CITY OF NAPA

2016

Long Term Financial Plan

2016 Long Term Financial Plan
Trends and Forecast Analysis

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2016 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 doing 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. Regardless of whether the economy is expanding, contracting or remaining stable, 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. The LTFP provides the strategic foundation to understanding the various trends to allow a comprehensive review of programs and services provided to the community and how these needs may change both in the near-term and long-term.

Although financial plans are only as good as the assumptions and data utilized in establishing them, the development of a comprehensive financial plan with regular updates, 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.

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 steady growth trend in the Napa Valley, which impacts revenues, expenditures, and the breadth and level of service provided to the community.

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 2005/06 through FY 2014/15) and forecast including projections for the current fiscal year (FY 2015/16) and looking ahead six years through FY 2021/22.

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 2015 LTFP.

Description/Item	Status	Comments
Long term funding source for new facilities and existing infrastructure	In Process	Parks, Streets and Public Works Master Plans have been completed. Efforts are ongoing to identify appropriate funding sources for identified infrastructure improvements, maintenance and restoration needs. Specific projects will be proposed in accordance with the plans, as funding allows. The 2013 update to the fiscal reserve policy identified a strategy for providing funding to facilities and infrastructure by assigning the first 2% of surplus to Capital Facilities Replacement Reserve and the remaining surplus to the CIP General Fund Reserve.
Impact of new development on service delivery and financial position	In Process	The City continues to plan long-term, and consider opportunities for revenue development, or increase staffing as needed to ensure service levels and financial position remain strong and sustainable.
Funding for capital equipment and major maintenance	In Process	The guidelines established by International City Managers Association (ICMA) indicate that a city should spend roughly 1.5% of operating expenditures on capital outlay for equipment and major facilities maintenance. The City is currently on target to spend $1.7 million of operating expenditures in FY16 (or approximately 2.3% of operating expenditures). In addition, 2% of surplus goes to the Capital Facilities Replacement reserve for maintenance of existing city facilities. Additionally, a new policy (adopted in FY 2014/15) established an equipment replacement reserve.

Description/Item	Status	Comments

Opportunities for revenue development	In Process	The annual User Fee update was presented to Council in September 2015, and the new rates became effective November 1, 2015. The user fee study will continue to be updated annually. In FY 2015/16 the City conducted reviews of the Water Connection and Housing Impact Fees. Currently underway are review of the Fire and Parking impact fees. Parks (Acquisition & Development) and Street Impact Fees will be reviewed next. As with User Fees, after the initial review, the development fees will be updated annually going forward and full studies will be updated at least every 5 years. The City continues to consider the use of debt instruments to support facilities and infrastructure projects to ensure the City remains poised to meet the growing service needs of a vibrant and healthy community.
Risk based analysis of General Fund Reserves	Complete	The Risk based analysis of General Fund reserves was completed and new reserve levels were adopted in early 2015 and funded using available balance in FY 2014/15.
Funding Source for Economic Development activity to replace lost Redevelopment Tax Increment funding	Complete	The City will continue to explore Economic Development opportunities to help strengthen the tax base, through previously noted issues of: *Review of opportunities for revenue development* and *Long term funding source for new facilities and existing infrastructure*.

II: FISCAL POLICY

Objective
To provide a set of policies to guide decision making in areas with fiscal impact.

Background
As recommended by the Government Finance Officers Association (GFOA), City staff developed, and presented to Council in 2007, a set of Fiscal Policy statements that have been adopted to address the following areas:

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

The adopted Fiscal Policy is 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.

No revisions are proposed at this time, however the Fiscal Policy will be reviewed during the mid-cycle budget process, and adjustments will be proposed for several areas including pension stabilization, Tourism Improvement District reserves, and Fleet reserves.

Fiscal Policy Statement	Status	Comment
General Financial Goals		
To maintain and enhance the sound fiscal condition of the City.	√	
Operating Budget Policies		
The City will adopt a balanced two-year budget by June 30 of every other year.	√	
A bi-annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
Current revenues will be sufficient to support current operating expenditures.	√	
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.	√ --	Fleet replacement and maintenance needs are kept on a six-year schedule. An inventory of other capital equipment is currently underway, and will be completed prior to the development of the FY 2017/18 & FY 2018/19 biennial budget
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.	√	
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.	√	

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

Fiscal Policy Statement	Status	Comment
Operating Budget Policies *(Cont'd)*		
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% of Operating and Maintenance costs.	√	In FY 2015/16 the Water Enterprise Fund holds a reserve equating to 45 days of operating expenses (approximately 13.7% of operating expenditure appropriations).
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.	√	
Revenue Policies		
The City will strive to maintain a diversified and stable revenue base to shelter it from short-term fluctuations in any one revenue source.	√	
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate. Revenue estimates adopted by the City Council must be conservative.	√	
User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	√	
Non-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.	√	
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.	√	
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.	√	
Legend: *√ = Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

Fiscal Policy Statement	Status	Comment
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 or utilize limited term positions 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 Solid Waste / Materials Diversion fund may only use funds generated by their service charges, grants and other outside sources of funds to fund their CIP projects.	√	
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities and whose operating and maintenance costs have been included in the budget.	√	
The Council will review the Street Improvement Program every two years during budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Resurfacing Program 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.	√	
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		
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 inter-fund loans rather than outside debt instruments to meet short-term cash flow needs. Inter-fund loans must be repaid consistent with terms established in a written agreement.	√	
The City will confine long-term borrowing to fund capital improvements that cannot be funded from current revenues.	√	
The City will use special assessment revenue, inter-fund loans or other self-supporting bonds instead of general obligation bonds when feasible.	√	
Reserve/Fund Balance Policies		
In accordance with GASB 54, 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.	√	
The City will maintain General Fund Emergency reserves at a level at least equal to 14% 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.	√	
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 General Fund Undesignated Fund Balance (Operating Reserve) will be maintained at a level of 5% of its operating budget.	√	
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, and will not exceed 2% of the Operating Budget.	√	
A CIP General Fund Reserve shall be established for the purpose of providing funds for ongoing and future Capital Improvement Projects. Amounts transferred to this fund shall be from the General Fund's Undesignated Fund Balance, and, unless otherwise directed, will equate to any remaining General Fund Undesignated funds as of June 30 of any year, after the Operating, Emergency, and Contingency funds threshold for the next fiscal year have been met, and an amount equal to 2% of the Operating Budget has been transferred to the Capital Facilities Replacement Reserve.	√	
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 appropriation will be established as needed but shall not be less than 1% of General Fund operating expenditures.	--	The Contingency reserve for FY 2015/16 is currently $500,000 which is under the $744,183 policy level (1% of Operating expenditures.) Compliance is projected to be achieved through $100K annual increases over the next four years.
The City will comply with GASB 45 and establish an irrevocable trust to fund future retiree medical costs.	√	
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.	√	
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)*		
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 designated 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.	√	
The City will maintain a Fleet Replacement Fund 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 fund will be maintained at a level adequate to replace all stock, per the pre-determined replacement schedule.	√	
The City will establish an Equipment Replacement Fund for capital equipment as it becomes unserviceable, obsolete or reach a predetermined service life. The fund will be maintained at a level adequate to replace all capital equipment per the pre-determined replacement schedule.	√ --	The Equipment Replacement Fund was established in FY 2014/15 and is being funded at $100K annually. An inventory of Capital Equipment, and replacement schedule is being developed, and will be included in the FY 2017/18 & FY 2018/19 biennial budget
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 City will establish a Long Term Water Supply Reserve and set aside $200,000 annually from the operating fund.	√	
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 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 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 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.	√	
The City will maintain a Rate Stabilization Reserve in the Solid Waste Fund. This reserve will be funded at a level of 5%-10% of collection revenues to stabilize collection rates to avoid wide swings in rates over time.	√	The Rate Stabilization Reserve will be funded at a level equal to 9% for FY 2016/17; and 10% for FY2017/18 and thereafter.
The City will maintain a Solid Waste/Materials Diversion Operating Reserve to cover unforeseen revenue shortfalls, increases in expenses, and potential environmental compliance expenditures. The reserve should be funded at a level of 20% of operating expenditures, which excludes contributions to reserves, the Street Resurfacing Program, capital projects, and debt service.	--	The Operating Reserve for FY 2015/16 for MDF is approximately 14% of Operating expenditures, or 6% below the target reserve level.
The City will maintain a Capital Improvement Projects (CIP) Reserve in the Solid Waste Fund to provide for major renovation, modernization or for planned capital improvement program repairs and maintenance at 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 annual contribution will equate to the annual depreciation of the MDF facility.	√	Based on a 30-year capital replacement plan; this reserve is funded annually at a rate of $536,000 per year.
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.	√	
Legend: *√ = Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

Fiscal Policy Statement	Status	Comment
Investment Policies		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
The City Treasurer will invest the City's monies in accordance with applicable laws and adopted investment policies and direct the investment of bond or note monies on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	
Accounting, Auditing & Financial Reporting Policies		
The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	√	
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
Maintain a good credit rating in the financial community.	√	
Maintain a liquidity ratio of at least 1:1.	√	
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.	√	
Legend: √ = *Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

	2011	2012	2013	2014	2015	2016
Out of Compliance	20%	18%	8%	6%	6%	5%
Compliant	80%	82%	92%	94%	94%	95%

The above graph tracks the City's compliance with adopted fiscal policies over the previous five Long Term Financial Plan updates. In the current update, the City is in compliance with 95% of the policies. The remaining out of compliance items are all on schedule to come into compliance within the next two budget cycles.

The following table provides a brief explanation of the policies currently out of compliance and the action plan to return to target levels.

Policy	Explanation	Action Plan
Operating Budget Policies: 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	The City is in compliance with the policy for Fleet equipment, but is out of compliance for the large equipment(e.g. HVAC).	An inventory of other capital equipment is currently underway, and will be completed prior to the development of the FY 2017/18 & FY 2018/19 biennial budget.
Reserve / Fund Balance Policy: 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 appropriation will be established as needed but shall not be less than 1% of General Fund operating expenditures.	The Contingency reserve for FY 2015/16 is currently $500,000 which is under the $744,183 policy level (1% of Operating expenditures.) This reserve was eliminated in FY 2010/11 due to the recession. $200K was restored in FY 2011/12, and we have been restoring $100K/year since FY 2012/13.	Compliance is projected to be achieved through $100K annual increases over the next four years.

Policy	Explanation	Action Plan
Reserve / Fund Balance Policy: The City will establish an Equipment Replacement Fund for capital equipment as it becomes unserviceable, obsolete or reach a predetermined service life. The fund will be maintained at a level adequate to replace all capital equipment per the pre-determined replacement schedule.	The Equipment Replacement Fund was established in FY 2014/15 and is being funded at $100K annually.	An inventory of Capital Equipment, and replacement schedule is being developed, and will be included in the FY 2017/18 & FY 2018/19 biennial budget
Reserve / Fund Balance Policy: The City will maintain a Solid Waste/Materials Diversion Operating Reserve to cover unforeseen revenue shortfalls, increases in expenses, and potential environmental compliance expenditures. The reserve should be funded at a level of 20% of operating expenditures, which excludes contributions to reserves, the Street Resurfacing Program, capital projects, and debt service.	The Operating Reserve for FY 2015/16 for MDF is approximately 14% of Operating expenditures, or 6% below the target reserve level.	Basd on current revenue and expenditure trends, it is anticipated the Operating Reserve will be fully funded within the next two years.

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), Caution (C), Warning (W), or Unfavorable (U).

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 FY 2005/06 through FY 2014/15 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 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 made it through a national recession with only small service level impacts to the community. We must, however, remain cautious as the economy continues to be erratic, and we want to ensure we provide effective and efficient services to the community while remaining in a positive operating position. Even with a strong economy, benefit costs (e.g. health insurance, pension costs) continue to be a concern as increases are projected to continue. As the state and the nation continue the recovery process from the recent recession, 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 increased for the fourth year in a row, showing increases in all three of the City's major revenue sources. Property tax, sales tax, and transient occupancy tax combined for an increase of $3.7 million between FY 2013/14 and FY 2014/15. The most significant increase was in Property Tax revenues, which showed an increase of 8.0% ($1.9 Million) over FY 2013/14 receipts due to increased resale activity. Additionally, Sales Tax also gained 6.8% over FY 2013/14 ($1.0 Million) and Transient Occupancy tax (TOT) showed an increase of 4.7% ($0.7 million). *It is important to note that TOT receipts were impacted by the 6.0 earthquake that hit the Napa Valley on August 24, 2014. Many properties experienced damage and were forced to either close, or take a number of rooms "off-line" while damage repairs were completed*.

Over the past ten years (2006 through 2015), the City has incurred a FEMA eligible flood (FY 2005/06) and an earthquake (FY 2014/15). 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.

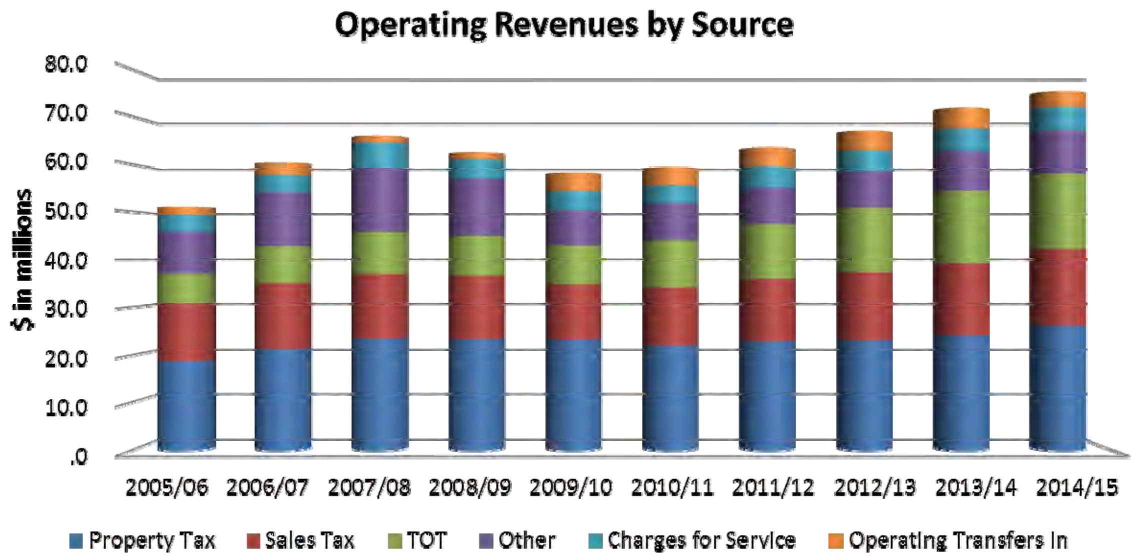
In summary, although the City experienced economic growth, the demand for city provided public services also continues to expand. Due to long range fiscal planning, ongoing controls over spending and an advantageous position in a strong economic niche market, the City remains in a relatively positive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

- Community programs and services must continue to be evaluated to ensure needs are met in the most effective and efficient way possible.
- Benefit costs, while more stable than previous years as a result of labor concessions, are still on the rise due to increasing City contributions toward health benefits and rising pension costs.
- Deferred infrastructure maintenance costs must be addressed.
- The General Fund contribution to CIP is relatively low, between one and two percent of the total expenditures per year. Funding for CIP projects has been available from one-time revenues and/or one-time savings from under-expenditures.
- The City is becoming more reliant on elastic revenue sources, and these revenue sources are susceptible to negative impacts from fragile global and national economies.
- Although the State's financial situation has improved over the past few years, the long term impact to local revenues and expenditures is still uncertain.

We must plan with caution and continue to maintain a positive operating position 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 76% of revenues generated in fiscal year 2014/15.



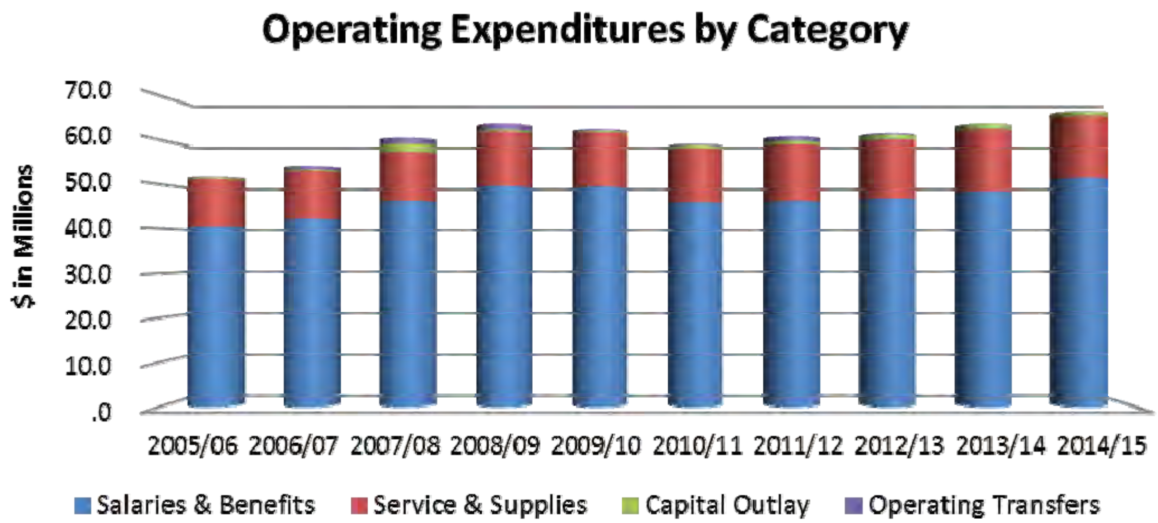
The three largest sources of revenue to the City continue to be property, sales, and transient occupancy tax. Property tax revenues increased for the third year in a row after two years of decline related to the recession. Sales tax revenue has recovered, and continues to grow. Transient occupancy tax revenue has also continued to increase since 2009, due to strong tourism demand in Napa along with a number of new hotel developments and expansions. Other Revenue, which includes Business License Fees, Franchise taxes, Interest Earnings, etc., were impacted by the recession, but have been showing increases over the past five years. 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 in FY 2014/15 ($66.4 million, excluding transfers to reserves) increased 4.5% over the prior year.

Of the $2.9 million increase, salary and benefit costs increased by $2.9 million, while materials, services, capital outlay, and operating transfer expenditures were essentially flat. The increases are related to increased positions (approximately 5.5 FTE comprising both full and part time employees), wage increases as negotiated by the various bargaining units, and increases in benefit costs (most notably PERS).

The following chart compares operating expenditures by category for the fiscal years 2005/06 through 2014/15.



The composition of General Fund operating expenditures for salaries and benefits have stabilized over the past four years due to employee concessions. This is important when considering approximately 77% of the Operating expenditures are related to employee costs. When comparing Operating expenditures over the past ten years, employee costs increased by approximately 27% between FY 2005/06 and FY 2014/15, while materials, services, capital outlay, and operating transfers increased by 34%.

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. Two of the ratings between 2015 and 2016 were upgraded, (Property Tax Revenues and Assessed Property Values) reflecting returned strength of the housing market in Napa.

Indicator	2014	2015	2016
Revenues per Capita	F	F	F
Property Tax Revenues	C	C	F
Sales Tax Revenues	F	F	F
Transient Occupancy Tax Revenues	F	F	F
Business License Tax Revenue	C	F	F
Elastic Revenues	C	C	C
Expenditures Per Capita	C	C	C
Authorized Positions per Capita	C	C	C
Fringe Benefits as a Percentage of Operating Expenditures	C	C	C
Salary Expenditures as a Percentage of Operating Expenditures	F	F	F
Capital Outlay as a Percentage of Operating Expenditures	C	C	C
Operating Position	C	F	F
Projected Balance of Reserve Funds	F	F	F
Liquidity Ratio	F	F	F
Debt Service	F	F	F
Assessed Property Value	C	C	F
Population	F	F	F

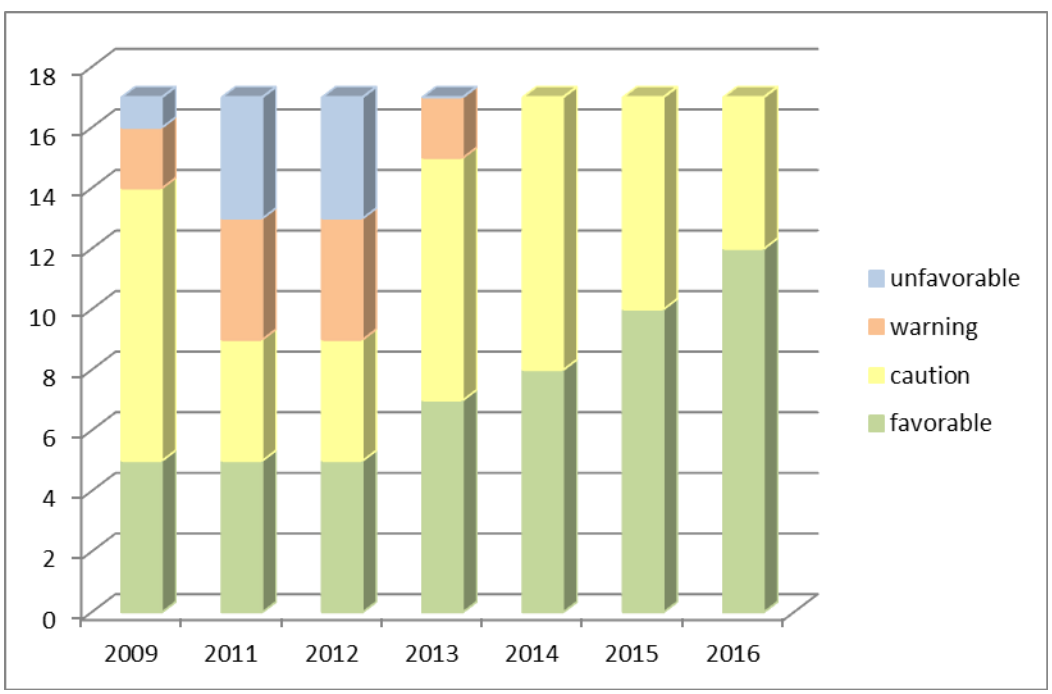
Indicator Number	Description	Finding	Comments
General Fund Revenues			
1	Revenues Per Capita	F	Overall revenues per capita (constant dollars), excluding non-recurring revenues, increased from $332 to $364 between 2006 and 2015. FY 2008/09 through FY 2010/11 revenues were significantly impacted by the recession.
2	Property Tax Revenues	F	FY 2014/15 reflected an increase of 8% due to increasing property values and an active resale market. The County Assessor currently indicates a steady recovery is projected for FY 2015/16 and forward.
3	Sales Tax Revenues	F	Napa's sales tax revenue tends to follow economic cycles. Sales Tax receipts showed a fifth consecutive year of increase in FY 2014/15 as tourism in the Napa Valley remained strong.
4	Transient Occupancy Tax Revenues	F	Transient Occupancy Tax revenue is a strong indicator of the city's economic health. In FY 2014/15, TOT receipts remained strong even with the impacts of the August 24, 2014 earthquake.
5	Business License Tax Revenue	F	Business license tax revenues are based on gross receipts of individual businesses. Receipts between FY 2013/14 and FY 2014/15 increased by 10.8% due to a strong economy.
6	Elastic Revenues	C	Elastic revenues are those that vary directly with fluctuations in the economy. This category includes sales taxes, transient occupancy taxes, business license taxes and license and permit revenue. As the economy has recovered, the City has become more dependent on elastic revenues such as sales and transient occupancy taxes.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

General Fund Expenditures			
7	Expenditures Per Capita	C	Although positive measures were taken in response to the economic recession through labor concessions, retirements and departmental re-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 FY 2008/09, and we are now at the point where staff and expenditure reductions are impacting our service levels. The City added 17 positions in FY 2015/16 to strategically increase staff to ensure community needs are met.
9	Fringe Benefits as a Percentage of Operating Expenditures	C	Fringe benefit costs as a percentage to the city's total operating expenditures have stabilized through increased cost sharing and employee incentives to control the increased cost of benefits, but pension costs are still on the rise. The City will be considering a pension stabilization trust to help set funds aside to mitigate rising pension costs.
10	Salary Expenditures as a Percentage of Operating Expenditures	F	Salary expenditures as a percentage of operating expenditures have remained relatively stable over the past four years.
11	Capital Outlay as a Percentage of Operating Expenditures	C	Spending on capital outlay has been inconsistent, ranging from a low of 0.57% to a high of 1.75%. Funding from one-time revenue sources has been utilized over the past few years to bridge the gap between necessary capital outlay levels and funding available in the General Fund.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

General Fund Operating Position			
12	Operating Position	F	The City's General Fund has had a positive operating position for the past five years (FY 2010/11 through FY 2014/15). In addition, the FY 2015/16 and 2016/17 adopted budgets also project positive operating positions. The City adopted fiscal policies include a goal that current revenues will be sufficient to support current operating expenditures.
13	Projected Balance of Reserve Funds	F	The City has accomplished compliance with all but two of the Reserve Policies (Contingency and Fleet Replacement), with full compliance projected within the next budget cycle.
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. Given capital needs and historic low interest rates, the city may wish to analyze strategic use of debt to address capital needs.
Additional Indicators			
16	Assessed Property Values	F	A slow and steady recovery to assessed property value is anticipated to continue over the next six years.
17	Population	F	Population growth has progressed steadily at about 0.5% per year
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

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

Rating Changes
There were two (2) positive trend changes from the 2015 Long Term Financial Plan. These changes are a result of the recession easing and the economic recovery becoming more stable. The overall positive rating on all trends and indicators speaks well to the recovery Napa is experiencing as well as to the difficult decisions the City Council has made based on the Long Term Financial Plan and resulting recommendations.



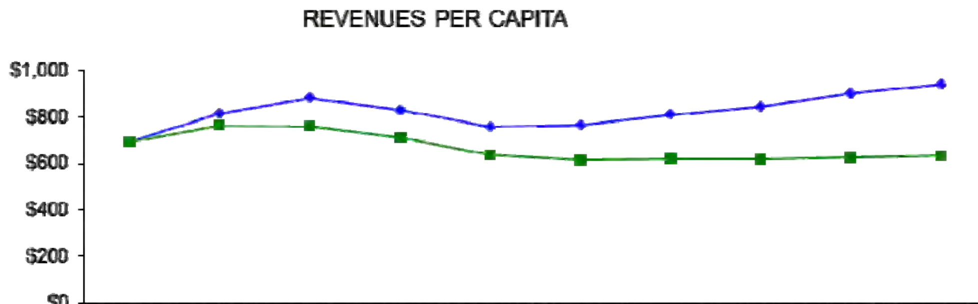
General Fund Revenues

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

Indicator 1: Revenues Per Capita



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Actual Dollars	693	815	880	828	757	764	809	844	901	940
Constant Dollars	693	762	758	710	636	613	619	617	625	631

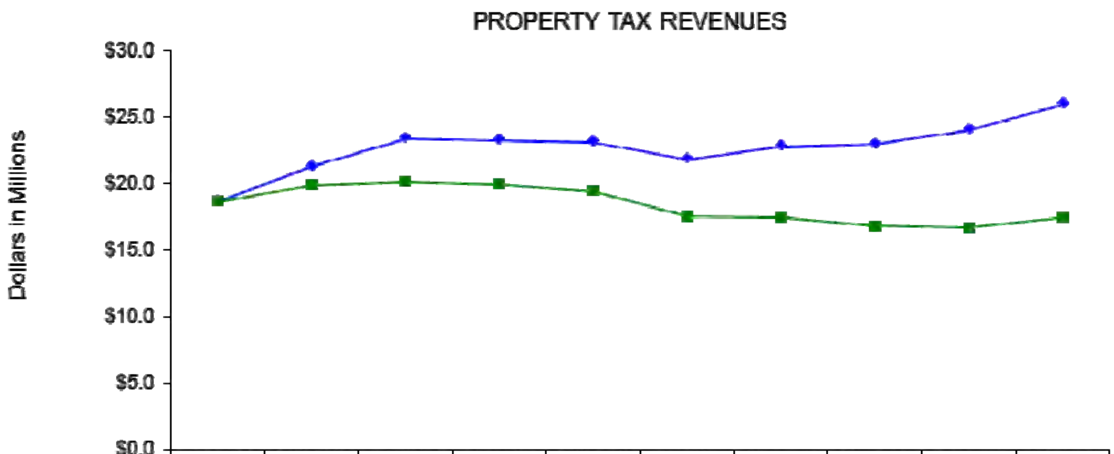
2016 Finding: Favorable
2015 Finding: Favorable

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

Comments and Analysis
Overall revenues per capita (constant dollars), excluding nonrecurring revenues, decreased from $693 to $631 between FY 2005/06 and FY 2014/15. The decreases in FY 2009/10 through FY 2010/11 were related to the recession with FY 2011/12 through 2014/15 showing positive signs of recovery.

The 2015 rating of Favorable remains in 2016 for this indicator due to continued growth in Revenues per capita.

Indicator 2: Property Tax Revenues



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Actual Dollars	18.64	21.27	23.37	23.25	23.11	21.82	22.79	22.96	24.03	25.96
Constant Dollars	18.64	19.87	20.13	19.94	19.42	17.52	17.44	16.78	16.66	17.43

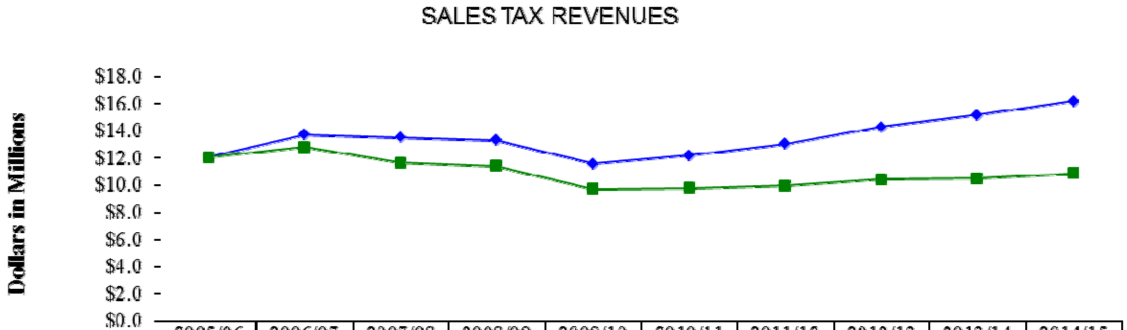
2016 Finding: Favorable
2015 Finding: Caution

Description
Property tax revenues are evaluated over time to measure the City's economic health. Constant dollars are examined in order to evaluate that part of the change that is not due to inflation. Property taxes are the City's largest source of revenue 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
Due to the combination of the easing of the recession and low interest rates, FY 2014/15 reflected an increase of 8% (approximately $1.9 million – actual dollars) in property tax revenue. This increase is due to increasing property values and an active resale market. Furthermore, steady growth is projected for FY 2015/16 and forward.

The 2015 rating of Caution is upgraded to Favorable in 2016 due to four years of positive growth in actual dollars, along with projections of continued growth throughout the life of the plan

Indicator 3: Sales Tax Revenues



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Actual Dollars	12.06	13.70	13.50	13.29	11.56	12.19	13.02	14.27	15.15	16.18
Constant Dollars	12.06	12.80	11.63	11.40	9.71	9.79	9.96	10.43	10.50	10.87

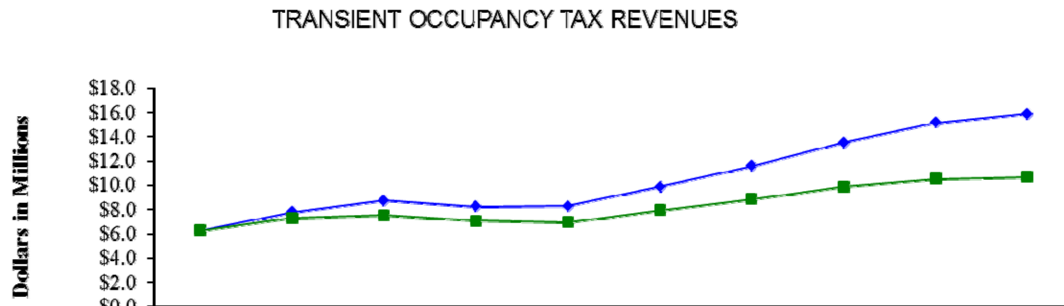
2016 Finding: **Favorable**
2015 Finding: **Favorable**

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 8.00%, of which the City receives the 1.0% local portion. The city also receives a portion of the 0.5% earmarked for public safety as mandated by the State (Proposition 172).

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. FY 2007/08; however, began a three-year decline related to the recession. Sales Tax receipts have shown an increase since the low experienced in FY 2009/10, and were up $4.6 million in FY 2014/15 compared to FY 2009/10.

The 2015 rating of Favorable remains in 2016 for this indicator due to continued growth in Sales Tax receipts and the strength of Napa businesses.

Indicator 4: Transient Occupancy Tax Revenues



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Actual Dollars	6.25	7.78	8.73	8.24	8.26	9.87	11.56	13.51	15.17	15.88
Constant Dollars	6.25	7.27	7.52	7.07	6.94	7.93	8.85	9.87	10.52	10.66

2016 Finding: Favorable
2015 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 (21%) and is elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the tax revenue changes not related to inflation. The City of Napa levies the tax on rooms at hotels, motels, bed and breakfasts and vacation rentals within the City. The tax rate is 12% (with an additional 2% assessment rate collected on behalf of the Tourism improvement district).

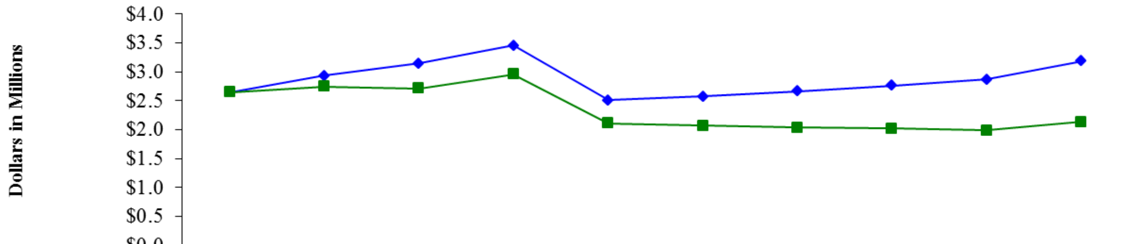
Comments and Analysis

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 in FY 2008/09 due to the recession, and remained flat 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 significant rise in tourism beginning in FY 2010/11, which is indicated by the strong upward trend in TOT receipts in the past four fiscal years. It is important to note the FY 2014/15 revenues were impacted by the August 24, 2014 earthquake, as some properties closed all or part of their rooms while repairs from earthquake damage were completed.

The 2015 rating of Favorable continues in 2016 reflecting strong recovery of TOT receipts.

Indicator 5: Business License Tax Revenues

BUSINESS LICENSE TAX REVENUES



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Actual Dollars	2.65	2.93	3.15	3.45	2.51	2.57	2.66	2.76	2.87	3.18
Constant Dollars	2.65	2.74	2.71	2.96	2.11	2.07	2.04	2.02	1.99	2.14

2016 Finding: Favorable
2015 Finding: Favorable

Description

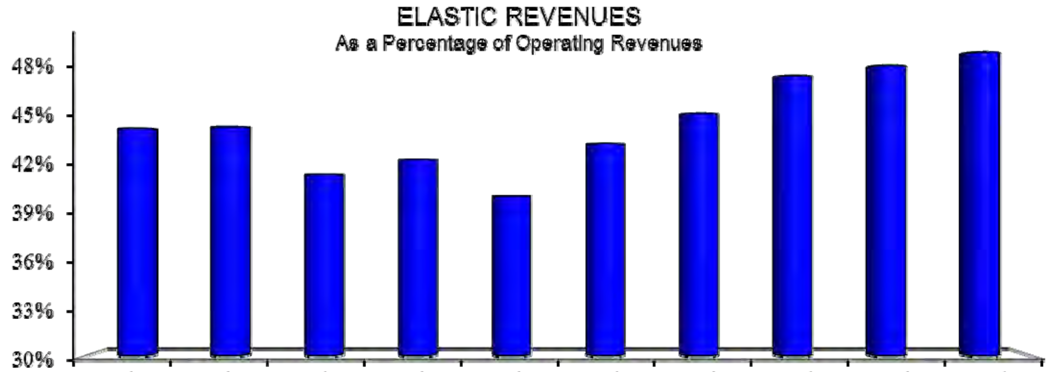
Business license tax revenue accounts for approximately (4%) of the City's revenues, and is a good indicator of the City's economic health. Constant dollars are utilized in evaluating the part of the change not related to inflation. This tax is generally based on gross receipts of individual business 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 2005/06 through FY 2008/09 took a sharp turn downward in FY 2009/10 (-27%) as the business community reacted to the national recession. Receipts increased by 10.8% ($0.3 million) between FY 2013/14 and FY 2014/15.

The 2015 rating of Favorable continues in 2016 reflecting continued positive growth of Business License receipts in actual dollars over the past five years, and projections of continued growth throughout the life of the plan.

Indicator 6: Elastic Revenues



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	44.2%	44.3%	41.4%	42.3%	40.0%	43.3%	45.2%	47.5%	48.2%	49.0%

2016 Finding: **Caution**
2015 Finding: **Caution**

Description

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

Comments and Analysis

Elastic revenues as a percentage of operating revenues ranged between a low of 40% in FY 2009/10 and a high of 49% in FY 2014/15. Impacts from the national recession in FY 2008/09 and FY 2009/10 forced the city to become more reliant on more stable revenue sources (e.g. property tax). The increased impact of elastic revenues for the City is a positive sign that recovery from the recession is well underway. We must, however ensure that as we become more reliant on elastic revenues, we have plans in place to mitigate any swift downturns in these revenue sources in any given year.

The 2015 rating of Caution remains steady in 2016 for this indicator. Future upgrades to this indicator will be contingent upon the continued compliance with the adjusted reserve levels adopted in FY 2014/15.

General Fund Expenditures

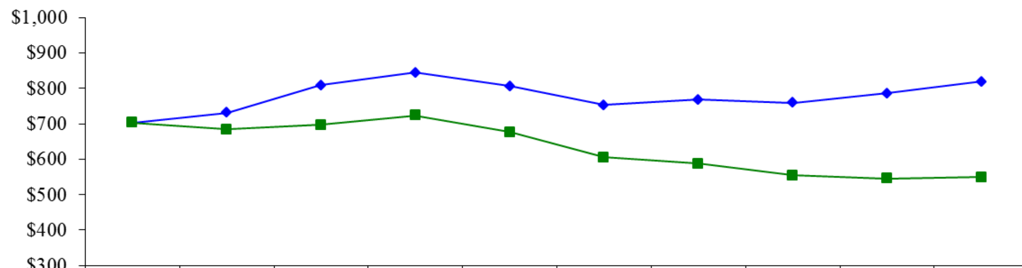
General Fund expenditures are largely indicative of the level and types of services the City provides. Changes in the total dollar amount of expenditures can indicate a shift in the level of services delivered, either because demand has changed or because the cost of maintaining existing services has 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 Expenditures as a Percentage of Operating Expenditures
- Capital Outlay as a Percentage of Operating Expenditures

Indicator 7: Expenditures Per Capita

EXPENDITURES PER CAPITA



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Actual Dollars	703	732	809	844	806	754	768	760	787	819
Constant Dollars	703	684	697	724	677	605	588	555	545	550

2016 Finding: Caution
2015 Finding: Caution

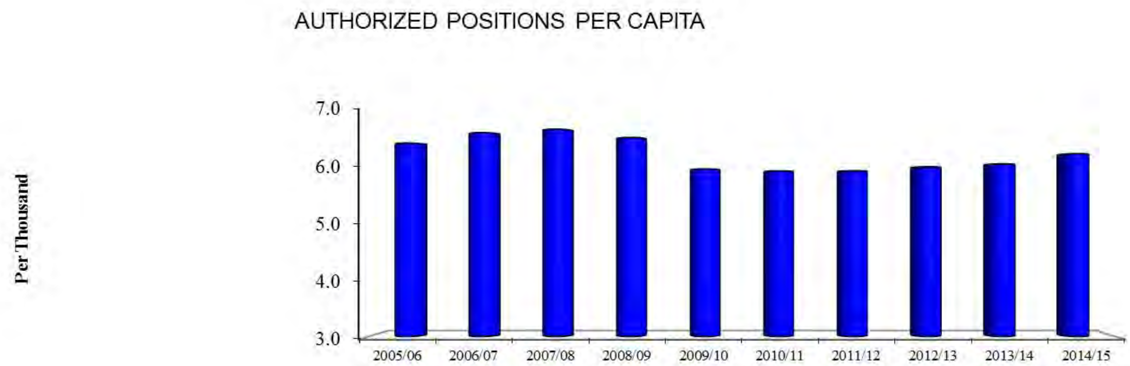
Description

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 re-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



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Authorized Positions per Capita	6.4	6.6	6.7	6.5	6.0	5.9	5.9	6.0	6.1	6.3

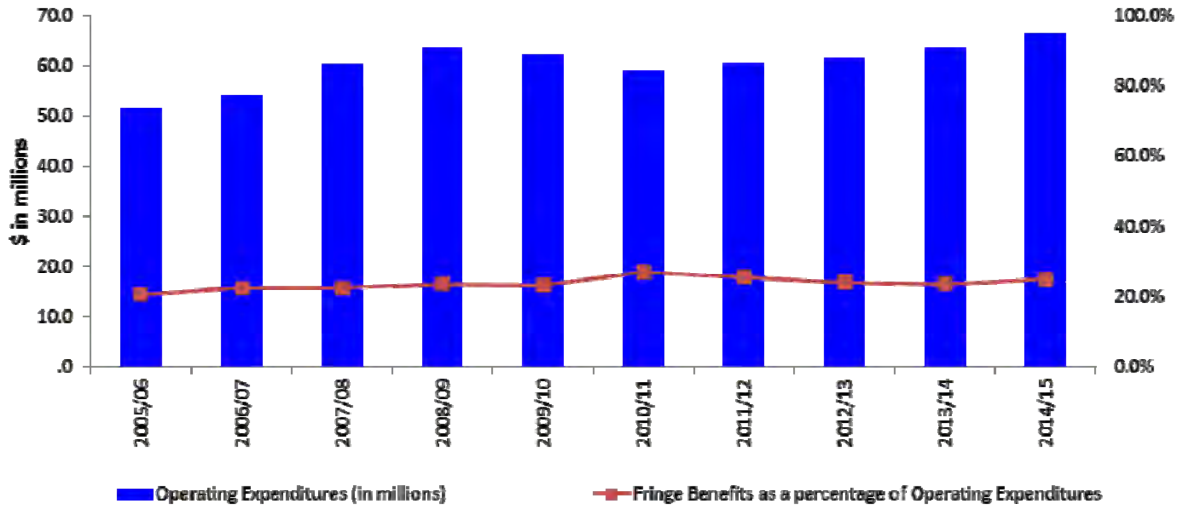
2016 Finding: Caution
2015 Finding: Caution

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 reached a high in FY 2007/08, and began declining in FY 2008/09 as a result of the national recession. The City has been operating at a minimum staffing level since FY 2009/10, 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 2015 rating of Caution continues in 2016 for this indicator until the service provision model is revised, or until authorized positions are reinstated to ensure the City is able to meet the demand for community services. General Fund staff increases of 14.66 FTE (18.0 full-time; -3.34 part time) were approved in the FY 2015/16 budget, with 26 additional positions anticipated between FY 2016/17 and FY 2021/22.

Indicator 9: Fringe Benefits as a Percentage of Operating Expenditures



2016 Finding: Caution
2015 Finding: Caution

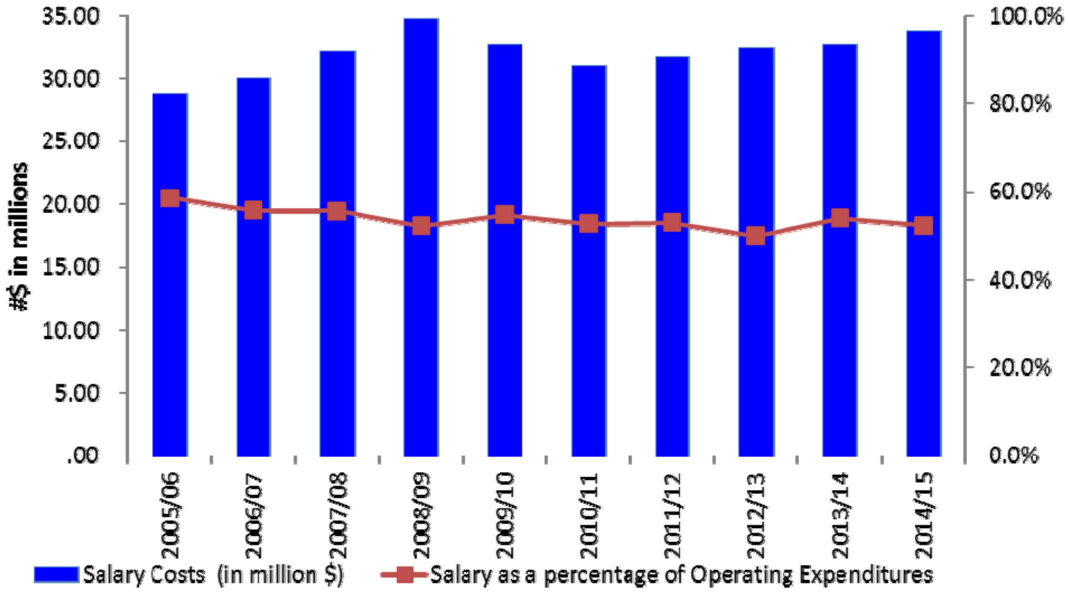
Description
Fringe benefits include, but are not limited to, the City's share of payroll taxes, pension plan costs, medical, life and disability insurance, and workers' compensation funding. Some fringe benefits (e.g. pension plan costs, workers' compensation) are directly related to salaries and wages, 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 of the City's total operating expenditures experienced a significant increase between FY 2005/06 and FY 2008/09. The increases peaked in FY 2010/11, and have stabilized over the past few years, with the slight bump in FY 2014/15 resulting from increased retirement costs.

The 2015 rating of Caution for this indicator remains as Caution in 2016. Although the City has demonstrated the ability to manage the impact of increasing benefit costs through increased cost sharing and employee incentives to control the increased cost of benefits, the volatility of fringe benefits (specifically pension plan and medical costs) and the significance of fringe benefits as a whole (almost 25% of the City's operating costs), require strong and constant management of this indicator.

Another factor impacting future cost of fringe benefits are the new pension tiers resulting from the Public Employees' Pension Reform Act of 2013 (PEPRA) which is intended to, over the long term, reduce the cost burden on employers for pension benefits. The City has successfully negotiated increases in employee cost share of retirement contributions as well as capping the employer contributions to medical and dental benefits, which can be seen in the FY 2010/11 reduction in overall benefit costs in the above chart. However; CalPERS continues to adjust its actuarial assumptions to account for changes in mortality, retirement age, and investment returns, as well as considering various smoothing options. Many of the adjustments result in significant increases to the employer contribution rate, while the smoothing methods work to smooth the impact to the employer over time.

Indicator 10: Salary as a Percentage of Operating Expenditures



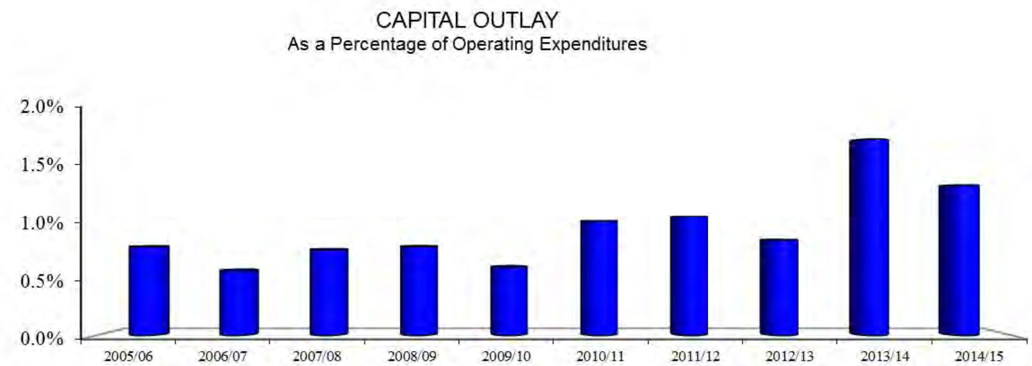
2016 Finding: **Favorable**
2015 Finding: **Favorable**

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 have remained relatively stable over the past ten years, decreasing slightly in FY 2009/10 due to actions taken in response to the recession (e.g. deferral of Cost of Living adjustments (COLA), elimination of vacant positions, and implementation of an early retirement program.) Since FY 2005/06, the impact of salary as a percentage of operating expenditures has been essentially flat, with variations from vacant positions. Continued monitoring of this indicator is warranted since these expenditures represent the largest category of General Fund operating costs.

The 2015 rating of Favorable continues in 2016 for this indicator as the consistency over ten years demonstrates active management of salary costs; although as the City begins to restore positions to accommodate the increased demand for city services over the next few years and as cost of living adjustments for employees are revisited after several years of static wages, salary costs are expected to increase significantly.

Indicator 11: Capital Outlay as a Percentage of Operating Expenditures



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Capital Outlay	0.79%	0.57%	0.76%	0.79%	0.61%	1.02%	1.06%	0.85%	1.75%	1.34%

2016 Finding: **Caution**
2015 Finding: **Caution**

Description

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

Comments and Analysis

Spending on capital outlay has been inconsistent, ranging from a low of 0.57% of total operating expenditures to a high of 1.75% during the past ten years. Funding from one-time revenue sources has been utilized over the past few years to bridge the gap between necessary capital outlay levels and funding available in the General Fund, and is not reflected in the table above, as they were spent through General Fund transfers to the Capital Improvement Program. Examples of activities that required capital investment from the City include the replacement of the HVAC system, repairs to the parking garage elevator, and replacement of the roof of Fire Station #1. The 2015 rating of Caution continues in 2016 for this indicator.

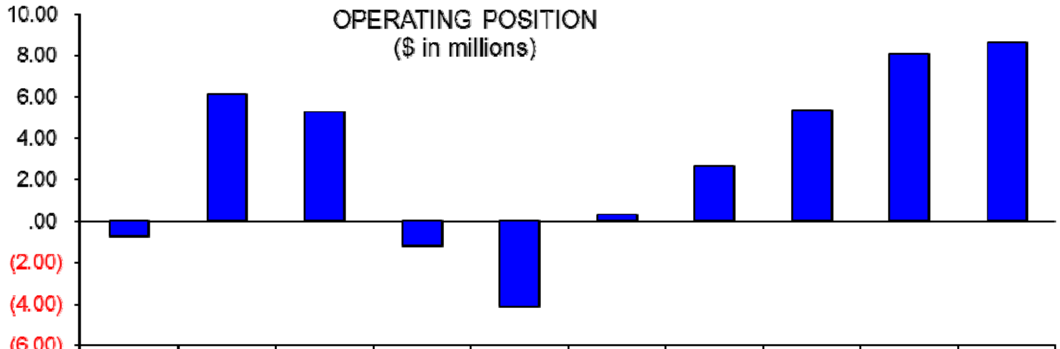
General Fund Operating Position

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
- Projected Balance of Reserve Funds
- Liquidity Ratio
- Debt Service

Indicator 12: Operating Position



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Operating Position	-0.73	6.14	5.29	-1.20	-4.13	0.32	2.65	5.37	8.06	8.65

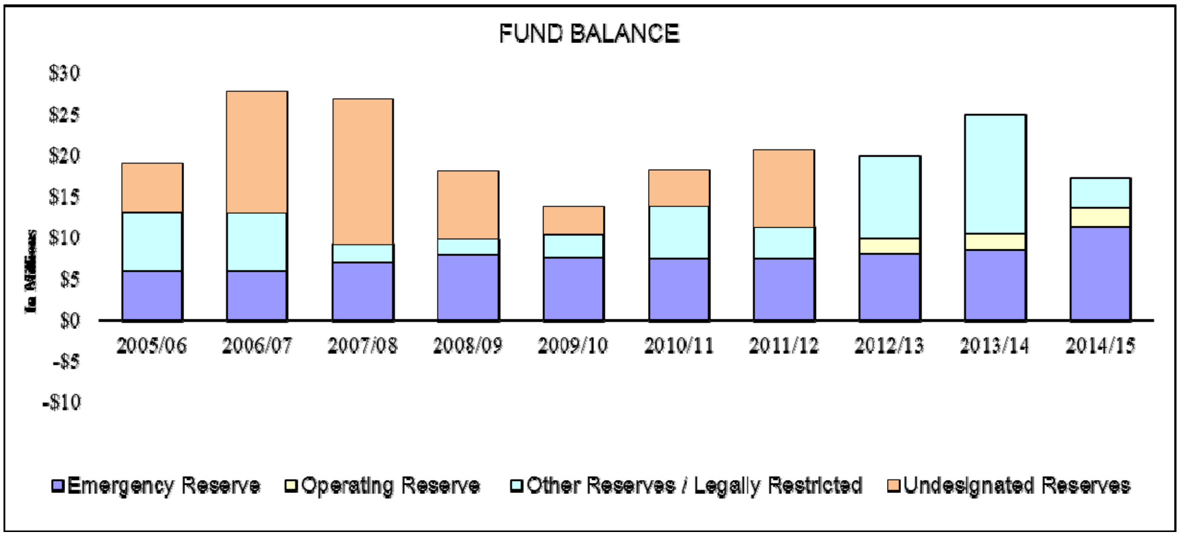
2016 Finding: **Favorable**
2015 Finding: **Favorable**

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
As shown in the graph above, the City has experienced operating surpluses in the last five years.

The 2015 rating of Favorable remains in 2016 due to the City's ability to sustain a positive operating position for the past five years.

Indicator 13: Projected Balance of Reserve Funds



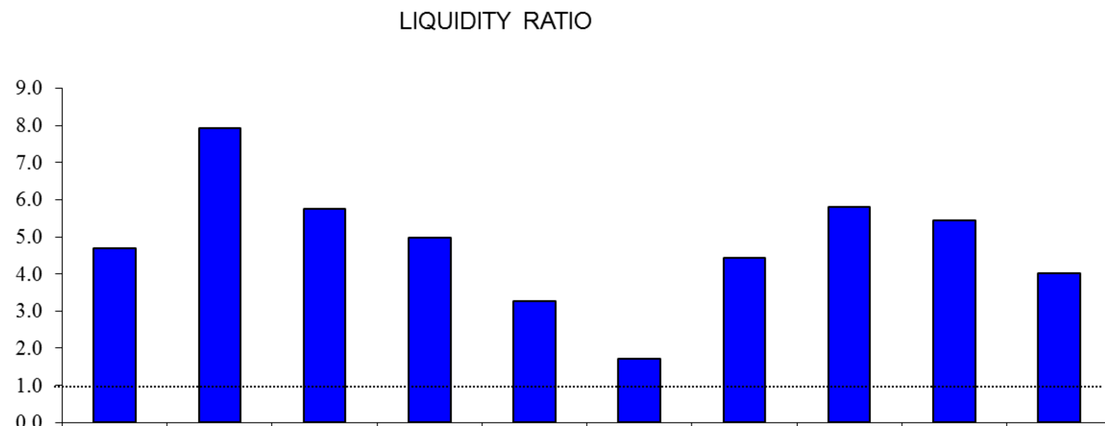
2016 Finding: **Favorable**
2015 Finding: **Favorable**

Description
Undesignated Fund Balance (Operating Reserve) 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 of annual operating expenditures as an emergency reserve and has achieved full compliance since the policy was implemented in FY 2007/08 (at 12%) and increased in FY 2014/15 to 14%. Undesignated Fund Balance (Operating Reserve) was used to meet budget shortfalls during the recession. FY 2011/12 included the set aside of $3.1 million for Redevelopment to ensure the City's general funded programs and services are not impacted if additional funding is required due to the dissolution of the Redevelopment Agency by the State. These funds were assigned to fund capital projects in FY 2013/14 after the State's acceptance of the Long Range Property Management Plan.

An adjustment to the Fiscal Policy in June 2013, created an Operating Reserve, and also provided for the transfer of "undesignated" reserves to the CIP Facility Reserve and the CIP Reserve, as shown in FYs 2012/13 through 2014/15.

Indicator 14: Liquidity Ratio



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	4.69	7.93	5.75	4.97	3.26	1.71	4.43	5.79	5.44	4.03

2016 Finding: Favorable
2015 Finding: Favorable

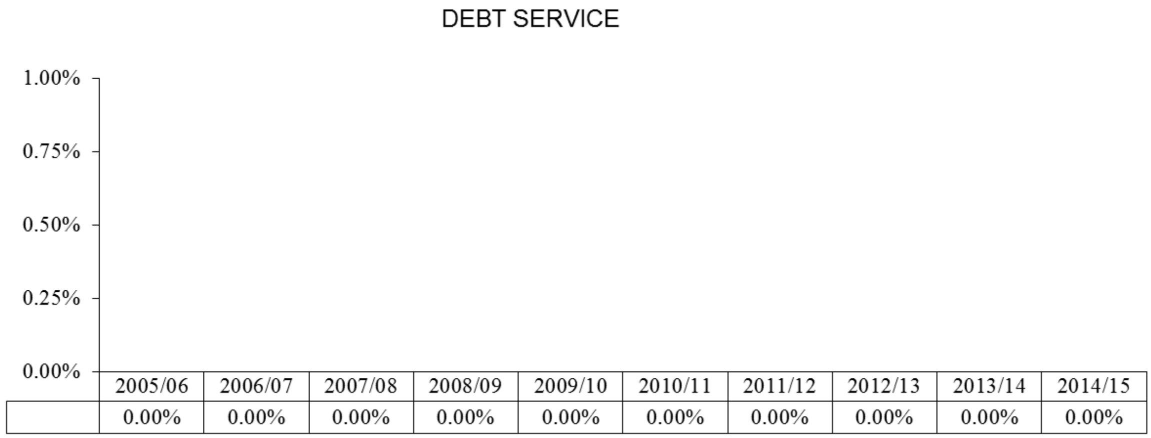
Description

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 4.03 at the end of FY 2014/15, meaning the City's General Fund has enough current assets to cover its current liabilities more than four times over.

Indicator 15: Debt Service



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

2016 Finding: **Favorable**
2015 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. Given capital needs and historic low interest rates, the City may wish to analyze strategic use of debt to address capital needs.

Additional Indicators

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

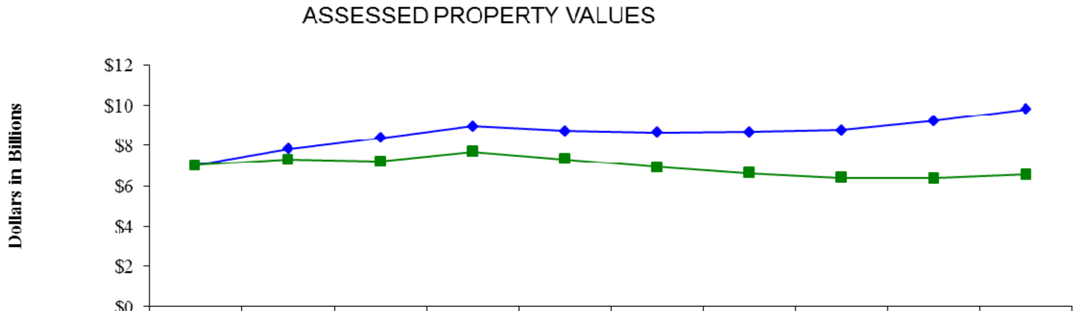
Because of the City's dependence on property tax revenues, the City's largest source of operating revenue (37%), a further analysis has been done on the change in assessed property values from year-to-year.

Also, 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.

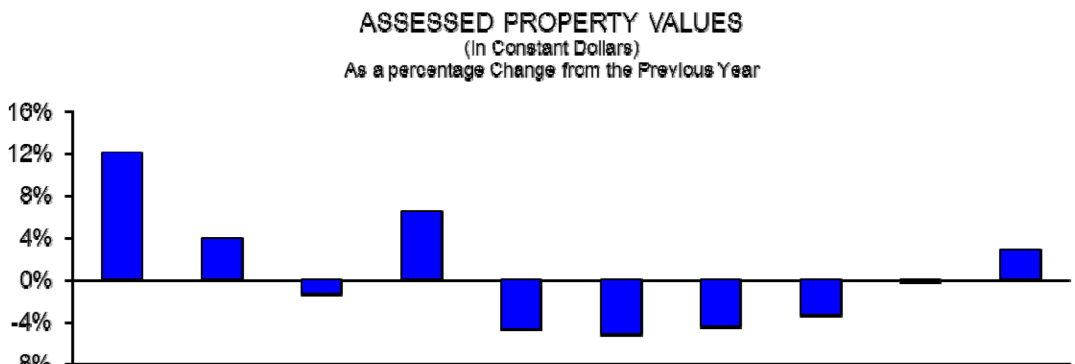
The following indicators are detailed in this section:

- Assessed Property Values
- Population

Indicator 16: Assessed Property Values



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Actual Dollars	7.03	7.82	8.37	8.95	8.71	8.64	8.66	8.76	9.22	9.79
Constant Dollars	7.03	7.31	7.21	7.68	7.32	6.94	6.63	6.40	6.39	6.57



2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
12.05%	4.01%	-1.35%	6.53%	-4.71%	-5.21%	-4.45%	-3.40%	-0.18%	2.82%

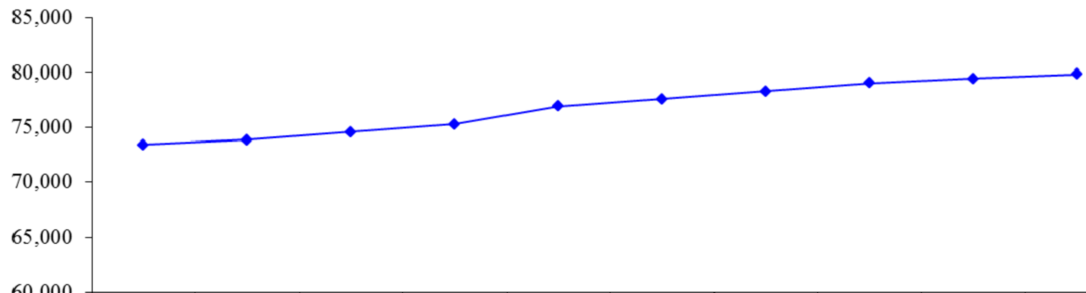
2016 Finding: **Favorable**
2015 Finding: **Caution**

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 FY 2014/15, is the General Fund's largest source of revenue. The 2015 rating of Caution is upgraded to Favorable for 2016, due to continual steady increases in acual dollars, and continued recovery projected by the County Assessor.

Indicator 17: Population

POPULATION



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	73,412	73,859	74,579	75,297	76,915	77,598	78,281	79,068	79,463	79,861

2016 Finding: **Favorable**
2015 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 approximately 0.5% 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 2015/16 through 2021/22 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, the Napa County Auditor/Controller's office, and the City's Community Development Department.

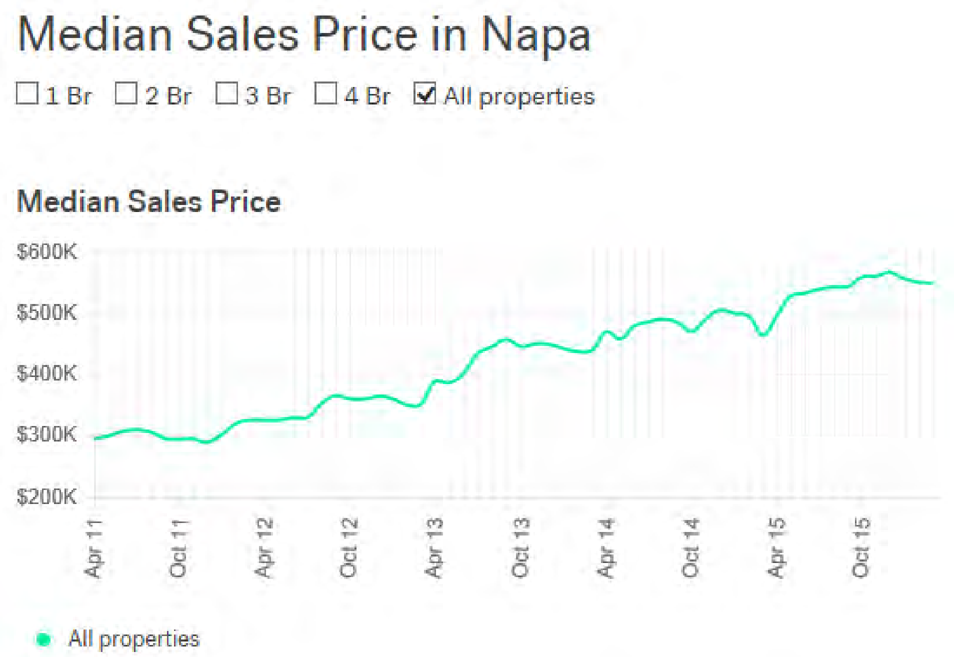
The financial forecast reflects the fact that full recovery from the recession was realized in FY 2012/13, and we are now in a time of steady growth through the life of the plan (FY 2021/22). This recovery, coupled with structural budget adjustments and labor concessions, provides for a financial forecast that enables projected revenues to equal or exceed projected expenditures, thereby providing resources to strategically restore some cost reductions and service impacts resulting from the recession, as well as to address unfunded capital and operating needs.

Regardless of the positive local outlook, the City of Napa must continue to be cautious due to continuing issues facing the national, state and local economies:

- Recovery of the Housing Market / Assessed Valuation
- Cautious consumer confidence
- Erratic stock market
- State and Federal economic policies

Recovery of Housing Market / Assessed Valuation

The median assessed valuation has been on the rise since April 2011, with only a few market correction periods in April 2013 and 2015. The graph below compares the median sales price for a home in Napa over the past five years.



www.Trulia.com

Cautious Consumer Confidence

The Conference Board's November 2015 *Consumer Confidence Survey*™ indicates that the Consumer Confidence Index™, has been growing, but still has a fair amount of volatility. The instability of consumer confidence remains, and Napa has reason to be cautious in light of our growing reliance on elastic revenues.

Unemployment Rate

The unemployment rate in the City of Napa has fallen over the past year from 5.3% in October 2013 to 4.5% in February 2016 (according to the U.S. Bureau of Labor Statistics).

The preliminary State unemployment rate decreased last year from 8.6% in October 2013 to 5.5% in February 2016.

The National unemployment rate was 7.2% in October 2013, and 4.9% in February 2016.

Erratic Stock Market

The Stock Market experienced an essentially "flat" year in 2015, then began 2016 with record losses. Over the past three years, the S&P 500 had a gain of just over 30%. Although the gain is positive news, the market continued to be sensitive to global and national issues. The following graph shows the performance of the S&P 500 in from April 2013 through April 2016.

State and Federal Economic Policies

At the State level, the drought is still a significant concern. Nearly 80 percent of the state is now in what scientists call "extreme or exceptional" drought, which has caused the state Water Control Board to call for mandatory water restrictions in urban areas. Even with our El Nino winter, water will remain one of the top concerns in California.

On a positive note, we have a balanced state budget which includes increased funding for schools and early payoff of debt. We continue to keep an eye on legislation that may impact the City's coffers, including legislation to replace Redevelopment Tax Increment revenue to allow for a funding mechanism for economic development/redevelopment, new legislation mandating additional benefits for employees, and court rulings that could impact future costs.

Economic and Demographic Assumptions

In the 2016 update to the Long Term Financial Plan, the Revenue assumption classifications were adjusted to include three scenarios (pessimistic, most likely, optimistic). The key assumption differences between these scenarios are as follows:

Pessimistic:

- Property Tax: 2% annual increase
- Sales Tax: 5% increase per year, no new development (e.g. Costco); 5% economic contraction beginning in FY 2017/18, 3 year duration.
- Transient Occupancy Tax: 5% increase per year, no new development.

Most Likely:

- Property Tax: 5% annual increase
- Sales Tax: 6% increase per year, Costco opening in FY 2019/20
- Transient Occupancy Tax: 5% increase per year, new rooms (100% of entitled development).

Optimistic:

- Property Tax: 8% annual increase
- Sales Tax: 7% increase per year, Costco opening in FY 2018/19
- Transient Occupancy Tax: 5% increase per year, new rooms (100% of entitled development; 50% of anticipated development not yet entitled).

The economic assumptions (most likely scenario) utilized in this forecast are summarized on the following table:

ASSUMPTIONS	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Population (Residential)	80,661	81,065	81,470	81,877	82,287	82,698
Property Tax (% Change)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Sales Tax (% Change)	4.90%	4.80%	8.40%	5.90%	4.10%	4.10%
Transient Occupancy Tax (% Change)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
TOT Incremental Change	0.00%	11.57%	34.67%	36.38%	38.04%	38.04%
Blended Short Term & Long Term Investment Earnings Rate	0.37%	0.39%	0.41%	0.43%	0.45%	0.47%
Inflation (% Change)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Salaries (% Change - COLA)	3.00%	3.50%	3.50%	3.50%	3.50%	3.50%
Salaries (% change Step Increases)	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%
Healthcare Benefits (% Change)	3.00%	5.00%	6.00%	6.00%	6.00%	6.00%
PERS SWORN Rate	41.62%	44.00%	46.30%	48.70%	49.40%	50.88%
PERS MISC Rate	27.00%	28.70%	30.40%	32.10%	32.60%	33.58%
Other Benefits (% Change)	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Services & Supplies (% Change)	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Capital Outlay (% Change)	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Authorized Positions (# Change)	1	5	5	5	5	5

Population: Population is the residential total within the Napa city limits and is projected to increase 0.5% per year 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.

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 2.0% per year through the end of the forecast period (FY 2021/22.)

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 non-recurring revenues and expenditures have also not been included such as major non-recurring development fees and expenditures, one time transfers to rebuild reserves, and certain studies such as the update to the city's General Plan.

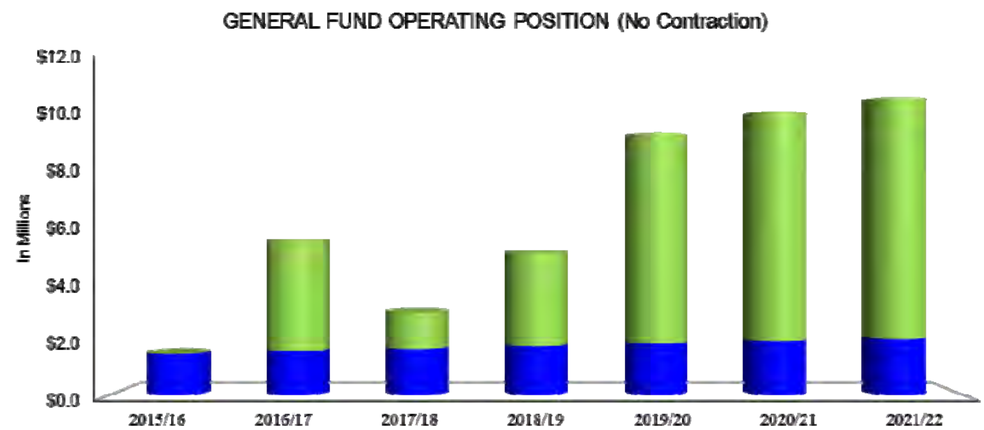
- The forecast does not include the cost of fiscal changes that the City may want to consider, including:

    1. Increasing General Fund contribution to the Capital Improvement Program.
    2. New or enhanced programs.
    3. State impacts (e.g. offset for lost Redevelopment Agency Tax Increment).

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

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; the result is an operating deficit. Over the forecast period, the City's revenue and expenditure projections generate a positive operating position for fiscal years 2015/16 through 2021/22.



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Transfer to GF CIP Reserve	0.00	4.01	1.33	3.41	7.61	8.29	8.71
Transfer to Capital Facilities Reserve	1.49	1.58	1.66	1.75	1.85	1.94	2.03

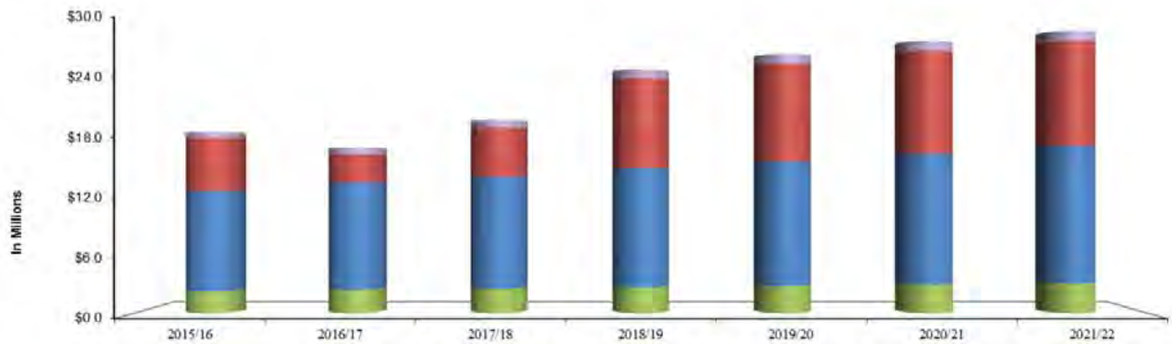
The City is projecting a positive operating position (surplus) throughout the life of the plan. The graph above assumes a transfer the surplus to the CIP City Facilities reserve (up to 2% of the operating budget) and the remaining surplus transferred to the Capital Project reserve, per Council adopted fiscal policy.

The revenue forecast could be affected by delays in new development underway, new property development not yet underway, the strength in the real estate market, a future recession, and the level of tourism beyond that anticipated as part of the new hotel properties included in the forecast.

Increases in labor costs (salary and benefits) are the primary driver of expenditures, which are projected to increase each year by the estimated Cost of Living Adjustment (COLA), and also the addition of new General Fund positions in each year (26 new positions between FY 2015/16 and FY 2021/22). Additional increases in either salary or benefits may erode the positive operating position estimated above.

It is important to note the operating position shown above is based on the City's projected revenues and expenditures; and over the past five years, the City has received approximately $2 million per year in one-time revenues and also realized one-time savings from under spending, however for the purposes of the LTFP, we cannot assume either of the one-time sources to continue (revenues or savings).

Operating Fund Balance



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Contingency	.6	.7	.8	.9	.9	1.0	1.0
Designated for CIP (Facilities & Projects)	5.5	2.9	5.1	9.4	10.1	10.7	10.8
Emergency Reserve	10.4	11.1	11.6	12.3	12.9	13.6	14.2
Operating Reserve	2.2	2.4	2.5	2.6	2.8	2.9	3.1

The Operating Position discussed on the previous page reflects a surplus in the City's operating position in all years of the plan. 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 or earthquake.

The fiscal policy sets the level of the Operating, Contingency, and Emergency Reserves at 5%, 1% and 14% of the operating expenditure appropriations for each year, respectively. As described on the previous page, the Operating Position of the City is positive throughout the next six years.

South Napa Earthquake: On August 24, 2014 at 3:20 a.m. an earthquake measuring 6.0 on the moment magnitude scale occurred in Napa Valley. The epicenter was located approximately 6 miles southwest of Napa with a depth of approximately 5.8 miles, and caused severe damage in the City. Governor Jerry Brown declared a State of Emergency under section 8625 of the California Government Code on August 24, 2014. On September 11, 2014, President Obama issued a Federal Disaster Declaration for Napa County, and authorized public assistance and hazard mitigation funds to the affected areas.

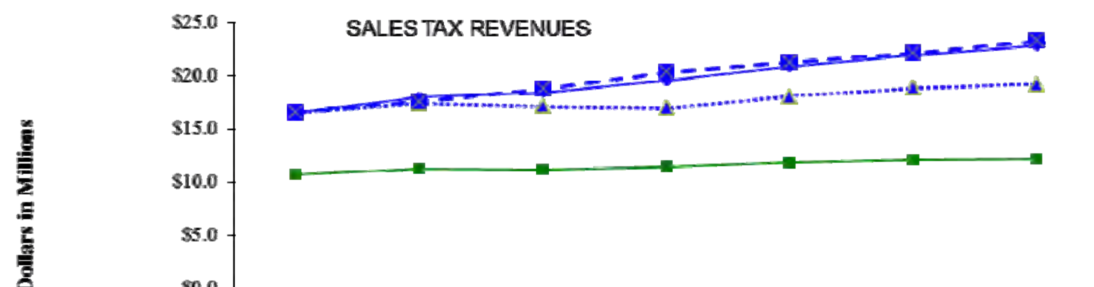
The estimated damage to the City of Napa owned buildings and infrastructure totaled approximately $16.6 million. FEMA and the California Office of Emergency Services have obligated $9.0 million, of which $2.18 million has been received. In addition to the approved projects, approximately $4.9 million in projects is still under appeal for debris removal and water infrastructure replacement.

Property Tax Revenues

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Property Tax - Most Likely - 5%	27.50	28.88	30.32	31.83	33.43	35.10	36.85
Constant Dollars	17.79	18.06	18.35	18.64	18.96	19.28	19.62
Property Tax - Pessimistic - 2%	27.5	28.9	29.5	30.0	30.6	31.3	31.9
Property Tax - Optimistic - 8%	27.5	28.9	31.2	33.7	36.4	39.3	42.4

Property Tax continues to be the City's largest source of revenue in the General Fund and represents 34% of total General Fund revenues in FY 2015/16. The County Assessor has indicated property taxes are expected to show steady gains, averaging 4%-5% per year over the next six years.

Sales Tax Revenues

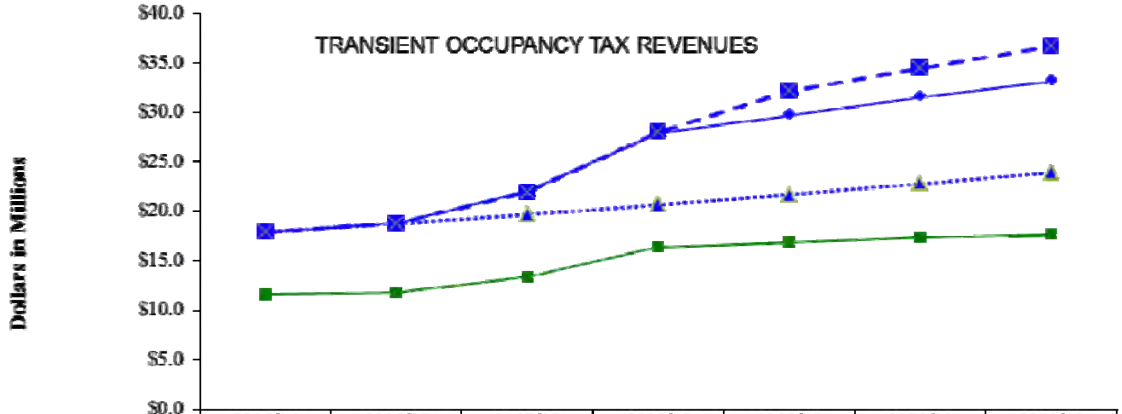


	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Sales Tax - Most Likely	16.53	17.96	18.38	19.53	20.84	21.91	22.81
Constant Dollars	10.69	11.23	11.12	11.44	11.82	12.03	12.14
Sales Tax - Pessimistic	16.5	17.4	17.1	16.9	18.0	18.8	19.2
Sales Tax - Optimistic	16.5	17.5	18.7	20.3	21.2	22.1	23.2

Sales tax is one of the City's most economically sensitive revenue sources and continues to be a strong revenue source at 22% of General Fund revenues (in FY 2015/16).

The sales tax projections in this plan include moderate economic expansion.

Transient Occupancy Tax Revenues



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
TOT - Most Likely	17.88	18.80	22.02	27.91	29.68	31.54	33.12
Constant Dollars	11.56	11.76	13.33	16.35	16.83	17.33	17.63
TOT - Pessimistic	17,880,000	18,723,250	19,659,413	20,642,383	21,674,502	22,758,227	23,896,139
TOT - Optimistic	17,880,000	18,723,250	21,942,232	27,972,871	32,167,503	34,458,684	36,679,866

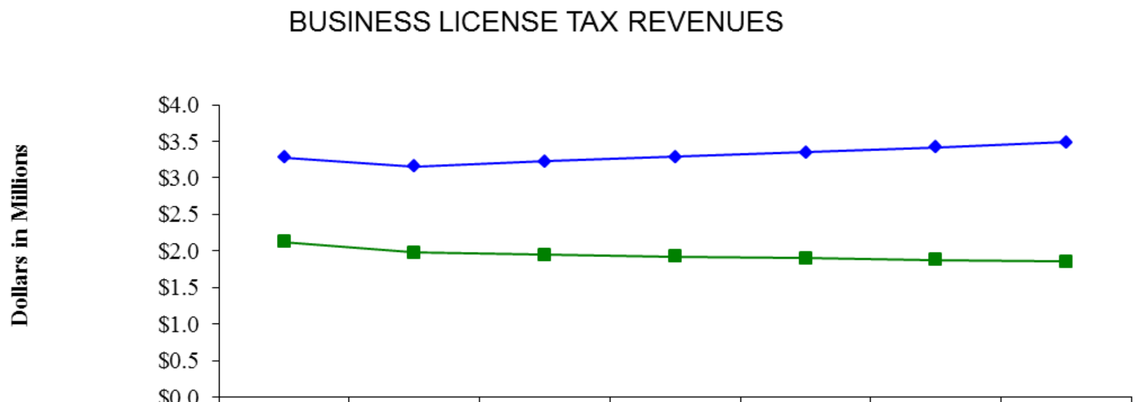
Transient occupancy tax is the other of the City's most economically sensitive revenue sources and will soon pass Sales Tax to be the City's second largest revenue source at 22% of General Fund revenues. Projected new hotel development is expected to bring additional transient occupancy tax revenue as shown in the table below.

Transient Occupancy Tax Revenue Forecast
(in millions)

	2016/17	2017/18	2018/19	2019/20	2020/21	20201/22
Base Transient Occupancy Tax	$ 18.80	$ 19.74	$ 20.73	$ 21.76	$ 22.85	$ 23.99
Incremental Increases (most likely scenario)	.65	2.28	7.18	7.92	8.69	9.13
TOTAL	**$ 19.45**	**$ 22.02**	**$ 27.91**	**$ 29.68**	**$ 31.54**	**$ 33.12**
% increase	*3.45%*	*11.57%*	*34.67%*	*36.38%*	*38.04%*	*38.04%*

Using the assumption that our existing facilities are nearing capacity and evaluating this trend over the past 10 years (normalized for expansions, new development and earthquake impacts), only a small average annual increase equal to assumed inflation of 5% for room rate increases has been included. Likely development projects that include the La Residence and Napa River Inn expansions, a hotel in the South Gasser area, and the opening of a large hotel (e.g. 150+ rooms) are phased in conservatively and their contribution will appear beginning in FY 2016/17. Overall, transient occupancy tax revenues are expected to see an average annual increase of 9.4% per year during the forecast period.

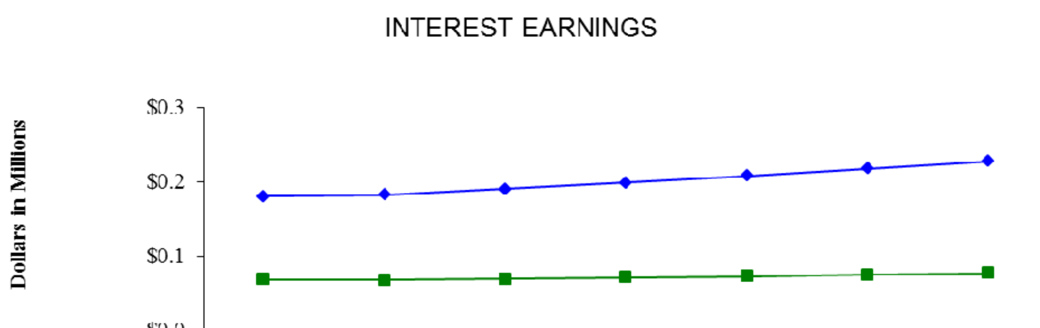
Business License Tax Revenues



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Actual Dollars	3.28	3.16	3.22	3.29	3.35	3.42	3.49
Constant Dollars	2.12	1.98	1.95	1.93	1.90	1.88	1.86

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 sales tax, which includes incremental growth due to new development in the City.

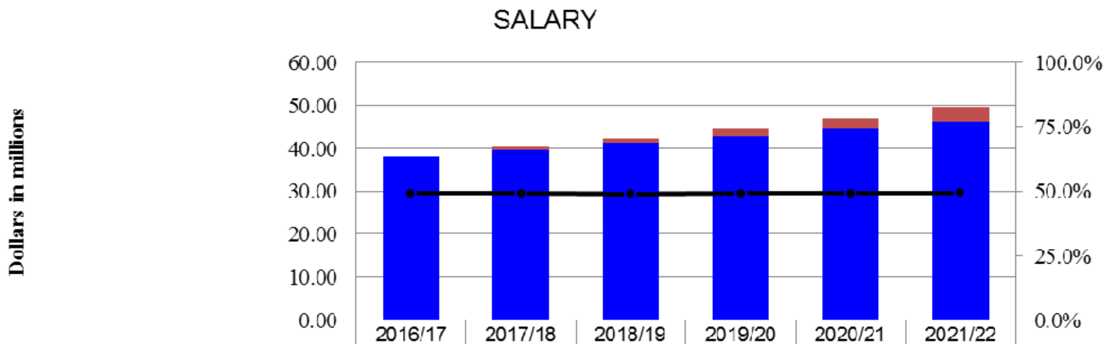
Investment Earnings



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Actual Dollars	0.18	0.18	0.19	0.20	0.21	0.22	0.23
Constant Dollars	0.07	0.07	0.07	0.07	0.07	0.07	0.08

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, resulting in lower yields. Interest rates are assumed to remain fairly low – equating to approximately 0.7% in FY 2015/16 before reaching the maximum assumption of 0.9% by FY 2020/21.

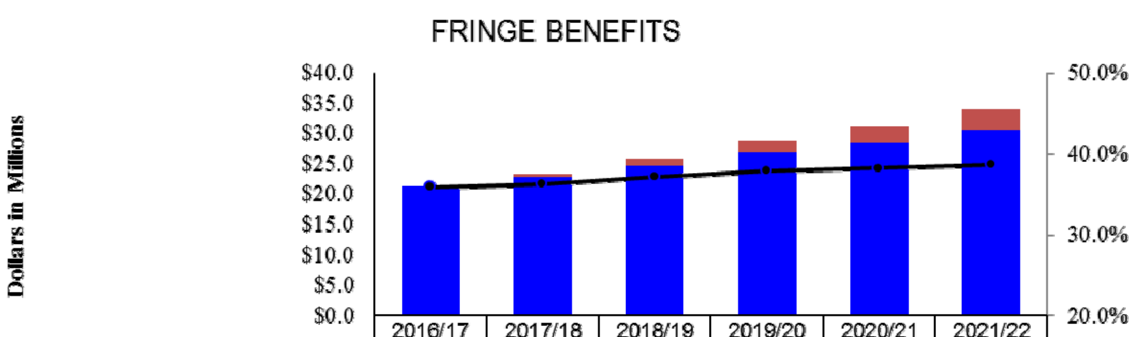
Salary as a Percentage of Operating Expenditures



	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Total Salary (in millions) new positions	0.00	0.54	1.19	1.87	2.58	3.43
Total Salary (in millions) existing positions	38.18	39.65	41.17	42.76	44.41	46.12
Salary as a % of Operating Expenditures	49.2%	49.2%	49.0%	49.0%	49.1%	49.3%

Salaries continue to account for approximately 50% of the City's operating expenditure budget. The relative percentage is remaining relatively constant through the life of the plan (approximately 49%) due to the fact that positions are being added to the plan in relation to increasing operating expenditures.

Fringe Benefits as a Percentage of Operating Expenditures

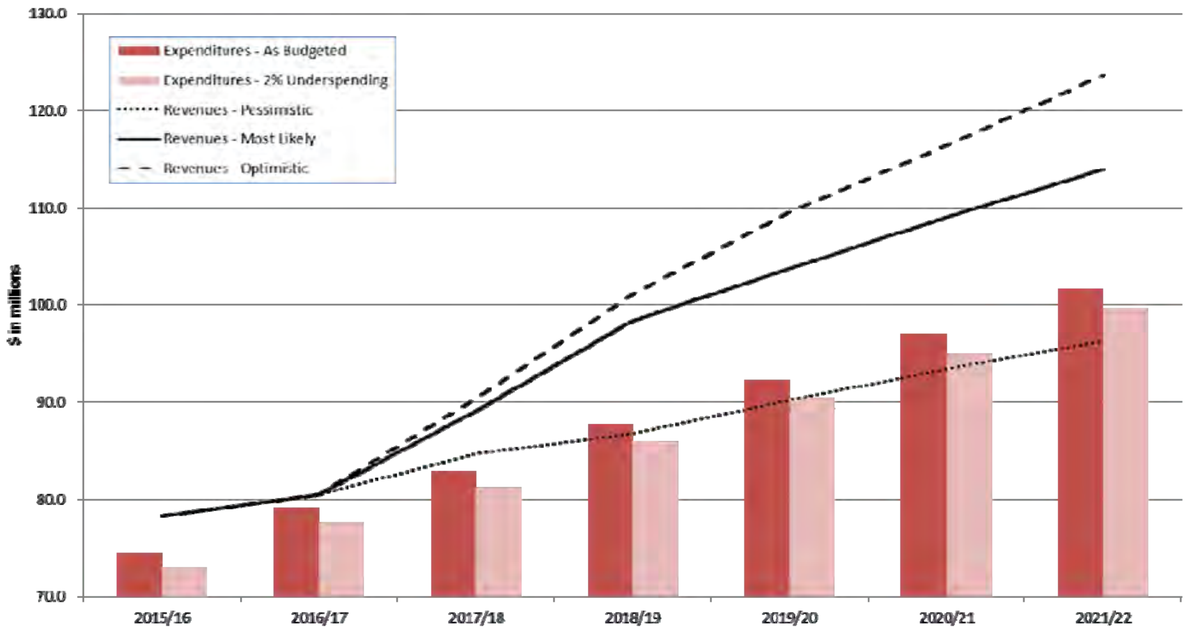


	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Total Fringe Benefits (in millions) new positions	0.00	0.54	1.19	1.87	2.58	3.43
Total Fringe Benefits (in millions)	21.37	22.76	24.75	26.90	28.57	30.64
Benefits as a % of Labor Expenditures	35.9%	36.3%	37.1%	37.9%	38.2%	38.7%

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 7.0% growth rate. This estimate assumes the City will bear at least 85% of the future premium increases for both medical and dental coverage. The growth in benefits costs (6.9% average annual increase for all City paid benefits), when compared to total labor costs is projecting small increases based on negotiated concessions including caps on city contributions to health benefits and increasing retirement contributions by employees.

Revenues & Expenditures



Total General Fund revenues are forecast (using the most likely scenario) to grow by an average annual increase of approximately 5.5% per year. Continued economic recovery, in addition to planned 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 4.1% per year. Projected expenditures include retirement contribution increases as projected by CalPERS, medical and dental increases (averaging 5.3% for city paid benefits) and COLA. One (1) new position is included in FY 2016/17, and five (5) new positions each year are included in FY 2017/18 through FY 2021/22.

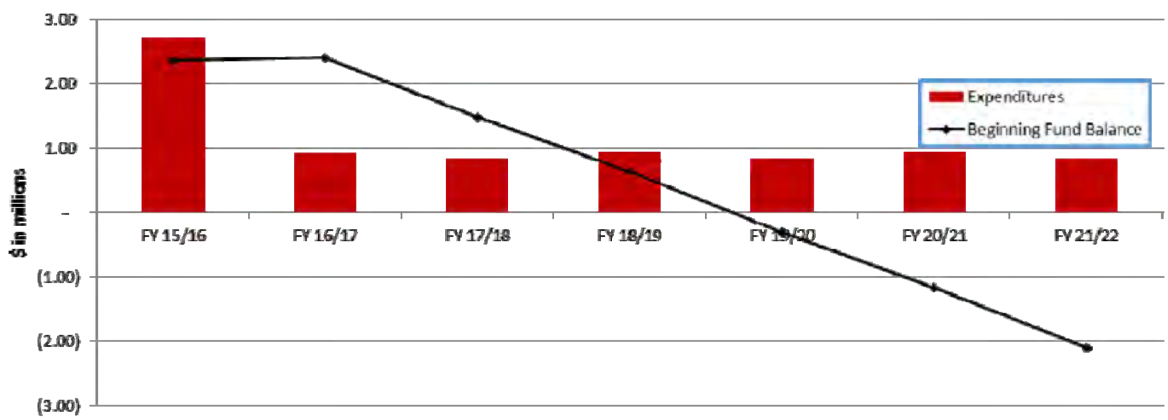
The difference in revenues between the three scenarios (depicted by the black lines in the chart above) in FY 2021/22 totals approximately $27 million. As mentioned on page 52, this difference is the result of building in an economic contraction and a slow down in revenue growth and new development (e.g. new hotel rooms) in the pessimistic scenario, as compared to continued strong revenue growth and new development in the optimistic scenario.

The expenditures (depicted by the red and pink bars on the chart above) allow for a growth in positions (26 throughout the life of the plan), however do not add or significantly alter existing programs. The red bar assumes expenditures equal to the approved appropriations, while the pink bar reflects a slight underexpenditure (2%) from the approved appropriation.

The significance of the potential swing in revenue makes planning for the future even more important and necessary. Although we must prepare ourselves for the potential service impacts for a growing and strong economy, we must also remain watchful and cognizant of the impact of adjustments to our revenues.

One-Time Funding

As noted on page 40 (Indicator 11: Capital Outlay), the City has been able to utilize one-time revenue sources (most significantly through a return of excess ERAF (Education Revenue Augmentation Fund) to provide funding for capital equipment and projects. Beginning in FY 2016/17, however, funding shift decisions by the Governor's office will effectively eliminate the return of excess ERAF moneys to the City of Napa. The graph below, which assumes one-time expenditure needs of just under $1 million per year (for studies, elections, etc.) indicates that over the next few years, the City will not only need to provide additional funds for capital equipment and projects, but will also need to fund one-time expenditures.



V: FINDINGS AND CONCLUSIONS

The information provided in the preceding pages indicates that the City of Napa is in a period of fiscal recovery. The local economy has improved as reflected in revenue growth across the board; however, we must continue to be cautious with expenditures as we begin to revisit programs and service reductions put in place during the recent recession.

This 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. 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 that this plan focuses 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 and new staff to meet the increasing demands.

In addition to restoring and enhancing services the City anticipates the need for additional facilities including parks, trails and bridges.

The report also identifies an increasing reliance on elastic revenues. As the economy continues to grow, now is the time to review our fiscal policies and reserve levels to ensure proper mitigation of various risks to the City’s revenues and expenditures: disaster, lawsuit, infrastructure failure, and another “great recession.”

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 the long term operational needs of the City. Over the last two budget cycles, the City has been successful in making tough decisions to contain costs. However, it is imperative that we continue to 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 program cannot be overstated as it is a primary vehicle for generating and stabilizing revenues. Currently the Economic Development Division is facilitating continued downtown revitalization efforts and development projects, infrastructure improvements with remaining redevelopment agency bond funds, a parking plan, and smaller property transactions to help add vitality to the community, while continuing the redevelopment agency wind down. Going forward, the City’s economic development efforts should expand to areas outside of downtown, focusing on repositioning retail centers and corridors; collaborating on a regional basis to retain, expand and attract new businesses that create quality jobs toward a more sustainable economy; and developing financing mechanisms for infrastructure that will stimulate private investment. 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. Finally, with the historic low interest rates and the City's stabilized operating position, the City may wish to consider the strategic use of debt to address capital needs to ensure we are well-positioned to serve the community for years to come.

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 FY 2016/17 mid-cycle Budget; others will require considerable study and evaluation involving interested stakeholders.

VI: RECOMMENDED ISSUES FOR STUDY/ACTION:

- Long term funding source for new facilities and existing infrastructure
- Impact of new development on service delivery and financial position
- Funding for capital equipment and major maintenance
- Opportunities for revenue development
    - Fees
    - Strengthen tax base
    - Collection practices
    - Use of Debt
- Impact of the loss of revenue sources
    - ERAF
    - Redevelopment tax increment
- Increased reliance on elastic revenues
- Increasing benefit (CalPERS) costs
- Operating policies / prioritization of unfunded needs to guide decision making during recovery