77,687	78,075	78,466	79,054	79,647	increase of approximately 0.25% per year in FY13-FY14; 0.5% in FY 15-FY16; 0.75% in FY 17-FY18
Property Tax (% Change)	0.77%	1.00%	1.00%	1.50%	1.50%	2.00%	12/13 assumes 0.77% recovery 13/14 through 14/15 - increase by 1% per year 15/16 through 16/17 - increase by 1.5% per year 17/18 - increase by 2.0% per year
Sales Tax (% Change)	1.90%	3.00%	3.50%	3.50%	3.00%	3.00%	Projections from with Muni Services
Transient Occupancy Tax	2.50%	2.50%	2.50%	2.00%	1.50%	1.50%	increase in room rentals/room rates.
Investment Earnings Rate	0.50%	1.00%	1.50%	2.00%	2.50%	2.50%	Increase of 0.5% per year with a maximum earnings rate of 2.5%
Inflation (% Change)	2.00%	3.00%	3.50%	3.50%	3.00%	3.00%	Projections from with Muni Services
Salaries (% Change)	0.00%	1.50%	1.50%	2.00%	2.00%	2.50%	Assumes 1.5% COLA & Step in 13/14 - 14/15, 2.0% COLA & Step in 15/16 - 16/17, 2.5% COLA & Step in 17/18
Healthcare Benefits (% Change)	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	Assumes City will pay approximately 90% of premium increases
PERS Benefits (% Change)	1.00%	2.00%	3.00%	3.50%	3.50%	3.50%	Estimated on adjusted ROI of 7.25% to 7.5%
Other Benefits (% Change)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	Continue historical increase trend
Services & Supplies (% Change)	0.00%	3.00%	3.50%	3.50%	3.00%	3.00%	Hold the line for 12/13 - inflation in out years
Capital Outlay (% Change)	0.00%	3.00%	3.50%	3.50%	3.00%	3.00%	Hold the line for 12/13 - inflation in out years
Authorized Positions (# Change)	0	1	1	1	1	1	1 new General Fund position each year beginning in FY 2013-14

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

Population: Population is the residential total within the Napa city limits and is projected to increase 0.25% in the near term, increasing to 0.5% in FY15 – FY16, then increasing to 0.75% through the remainder of the projection period. Year-to-year population growth is a useful factor in predicting increases in revenue categories, such as Franchise Fees and Business Licenses.

Factors Not Included In the Forecast

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

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

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

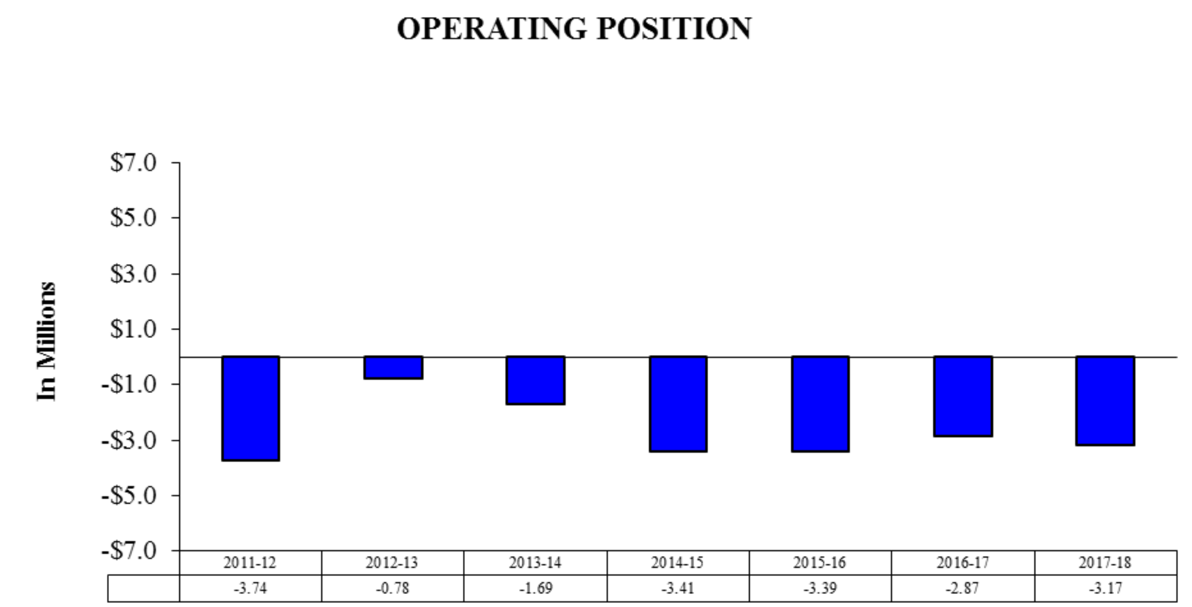
    1. Establishing equipment and other infrastructure replacement funds.
    2. Increasing General Fund contribution to the CIP.
    3. New or enhanced programs.
    4. Potential state impacts.

- Only sizable commercial development under construction, or with a high likelihood of becoming reality has been included.

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

Forecast Summary and Results

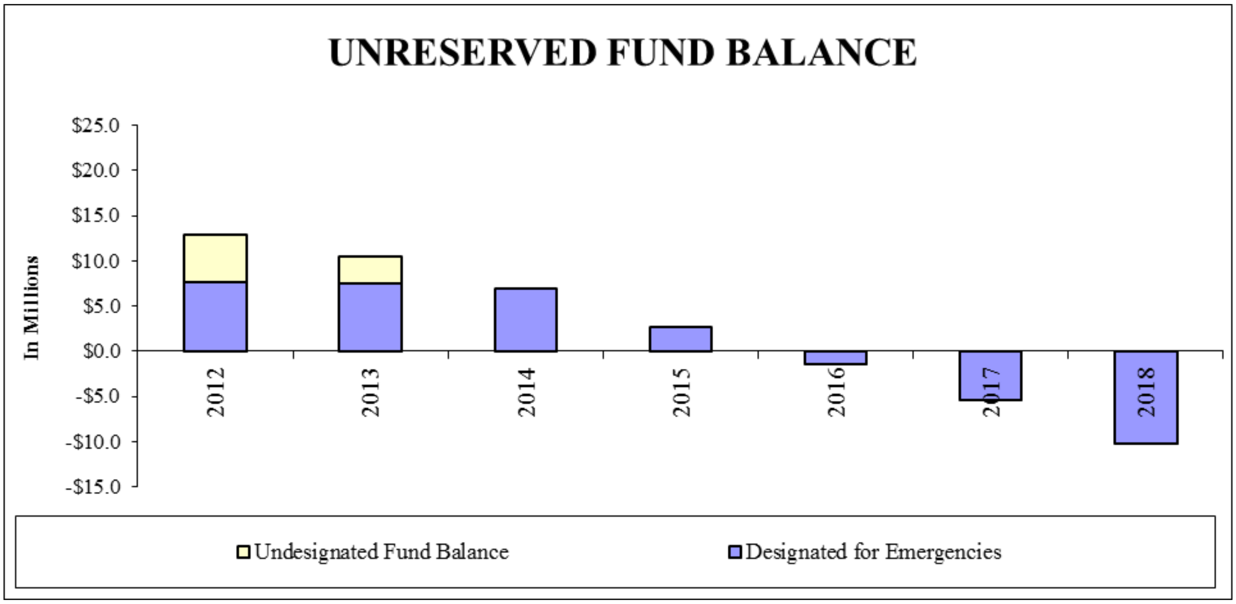
Operating position refers to the City's ability to match revenues to expenditure levels, i.e. if revenues exceed expenditures, the City will have an operating surplus. The opposite is true if revenues fall below expenditures, then the result is an operating deficit. Over the forecast period, the City's revenue and expenditure projections generate a deficit in operating position for fiscal years 2011-12 through 2017-18.



Increases in labor costs (salary and benefits) are the primary driver of expenditures, which are projected to increase by an average of 4.8% per year. 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.

To address the projected shortfalls throughout the projected term of the LTFP, City Staff have identified cost containment opportunities explained in greater detail in **Section V: Gap Closing Strategies**.

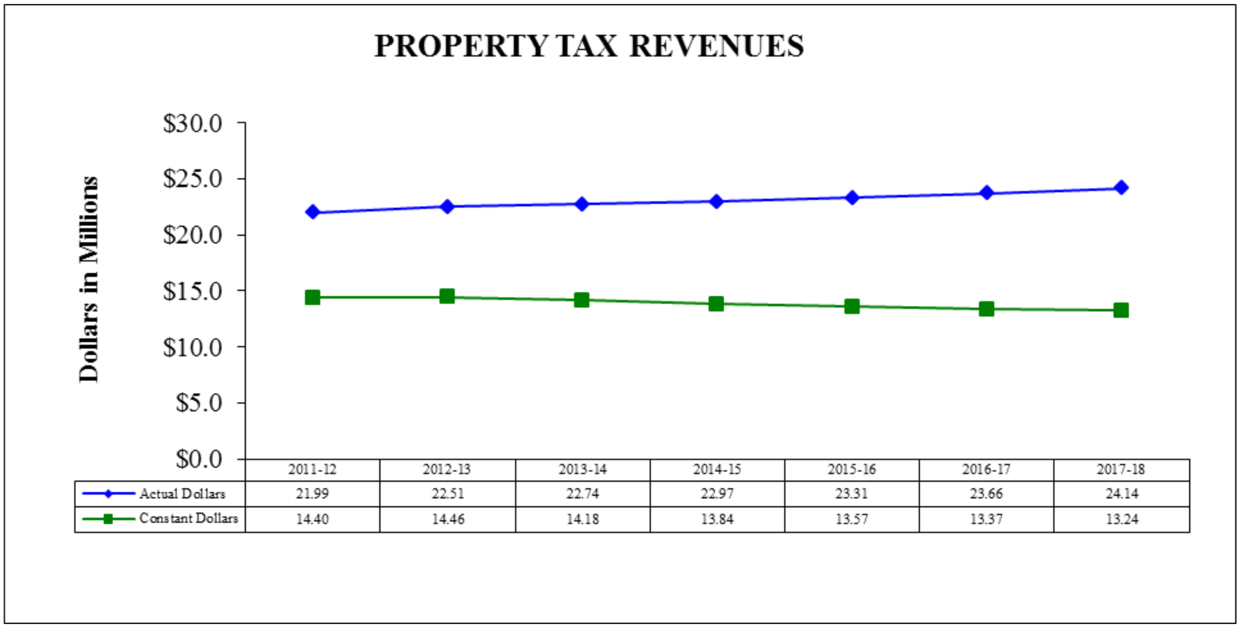
Unreserved Fund Balance



The Operating Position discussed on the previous page reflects a deficit in the City's operating position in fiscal year 2012 and continuing through 2018. The Operating Position projection has not taken into account any reserves that may need to be used to cover natural disasters such as a flood. One time uses of the unreserved fund balance that have been budgeted for in the FY 2011/12 budgets have been included in this projection.

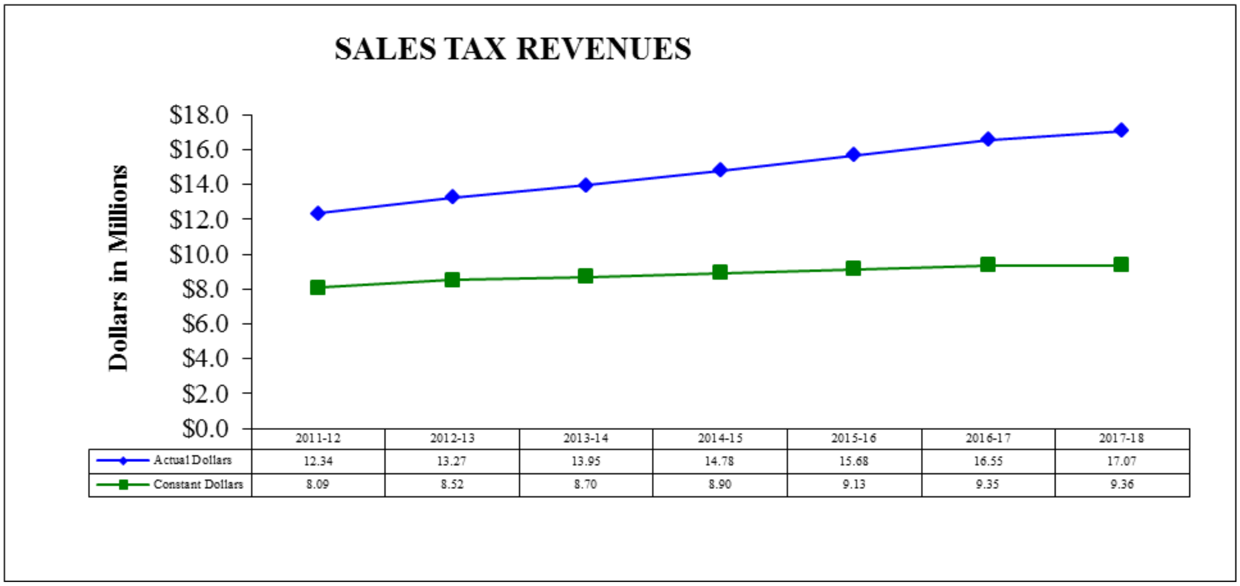
To address the projected shortfalls throughout the projection term of the LTFP, City Staff have identified cost containment opportunities explained in greater detail in Section V: Gap Closing Strategies.

Property Tax Revenues



Property Tax continues to be the City's largest source of revenue and represented 37% of total revenues in FY 2011-12. As a result of the recent recession home values have decreased across the state. Although economists believe the worst is over, property taxes are expected to show only mild gains, averaging between 1%-2% per year over the next six years.

Sales Tax Revenues



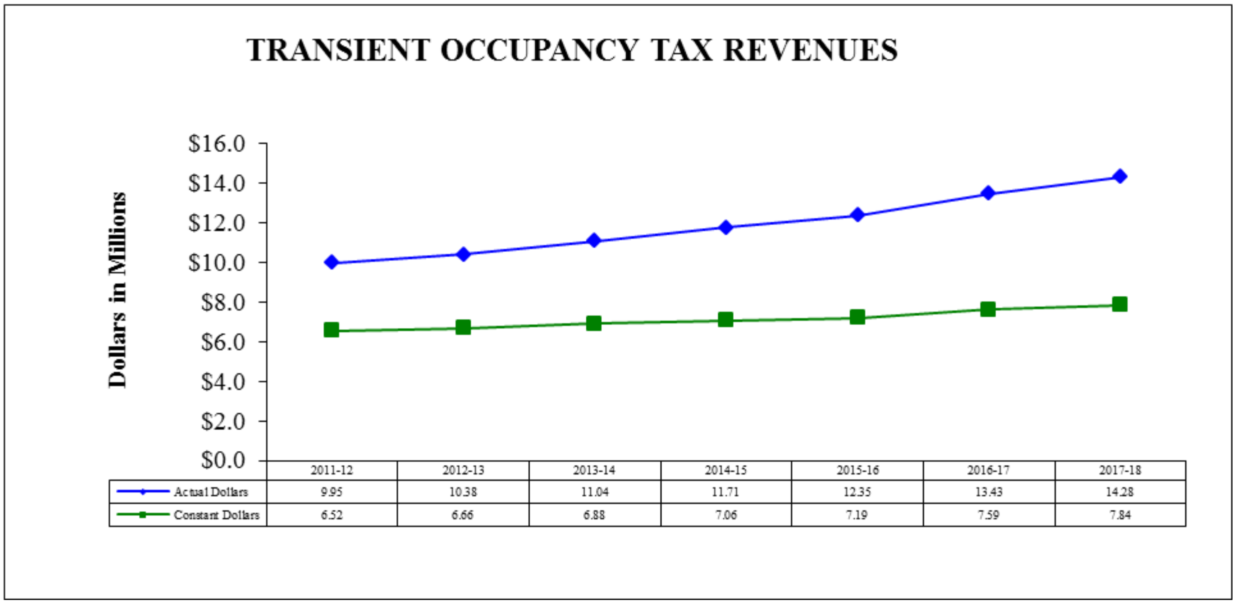
Sales tax is one of the City's most economically sensitive revenue sources and continues to be the City's second largest revenue source. Projected new development is expected to bring an incremental amount of sales tax revenue.

Sales Tax Revenue Forecast
(in thousands)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Base Sales Tax *(Includes Prop 172)*	$ 12,301	$ 13,193	$ 13,830	$ 14,626	$ 15,490	$ 16,362	$16,858
Incremental Increases:							
Hotels	9	18	28	37	46	46	65
Retail	33	60	89	118	141	141	144
Totals	**$ 12,343**	**$ 13,271**	**$ 13,946**	**$ 14,780**	**$ 15,677**	**$ 16,550**	**$17,067**
% Increase		*7.5%*	*5.1%*	*6.0%*	*6.1%*	*5.6%*	*3.1%*

Using the assumption of recessionary pressures easing through 2011-12 and recovery continuing with moderate economic expansion in subsequent years (including planned commercial development), sales tax revenues are expected to see an average increase of 5.6% over the next six years.

Transient Occupancy Tax Revenues

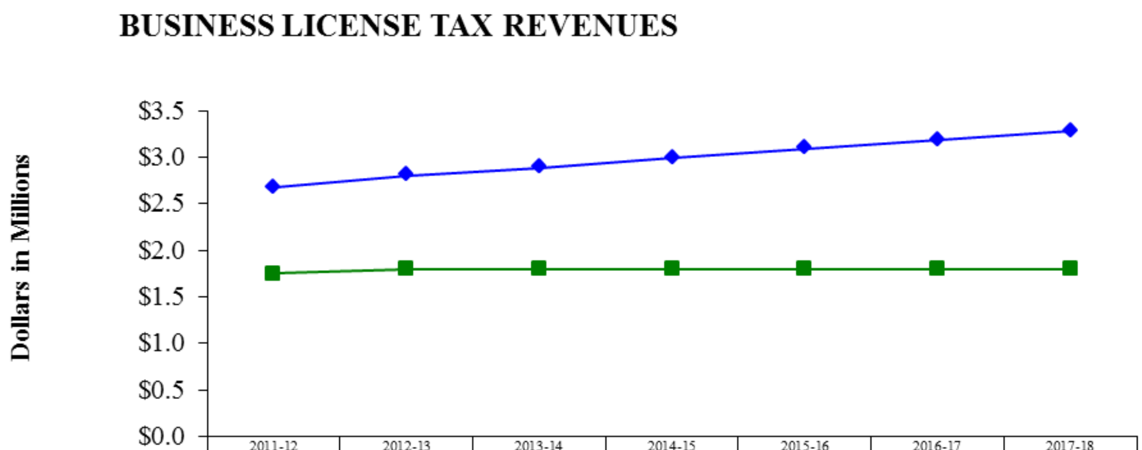


Transient occupancy tax is the other of the City's most economically sensitive revenue sources and is the City's third largest revenue source. Projected new hotel development is expected to bring an incremental amount of transient occupancy tax revenue.

Transient Occupancy Tax Revenue Forecast (in thousands)							
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Base Transient Occupancy Tax	$ 9,890	$ 10,125	$ 10,385	$ 10,660	$ 10,894	$ 11,080	$11,281
Incremental Increases:	0	251	651	1,052	1,453	2,353	3,003
Totals	**$ 9,890**	**$ 10,375**	**$ 11,036**	**$ 11,712**	**$ 12,347**	**$ 13,433**	**$14,284**
% Increase		*4.9%*	*6.4%*	*6.1%*	*5.4%*	*8.8%*	*6.3%*

Using the assumption that our existing facilities are nearing capacity, only a small average annual increase of 2% for rate increases or reduced vacancies has been included. The Meritage expansion is near completion and its contribution and phase-in of the TOT are more measurable and contribute to the forecast beginning in FY12/13. Speculative development projects that include the Napa River Inn expansion, a Hotel in the South Gasser area, and the opening of a large hotel (e.g. Ritz Carlton) are phased in conservatively and their contribution will appear beginning in FY16/17. Overall, transient occupancy tax revenues are expected to see an average annual increase of 6.3% per year during the forecast period.

Business License Tax Revenues



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Actual Dollars	2.67	2.80	2.88	2.98	3.09	3.18	3.28
Constant Dollars	1.75	1.80	1.80	1.80	1.80	1.80	1.80

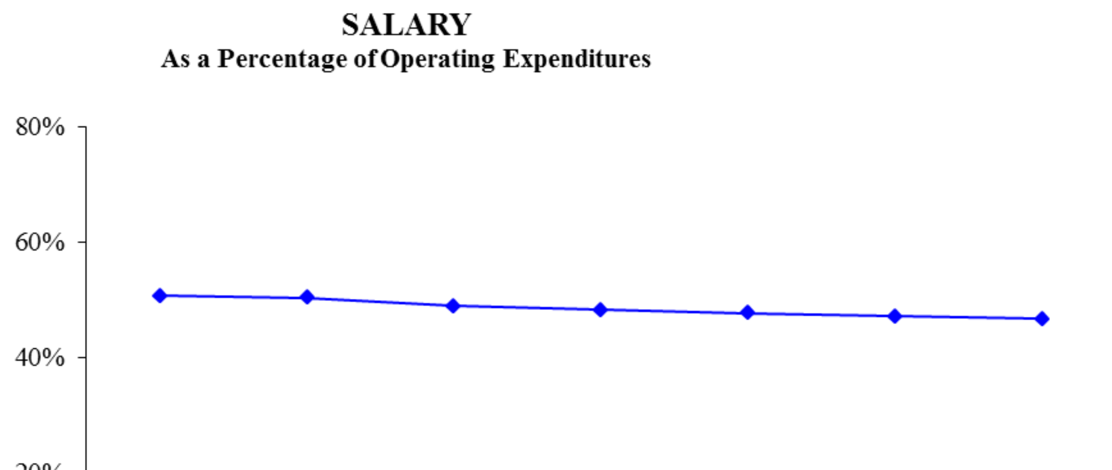
Business license tax revenues are based on gross receipts of business conducted within the City. It is anticipated that future growth will occur at a rate consistent with inflation.

Interest Earnings

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Actual Dollars	0.20	0.15	0.26	0.26	0.31	0.45	0.48
Constant Dollars	0.13	0.10	0.16	0.15	0.18	0.25	0.27

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, anticipates lower yields. Interest rates are assumed to remain fairly low – equating to approximately 0.5% in FY 2012-13 increasing by approximately 0.5% per year before reaching the maximum assumption of 2.5% for both FY 2016-17 and FY 2017-18.

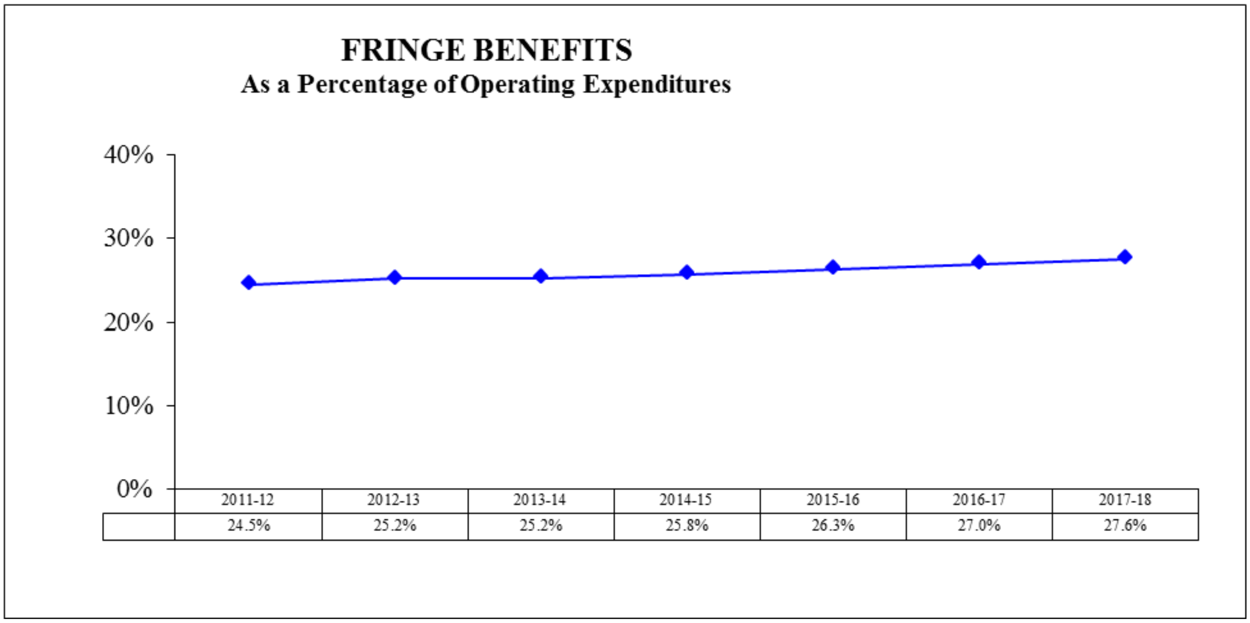
Salary as a Percentage of Operating Expenditures



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	50.7%	50.3%	48.8%	48.2%	47.6%	47.1%	46.7%

Salaries continued to account for almost 50% of the City's operating expenditure budget. The relative percentage is reducing through the life of the plan for two reasons. First, only one new position per year is assumed throughout the life of the plan. Second, the COLA and step increase assumption of between 1.5% and 2.5% lags behind inflation.

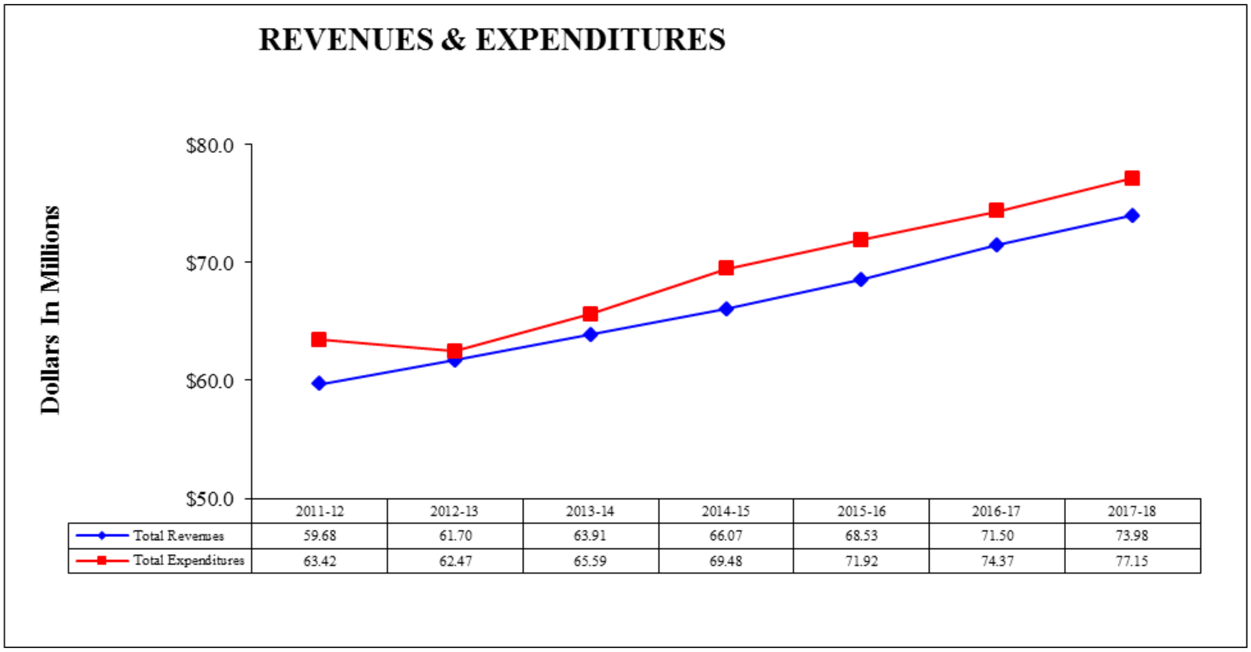
Fringe Benefits as a Percentage of Operating Expenditures



The employee benefits category reflects a moderation of growth throughout the forecast period. The growth rate comes primarily from projected increases in CalPERS and Medical premiums. There is an inherent vulnerability in this forecast in respect to the anticipated 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. These rates are also impacted by a recently negotiated second tier retirement benefit structure and will partially offset recent CalPERS action to adjust its investment earnings forecast. Since state law requires that CalPERS 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, which adds to the volatility of the rates.

Increases in health care costs are projected to continue to be significant at an average annual 8.1% growth rate. This estimate assumes the City bearing approximately 90% of the future premium increases for both medical and dental coverages.

Revenues & Expenditures



Total revenues are forecast to grow by an average annual increase of approximately 4.4% per year. Continued economic recovery, in addition to hotel and retail development projects contribute to revenue growth.

While there is expected moderation of benefit costs, expenditures are projected to increase at an average annual rate of 3.9% per year. Projected expenditures include retirement contribution increases as projected by CalPERS, minimal medical and dental increases (8%) and minimal COLA (average of 2% per year). One new position per year beginning in FY 2013-14 has been included in the projections.

As indicated on the graph, the forecast predicts that the City will experience a deficit position through 2018, given the assumptions in the model.

To address the projected shortfalls throughout the projection term of the LTFP, City Staff have identified cost containment opportunities explained in greater detail in Section V: Gap Closing Strategies.

V: GAP CLOSING STRATEGIES

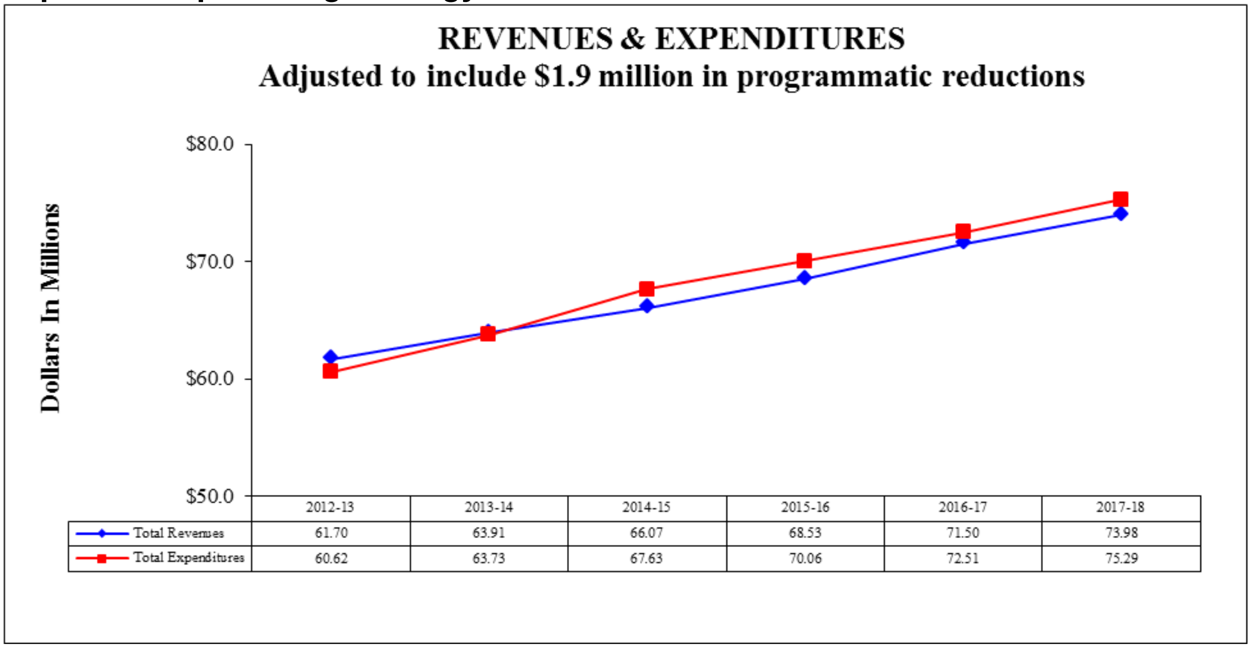
The 2012 Long Term Financial Plan identifies that maintaining status quo on the current level of services will be challenging over the next five years.

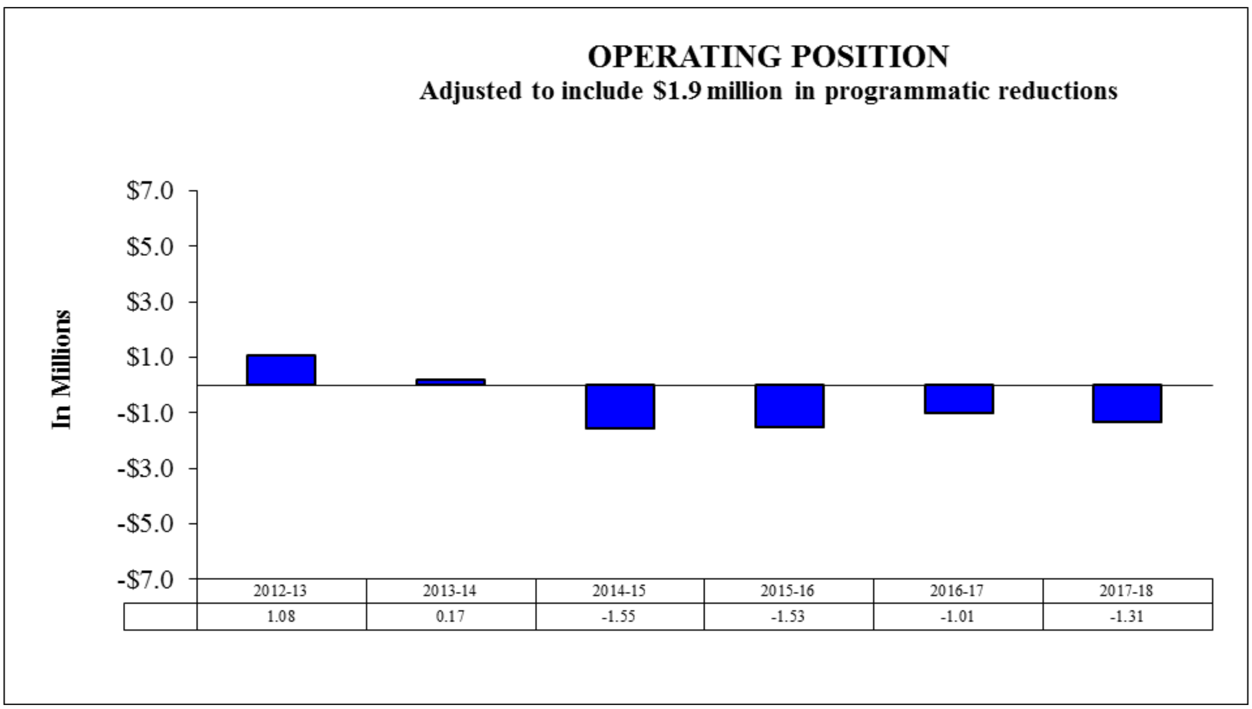
To address the operating shortfalls projected in the LTFP into the FY2012-13 fiscal year, City staff will be proposing the following Gap Closing Strategies in June, 2012:

Strategy #1: $1.9 Million in Programmatic Reductions
Description
The reductions to be recommended by the departments during the Mid-Cycle review do not include any staff layoffs, but rather reduce professional services contracts, adjust the allocation of personnel to capital projects, and reduce travel, training, supplies, and energy use. The reductions will be proposed in the following organizations:

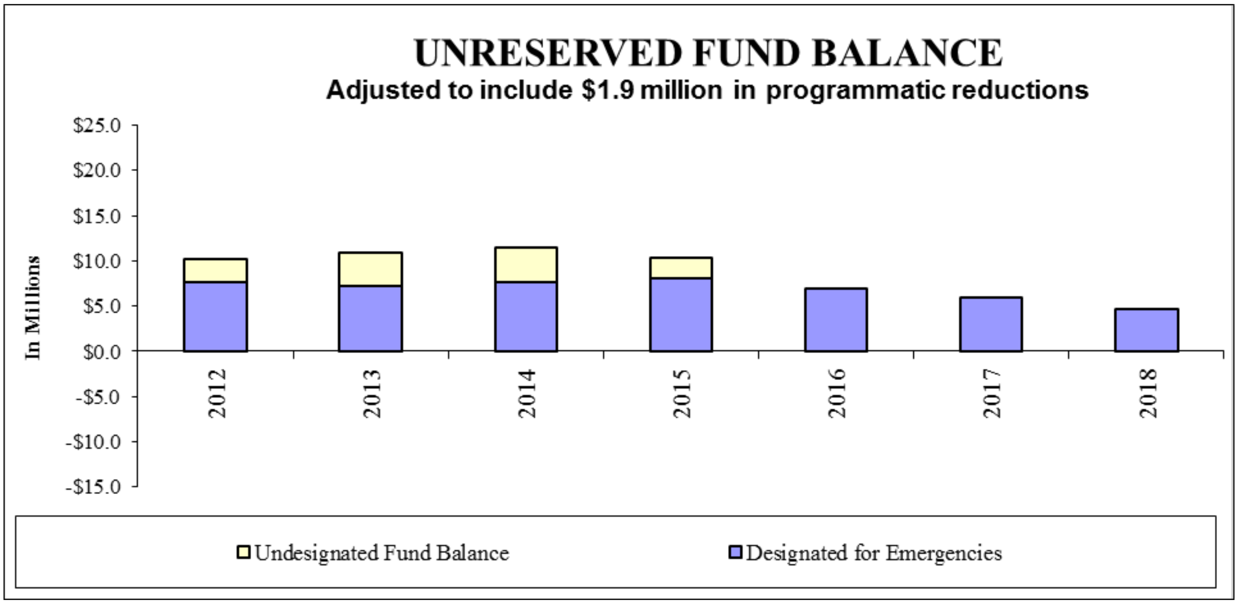
- Administrative Services Department -0.4 million
- Community Development Department -0.2 million
- Fire Department -0.3 million
- Police Department -0.4 million
- Parks & Recreation -0.3 million
- Public Works -0.3 million

Impact of Gap Closing Strategy #1





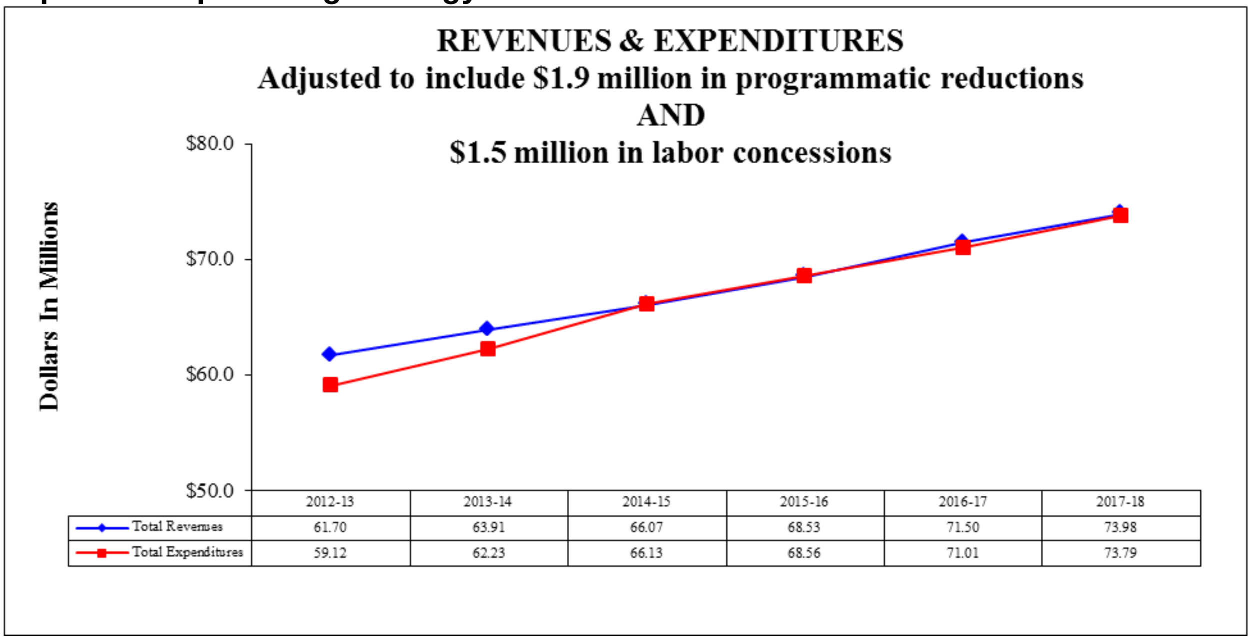
As indicated on the two graphs above, although the required level of offset from has been reduced, the $1.9 million reduction in operating expenditures does not close the gap. Additional reductions are necessary to ensure the financial health of the city.

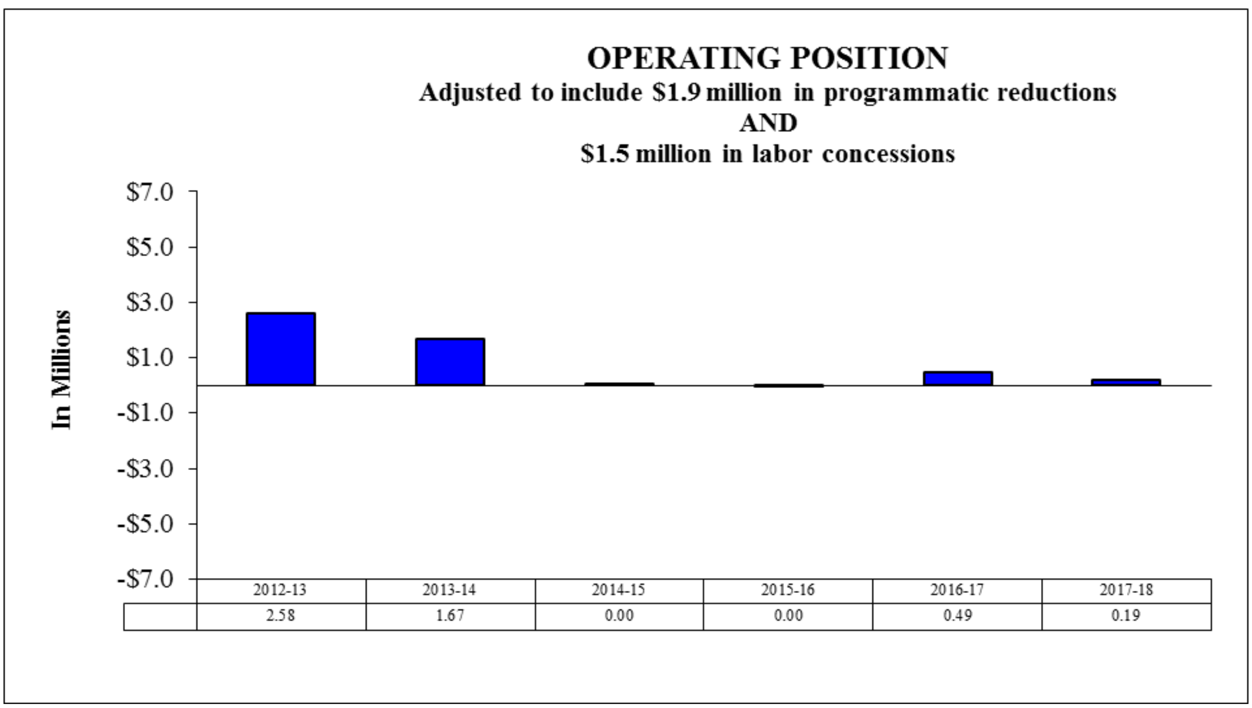


The usage of Unreserved fund balance, provided only $1.9 million of programmatic reductions are achieved, will result in Undesignated fund balance being drawn down to $0 in FY 2015-16, followed by the erosion of Emergency Reserves in FY 2015-16 and beyond.

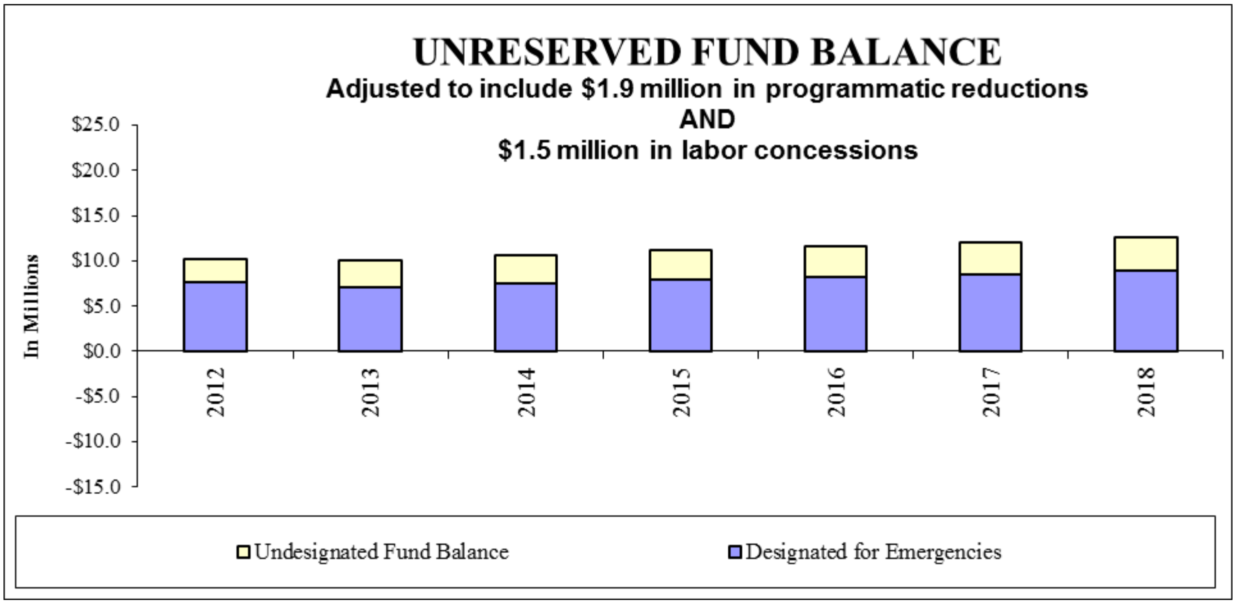
Strategy #2: $1.5 Million in Labor Concessions
Description
Negotiations are currently underway with most of the employee groups to achieve a goal of $1.5 million in labor concessions.

Impact of Gap Closing Strategy #2





As indicated on the two graphs on the previous page, the combined impact of the $1.9 million in programmatic reductions and $1.5 million in labor concessions provide the city the necessary reduction to ensure the financial health of the city.

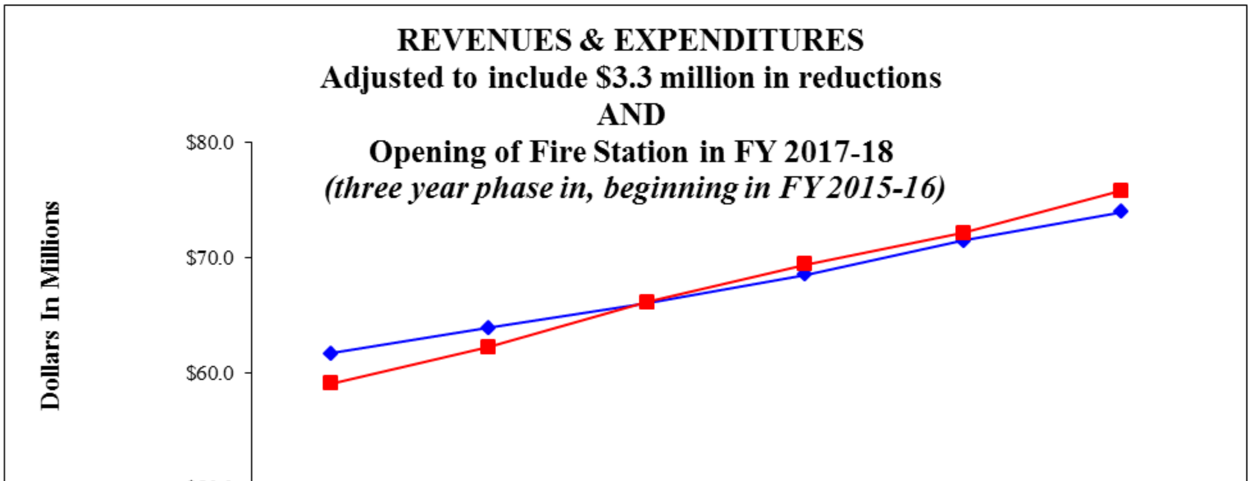

UNRESERVED FUND BALANCE
Adjusted to include $1.9 million in programmatic reductions
AND
$1.5 million in labor concessions
$25.0
$20.0
$15.0
$10.0
$5.0
$0.0
-$5.0
-$10.0
-$15.0
In Millions
2012
2013
2014
2015
2016
2017
2018
Undesignated Fund Balance
Designated for Emergencies

VI: ALTERNATE SCENARIOS

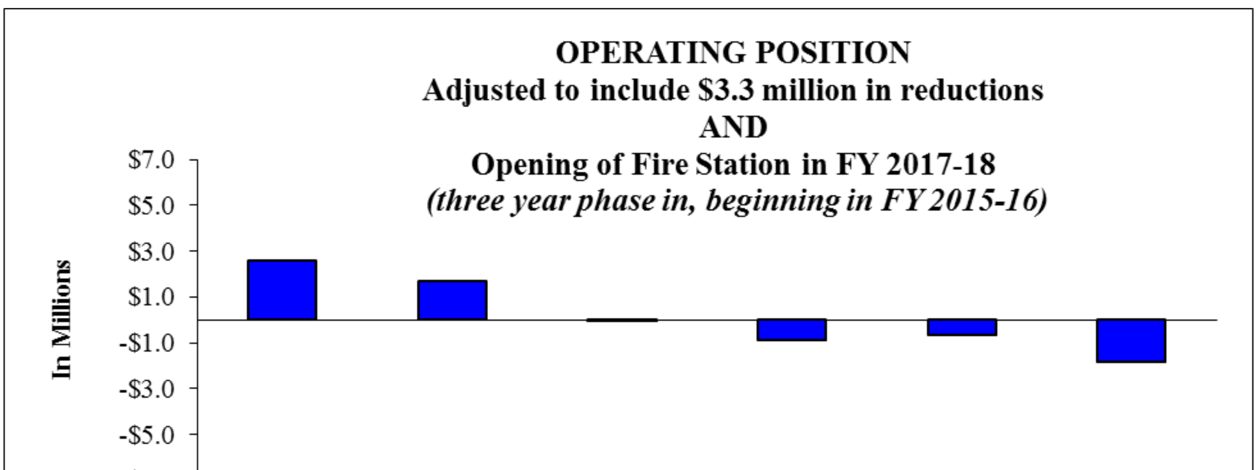
Alternate Scenario #1 – Impact of opening Fire Station #5 in FY 2017-18

in actual dollars	FY2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Operating Costs for Fire Station #5				$ 840,000	$1,120,000	$2,000,000

The operating costs for opening Fire Station #5 are estimated to total $2.0 million, but will be phased in over three years. Approximately 98% of the costs are related to nine new sworn personnel, with the remainder of the funds being required for the maintenance of the new facility and equipment.



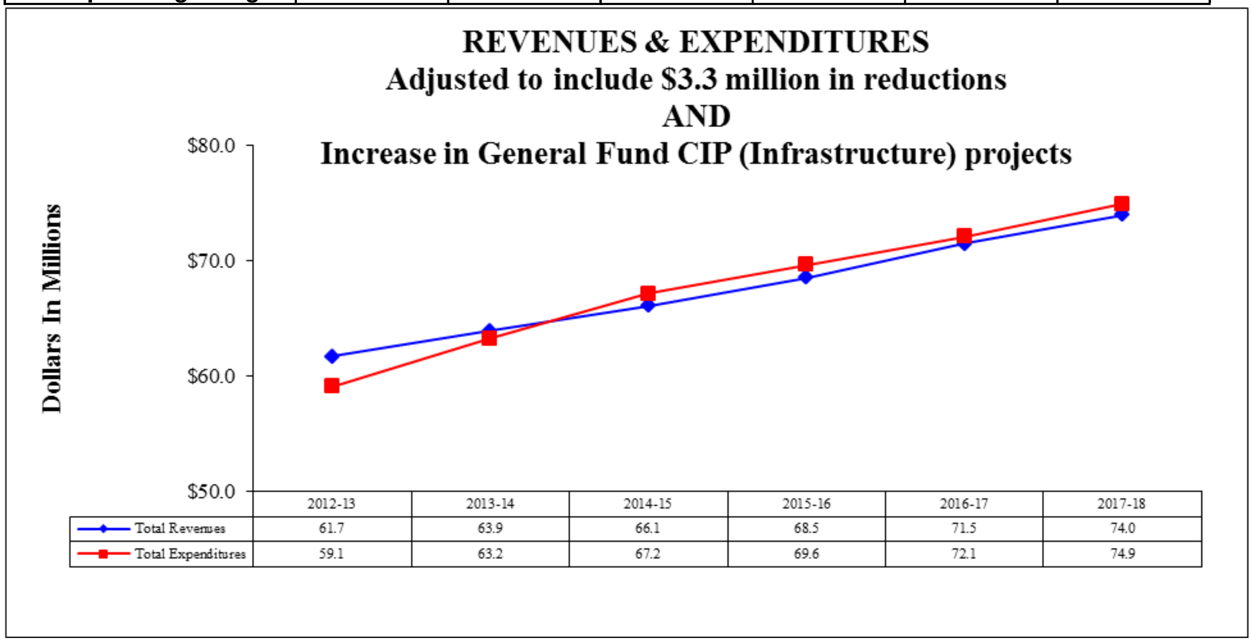
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total Revenues	61.7	63.9	66.1	68.5	71.5	74.0
Total Expenditures	59.1	62.2	66.1	69.4	72.1	75.8

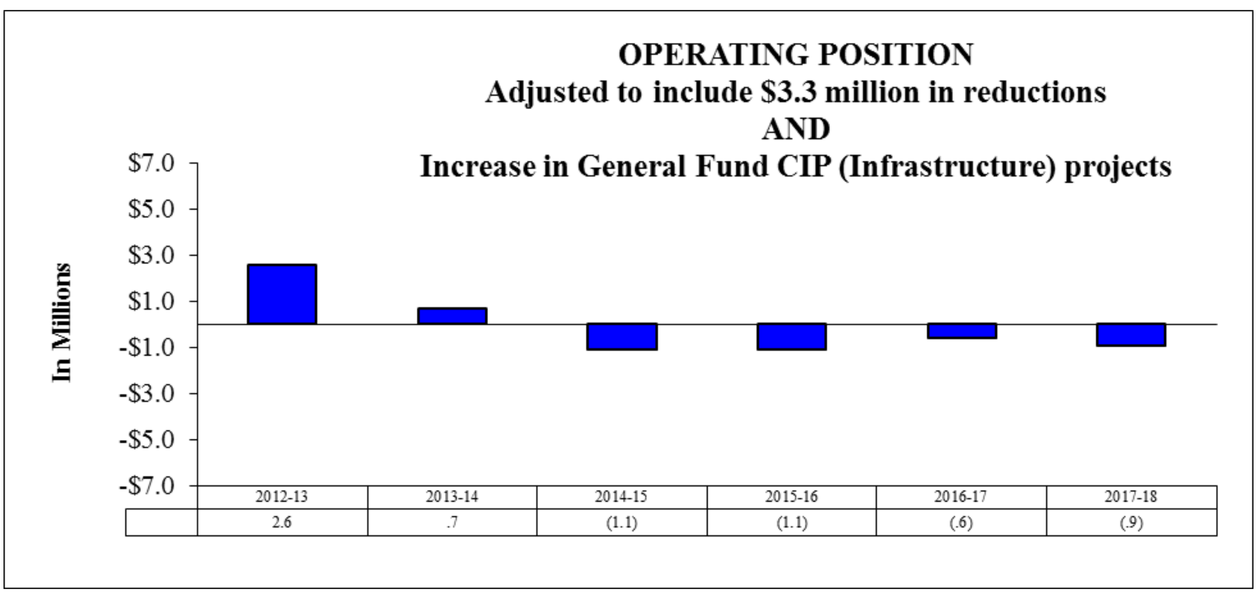


	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	2.6	1.7	(.1)	(.9)	(.6)	(1.8)

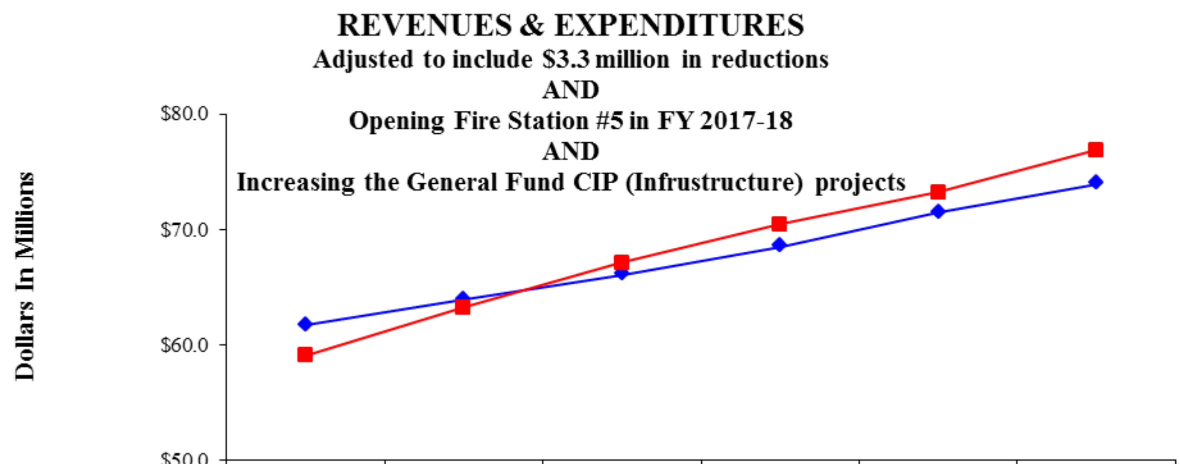
Alternate Scenario #2 – Increase in General Fund contribution to Infrastructure Improvements (CIP)

in actual dollars	FY2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Double current General Fund Infrastructure Investment	-	1,000,000	1,030,000	1,060,900	1,092,727	1,125,509
% of Operating Budget	-	1.60%	1.56%	1.53%	1.52%	1.51%

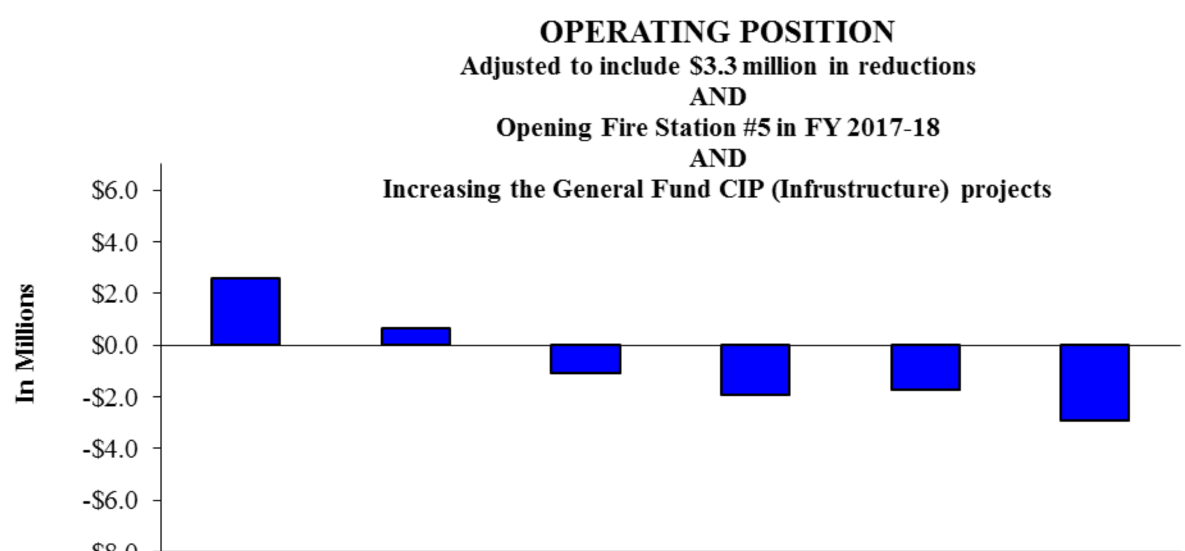




The combined impact of Alternate Scenario #1 – Impact of opening Fire Station #5 in FY 2017-18 and Alternate Scenario #2 – Increase in General Fund contribution to Infrastructure Improvements (CIP) is shown in the following graphs:



	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total Revenues	61.7	63.9	66.1	68.5	71.5	74.0
Total Expenditures	59.1	63.2	67.2	70.5	73.2	76.9



	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	2.6	.7	(1.1)	(1.9)	(1.7)	(2.9)

VII: FINDINGS AND CONCLUSIONS

The information provided in the preceding pages indicates that the City of Napa is continuing a period of fiscal challenge. The local economy had improved as reflected in revenue growth across the board; however, expenditures continue to outpace revenues, especially in retirement and health care contributions.

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

It should also be noted this plan 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 anticipates the need for additional facilities including a fire station, parks, trails and bridges, but we have not allowed for sufficient new staff to meet the increasing demands.

In conclusion, it is important that we hit our revenue and expenditure targets and assumptions to accomplish the goals within this Long Term Financial Plan, as doing so enables us to achieve our long term operational needs of the City. Over the last two fiscal years, the City has been successful in making tough decisions to contain costs. However, given the City's tenuous financial position it is imperative that we insure our revenue streams remain healthy (specifically Property Tax, Sales Tax, and Transient Occupancy Tax) to provide stability to our community. Toward this end, the importance of a strong Economic Development presence cannot be overstated – as it is a primary vehicle for generating and stabilizing revenues. For example, Economic Development has taken the lead in recent projects such as the Oxbow Market and the Downtown Specific Plan – as well as planning new projects including hotel developments and the revitalization of the Town Center Mall. Unfortunately, with the State imposed dissolution of the Redevelopment Agency (and its funding), we have a need to find alternative ways to fund economic development incentives. One example would be the creation of a Community Facilities District. Another alternative would be identifying and securing a long term resource (e.g. sales tax measure for street improvements and its corresponding maintenance of effort) which would help to provide financial relief to the General Fund by easing the pressure to increase contributions to Street projects. It is important to note, however that new funding would not replace the existing General Fund contribution, rather it would incrementally increase the city's investment in infrastructure (street) repairs. Additionally, we will also continue to evaluate the appropriateness and level of user fees to strike a balance between meeting program costs and program growth – again, doing so would provide less reliance on general fund financial support.

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 Mid-cycle 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 to avoid serious financial problems.

VII: RECOMMENDED ISSUES FOR STUDY/ACTION:

- Bringing operating revenues and expenditures into alignment.
- Long term funding source for new facilities and existing infrastructure
- Labor cost containment alternatives
- Impact of new development on service delivery and financial position
- Funding for capital equipment and major maintenance
- Consider various options of sharing resources with other local entities
- Opportunities for revenue development
    - Fees
    - Strengthen tax base
    - Tax options
    - Collection practices