CITY OF NAPA

2018

Long-Term Financial Forecast

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I: INTRODUCTION

This document is the City of Napa's Long Term Financial Forecast (LTFF). 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 LTFF 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 LTFF 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.

Purpose of the Long Term Financial Plan

The LTFF 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 LTFF 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 forecast including projections for the current fiscal year (FY 2017/18) and looking ahead six years through FY 2023/24, a statement of current financial position and a trend analysis for FY 2007/08 through FY 2016/17.

The LTFF is not able to predict with certainty the City's fiscal future, rather it serves as a tool to highlight significant trends or issues 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 2017 LTFF.

Description/Item	Status	Comments
Utilization and optimization of two new funding sources for roadway maintenance (SB1 state transportation funding and County Measure T)	In process	Measure T 5-Year Work Plan was approved by Council on January 16, 2018. SB1 Projects for FY 17/18 and 18/19 have been approved by Council.
Continued monitoring of hotel development projects and impacts/reliance on transient occupancy tax revenue projections	In process	CDD is conducting a study in 2018 to examine hotel development in Napa. Finance will continue to monitor TOT and assist in the study as needed.
Financing of the proposed Civic Center project and budgeting for ongoing debt service payments	In process	LTFF includes analysis of initial estimates; Finance will continue to work with project managers and financial consultants on the Civic Center project.
Increasing benefit (CalPERS) costs, including upcoming possible CalPERS discount rate reductions	Complete	CalPERS voted in December to maintain the discount rate at 7%, forestalling any increase concerns for the near future.
Fee schedule changes including updated overhead plan	In process	A fee schedule update is underway and will be reviewed by Council in spring 2018.
Fiscal policy changes to provide parameters for usage and replenishment of reserve balances	In process	Finance is working on a comprehensive update of fiscal policies.

II: 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 2017/18 through 2023/24 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.

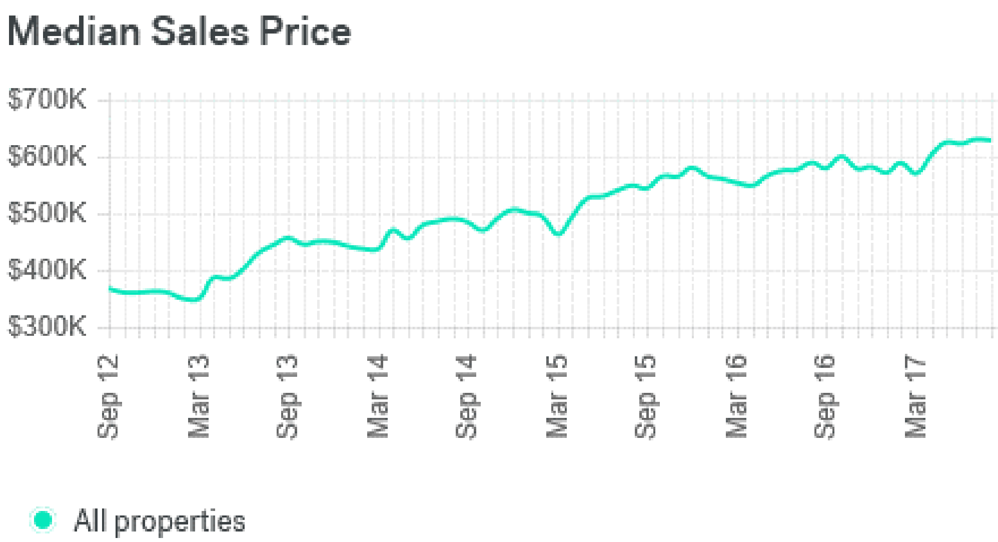
The financial forecast reflects the fact that we are in a time of steady growth through the life of the plan (FY 2023/24). This growth provides for a financial forecast that enables projected revenues to exceed projected expenditures, thereby providing resources to address capital and operating needs.

These continuing factors in the national, state and local economies could impact the forecasted

- Housing market
- Cautious consumer confidence
- Unemployment rate
- State and Federal issues

Housing Market

The median sales price has steadily increased, with only a few market correction periods. The graph below compares the median sales price for a home in Napa over the past five years. Housing prices have exceeded pre-recession prices for the first time in ten years.



www.Trulia.com

Cautious Consumer Confidence

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

Unemployment Rate

The unemployment rate in the County of Napa has declined over the past year from 4.3% in November 2016 to 3.3% in November 2017 according to the California Employment Development Department. While the low unemployment rate bodes well for the economy, it does make it more difficult to fill City vacancies in a timely manner.

The preliminary State unemployment rate was essentially flat in the last year, going from 5.0% in November 2016 to 4.0% in November 2017.

The National unemployment rate was 4.6% in November 2016, and 4.1% in November 2017.

Local, State and Federal Issues

The City of Napa has undergone multiple FEMA-eligible disasters in the last four years (earthquake in 2014, flooding and fires in 2017). The costs of these disasters are paid from non-recurring funds and then reimbursed as possible by FEMA and the California Office of Emergency Services.

The lowering of the CalPERS discount rate affects all CalPERS employers in the state, putting additional pressure on governments. At their December 2017 board meeting, CalPERS voted to maintain the existing discount rate of 7% for the next four years. The City will still see CalPERS contributions nearly double over the forecast period due to the prior reduction of the discount rate from 7.25% to 7.0%.

The Tax Cuts and Jobs Act was passed in December 2017, and is estimated to cost $1.5 trillion dollars. The Act caps the state and local tax deduction, increasing taxes on citizens. While earlier drafts of the bill included major changes to Private Activity Bonds, the final Act retained PABs in their current form along with the tax-exempt status of municipal bonds.

Economic Assumptions

The Long Term Financial Plan includes three different revenue forecast scenarios: pessimistic, most likely and optimistic. The key assumption differences between these scenarios are as follows:

Pessimistic:

Property Tax: 2.00% annual increase
Sales Tax: 3.8% average annual increase
Transient Occupancy Tax: 2% increase per year plus conservative new development estimate
Business License Tax: 3.31% annual increase

Most Likely:

Property Tax: 4.00% annual increase
Sales Tax: 4.21% average annual increase
Transient Occupancy Tax: 5% increase per year plus most likely new development estimate
Business License Tax: 4.31% annual increase

Optimistic:

Property Tax: 6% annual increase
Sales Tax: 4.59% average annual increase
Transient Occupancy Tax: 5% increase per year plus optimistic new development estimate
Business License Tax: 5.31% annual increase

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

ASSUMPTIONS - MOST LIKELY SCENARIO	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Property Tax (% Change)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Sales Tax (% Change)	9.02%	3.80%	3.24%	3.15%	3.06%	2.98%
Transient Occupancy Tax - Baseline (% Change)	2.00%	5.00%	5.00%	5.00%	5.00%	5.00%
TOT New Development ($ in Millions)	$4.60	$6.73	$9.03	$10.38	$11.84	$12.53
Business License Tax	4.53%	4.31%	4.31%	4.31%	4.31%	4.31%
Inflation (% Change)	2.30%	2.40%	2.40%	2.40%	2.40%	2.40%
Salaries - COLA (% Change)	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%
Salaries - Step Increases (% Change)	0.35%	0.90%	0.90%	0.90%	0.90%	0.90%
Healthcare & Dental Benefits (% Change)	5.90%	4.00%	4.00%	7.00%	7.00%	7.00%
PERS MISC Rate, Normal Cost (% of Salary)	10.78%	11.30%	12.30%	12.30%	12.30%	12.30%
PERS MISC UAL Contribution ($ in Millions)	$5.17	$5.97	$6.56	$7.33	$8.01	$8.51
PERS SWORN Rate, Normal Cost	18.45%	19.30%	20.90%	20.90%	20.90%	20.90%
PERS SWORN UAL Contribution ($ in Millions)	$4.83	$5.61	$6.23	$7.02	$7.72	$8.21
Other Benefits (% Change)	4.46%	3.90%	3.90%	3.90%	3.90%	3.90%
Services (% Change)	1.31%	4.00%	4.00%	4.00%	4.00%	4.00%
Materials & Supplies (% Change)	0.22%	2.58%	2.58%	2.58%	2.58%	2.58%
Capital Outlay (% Change)	0.56%	2.40%	2.40%	2.40%	2.40%	2.40%
Authorized Positions (Additional FTE)	2	5	5	5	5	5

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 (CalOES) 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 or one-time transfers to rebuild reserves.

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

    1. Impact of Civic Center Project
        a. This impact is explored in the Alternative Scenarios section
    2. New or enhanced programs.
    3. State impacts (e.g. offset for lost Redevelopment Agency Tax Increment).

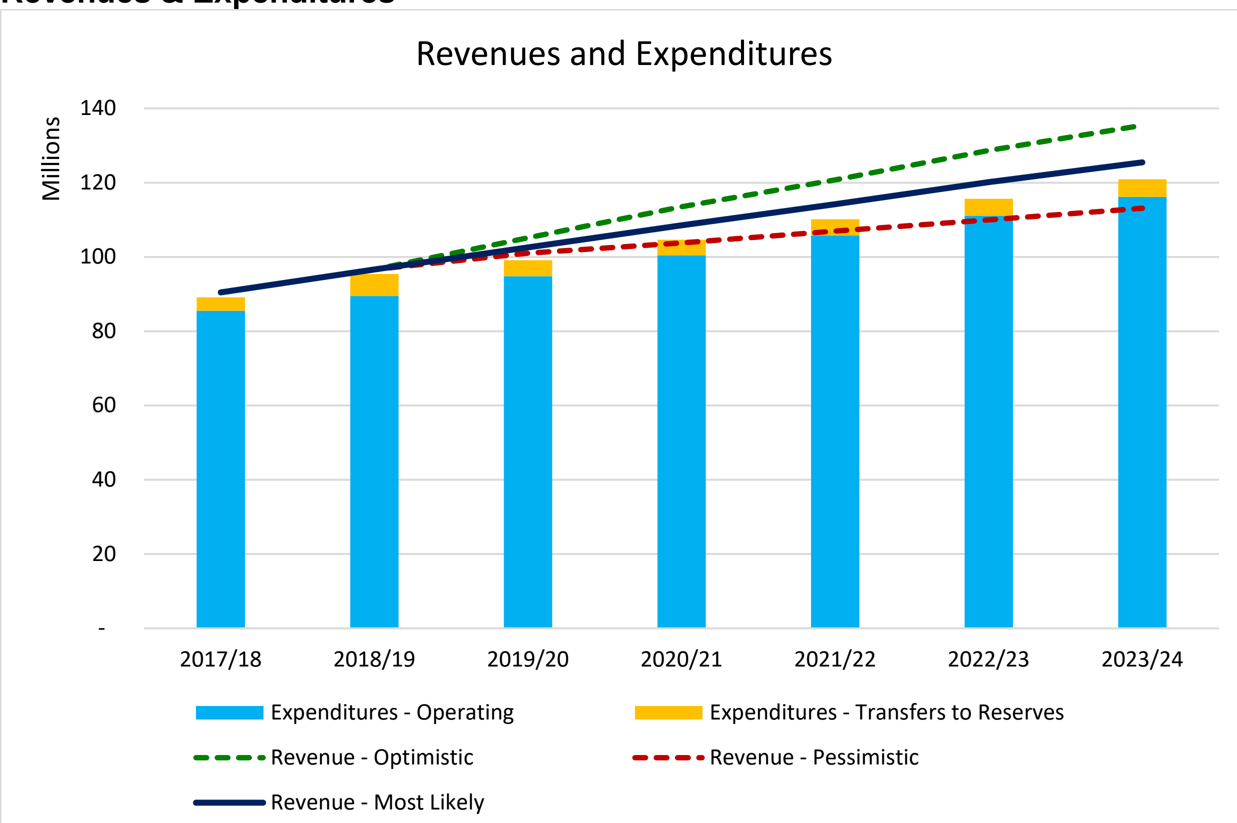
- Only sizable commercial development under construction or with a high likelihood of becoming reality has been included.

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. 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 2017/18 through 2023/24.

Most Likely	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Revenue	90,452,000	96,638,000	102,577,000	108,531,000	114,163,000	120,103,000	125,465,000
Expenditures	90,233,167	96,131,000	100,372,000	105,659,000	111,215,000	116,683,000	121,889,000
Surplus / (Deficit)	218,833	507,000	2,205,000	2,872,000	2,948,000	3,420,000	3,576,000

Revenues & Expenditures



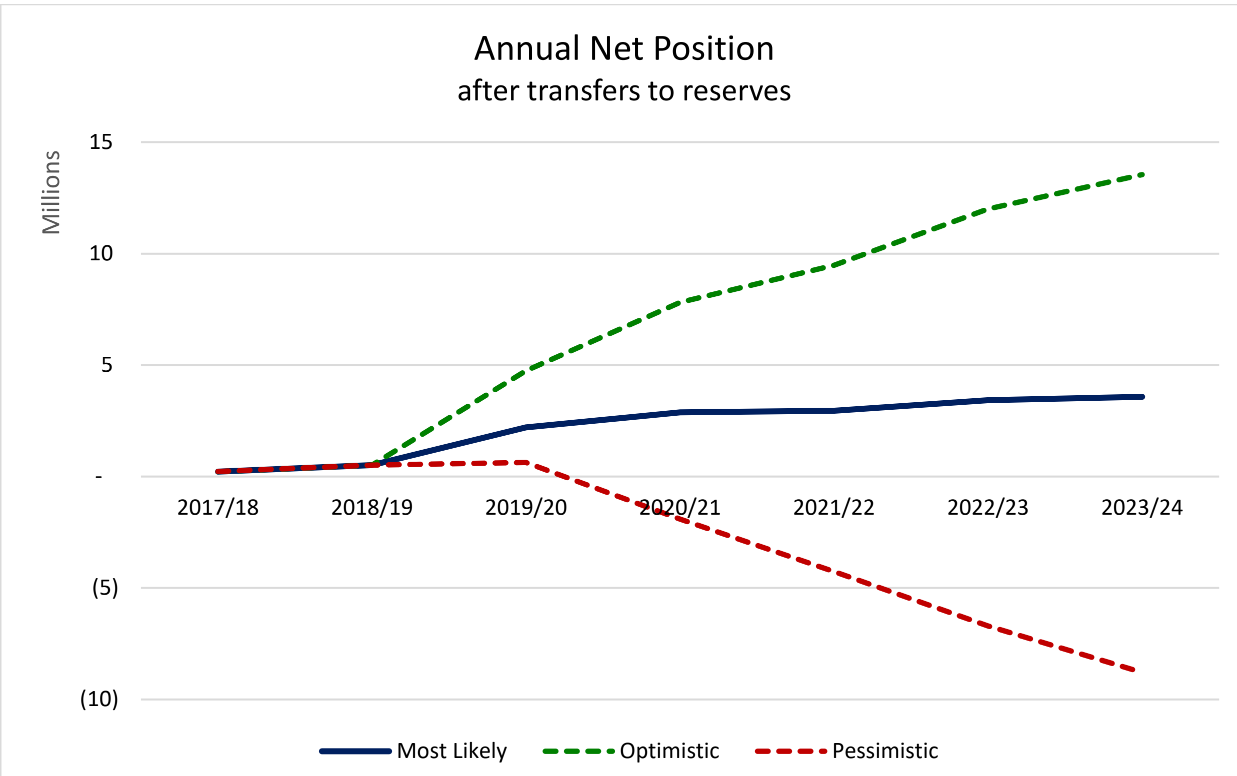
Total General Fund revenues are forecast (using the most likely scenario) to grow by an average annual increase of approximately 5.8% per year. Continued economic growth, in addition to planned hotel and retail development projects contribute to the forecasted revenue growth.

Expenditures are projected to increase at an average annual rate of 5.2% per year. Projected expenditures include retirement contribution increases as projected by CalPERS, other benefit increases (averaging 4.9% for city paid benefits) and cost of living adjustments (COLA). Two new positions are included in FY 2018/19 and five new positions each year are included in fiscal years 2019/20 through 2023/24.

The difference in revenues between the three scenarios in FY 2023/24 totals approximately $22 million. As mentioned in the Economic Assumptions section, this difference is the result of building in a slowdown 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 allow for a growth in positions (27 throughout the life of the plan), but do not add to or significantly alter programs in FY 2019/20 through 2023/24. The plan does include program additions/changes included in the FY 2017/18 and 2018/19 budget.

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.

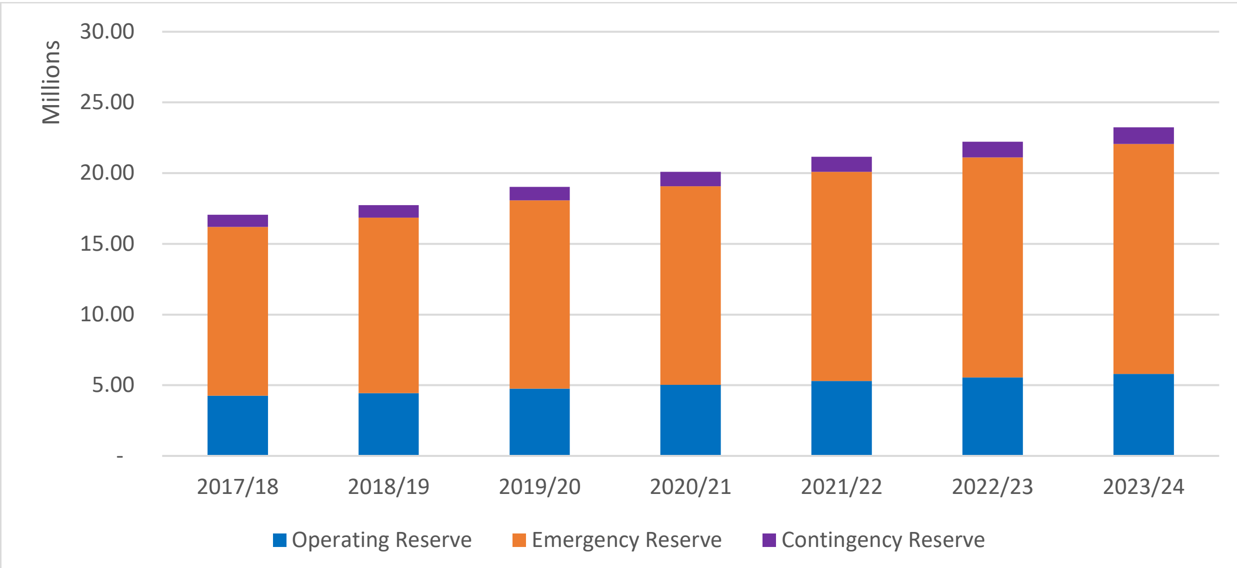


The City is projecting a positive operating position (surplus) throughout the life of the plan, based on the Most Likely scenario. The graph on the prior page shows the anticipated surplus amount after transfers to CIP and General Fund reserves. Per adopted fiscal policy, any remaining surplus is to be transferred to the General Fund CIP Reserve at fiscal year-end.

The revenue forecast could be affected by delays in new development, the strength in the real estate market, a future recession, or fluctuations in the level of tourism.

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 the addition of new General Fund positions in each year (27 new positions between FY 2018/19 and FY 2023/24). The CalPERS discount rate change, which begins its 5-year phase-in period in FY 2018/19, also has an effect on rising benefit costs.

Reserve Fund Balances

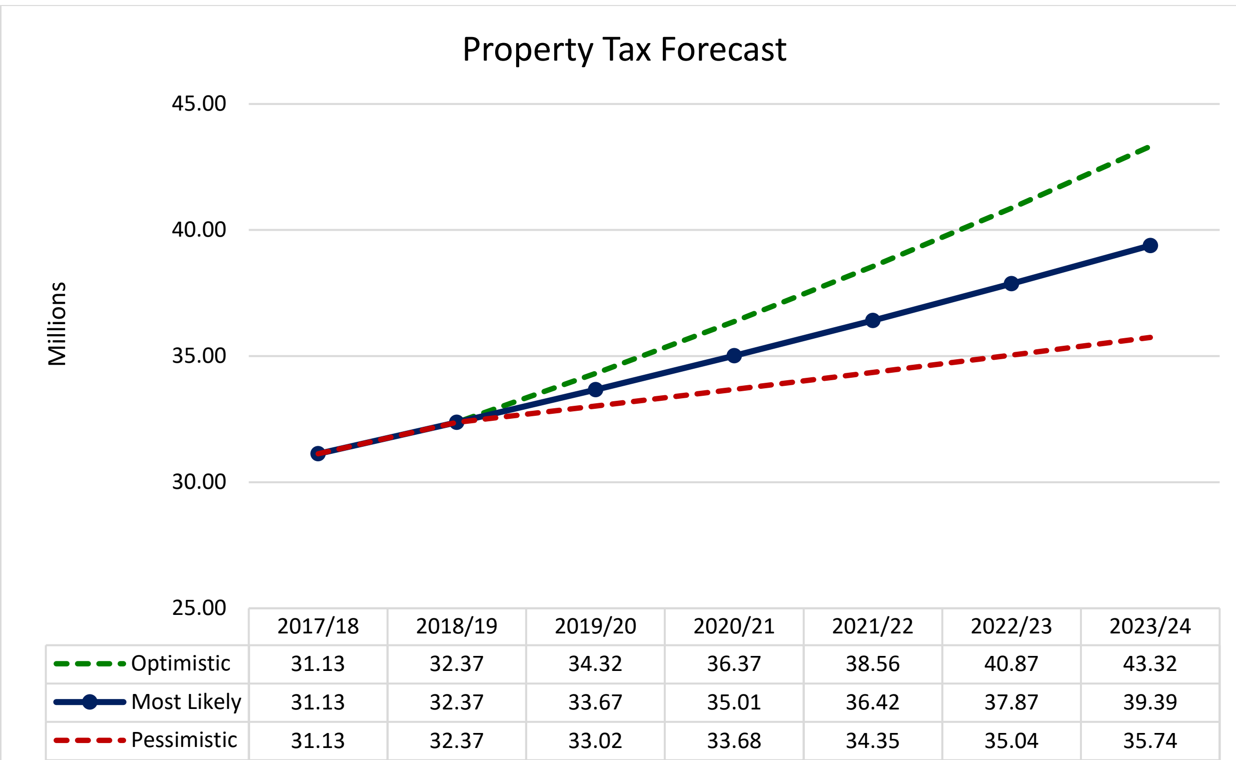


The fiscal policy sets the levels of the Operating, Contingency, and Emergency Reserves at 5%, 1% and 14% of the budgeted operating expenditure appropriations for each year, respectively. As described previously, the Operating Position of the City is positive throughout the next six years.

Revenue Forecasts

Most Likely	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Property Tax	31,128,000	32,373,000	33,668,000	35,014,000	36,415,000	37,871,000	39,386,000
Sales Tax	17,047,000	18,585,000	19,291,000	19,916,000	20,544,000	21,173,000	21,805,000
Transient Occupancy Tax	22,925,000	25,223,000	28,387,000	31,773,000	34,253,000	36,912,000	38,850,000
Business License Tax	3,499,000	3,658,000	3,815,000	3,980,000	4,151,000	4,330,000	4,517,000
Other Taxes	2,761,000	2,868,000	2,991,000	3,121,000	3,256,000	3,396,000	3,543,000
Licenses and Permits	2,915,000	3,217,000	3,569,000	3,959,000	4,392,000	4,872,000	5,404,000
Charges for Services	5,268,000	5,471,000	5,665,000	5,867,000	6,076,000	6,292,000	6,516,000
Other Revenue	1,090,000	1,105,000	1,136,000	1,163,000	1,192,000	1,221,000	1,251,000
Transfers In	3,819,000	4,138,000	4,055,000	3,738,000	3,884,000	4,036,000	4,193,000
Total Revenues	90,452,000	96,638,000	102,577,000	108,531,000	114,163,000	120,103,000	125,465,000

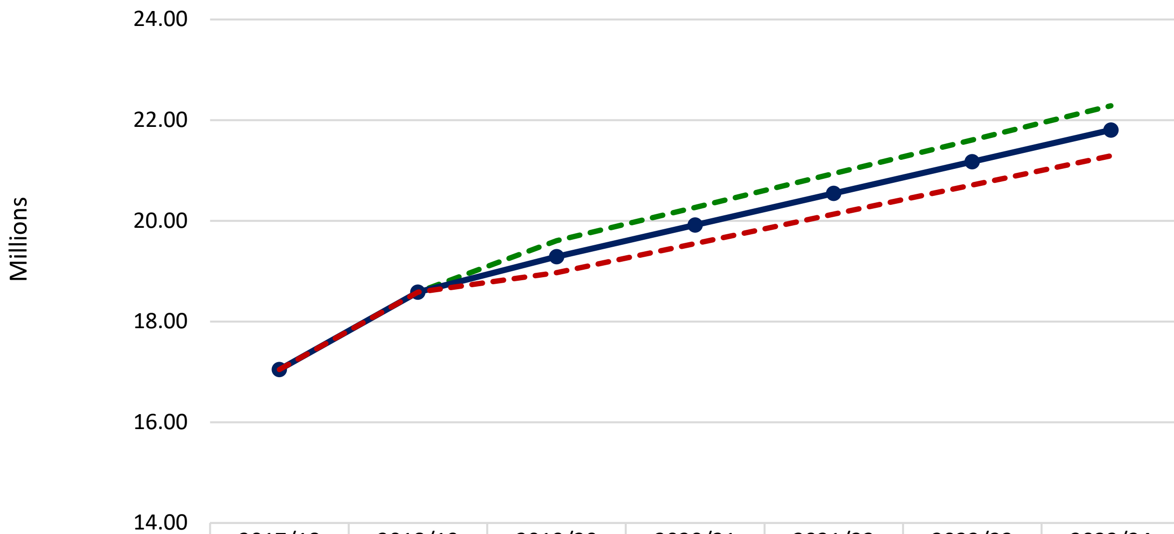
Property Tax Revenues



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 2017/18. The County Assessor has indicated property taxes are expected to show steady gains, likely averaging 4% per year over the next six years.

Sales Tax Revenues

Sales Tax Forecast

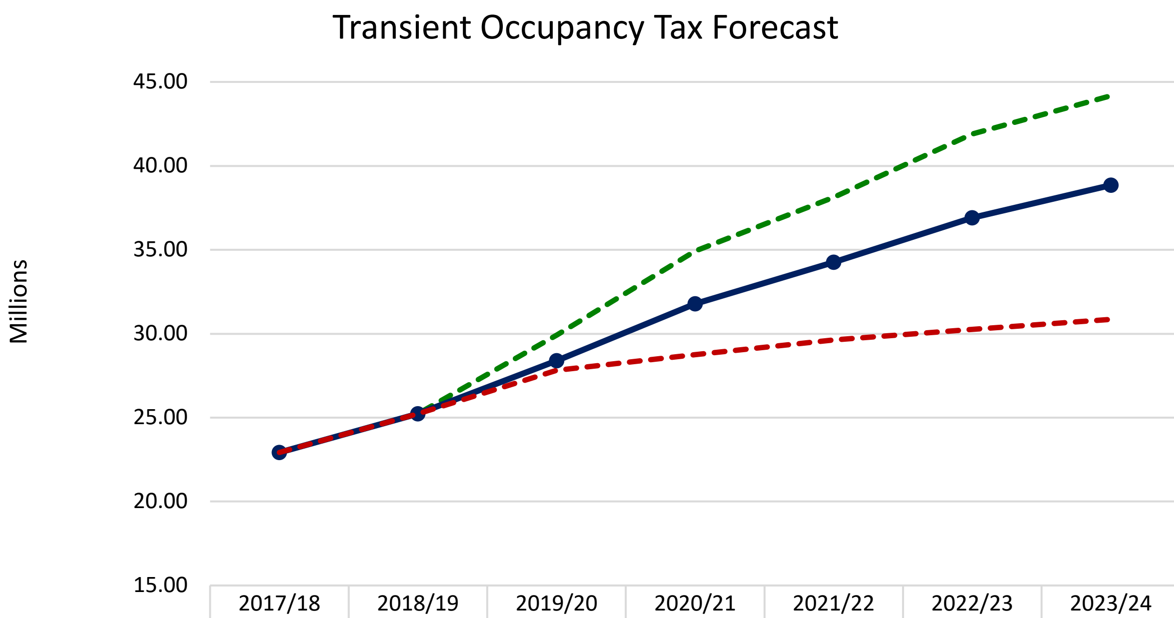


	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Optimistic	17.05	18.59	19.61	20.27	20.94	21.61	22.29
Most Likely	17.05	18.59	19.29	19.92	20.54	21.17	21.81
Pessimistic	17.05	18.59	18.97	19.55	20.13	20.71	21.29

Sales tax is one of the City's most economically sensitive revenue sources and continues to be a strong revenue source at 19% of General Fund revenues (in FY 2017/18).

The sales tax projections in this plan include moderate economic expansion, along with anticipated development.

Transient Occupancy Tax Revenues



	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Optimistic	22.93	25.22	29.92	34.93	38.13	41.90	44.18
Most Likely	22.93	25.22	28.39	31.77	34.25	36.91	38.85
Pessimistic	22.93	25.22	27.82	28.76	29.63	30.25	30.85

Transient occupancy tax is the other of the City's most economically sensitive revenue sources and has surpassed Sales Tax to be the City's second largest revenue source at 25% 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)

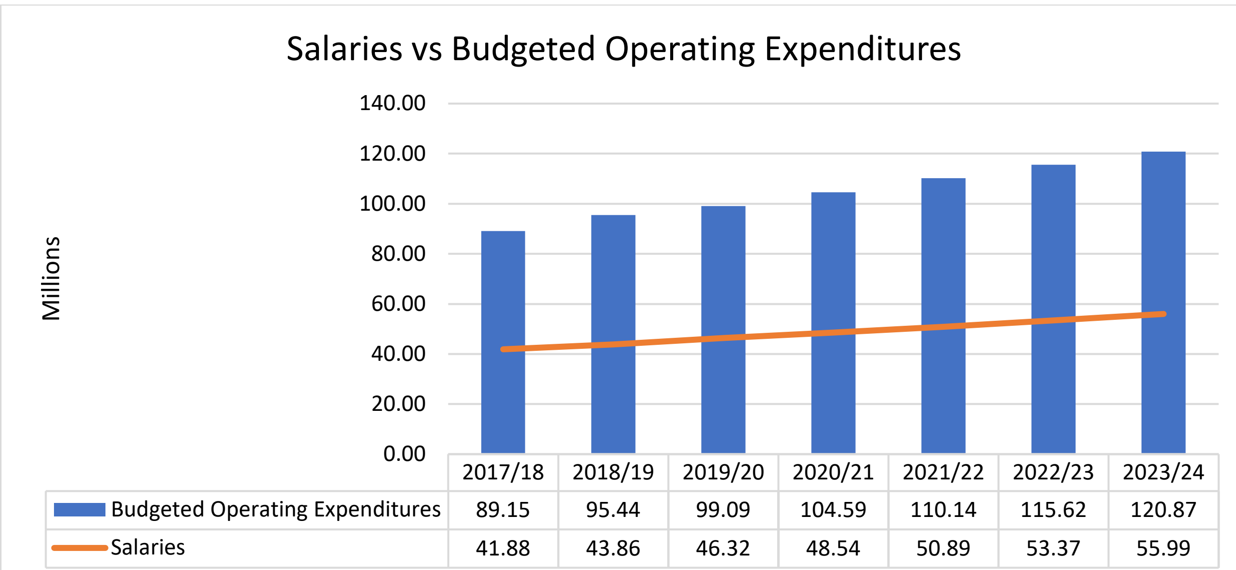
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Base TOT	20.24	20.63	21.66	22.74	23.88	25.07	26.32
New Development (Most Likely)	2.69	4.60	6.73	9.03	10.38	11.84	12.53
Total	22.93	25.22	28.39	31.77	34.25	36.91	38.85
% Increase		10.02%	12.54%	11.93%	7.81%	7.76%	5.25%

An average annual increase of 5% for room rate increases has been included in the base TOT calculation. Overall, transient occupancy tax revenues are expected to see an average annual increase of 9% per year during the forecast period.

Expenditure Forecasts

Most Likely	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Salaries and Benefits	64,314,000	67,508,000	73,111,000	77,618,000	82,129,000	86,540,000	90,692,000
Services	18,050,000	18,285,000	19,008,000	19,759,000	20,541,000	21,353,000	22,198,000
Materials and Capital Outlay	2,883,000	2,889,000	2,964,000	3,040,000	3,119,000	3,199,000	3,281,000
Transfers Out	3,905,000	6,762,000	4,008,000	4,176,000	4,352,000	4,529,000	4,702,000
Budgeted Expenditures	89,152,000	95,444,000	99,091,000	104,593,000	110,141,000	115,621,000	120,873,000
Contributions to Non-CIP Reserves	1,081,167	687,000	1,281,000	1,066,000	1,074,000	1,062,000	1,016,000
Total Expenditures	90,233,167	96,131,000	100,372,000	105,659,000	111,215,000	116,683,000	121,889,000

Salaries and Benefits vs Budgeted Operating Expenditures



Salaries continue to account for just under 50% of the City's operating expenditure budget. The relative percentage is relatively constant through the life of the plan (ranging from 45-47%) due to the fact that positions are being added to the plan in relation to increasing operating expenditures.

The employee benefits category reflects increasing growth throughout the forecast period. The growth rate comes primarily from projected increases in CalPERS. CalPERS reduced its discount rate (assumed rate of return) in December 2016, which causes employer rates to increase. Over the span of the forecast, salaries increase by 32.5% from FY 2017/18 budgeted amounts, while CalPERS costs increase by 65.3%.

Other benefits are anticipated to grow by 40.4% over the span of the forecast, averaging a 4.0% increase per year. This level of growth assumes that health care costs will continue to grow at a rate commensurate to the past five years; changes at a nationwide level could adversely affect the City's health care costs.

III: FINDINGS

The preceding forecast, and the historical trends in the Financial Trend Analysis section to follow, indicate that the City of Napa is in a period of fiscal growth. The local economy is strong as reflected in revenue growth across the board.

It should be noted that this forecast focuses on the City's ability to provide for operating service delivery programs that are currently in effect using existing sources of revenue. This plan does not include the Civic Center project under current consideration by Council; this substantial construction project is examined in the Alternate Scenario section.

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. It is imperative that we continue to ensure 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.

The following actions warrant consideration by the City Council and City staff in order to stabilize and secure the City's fiscal future. Some can be implemented in the immediate future as part of the FY 2018/19 mid-cycle budget; others will require study and evaluation involving interested stakeholders.

IV: RECOMMENDED ISSUES FOR STUDY/ACTION:

- Continued monitoring of hotel development projects and impacts / reliance on transient occupancy tax revenue projections
- Continued monitoring of disaster-related impacts on City revenues
- Financing of the proposed City Hall project and budgeting for ongoing debt service payments
    - Near term funding before private development is completed
    - Policy change related to building reserve contributions
- Fiscal policy changes to provide parameters for usage and replenishment of reserve balances

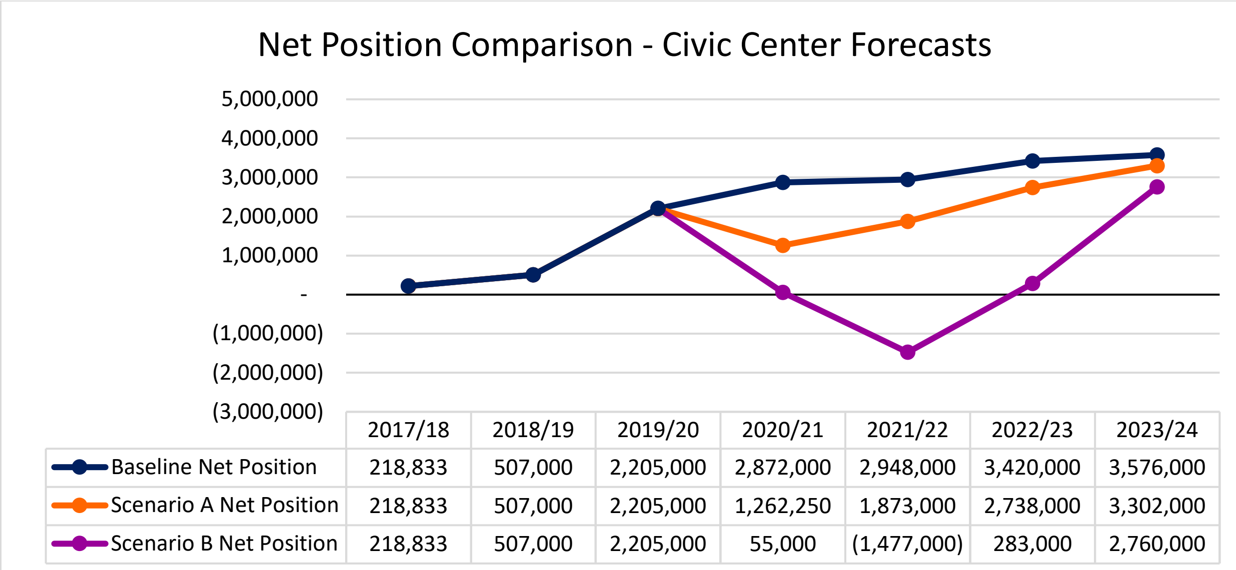
V: ALTERNATIVE SCENARIOS – CIVIC CENTER PROJECT

The City is currently looking at building a new combined public safety and administration building, as well as a new Fire Station No. 1. The new construction would be financed by debt issuance as well as the sale of the superblock that currently houses City Hall, the Police Department, and Fire Station No. 1. As part of the long-term forecast, we needed to examine the impact of this project on City finances.

In this forecast, we examined two potential scenarios. In both scenarios, the City begins making lease payments in October 2020, 22 months after the anticipated bond issuance (December 2018). The scenarios assume that capitalized interest from the bond issuance will be used for payments owed during that 22 months. Both scenarios are based off of our Most Likely baseline forecast, and both assume that the planned transfers to the CIP Facilities Reserve will cease in FY 2020/21, with those funds instead being used towards the lease payments.

Scenario A: No Delay on Private Development
In this scenario, private development of the superblock site begins when bonds are issued in December 2018. Construction is estimated at 26 months, and the hotel and retail sites open in March 2021. As the Net Position chart below shows, this scenario causes a temporary dip in Net Position that rights itself during the forecast period, with FY 2023/24 Scenario A net position just below the baseline forecast.

Scenario B: 2-Year Delay on Private Development
In this scenario, there is a two-year delay on the private development of the superblock site after bond issuance in December 2018. Construction begins in December 2020, and the hotel and retail sites are estimated to open in March 2023. The delay in development would cause revenue shortfalls in FY 2021/22 and FY 2022/23, with net position increasing once the hotel and retail sites open. Any additional delays to the project would cause additional years of negative net position for the City, which would have to then spend down fund balance to cover expenditures.



	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Baseline Net Position	218,833	507,000	2,205,000	2,872,000	2,948,000	3,420,000	3,576,000
Scenario A Net Position	218,833	507,000	2,205,000	1,262,250	1,873,000	2,738,000	3,302,000
Scenario B Net Position	218,833	507,000	2,205,000	55,000	(1,477,000)	283,000	2,760,000

VI: FINANCIAL TREND ANALYSIS

Utilizing the International City Management Association's (ICMA) Financial Trend Monitoring System, we have provided a comprehensive Financial Trend Report. Ratings assigned to each trend include: Favorable (F), Caution (C), Warning (W), or Unfavorable (U).

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.

Overview of the City's Financial Condition

The City's General Fund operating revenues increased for the sixth year in a row, showing increases in all three of the City's major revenue sources. From FY 2015/16 to FY 2016/17, Property Tax increased by 4.6%, Sales Tax by 6.4% and Transient Occupancy Tax by 6.6%. Overall, total revenue increased by $3.5 million, or 3.6%.

Over the past four years (2014 through 2018), the City has incurred multiple FEMA eligible events: an earthquake (FY 2014/15), flooding (FY 2016/17) and fire (FY 2017/18). The expenditures and related FEMA reimbursements have been reflected in the Non-Recurring General Fund. Because these occurrences are sporadic and can skew trends, the costs and related expenditures are not reflected in the trends and projections, which only include the Operating General Fund.

In summary, the City is experiencing economic growth and 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 are on the rise due to the CalPERS discount rate decrease and increasing City contributions toward health benefits.
- 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, there is a great deal of uncertainty at the national level that could impact the local economy.

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.

Summary of Trends & Indicators

The FY 2007/08 through FY 2016/17 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.

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.

The table below is a summary of the indicators and the assigned ratings over the past three LTFFs.

Indicator	**2015/16**	**2016/17**	**2017/18**
Revenues per Capita	F	F	F
Property Tax Revenues	F	F	F
Sales Tax Revenues	F	F	F
Transient Occupancy Tax Revenues	F	F	F
Business License Tax Revenues	F	F	F
Fringe Benefits as Compared to Total Operating Expenditures	C	C	C
Salary Expenditures as Compared to Total Operating Expenditures	F	F	F
Capital Outlay as a Percentage of Operating Expenditures	C	F	F
Operating Position	F	F	F
Reserve Fund Balances	F	F	F
Liquidity Ratio	F	F	F

Favorable (F):	This trend is **positive** with respect to the City's goals, policies, and national criteria.
Caution (C):	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 (W):	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 (U):	This trend is **negative**, and there is an immediate need for the City to take corrective action.

Indicator Number	Description	Finding	Comments
General Fund Revenue Trends			
1	Revenues Per Capita	F	Revenues per capita have been steadily climbing since FY 2009/10.
2	Property Tax Revenues	F	FY 2016/17 reflected an increase of 4.6% due to increasing property values and an active resale market. The County Assessor currently projects growth continuing at 4% per year.
3	Sales Tax Revenues	F	Napa's sales tax revenue tends to follow economic cycles. Sales Tax revenue increased by 6.4% from FY 2015/16 to FY 2016/17.
4	Transient Occupancy Tax Revenues	F	Transient Occupancy Tax revenue is a strong indicator of the city's economic health. Continued growth plus new development led to a 6.6% increase in FY 2016/17.
5	Business License Tax Revenues	F	Business license tax revenues are based on gross receipts of individual businesses. Revenue increased by 6.5% in FY 2016/17.
F: Favorable C: Caution W: Warning U: Unfavorable			

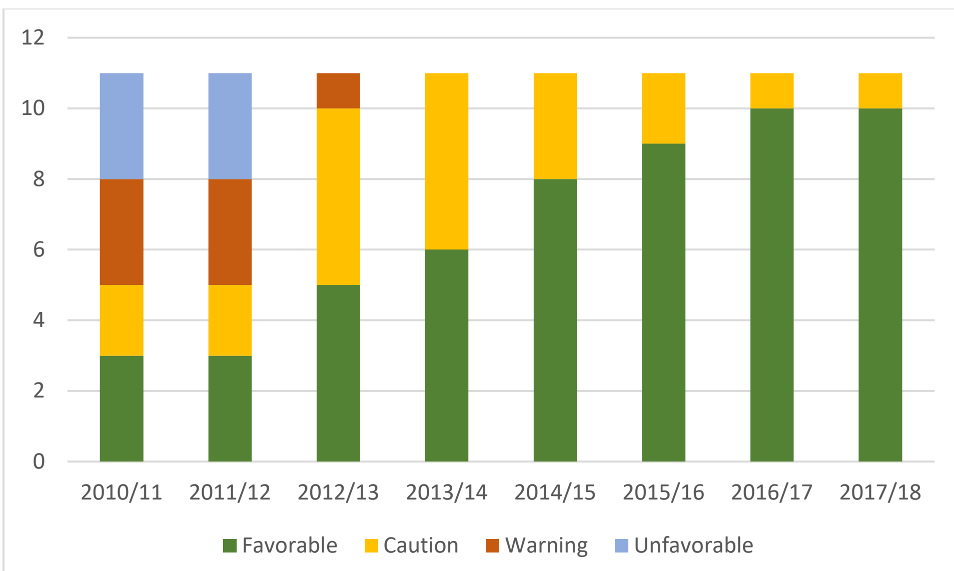
General Fund Expenditure Trends			
6	Fringe Benefits vs Total Operating Expenditures	C	Fringe benefit costs as compared to the city's total operating expenditures have stabilized through increased cost sharing and employee incentives to control the increased cost of benefits. However, the recent CalPERS discount rate change will cause pension costs to nearly double over the next several years.
7	Salary Expenditures vs Total Operating Expenditures	F	Salary expenditures as compared to operating expenditures have remained relatively stable over the past five years.
8	Capital Outlay as a Percentage of Operating Expenditures	F	Fiscal policy was changed with FY 2015/16 to create an Equipment Replacement Reserve. Regular contributions to this reserve will provide a stable source of funds for capital outlay.
General Fund Operating Position Trends			
9	Operating Position	F	The City's General Fund has had a positive operating position for the past seven years (FY 2010/11 through FY 2016/17). In addition, the FY 2017/18 and 2018/19 proposed 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.
10	Reserve Fund Balances	F	The City has accomplished compliance with all of the Reserve Policies.
11	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.
F: Favorable C: Caution W: Warning U: Unfavorable			

Revenue Trends			Operating Position		
1.	Revenues per Capita	F	9.	Operating Position	F
2.	Property Tax	F	10.	Reserve Fund Balances	F
3.	Sales Tax	F	11.	Liquidity	F
4.	Transient Occupancy Tax	F			
5.	Business License Tax	F			

Expenditure Trends		
6.	Fringe Benefits	C
7.	Salary Expenditure	F
8.	Capital Outlay	F

Rating Changes

There has been one favorable change as compared to prior year. The overall positive rating on all trends and indicators speaks well to the growth 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.



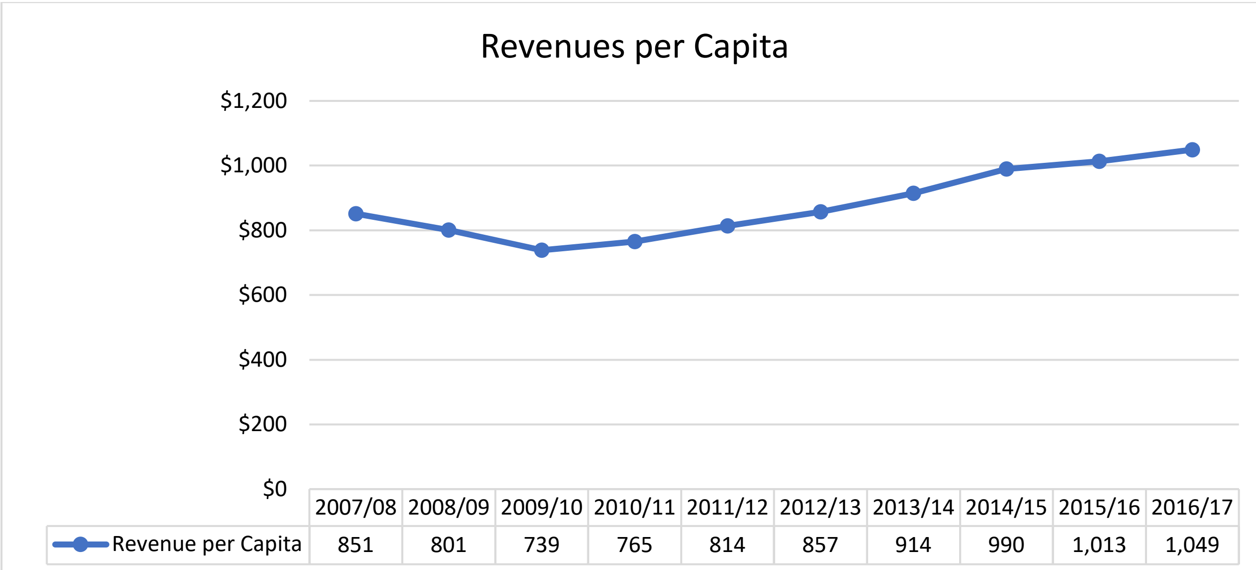
General Fund Revenue Trend Indicators

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 five 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

Indicator 1: Revenues Per Capita



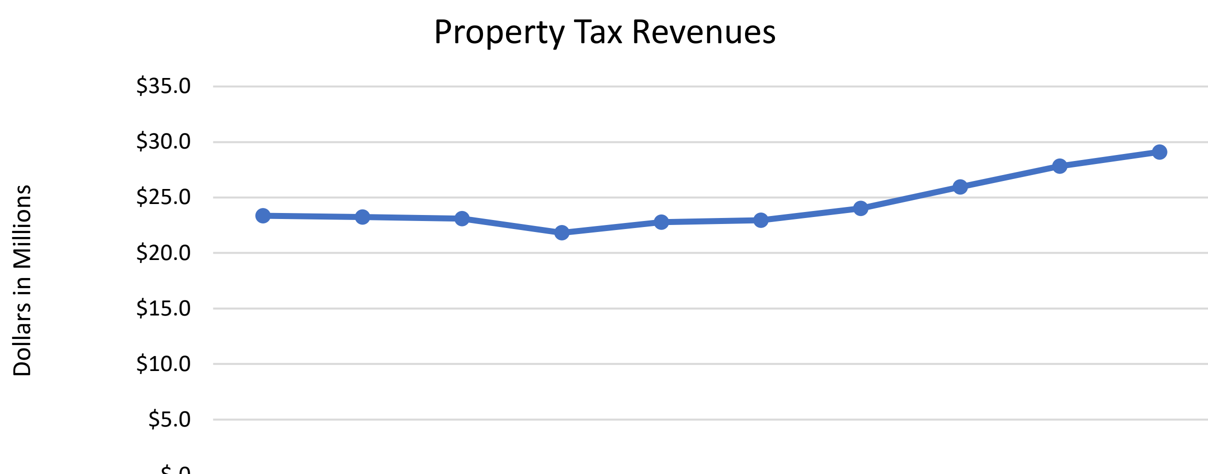
2018 Finding: **Favorable**
2017 Finding: **Favorable**

Description
Revenues per capita are a measure of the City’s ability to maintain service levels.

Comments and Analysis
Overall revenues per capita decreased between FY 2007/08 and FY 2009/10. Since FY 2009/10, revenues per capita have steadily increased. These increases are largely driven by tourism and increased transient occupancy tax and sales tax collections, as well as escalating property values.

The 2017 rating of Favorable remains in 2018 for this indicator due to continued growth.

Indicator 2: Property Tax Revenues



	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Property Tax	23.4	23.3	23.1	21.8	22.8	23.0	24.0	26.0	27.8	29.1

2018 Finding: Favorable
2017 Finding: Favorable

Description

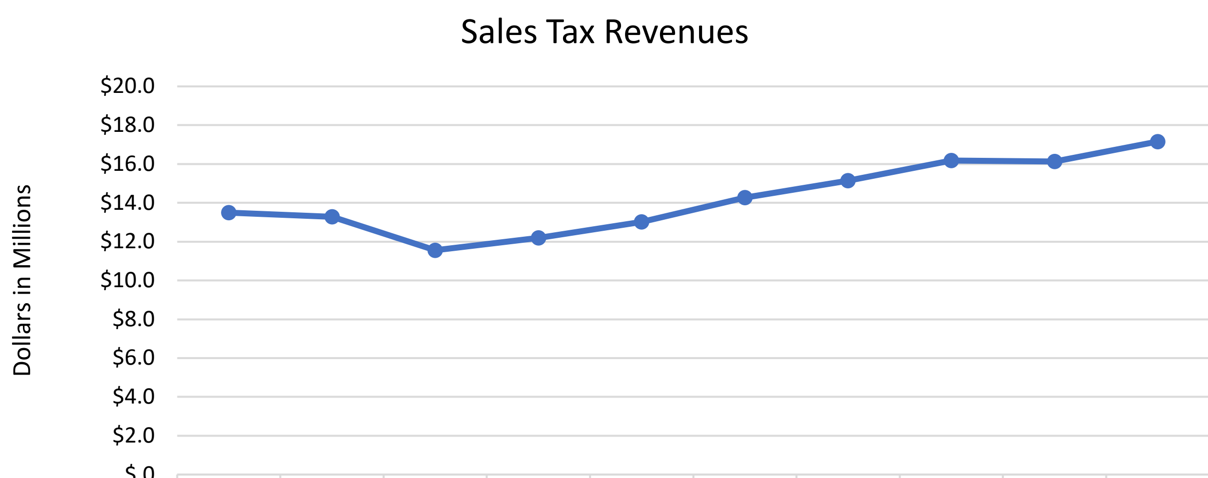
Property tax revenues are evaluated over time to measure the City's economic health. Property taxes are the City's largest source of revenue and are relatively inelastic in that they should remain constant as the economy changes. By State law (Proposition 13), the County levies property taxes at one 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

FY 2016/17 reflected an increase of 4.6% ($1.3 million) in property tax revenue. This increase is due to increasing property values and an active resale market. Furthermore, steady growth is projected for FY 2017/18 and forward.

The 2017 rating of Favorable remains in 2018 due to six years of positive growth, along with projections of continued growth throughout the life of the plan.

Indicator 3: Sales Tax Revenues



	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Sales Tax	13.5	13.3	11.6	12.2	13.0	14.3	15.1	16.2	16.1	17.2

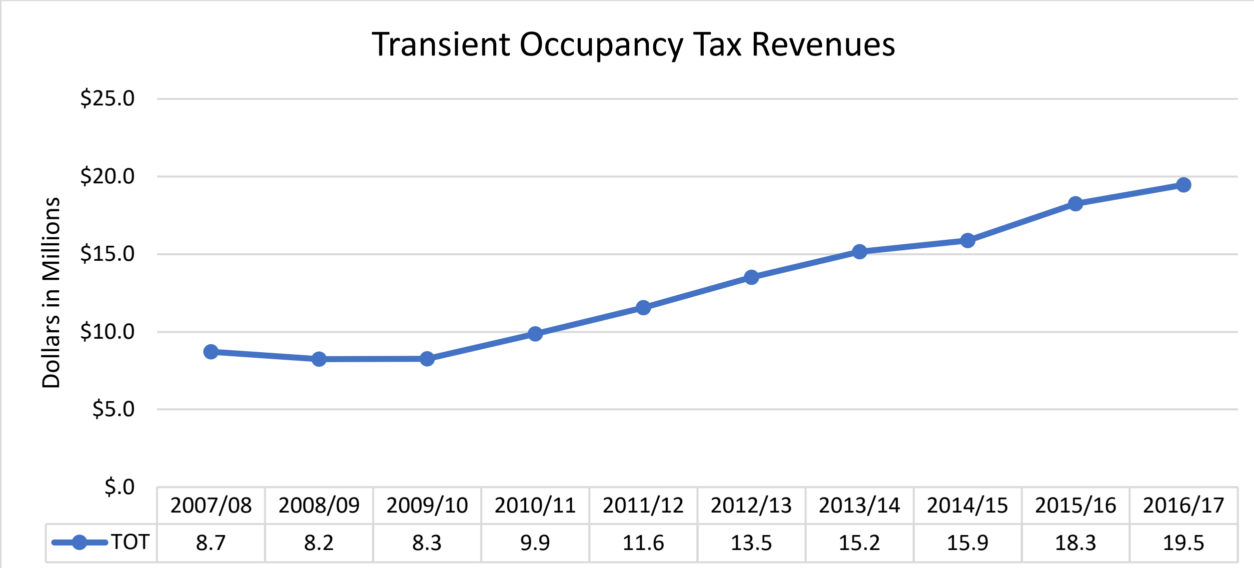
2018 Finding: Favorable
2017 Finding: Favorable

Description
Sales tax revenue is a strong indicator of the city's economic health. Sales taxes are the City's third largest source of revenue (20.3%) and are elastic in nature, varying with changes in the economy. The State Board of Equalization levies the sales tax on most retail sales with principal exemptions applying to sales of food for home consumption and prescription drugs. The overall Napa County sales tax rate is 7.75%, of which the City receives the 1.0% 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. FY 2007/08 began a three-year decline related to the recession. Sales Tax receipts have since increased year over year, with the exception of the slight decline in FY 2015/16.

The 2017 rating of Favorable remains in 2018 for this indicator due to continued growth in Sales Tax receipts and the strength of Napa businesses.

Indicator 4: Transient Occupancy Tax Revenues



	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
TOT	8.7	8.2	8.3	9.9	11.6	13.5	15.2	15.9	18.3	19.5

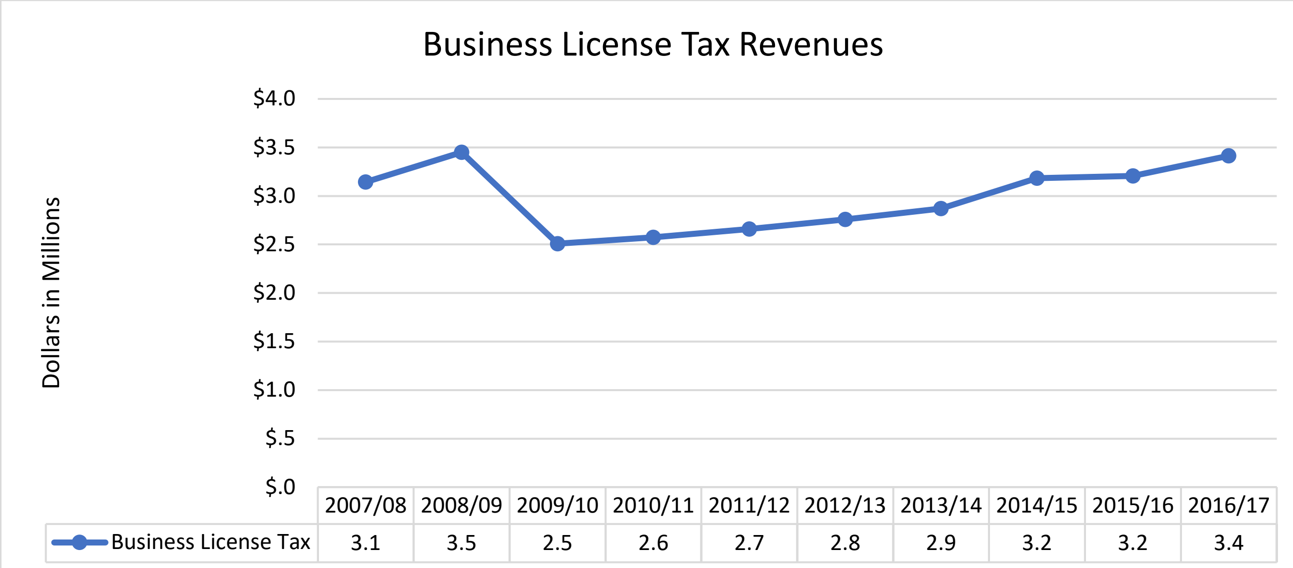
2018 Finding: **Favorable**
2017 Finding: **Favorable**

Description
Transient occupancy tax revenue (TOT) is a strong indicator of the city's economic health. This revenue source is the City's second largest source of revenue (23.0%) and is elastic in nature, varying with changes in the economy. 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. 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 six 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. Strong growth is expected based on the current state of Napa's tourism industry as well as the numerous planned hotel developments currently in various stages of the entitlement process.

The 2017 rating of Favorable continues in 2018 reflecting the strength of Napa's tourism industry.

Indicator 5: Business License Tax Revenues



	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Business License Tax	3.1	3.5	2.5	2.6	2.7	2.8	2.9	3.2	3.2	3.4

2017 Finding: **Favorable**
2018 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. 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 2006/07 through FY 2008/09 took a sharp turn downward in FY 2009/10 (-29%) as the business community reacted to the national recession. Receipts increased by 10% ($0.3 million) between FY 2013/14 and FY 2014/15. Revenues were flat between FY 2014/15 and 2015/16, but increased by 6.5% from FY 2015/16 to FY 2016/17. Revenues are projected to increase in the future due to continued development and business growth in Napa.

The 2017 rating of Favorable continues in 2018 reflecting continued positive growth of Business License receipts, and projections of continued growth throughout the life of the plan.

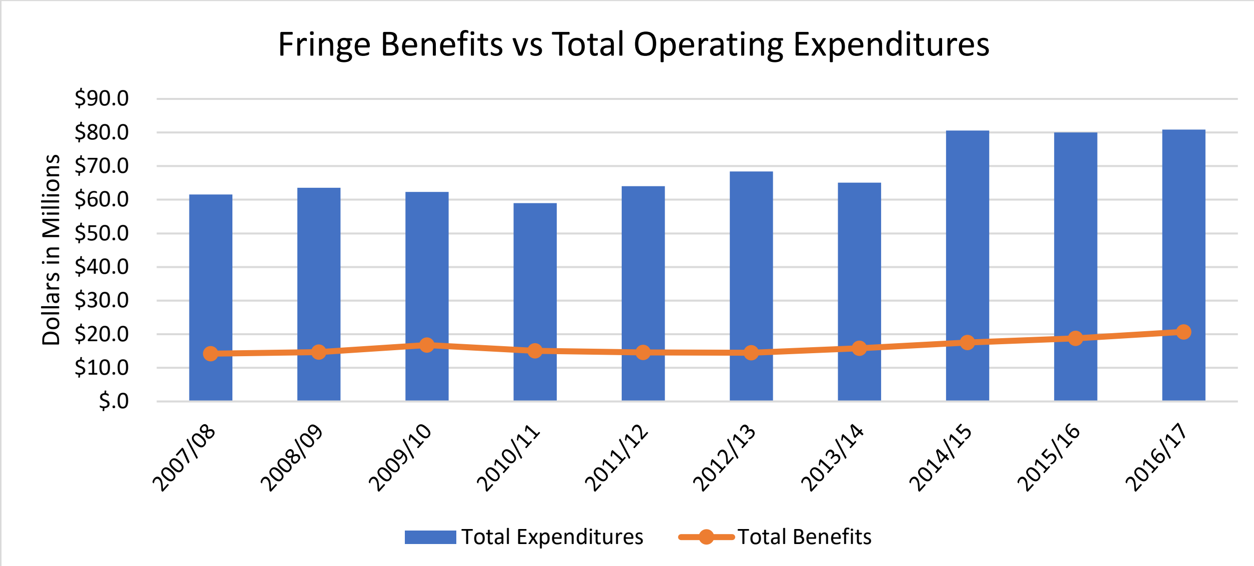
General Fund Expenditure Trend Indicators

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:

- Fringe Benefits vs Operating Expenditures
- Salaries vs Operating Expenditures
- Capital Outlay as a Percentage of Operating Expenditures

Indicator 6: Fringe Benefits vs Total Operating Expenditures



2018 Finding: **Caution**
2017 Finding: **Caution**

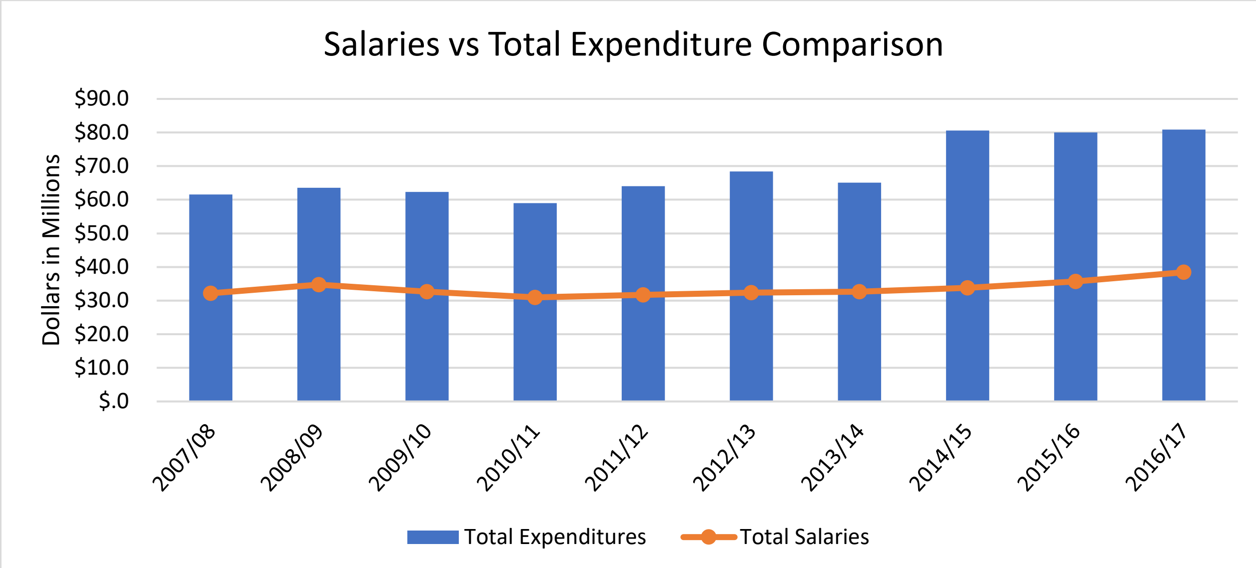
Description
Fringe benefits include, but are not limited to, the City's share of payroll taxes, pension plan costs, medical, life and disability insurance, and workers' compensation funding.

Comments and Analysis
Fringe benefit costs have ranged from 21-27% of the City's total operating expenditures over the past ten years.

The 2017 rating of Caution for this indicator remains as Caution in 2018. 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.

CalPERS' 2016 reduction of its discount rate from 7.5% to 7.0% will have a significant impact on the City's future pension costs.

Indicator 7: Salaries vs Total Operating Expenditures



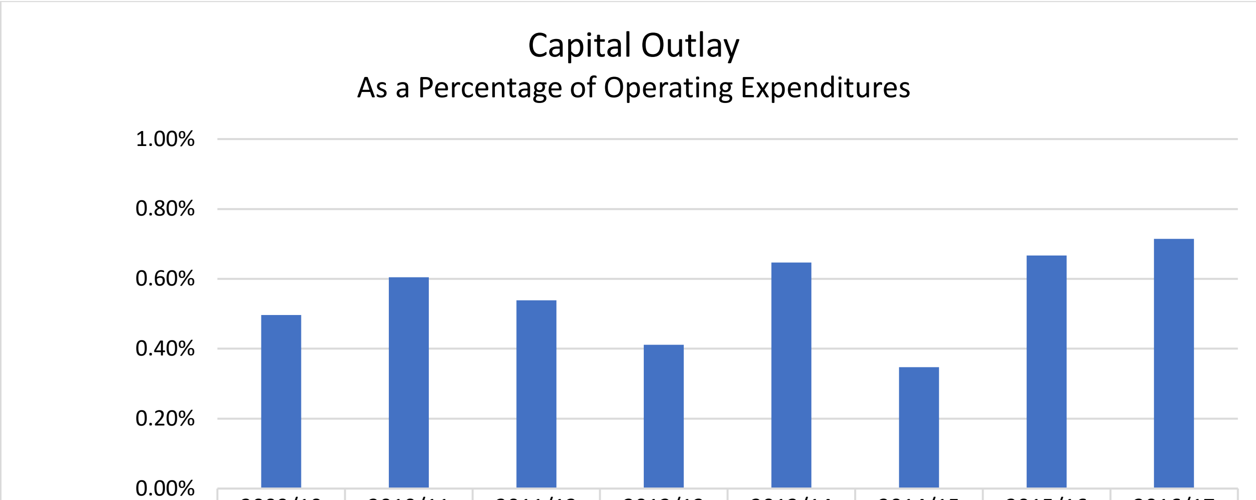
2018 Finding: Favorable
2017 Finding: Favorable

Description
These expenditures include salary and wages paid to regular, part-time, and temporary staff and represent 42-55% of General Fund disbursements over the last ten years. Any changes in salary expenditures will have a material impact on the City's finances.

Comments and Analysis
Salary expenditures as compared to 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). Continued monitoring of this indicator is warranted since these expenditures represent the largest category of General Fund operating costs, and additionally directly drive many of the benefit amounts.

The 2017 rating of Favorable continues in 2018 for this indicator as the consistency over ten years demonstrates active management of salary costs; although as the City continues to add positions to accommodate the increased demand for city services over the next few years and as cost of living adjustments for employees are negotiated, salary costs are expected to increase significantly.

Indicator 8: Capital Outlay as a Percentage of Operating Expenditures



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Capital Outlay	0.50%	0.60%	0.54%	0.41%	0.65%	0.35%	0.67%	0.71%

2018 Finding: Favorable
2017 Finding: Favorable

Description
This category includes General Fund expenditures to replace radios, equipment, computers and other IT components and any purchases of capitalizable assets. This category 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 ratio of capital outlay to total 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.

Comments and Analysis
Due to a change in financial systems, only 8 years of data is available for this indicator. While spending has fluctuated over the past 8 years, on average the annual amount spent is equivalent to 0.55% of total operating expenditures. Additionally, an Equipment Replacement Reserve was created in FY 2015/16, and is currently receiving $100,000 per year from the General Fund. An analysis of current equipment will be conducted to determine how much should be set aside annually to ensure that all City equipment is replaced as needed. This commitment to funding equipment replacement is the main driver of the Favorable finding.

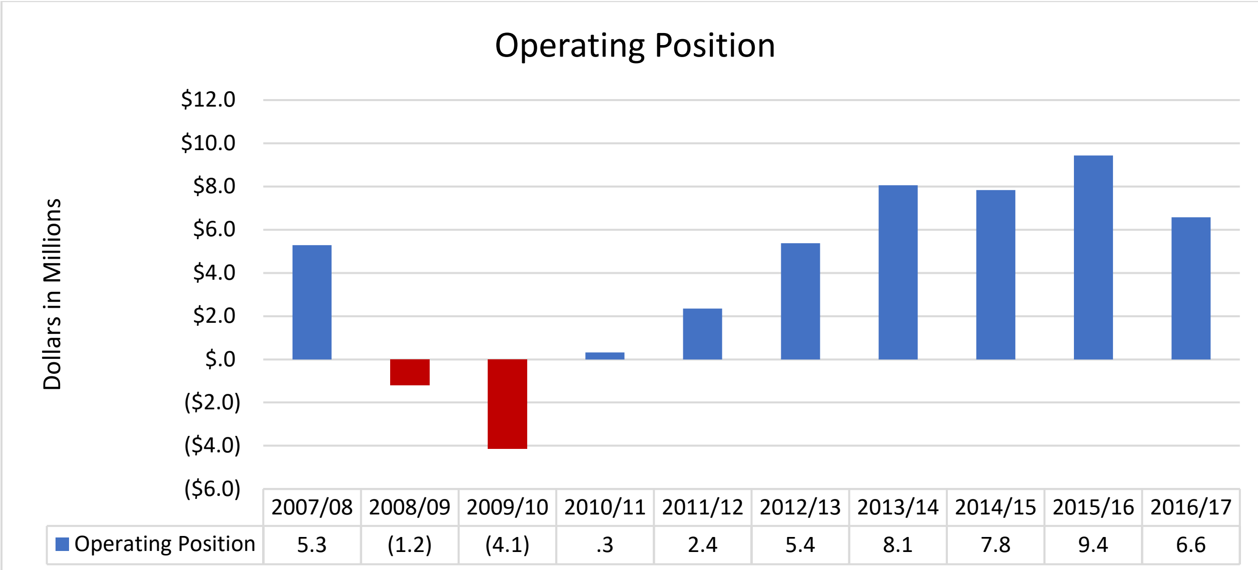
General Fund Operating Position Trend Indicators

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

Indicator 9: Operating Position



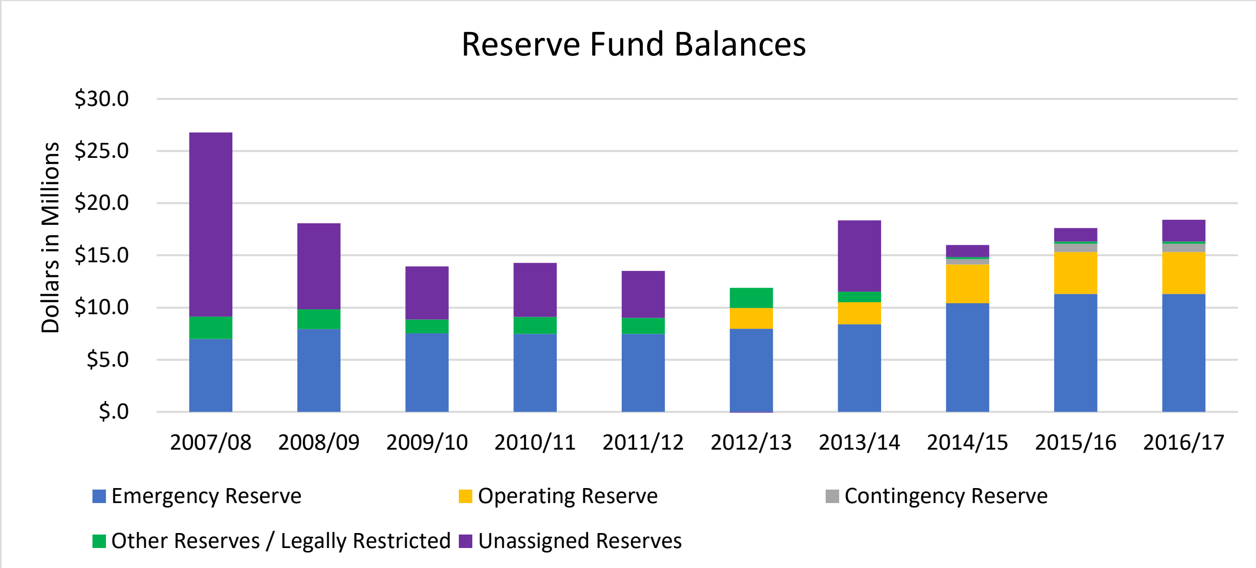
2018 Finding: **Favorable**
2017 Finding: **Favorable**

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. The above calculation excludes transfers to CIP Reserves from the operating expenditures total.

Comments and Analysis
As shown in the graph above, the City has experienced operating surpluses in the last six years.

The 2016 rating of Favorable remains in 2017 due to the City's ability to sustain a positive operating position for the past six years.

Indicator 10: Projected Balance of Reserve Funds



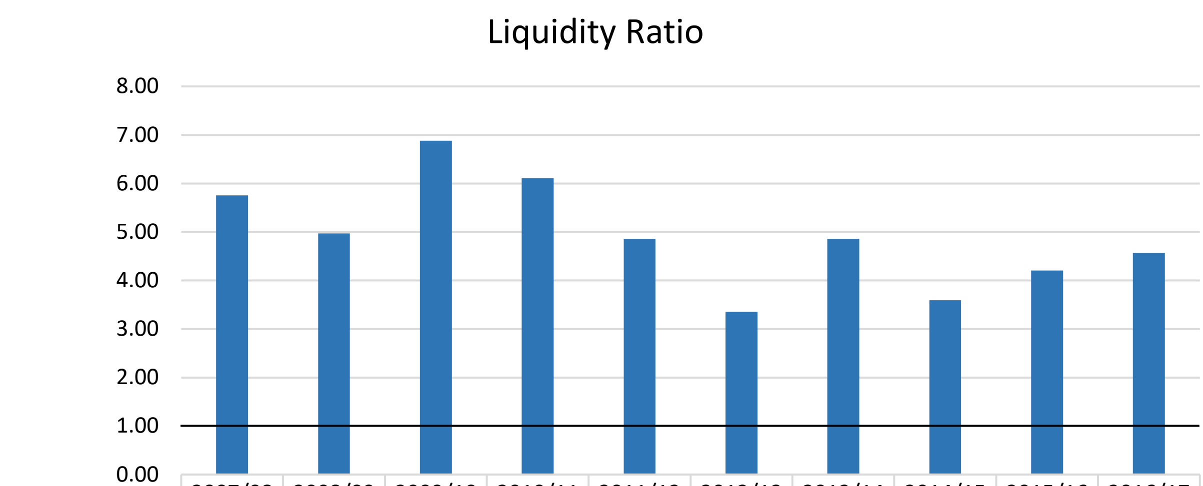
2018 Finding: Favorable
2017 Finding: Favorable

Description
The City has three main reserves available for use in the event of a financial emergency, short-term revenue fluctuations or an economic downturn. The Emergency Reserve, Operating Reserve and Contingency Reserve are funded with the use of fiscal year-end surplus dollars. 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% of operating expenditures) and increased in FY 2014/15 to 14%. Undesignated Fund Balance was used to meet budget shortfalls during the recession.

An adjustment to the Fiscal Policy in June 2013, created an Operating Reserve, and 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. The Operating Reserve is to be maintained at 5% of operating expenditures. The Contingency Reserve has a funding goal of 1% of operating expenditures. All reserves are currently fully funded per fiscal policy.

Indicator 11: Liquidity Ratio



	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Liquidity Ratio	5.75	4.97	6.88	6.11	4.86	3.36	4.86	3.59	4.21	4.57

2017 Finding: **Favorable**
2018 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 4.57 at the end of FY 2016/17, meaning the City's General Fund has enough current assets to cover its current liabilities more than four times over.