2013 Long Term Financial Plan
Trends and Forecast Analysis

I: INTRODUCTION

This document is the City of Napa's Long Term Financial Plan (LTFP). Staff regularly updates the plan to provide an economic outlook to assist in planning for a successful future for the City of Napa. The entire City organization is committed to do all that is necessary to develop and stabilize our financial base because a strong financial foundation is essential to the provision of critical services to the community. In an environment of economic uncertainty, financial planning is always a prudent activity, and maintenance of the LTFP is essential to sound fiscal management. In general, budgetary problems will result when revenues do not keep pace with expenditures, but there is more to financial planning than trying to keep the budget in balance. As we begin the reinstatement of the programs or services that were impacted by the recent financial recession, the LTFP will provide the strategic foundation to comprehensive understanding of all of the trends to ensure the restoration of programs and services meet both the near-term needs and long-term goals of the community.

Although financial plans are only as good as the assumptions and data utilized in establishing them, the development of a sound strategic plan will always be crucial to successful management of the City's resources.

Purpose of the Long Term Financial Plan

The LTFP takes a forward look at the City's General Fund operating revenues and expenditures. Its purpose is to identify financial trends, shortfalls, opportunities and issues so the City can proactively address them. It does so by projecting the future fiscal results of continuing the City's current service levels and policies.

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 recovery from the recession that impacted local, state, national and global economies. The City will be considering "strategic recovery" over the next few years to ensure our expenditures and revenues stay in balance while we restore services and programs to meet the needs of 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 2002-03 through FY 2011-12) and forecast including projections for the current fiscal year (FY 2012-13) and looking ahead six years through FY 2018-19.

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 2012 LTFP.

Description/Item	Status	Comments
Bring operating revenues and expenditures into alignment	Complete	The City adopted changes to the FY 2012-13 Budget during the Mid-Cycle review which restored the structural balance to the Operating Budget.
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 funding sources for infrastructure, deferred maintenance and restoration needs. Specific projects will be proposed in accordance with the plans, as funding allows.
Labor cost containment alternatives	Complete	The labor groups agreed to concessions through negotiations on existing MOUs to stabilize the City's exposure to rising benefit costs. These concessions played a critical role in the City's ability to structurally balance the Operating Budget in FY 2012-13 and in the future.
Impact of new development on service delivery and financial position	In Process	Specific projects will be proposed in accordance with the various plans (Parks, Streets, Public Works) as funding allows. The loss of Redevelopment Agency Funds will impact the City's ability to fund infrastructure to support development without pursuing the use of other funding tools.
Service delivery options	In Process	Providing complete, yet cost efficient services will be the focus as we begin to restore services and programs impacted by the recent recession.
Funding for capital equipment and major maintenance	In Process	The guidelines established by ICMA indicate that a city should spend roughly 1.5% of operating expenditures on capital outlay. The City is currently well below this target. The City will consider establishing a reserve to fund capital equipment and major maintenance activities during the FY 2013-14 & FY 2014-15 biennial budget review.

Description/Item	Status	Comments
Consider various options of sharing resources with other local entities	Complete	A study was completed considering the option of consolidation of services / sharing of resources. The results identified numerous examples of service sharing already underway, but no additional consolidation efforts were identified.
Opportunities for revenue development	In Process	The User Fee Study is nearing completion and will be implemented in FY 2012-13. Council review of fees scheduled for Spring, 2013.

II: FISCAL POLICY

Objective

To review the City's Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.

Background

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

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

GFOA further recommends that the adopted Fiscal Policy be reviewed on an annual basis in conjunction with the preparation of the Long Term Financial Plan and the City's budget process. This review is performed by staff in order to document proposed new policies identified through the preparation of the Long Term Financial Plan. No revisions to the Fiscal Policy Statements are being proposed at this time.

Fiscal Policy Statement	Status	Comment
General Financial Goals		
To maintain and enhance the sound fiscal condition of the City.	√	Upgraded from "-" in FY2012 LTFP. The 2012-13 Budget, as amended during the Mid-Cycle review has a positive operating position.
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.	√	
Legend: √ = *Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		
Operating Budget Policies *(Cont'd)*		

Fiscal Policy Statement	Status	Comment
Current revenues will be sufficient to support current operating expenditures.	√	Upgraded from "-" in FY2012 LTFP. The 2012-13 Budget as amended during the Mid-Cycle review has a positive operating position.
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.	√	Upgraded from "-" in FY2012 LTFP. The City's equipment replacement schedule has been completed, and will serve as the foundation for the budget requests in the next budget cycle.
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.	√	
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.	√	
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.	√	

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

Fiscal Policy Statement	Status	Comment
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.	--	The User Fee study is nearing completion. Consideration by the Council scheduled for Spring 2013.
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.	√	
Expenditure Policies		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
The City shall contract with outside consultants for peaks in workload, when a project is limited in term and/or scope, or when specialized expertise is necessary and it is more cost-effective to hire a consultant than add a full-time staff position. Conversely, for longer term needs (3-5 years) and when it becomes more cost-effective, the City shall consider adding full-time staff.	√	
Legend: √ **=** *Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

Fiscal Policy Statement	Status	Comment
Capital Improvement Budget Policies		
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 Capital Project Fund – 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.	√	
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.	√	
Legend: √ **=** *Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

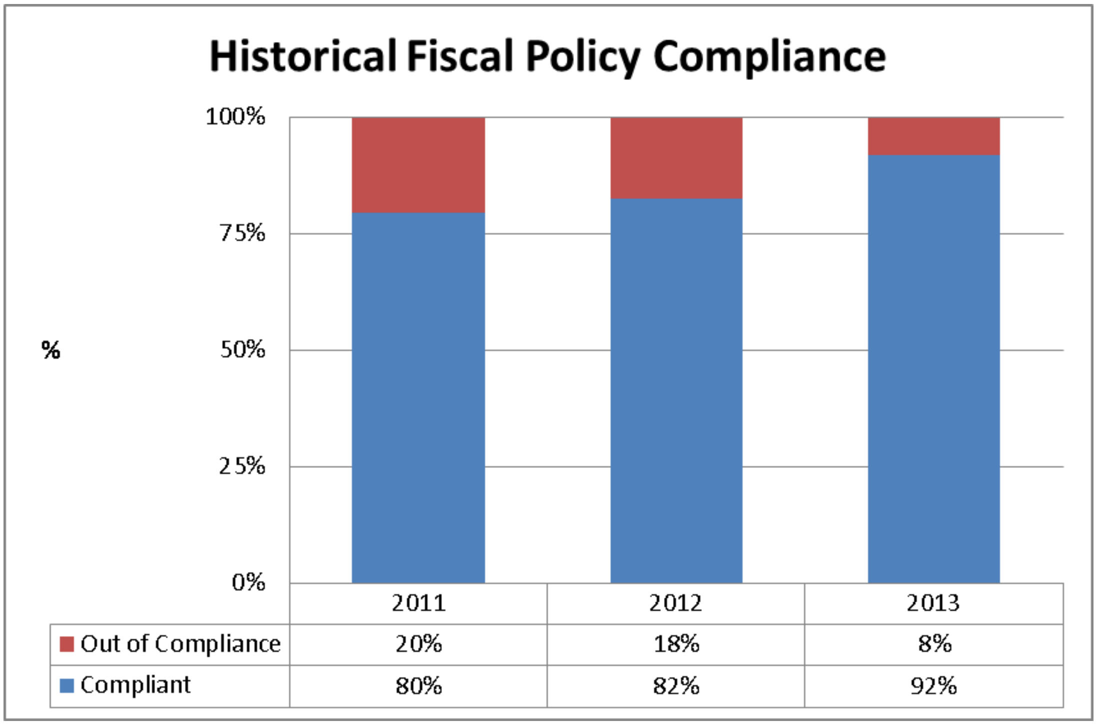
Fiscal Policy Statement	Status	Comment
Debt Policies (*Cont'd.)*		
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, inter-fund loans or other self-supporting bonds instead of 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 General Fund Undesignated Fund Balance (Operating Reserve) will be maintained at a level of between 2% - 5% of its operating budget. GFOA recommends a level of 5% to 15% in total reserves, including the Emergency Reserve. The City will transfer Undesignated Fund Balance (Operating Reserve) in excess of 5% of the operating budget to one time expenditure accounts like Reserves or Capital Projects as reviewed and approved by the Council. This transfer will be completed each year after the audit of the Financial Statements is complete.	√	Upgraded from "-" in FY2012 LTFP. The 2012-13 Budget as amended during the Mid-Cycle review has a positive operating position, and will not require the use of reserves to support normal, budgeted operating activities.
The City will maintain General Fund Emergency reserves at a level at least equal to 12% of budgeted operating expenditures. The primary purpose of these reserves is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unanticipated or emergency expenditures, such as a natural disaster, that could not be reasonably foreseen during preparation of the budget. The use of the General Fund Emergency Reserve must be approved by City Council.	√	Upgraded from "-" in FY2012 LTFP. The 2012-13 Budget as amended during the Mid-Cycle review has a positive operating position, and will not require the use of reserves to support normal, budgeted operating activities.
A Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of the Contingency Reserve will be established as needed but shall not be less than 1% of General Fund operating expenditures.	--	The Contingency Reserve for FY 2012-13 is currently $200,000 which is under the $622,000 policy level (1% of Operating expenditures.) Compliance is projected to be achieved through $100K annual increases over the next six years.

Fiscal Policy Statement	Status	Comment
Reserve/Fund Balance Policies – *(Cont'd)*		
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.	√	
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.	√	Upgraded from "-" in FY2012 LTFP. The Self-insurance reserves for FY 2012-13 meet the 80% confidence level target.
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 (Operating Reserve).	√	The City will consider a revision to this policy during the FY2013-14 & FY 2014-15 biennial budget review. This revision will include the establishment of an annual target and the proposal of a new Reserve policy for Equipment Replacement / Maintenance (with a target level of 1.5% of the Operating Budget).
The City will maintain a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level adequate to replace all stock, per the pre-determined replacement schedule.	--	The methodology for the recovery of fleet replacement costs has been revised The reserve balance will be increased over the next budget cycle through increased fleet recovery rates to obtain the necessary reserve requirements.
Legend: *√ = Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

Fiscal Policy Statement	Status	Comment
Reserve/Fund Balance Policies *(Cont'd.)*		
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.	√	
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 establish a Golf Course Operating Reserve to cover costs during a year when revenue is down due to limited play or adverse conditions. The reserve should be funded at a level at least equal to 10% of operating expenditures.	--	The Golf Course Fund is negative at the end of 2012-13 due to continued economic challenges. The Operating Reserve is not projected to be funded in this budget cycle.
The City will maintain a Rate Stabilization Reserve in the Solid Waste Fund. This reserve will be funded at a level of 5% of collection revenues to stabilize collection rates to avoid wide swings in rates over time.	√	
Legend: √ **=** *Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

Fiscal Policy Statement	Status	Comment
Reserve/Fund Balance Policies *(Cont'd.)*		
The City will maintain a Solid Waste/Materials Diversion Operating Reserve to cover unforeseen revenue shortfalls, increases in expenses, and potential environmental compliance expenditures. This fund does not have a separate "emergency reserve", and market volatility, emergency/disaster incidents and other circumstances would present immediate cash flow issues. Therefore, the reserve should be funded at a level of 25% of operating expenditures, which excludes contributions to reserves, the Street Resurfacing Program, capital projects, and debt service.	√	The Solid Waste and Materials Diversion Operating Reserve is fully funded in compliance with the Fund's established Fiscal Policy. It is anticipated funds in excess of 25% (or lower minimum threshold if approved by Council action) will be needed to help fund several Capital Improvement upgrades at the City's Materials Diversion Facility including new composting, renewable energy and storm water systems
The City will maintain a Capital Replacement Reserve in the Solid Waste Fund to provide for major renovation, modernization and/or rebuilding of the Napa MDF. This reserve is for projects that exceed $250,000 in any given year, as set in policy approved by City Council.	√	
The City will maintain a Capital Maintenance Reserve in the Solid Waste Fund to pay for planned capital improvement program repairs and maintenance at the Napa MDF. This reserve is for projects that do not exceed $250,000 in any given year, as set in policy approved by City Council.	√	
The City will maintain a Liability Reserve in the Solid Waste Fund to fund liabilities of the City for items related to the Solid Waste Fund. These include the final fulfillment of the City's legal obligations with regard to construction of the passive Hidden Glenn Park (site formerly referred to as Coombsville Dump).	√	
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.	√	
Legend: *√ = Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		

Fiscal Policy Statement	Status	Comment
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.	--	Independent audited Basic Financial Statements are now prepared. A full CAFR is currently being prepared for FY 2011-12.
Legend: √ **=** *Budget Complies with Fiscal Policy Standard, -- = Fiscal Policy Standard is not met in Budget, + = New / Revised Fiscal Policy*		



The above graph tracks the City's compliance with their fiscal policies. Both the FY 2011 and 2012 LTFP updates reflected the City's compliance at 80% and 82% respectively. In the current update, compliance was increased by 10% to 92%, due mainly to the continued economic recovery and the budget adjustments made during the mid-cycle review (June 2012) which moved the city's into a positive operating position.

III: FINANCIAL TREND ANALYSIS

Objective

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

Background

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

- The economic condition of the City;
- Types and amounts of revenues and whether they are sufficient and have the right mix to support the constituents of the City;
- Expenditure levels and whether these expenditures are sufficient to provide the citizens of Napa with the desired level of services in the future, especially considering the City's diversity of programs;
- Fund balances and reserve levels and whether they are sufficient to protect the City against an economic downturn and /or natural disaster.

Three major areas of the General Fund analyzed include:

General Fund Revenues	The accumulation of financial resources that fund those services that have the greatest impact upon the citizens of Napa including police, fire, public service and maintenance, and recreation.
General Fund Expenditures	The application of financial resources towards the cost of providing the services of police, fire, public service and maintenance, recreation, and other services.
General Fund Operating Position	The ability of the City to balance current revenues with current expenditures, maintain adequate reserve levels, and to cover short-term liabilities.

Additional indicators affecting General Fund operations will also be analyzed as part of this report.

The FY 2002-03 through FY 2011-12 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 have been able to make it through a national recession and still stay focused on serving the community. However, we must remain cautious as the recovery is erratic, and we want to ensure we remain in a positive operating position, while still restoring as many programs and services as financially possible. Benefit costs (e.g. health insurance, pension costs) continue to be a concern as increases are projected to continue, and the State's fiscal health has not fully stabilized, even with the tax increases approved by voters in November, 2012. As the city and the nation begin the long recovery process, it is more important than ever to utilize tools such as the Long Term Financial Plan to make prudent financial decisions in both the near and long term.

The City's General Fund operating revenues increased for the second 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 $3.4 million between FY 2010-11 and FY 2011-12. The most significant increase was in Transient Occupancy Tax (TOT) revenues, which showed an increase of 16% ($1.63 Million) over FY 2010-11 receipts. Additionally, Sales Tax also rebounded by approximately 6% over FY 2010-11 ($0.65 Million) and Property tax also showed a healthy increase of 4% ($1.0 million) due to increased real estate activity.

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

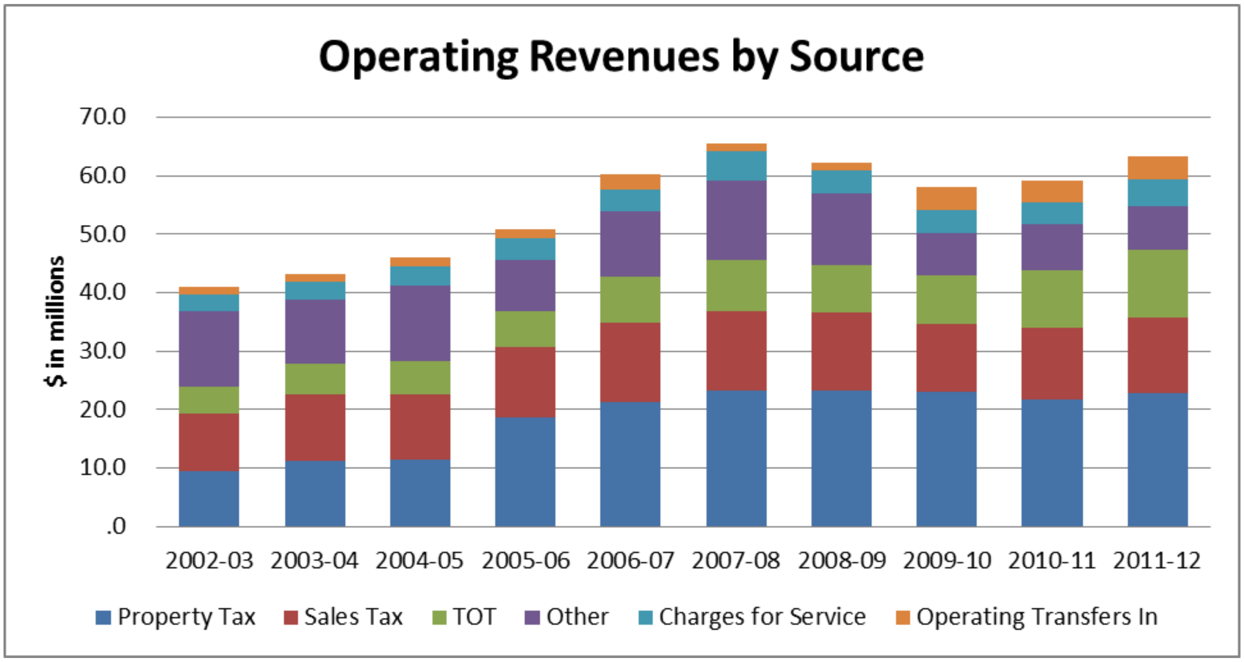
In summary, although the City experienced economic growth, the demand for city provided public services also continues to expand. Due to long range fiscal planning, ongoing controls over spending and an advantageous position in a strong economic niche market, the City remains in a relatively positive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

- Strategic program and service restoration needs must be addressed.
- Benefit costs, while still on the rise, are more stable than previous years as a result of labor concessions.
- Deferred infrastructure maintenance costs must be addressed.
- The General Fund contribution to CIP is relatively low (approximately 0.75%), at approximately $0.5 million per year.
- The City is somewhat 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 was improved by the approval of the November 2012 tax initiative, the level of impact to state and local revenues and expenditures is still uncertain. Additionally, the long term ramifications of the dissolution of the Redevelopment Agencies state-wide are unclear.
- Although economists have declared the national recession is over, full-scale recovery has not yet been achieved. The LTFP assumes recovery will continue throughout the plan at a pace of between three and four percent each year beginning in FY 2013-14.

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 81% of revenues generated in fiscal year 2011-12.



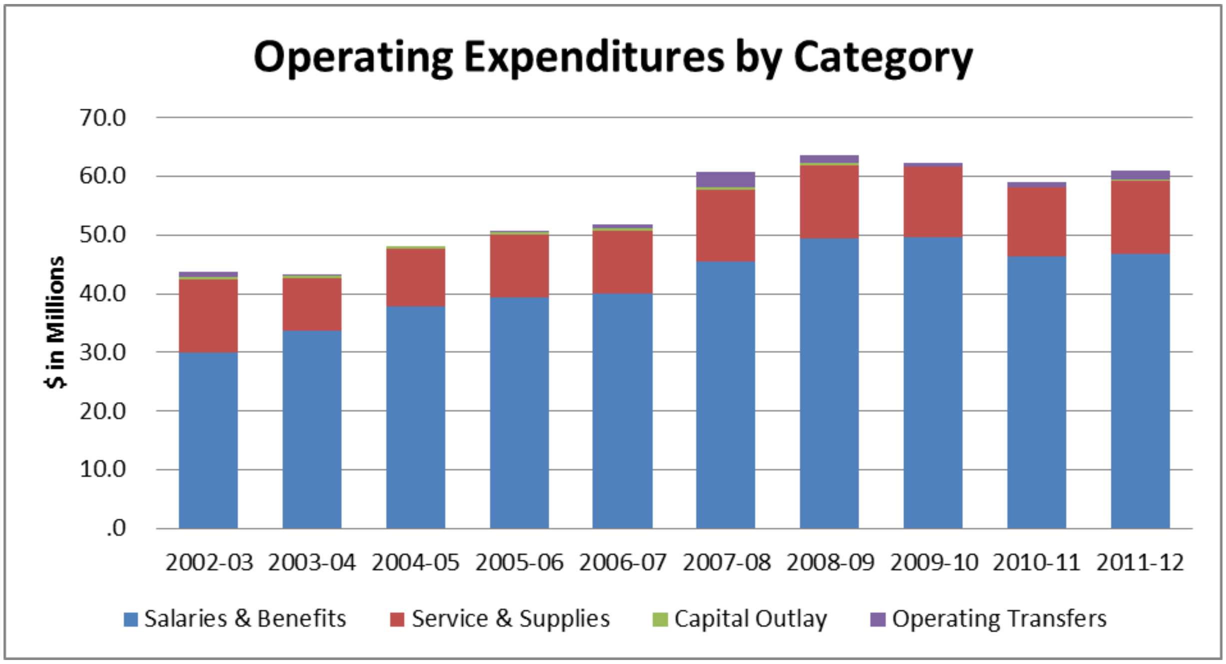
The two largest sources of revenue to the City continue to be property and sales tax. Property tax revenues increased for the second year in a row (after two years of decline related to the recession). Sales tax revenue growth has shown signs of the economic rebound, as the pent up demand from the recession is met. Transient occupancy tax revenue has also rebounded nicely since 2008, reflecting the return of strong tourism demand for Napa. Other Revenue (which includes Business License Fees, Franchise taxes, Interest Earnings, etc.) were impacted by the recession, but have stabilized, and are anticipated to continue recovery over the next few 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 increased 3.4%, ($2.0 million) to $61.0 million from the prior year (FY 2010-11). Additionally, the City established a $3.1 million "Redevelopment Set-Aside" 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. This transfer, which occurred from one-time funds, has been excluded from the LTFP Analysis due to the unique nature of the transfer.

Of the $2.0 million increase, salary and benefit costs increased slightly ($0.5 million), materials and services expenditures increased by $0.9 million, and other expenditures and transfers increased by $0.6 million.

The following chart compares expenditures by category for the fiscal years 2002-03 through 2011-12.



The composition of General Fund operating expenditures for salaries and benefits have stabilized over the past two years due to the recent negotiations. 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, the most significant increase was in the cost of employee costs (salaries & benefits), which increased approximately 60% between FY 2002-03 and FY 2011-12.

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 15 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. Eight of the ratings between 2012 and 2013 were upgraded, reflecting the easing of recession pressures.

Indicator	2011	2012	2013
Revenues per Capita	C	C	C
Property Tax Revenues	W	W	C
Sales Tax Revenues	C	C	F
Transient Occupancy Tax Revenues	F	F	F
Business License Tax Revenue	W	W	C
Elastic Revenues	W	W	C
Expenditures Per Capita	C	C	C
Authorized Positions per Capita	C	C	C
Fringe Benefits as a Percentage of Operating Expenditures	U	U	C
Salary Expenditures as a Percentage of Operating Expenditures	F	F	F
Capital Outlay as a Percentage of Operating Expenditures	W	W	W
Operating Position	U	U	C
Unreserved Fund Balance / Emergency Reserve as a percentage of Budgeted Operating Expenditures	U	U	F
Liquidity Ratio	F	F	F
Debt Service	F	F	F
Assessed Property Value	U	U	W
Population	F	F	F

Indicator Number	Description	Finding	Comments
General Fund Revenues			
1	Revenues Per Capita	C	Revenues per capita (constant dollars), excluding nonrecurring revenues, increased between 2003, from $443 to $612 in 2008. FY 2009 through FY 2011 revenues were significantly impacted by the recession, with 2012 showing some positive signs of recovery.
2	Property Tax Revenues	C	FY 2011-12 reflected an increase of 4.5% due to returning activity in the real estate market. The County Assessor current indicates a steady recovery is projected for FY 2013-14 and forward.
3	Sales Tax Revenues	F	Napa's sales tax revenue tends to follow economic cycles. Sales Tax receipts showed a second consecutive year of increase in FY 2011-12 as the recession eased, and tourism rebounded.
4	Transient Occupancy Tax Revenues	F	Transient Occupancy Tax receipts were down between FY 2007-08 and FY 2008-09 due to the recession, and then flattened out through FY 2009-10. In FY 2010-11 and FY 2011-12 the City experienced a rise in tourism, resulting in an increase of 40% since FY 2009-10.
5	Business License Tax Revenue	C	Business license tax revenues are based on gross receipts of individual businesses. Revenues took a sharp turn downward in FY 2009-10 as the business community reacted to the national recession. Receipts in FY 2010-11 and FY 2011-12 have stabilized.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

General Fund Revenues - *(Cont'd.)*			
6	Elastic Revenues	C	Elastic revenues are those that vary directly with fluctuations in the economy. As the City's property tax revenue has been impacted from the recession's impact on property values, the City has become more dependent on elastic revenues such as sales and transient occupancy taxes.
General Fund Expenditures			
7	Expenditures Per Capita	C	Although positive measures were taken in response to the economic recession through labor concessions, retirements and departmental organizations to minimize the impact of revenue constraints, there is a risk of under investing in the City's infrastructure which could result in service disruption or unplanned repairs.
8	Authorized Positions Per Capita	C	Authorized positions per capita have declined since 2008-09, and we are now at the point where staff and expenditure reductions are impacting our service levels. As economic recovery continues, the City needs to be ready to increase staff to ensure community needs are met.
9	Fringe Benefits as a Percentage of Operating Expenditures	C	Fringe benefit costs as a percentage to the city's total operating expenditures has experienced a significant increase over the past 10 years, however recent negotiations with bargaining units have capped the City's exposure to additional increases for the near-term.
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 7 years.
11	Capital Outlay as a Percentage of Operating Expenditures	W	A rating of Warning has been assigned to this indicator as the City may be at risk of foregoing needed capital investment in order to meet budget challenges.
F: Favorable	*C: Caution*	*W: Warning*	*U: Unfavorable*

General Fund Operating Position			
12	Operating Position	C	The City adopted fiscal policies include a goal that current revenues will be sufficient to support current operating expenditures.
13	Unreserved Fund Balance/Emergency Reserve as a percentage of Budgeted Operating Expenditures	F	The forecast indicates that the Undesignated Fund Balance (Operating Reserve) goal of 2% to 5% will remain fully funded through the life of the plan.
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	W	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	C	12.	Operating Position	C
2.	Property Tax	C	13.	Fund Balance/Reserves	F
3.	Sales Tax	F	14.	Liquidity	F
4.	Transient Occupancy Tax	F	15.	Debt Service	F
5.	Business License Tax	C			
6.	Elastic Revenues	C			
Expenditure Trends			**Additional Indicators**		
7.	Expenditure/Capita	C	16.	Assessed Property Value	W
8.	Authorized Positions/Capita	C	17.	Population	F
9.	Fringe Benefits	C			
10.	Salary Expenditure	F			
11.	Capital Outlay	W			

Rating Changes

There were eight positive trend changes from the last fiscal year. These changes are a result of the recession easing and the economic recovery becoming more stable.

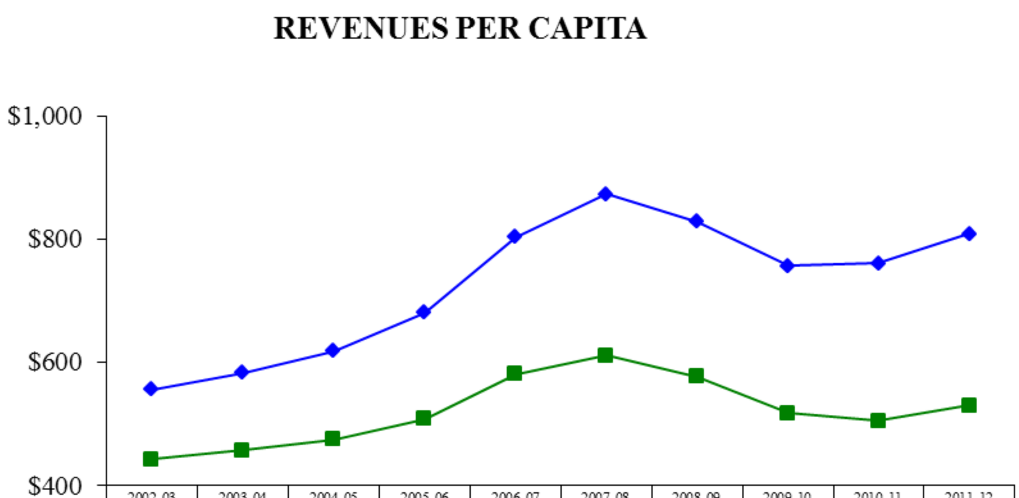
General Fund Revenues

General Fund revenues finance the majority of the daily operations of the City. As a result, changes in revenue levels and composition of these revenues will have a significant impact on the City's ability to provide services to the citizens of Napa. The dollar amount received is important, but the type of revenue received also plays an important role in the financial stability of the City. Revenues should be balanced between those that change as the economy shifts (elastic) and those that flow independently of economic activity (inelastic). General Fund revenues should also come from diverse sources within the community and be sufficiently flexible to finance expenditures as the needs of the City change.

The following section evaluates six indicators used to determine the financial condition of the City's revenue base. A detailed revenue analysis is provided for the following indicators:

- Revenues Per Capita
- Property Tax Revenues
- Sales Tax Revenues
- Transient Occupancy Tax Revenues
- Business License Tax Revenues
- Elastic Revenues as a Percentage of Operating Revenues

Indicator 1: Revenues Per Capita



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Actual Dollars	557	583	619	680	803	873	828	757	761	809
Constant Dollars	443	458	476	508	581	612	577	518	506	530

2013 Finding: **Caution**
2012 Finding: **Caution**

Description

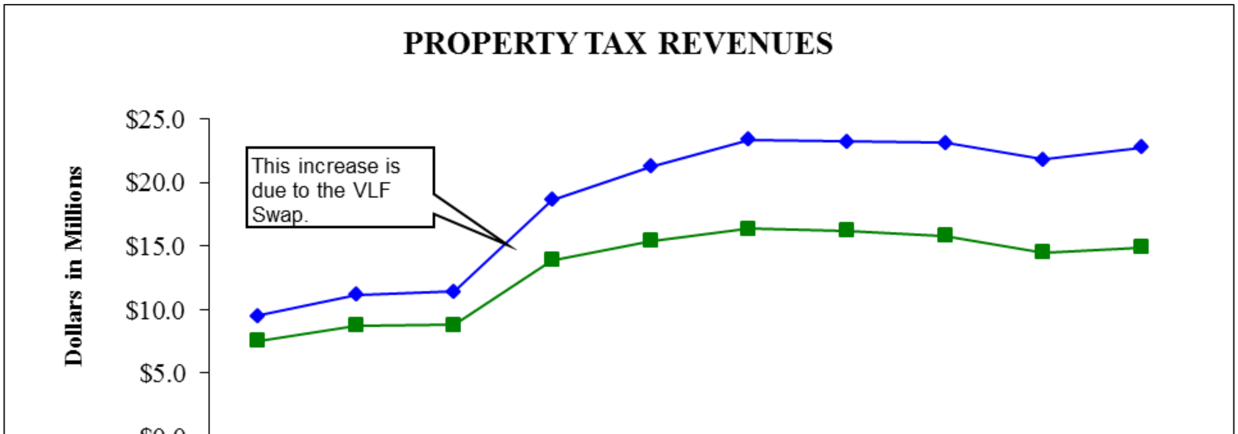
Revenues per capita in constant dollars are a measure of the City's ability to maintain current service levels. Constant dollars reflect the real changes in operating revenue after adjusting for inflation. An increase in constant dollar revenues normally means a city will be able to respond positively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

Comments and Analysis

Overall revenues per capita (constant dollars), excluding nonrecurring revenues, increased between FY 2002-03, from $443 to $530 in FY2011-12. The strong increases in 2007 and 2008 were related to an increase in property tax and transient occupancy tax revenues. FY 2008-09 through FY 2010-11 revenues were significantly impacted by the recession, with FY 2011-12 showing positive signs of recovery.

The 2012 rating of Caution continues in 2013 for this indicator until the recovery from the recession becomes more established (e.g. positive growth in constant dollars for two years).

Indicator 2: Property Tax Revenues



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Actual Dollars	9.49	11.16	11.44	18.64	21.27	23.37	23.25	23.11	21.82	22.79
Constant Dollars	7.55	8.76	8.79	13.92	15.39	16.37	16.20	15.81	14.50	14.93

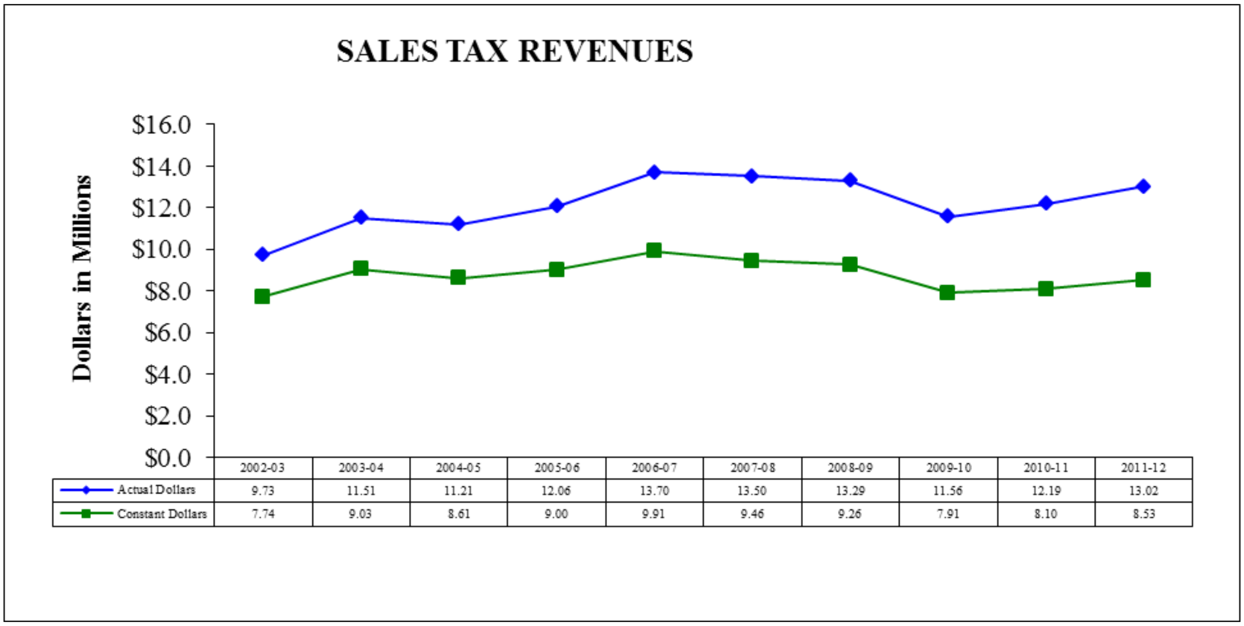
2013 Finding: **Caution**
2012 Finding: **Warning**

Description
Property tax revenues are evaluated over time to measure the City's economic health. Constant dollars are examined in order to evaluate that part of the change that is not due to inflation. Property taxes are the City's largest source of revenue 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 2011-12 reflected an increase of 4.5% (approximately $1.0 million) in property tax revenue. Furthermore, a steady recovery is projected for FY 2012-13 and forward. The significant growth for FY 2005-06 resulted from property taxes received in exchange for permanently lost Vehicle License Fee (VLF) revenue.

The 2012 rating of Warning has been upgraded to Caution in 2013 for this indicator based on recovery in the Napa Valley real estate market. The indicator will be upgraded to "Favorable" after showing consistent growth for two years.

Indicator 3: Sales Tax Revenues



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Actual Dollars	9.73	11.51	11.21	12.06	13.70	13.50	13.29	11.56	12.19	13.02
Constant Dollars	7.74	9.03	8.61	9.00	9.91	9.46	9.26	7.91	8.10	8.53

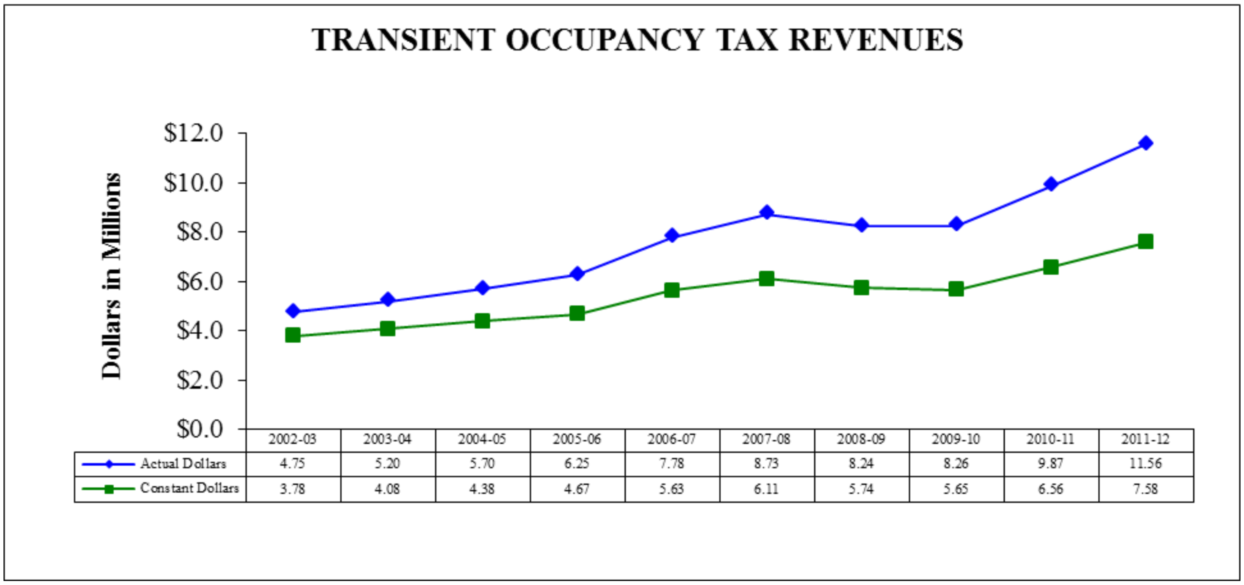
2013 Finding: **Favorable**
2012 Finding: **Caution**

Description
Sales tax revenue is a strong indicator of the city's economic health. Sales taxes are the City's second largest source of revenue (21%) and are elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the sales tax revenue changes not related to inflation. The State Board of Equalization levies the sales tax on most retail sales with principal exemptions applying to sales of food for home consumption and prescription drugs. The overall Napa County sales tax rate is 7.75%, of which the City receives the 1% local portion. The city also receives a portion of the 0.5% earmarked for public safety as mandated by the State (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. FY2007-08, however, began a decline that continued through FY 2009-10. Sales Tax receipts showed an increase in both FY 2010-11 and FY 2011-12 as the recession eased.

The 2012 rating of Caution has been upgraded to Favorable in 2013 for this indicator due to the second consecutive year of recovery from the recession.

Indicator 4: Transient Occupancy Tax Revenues



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Actual Dollars	4.75	5.20	5.70	6.25	7.78	8.73	8.24	8.26	9.87	11.56
Constant Dollars	3.78	4.08	4.38	4.67	5.63	6.11	5.74	5.65	6.56	7.58

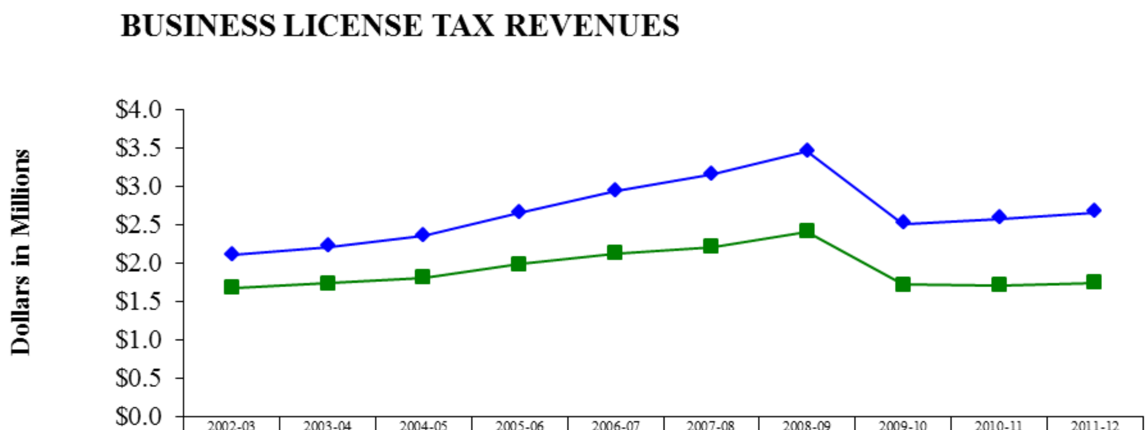
2013 Finding: **Favorable**
2012 Finding: **Favorable**

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 (18%) and is elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the tax revenue changes not related to inflation. The City of Napa levies the tax on rooms at hotels, motels, bed and breakfasts and vacation rentals within the City. The tax rate is 14%, of which the City receives 12%.

Comments and Analysis
Napa's transient occupancy tax revenue is heavily dependent on the tourism industry and therefore tends to follow economic cycles. Revenues increased through FY 2007-08, particularly with the development of new hotel properties in the City. Transient Occupancy Tax receipts were down between FY 2007-08 and FY 2008-09 due to the recession, and then flattened out through FY 2009-10. Overall the decline in FY 2008-09 was relatively minor compared to the more significant impact the recession had on other City revenues. The City experienced a rise in tourism in both FY 2010-11 and FY 2011-12.

The 2012 rating of Favorable continues in 2013 reflecting strong recovery of TOT receipts.

Indicator 5: Business License Tax Revenues



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Actual Dollars	2.10	2.21	2.35	2.65	2.93	3.15	3.45	2.51	2.57	2.66
Constant Dollars	1.67	1.73	1.81	1.98	2.12	2.20	2.40	1.72	1.71	1.74

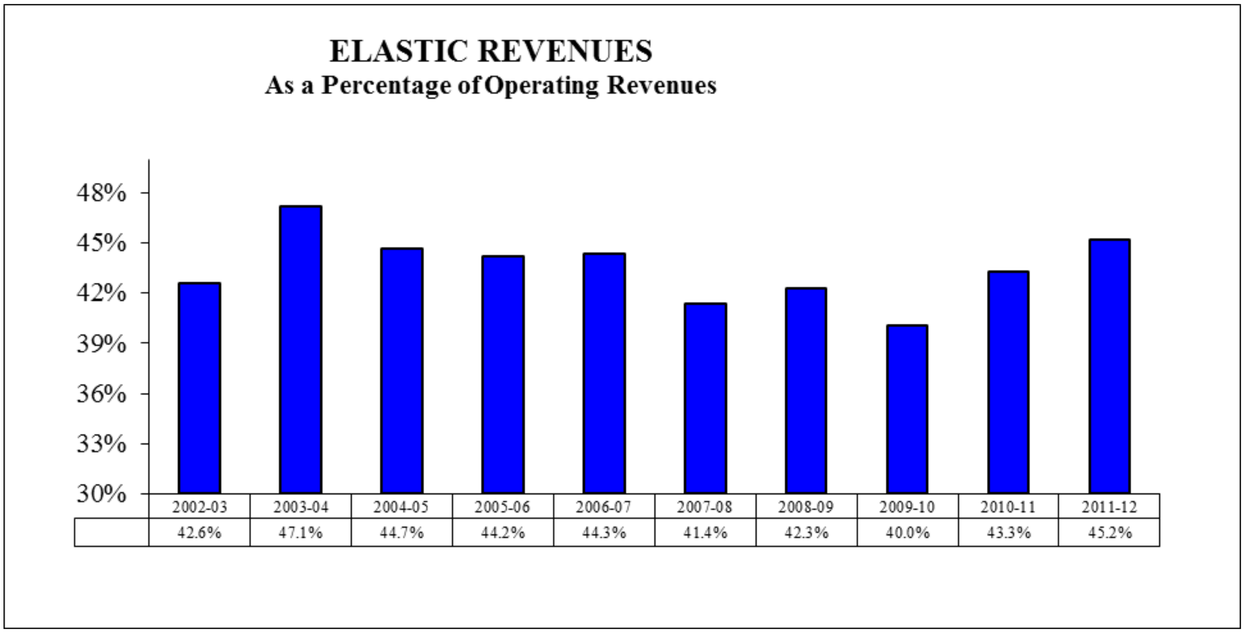
2013 Finding: Caution
2012 Finding: Warning

Description
Business license tax revenue accounts for approximately (4%) of the City's revenues, and is a good indicator of the City's economic health. Constant dollars are utilized in evaluating the part of the change not related to inflation. This tax is generally based on gross receipts of individual business within the City. Much like sales tax revenues, business license tax revenues are relatively elastic as they vary directly with changes in the economy.

Comments and Analysis
The positive trend from FY 2001-02 through FY 2008-09 took a sharp turn downward in FY 2009-10 as the business community reacted to the national recession. Receipts were essentially flat in FY 2010-11, and increased by 3.5% ($0.09 million) in FY 2011-12.

The 2012 rating of Warning has been upgraded to Caution in 2013 for this indicator to reflect the recovery from the recession. Further upgrades will be contingent upon the recovery of Business License Tax revenues to pre-recession levels.

Indicator 6: Elastic Revenues



2013 Finding: **Caution**
2012 Finding: **Warning**

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

Comments and Analysis
Elastic revenues as a percentage of operating revenues remained between 40% and 47% between FY 2002-03 and FY 2011-12. Reductions in FY 2007-08 and FY 2009-10 resulted from the national recession, and the city became more reliant on more stable revenue sources (e.g. property tax). Additionally, an emergency reserve policy exists to provide adequate support for core City services through an economic decline spanning two or more years, or in the case of a local emergency, although the City has been cautious against using reserves to ensure they are available for truly devastating natural disasters. As recovery continues and reliance on elastic revenues grows, the City's response should be to build and maintain stronger reserves.

The 2012 rating of Warning has been upgraded to Caution in 2013 for this indicator to reflect the recovery from the recession.

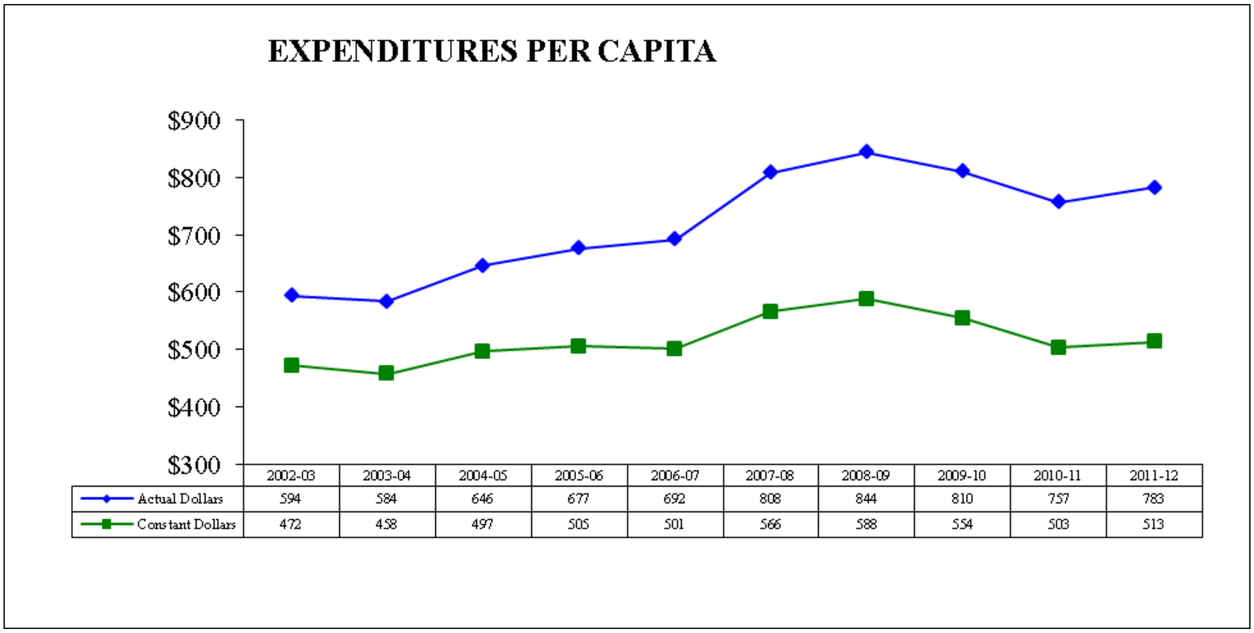
General Fund Expenditures

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



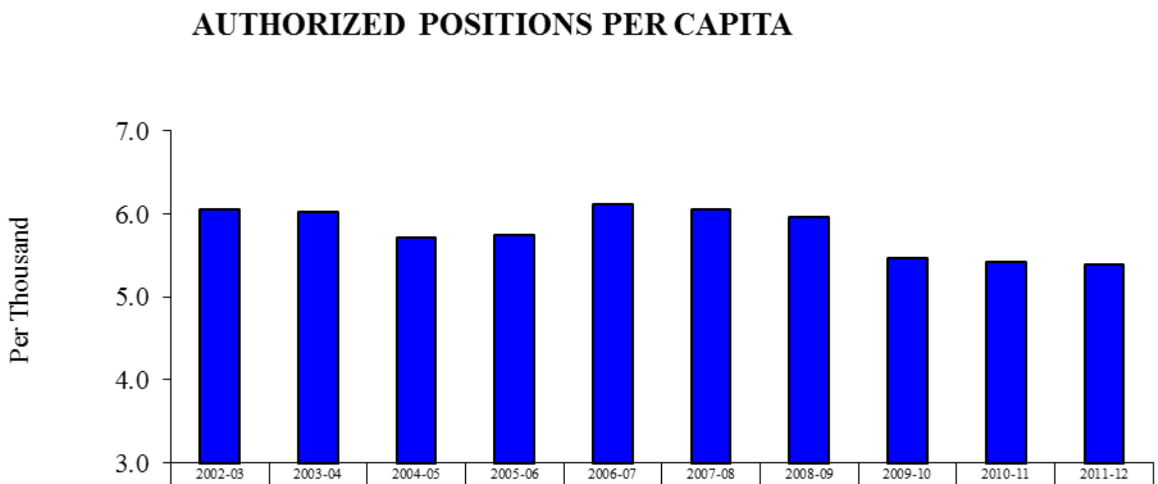
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Actual Dollars	594	584	646	677	692	808	844	810	757	783
Constant Dollars	472	458	497	505	501	566	588	554	503	513

2013 Finding: **Caution**
2012 Finding: **Caution**

Description
Expenditures per capita demonstrate the change in expenditures relative to the change in population. This indicator analyzes the demand for City services as the population changes. Increasing per capita expenditures may indicate the costs of maintaining existing service levels are rising or service levels are changing to reflect new demands. A decrease in expenditures per capita could signal the City's inability to maintain current service levels, or that the City is maintaining current service levels with added efficiency.

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

Indicator 8: Authorized Positions Per Capita



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	6.1	6.0	5.7	5.7	6.1	6.1	6.0	5.5	5.4	5.4

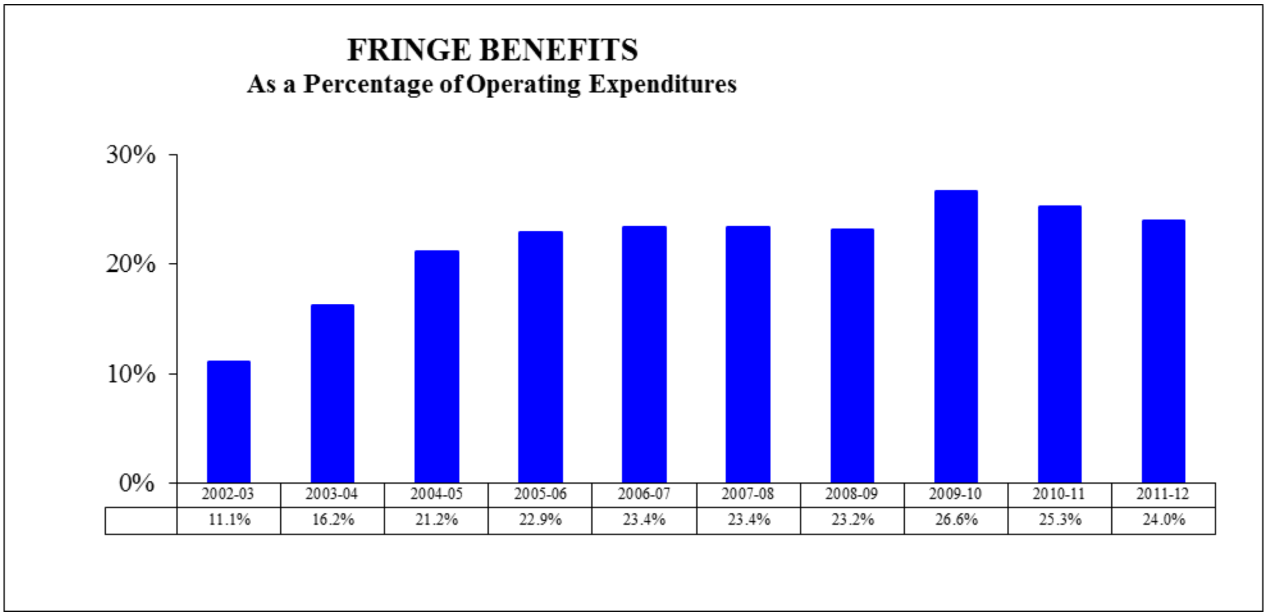
2013 Finding: Caution
2012 Finding: Caution

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

Comments and Analysis
Authorized positions per capita have declined since 2008-09, and we are now operating at a minimum staffing level, resulting in longer response time to citizen requests and ultimately negatively impacting service levels. As economic recovery continues, the City needs to be ready to increase staff to ensure community needs are met.

The 2012 rating of Caution continues in 2013 for this indicator until the recovery from the recession becomes more established and authorized positions are able to be restored.

Indicator 9: Fringe Benefits as a Percentage of Operating Expenditures



2013 Finding: **Caution**
2012 Finding: **Unfavorable**

Description

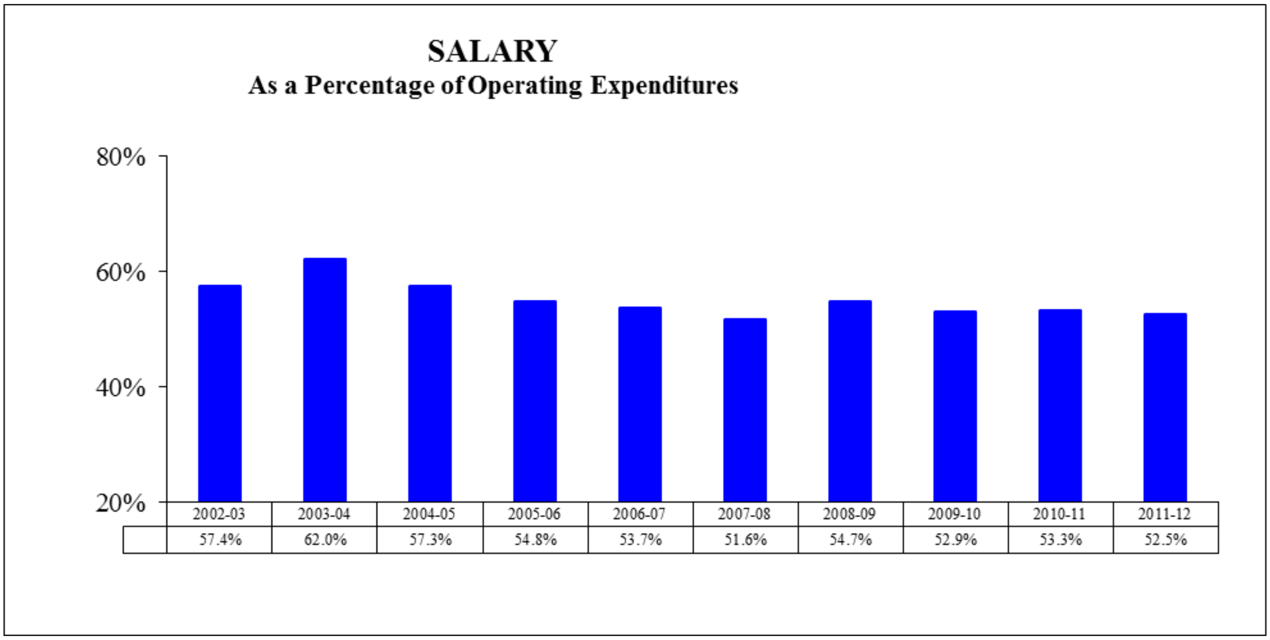
Fringe benefits include the City's share of payroll taxes, pension plan costs, medical, life and disability insurance, and workers' compensation funding. Fringe benefits are directly related to salaries and wages, so changes in the percentage rate reflect a change in the benefits package or the City's cost in maintaining its benefits.

Comments and Analysis

Fringe benefit costs as a percentage to the City's total operating expenditures has experienced a significant increase between FY 2002-03 and FY 2011-12. The increases peaked in FY 2009-10, and have been decreasing over the past two years due to the adjustment of Retiree Medical packages and labor concessions.

The 2012 rating of Unfavorable has been upgraded to Caution in 2013 for this indicator due to the completion of labor negotiations and the concessions agreed to by the bargaining units for the current contract. These agreements bring more stability to costs through increased cost sharing and employee incentives to control the increased cost of benefits.

Indicator 10: Salary as a Percentage of Operating Expenditures



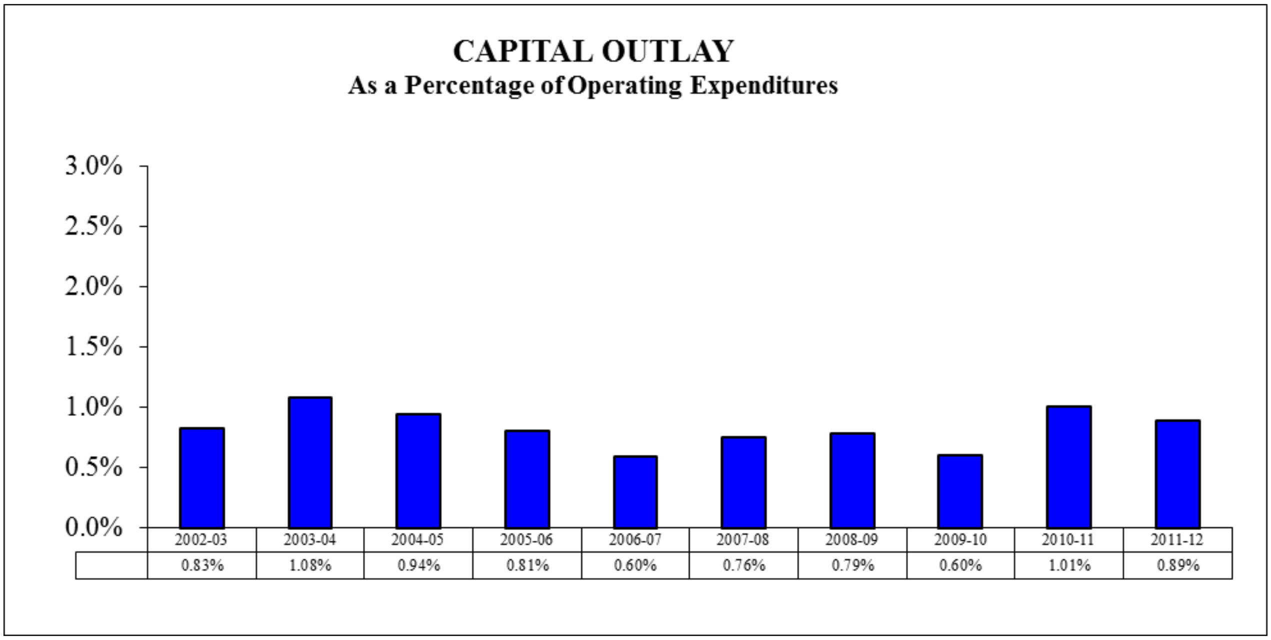
2013 Finding: Favorable
2012 Finding: Favorable

Description
These expenditures include salary and wages paid to regular, part-time, and temporary staff and represent over 50% of General Fund disbursements. Any changes in salary expenditures will have a material impact on the City's finances.

Comments and Analysis
Salary expenditures as a percentage of operating expenditures has remained relatively stable over the past seven years, decreasing slightly due to the deferral of Cost of Living adjustments and the reduction in the number of employees. Since FY 2005-06, the impact of salary (as a percentage of operating expenditures) has been essentially flat, decreasing from 54.8% to 52.5% in FY 2011-12. Continued monitoring of this indicator is warranted since these expenditures represent the largest category of General Fund operating costs.

The 2012 rating of Favorable continues in 2013 for this indicator as the consistency over ten years demonstrates active management of salary costs.

Indicator 11: Capital Outlay



2013 Finding: **Warning**
2012 Finding: **Warning**

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

Comments and Analysis
Spending on capital outlay has been inconsistent, ranging from a low of 0.60% of total operating expenditures to a high of just over 1% 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. Examples of activities that required capital investment from the City include the replacement of the HVAC system, and the repairs to the parking garage elevator. A rating of Warning continues for this indicator as the City may be at risk of foregoing needed capital investment in order to remain in a positive operating position.

Indicator 11: Capital Outlay – continued

Recommendation:

The guidelines established by ICMA indicate that a city should spend roughly 1.5% of operating expenditure on capital outlay. Napa should monitor spending patterns to ensure that equipment replacement is not deferred inappropriately. The City will consider a new reserve policy during the FY 2013-14 and FY 2014-15 budget review that will establish a target reserve level for future capital outlay.

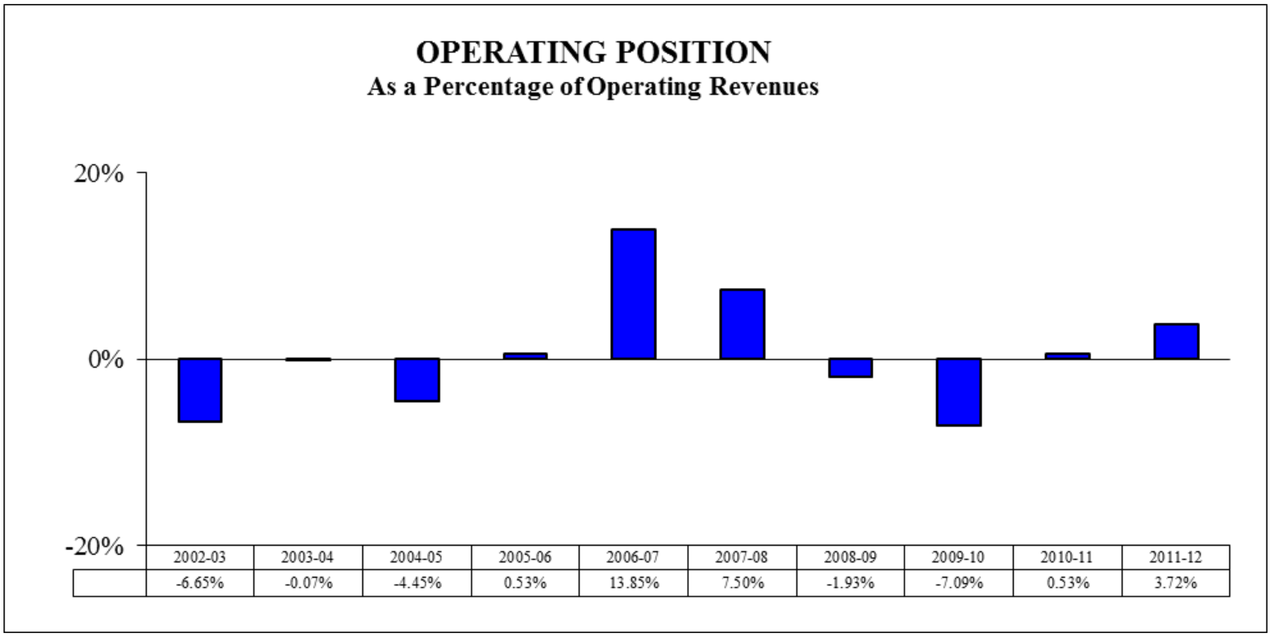
General Fund Operating Position

Operating position is defined as the City's ability to balance current revenues against current expenditures, maintain adequate reserve levels, and cover short-term liabilities with short-term assets.

A complete analysis is provided in this section, and the following indicators are examined in detail:

- Operating Position as a Percentage of Operating Revenues
- Unreserved Fund Balance/Emergency Reserve Funds
- Liquidity Ratio
- Debt Service

Indicator 12: Operating Position



2013 Finding: **Caution**
2012 Finding: **Unfavorable**

Description

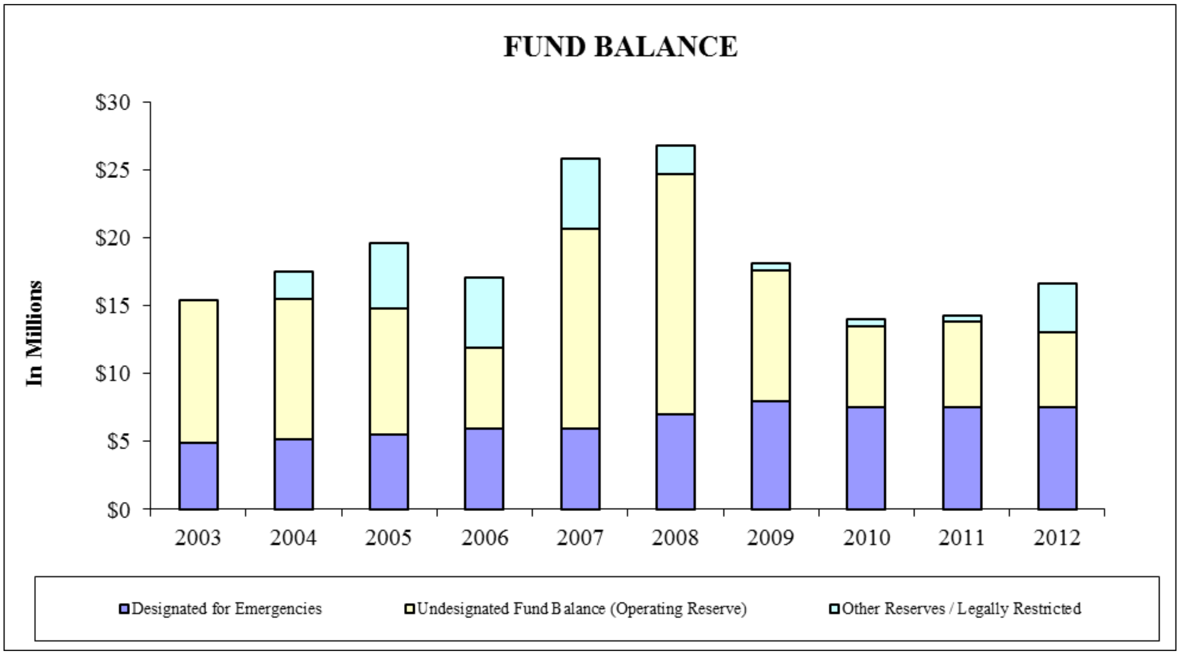
This indicator measures the City's ability to balance operating revenues, excluding fund balances from the prior year, against operating expenditures. When operating revenues exceed operating expenditures an operating surplus is achieved. A deficit occurs when the reverse happens and the City is forced to utilize available fund balances from prior years. This analysis is performed for the General Fund only, as this is where the majority of operating activity takes place. It excludes revenues and expenditures related to natural disasters which have occurred in the City. A deficit would be of serious concern for the City's ability to balance its budget.

Comments and Analysis

The City has experienced a number of years with operating deficits, however, due to the high number of vacancies held open in FY 2010-11 as well as departmental expenditure reductions, the City was able to book a positive operating position. Revenues in FY 2011-12 outpaced expenditures by 3.7% due to a combination of vacancies and departmental underexpenditures, and the rebounding of revenues at a faster than anticipated rate.

The 2012 rating of Unfavorable has been upgraded to Caution in 2013 for this indicator as the City had a positive operating position for the second year in a row. This rating will be upgraded to favorable after the recovery stabilizes and the City is able to sustain positive operating position for an extended period of time.

Indicator 13: Undesignated Fund Balance (Operating Reserve)/Reserve Funds



2013 Finding: **Favorable**
2012 Finding: **Unfavorable**

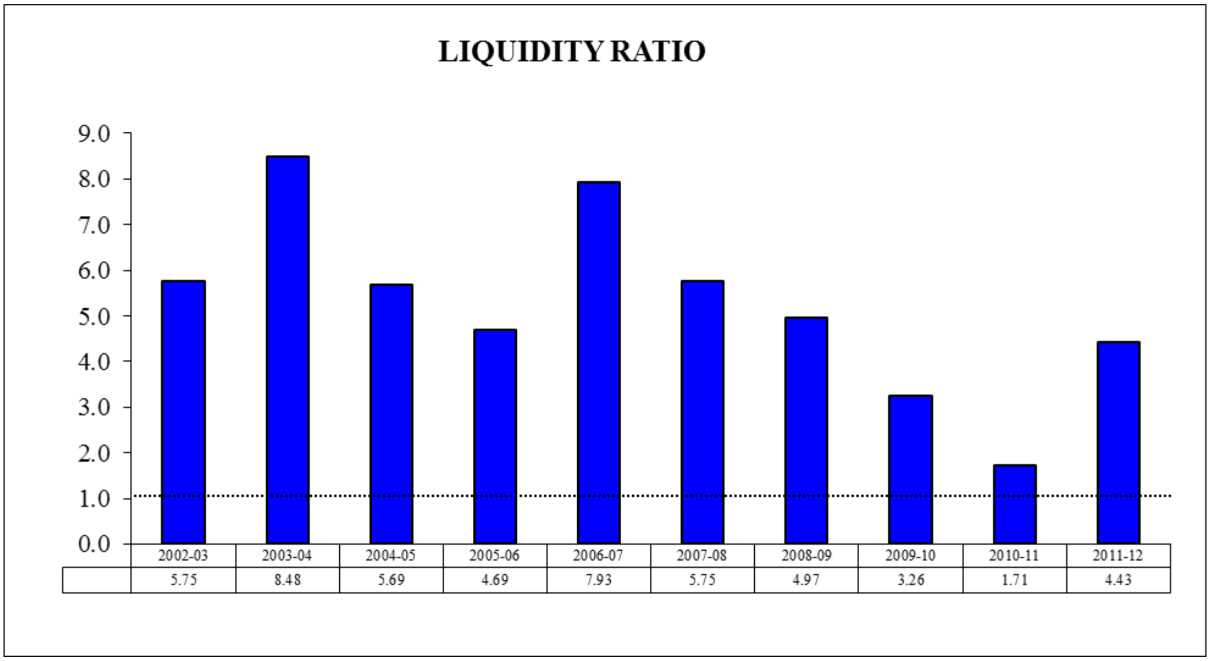
Description

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 equal to 12% of annual operating expenditures as an emergency reserve and has achieved full compliance since the policy was implemented in FY 2007-08. Undesignated Fund Balance (Operating Reserve) has been used to meet budget shortfalls in recent years. Since FY 2003-04, the City transferred reserves from the Building Reserve ($1.5 million), Capital Project Reserve ($2.3 million) and the Fleet Reserve ($1.4 million) to the General Fund to help fund the budget deficit until cost containment measures could be realized. Those borrowed reserves were fully replenished in the FY 2007 – 2009 budget cycle. 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. The forecast indicates that the Undesignated Fund Balance (Operating Reserve) will remain fully funded (between two and five percent of Operating expenditures) through the life of the plan (FY 2018-19), which is the basis for this indicator being upgraded to Favorable.

Indicator 14: Liquidity Ratio

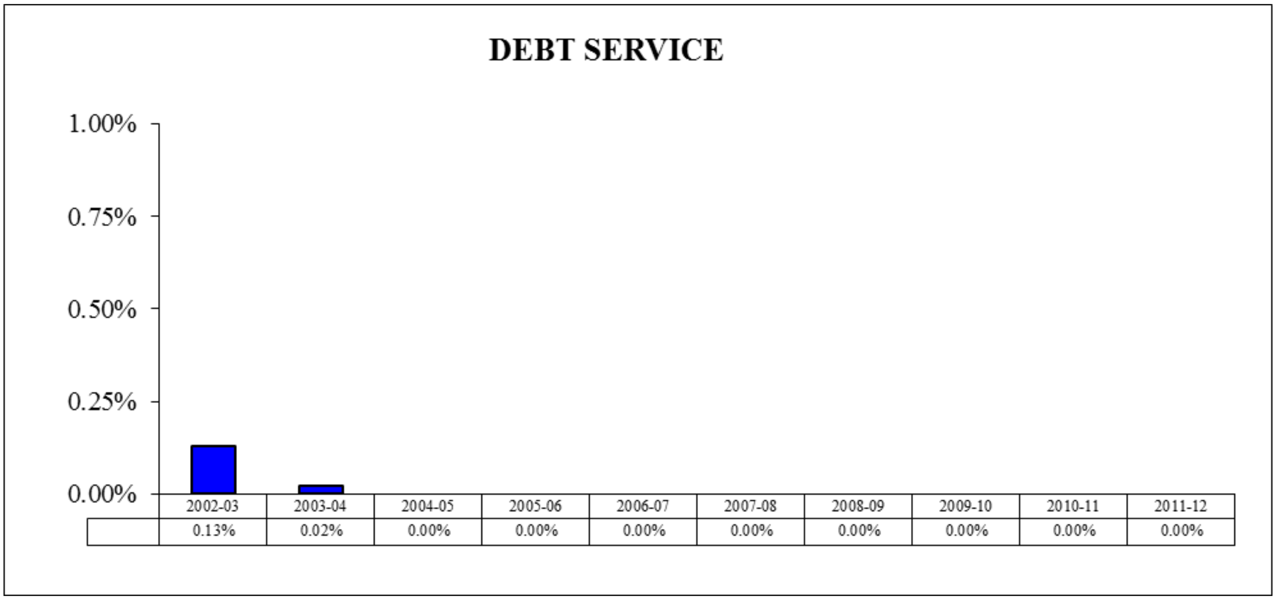


2013 Finding: **Favorable**
2012 Finding: **Favorable**

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 4.43 at the end of fiscal 2012.

Indicator 15: Debt Service



2013 Finding: **Favorable**
2012 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 (36%), a further analysis has been done on the change in assessed property values from year-to-year.

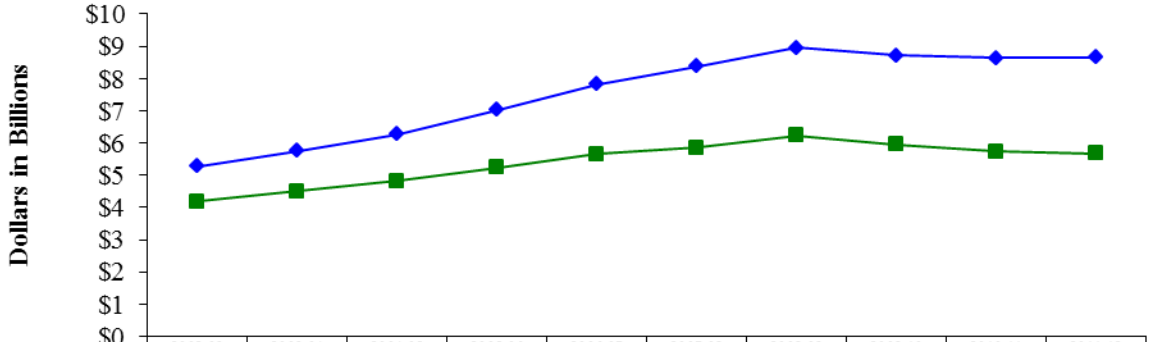
Also, the population of the City has been analyzed over time to determine its impact on the tax base as well as the effects on additional service demands.

The following indicators are detailed in this section:

- Assessed Property Values
- Population

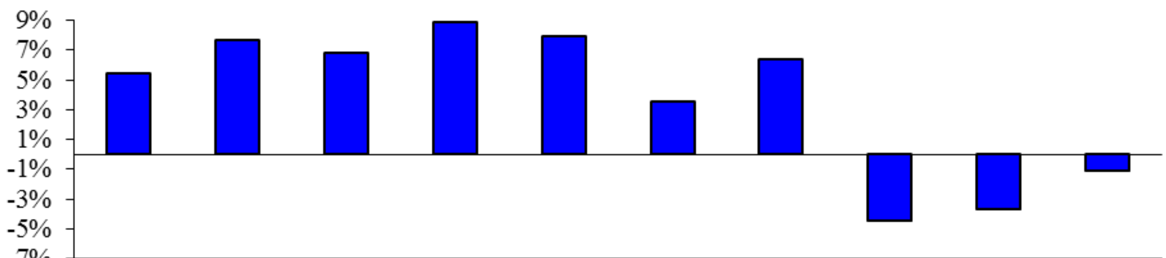
Indicator 16: Assessed Property Values

ASSESSED PROPERTY VALUES



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Actual Dollars	5.27	5.75	6.27	7.03	7.82	8.37	8.95	8.71	8.64	8.66
Constant Dollars	4.19	4.51	4.82	5.25	5.66	5.86	6.24	5.96	5.74	5.68

ASSESSED PROPERTY VALUES
(In Constant Dollars)
As a Percentage Change from the Previous Year



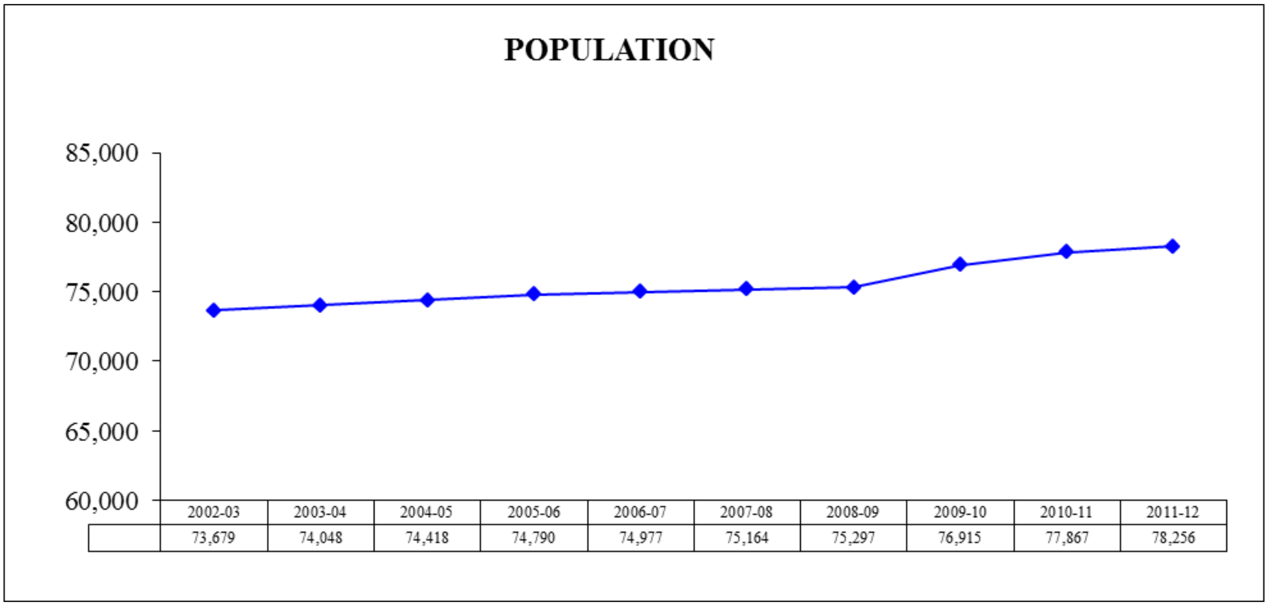
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
5.46%	7.63%	6.82%	8.88%	7.91%	3.54%	6.41%	-4.45%	-3.69%	-1.11%

2013 Finding: **Warning**
2012 Finding: **Unfavorable**

Description

Assessed property values, in both actual and constant dollars, are of primary importance to the City because property tax revenue, comprising 36% of the total General Fund operating revenues in fiscal year 2011-12, is the City's largest source of revenue. Property values are recovering from the economic recession, which is the foundation for increasing the rating for this indicator from Unfavorable to Warning. Additional indicator upgrades will be contingent on the continued steady increases as projected by the County Assessor.

Indicator 17: Population



2013 Finding: Favorable
2012 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 2013 through 2019 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 and Economic Development Departments.

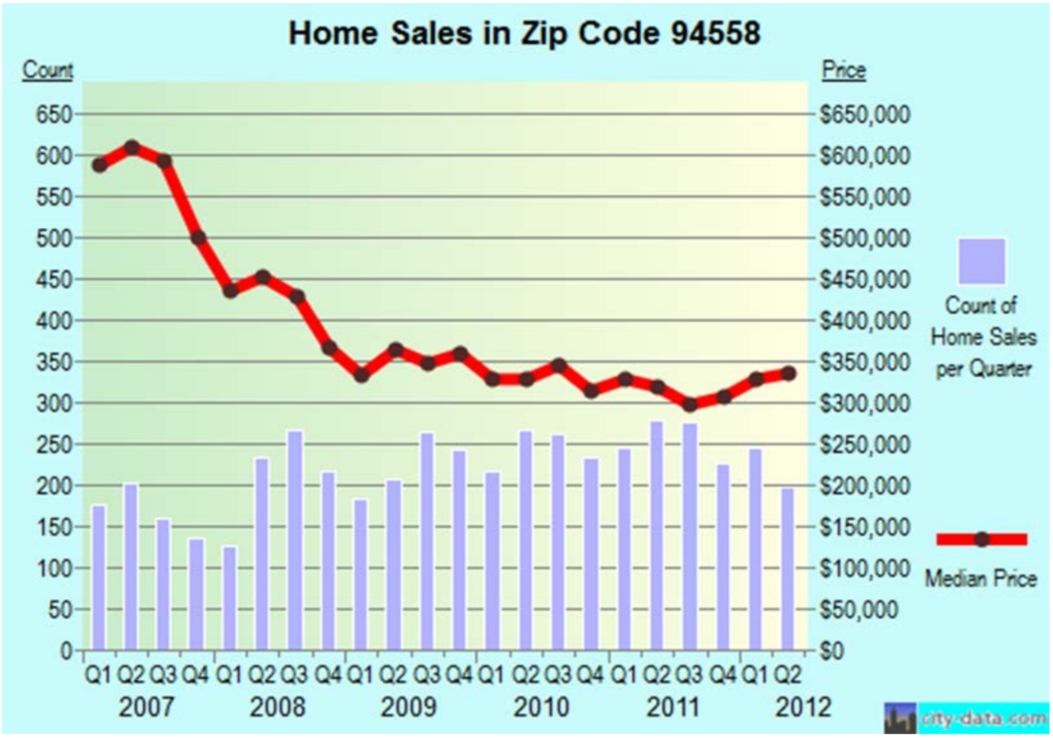
The financial forecast assumes the economic recovery which began in FY 2010-11 will continue through FY 2013-14, and then followed by steady growth through the remainder of the plan (FY 2018-19). On the local level, TOT revenues have fully recovered, and sales tax is estimated to reach full recovery by FY 2013-14. Those positive trends, coupled with structural budget adjustments and labor concessions agreed to in FY 2012-13, 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 address unfunded capital or reserve 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
- Tight credit markets
- Cautious consumer confidence and spending
- High unemployment
- Erratic stock market
- Uncertain State and Federal economic policies

Slow Recovery of Housing Market / Assessed valuation

The median assessed valuation went into free fall in 2007 appears to have turned the corner with quarterly increases in the Median sales price since October 2011. The graph below compares the change in median home prices with the number of home sales per quarter.



Tight Credit Market

The recent credit market crisis, caused in large part to the collapse of collateralized debt obligations that were based on risky mortgage loans, have continued to impact financial institutions' willingness to make new loans. While governments and central banks have taken dramatic action to prop up the global financial system, there is consensus that it will take a long time to return to normal lending practices.

Cautious Consumer Confidence

According to The Conference Board's December 2012 *Consumer Confidence Survey*™ indicates that the Consumer Confidence Index™, has been unsteady, showing declines in both November and December. Although the decline was most likely caused by uncertainty surrounding the uncertain response to the fiscal cliff, it is indicative that consumers are not yet confident the recession is over.

High Unemployment

The unemployment rate in the City of Napa has fallen 1.2% over the past year from 8.4% in October 2011 to 7.2% in October 2012 (according to the U.S. Bureau of Labor Statistics).

The preliminary State unemployment rate decreased by 1.5% last year from 11.3% in November of 2011 to 9.8% in November of 2012.

Although a decrease in the unemployment rate is positive news, we are still a number of percentage points away from the 6.5% unemployment rate target stated by the Federal Reserve as their nexus for keeping interest rates near zero.

Erratic Stock Market

The Stock Market had experienced gains in 2012, with the S&P 500 finishing with a gain of 13.41%. Although the gain is positive news, the changes in the market continued to be unsettled. The graph below (www.marketoracle.co.uk) shows the performance of the S&P 500 in 2012.

Uncertain State and Federal Economic Policies

The impact to Local Governments resulting from State and Federal economic decisions is uncertain. (this section will be expanded)

Economic and Demographic Assumptions

The economic assumptions utilized in this forecast are summarized below:

ASSUMPTIONS	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Comments
Population (Residential)	78,648	79,041	79,436	79,833	80,232	80,634	81,037	increase of 0.5% per year throughout the plan
Property Tax (% Change)	1.27%	2.00%	2.00%	2.00%	3.00%	4.00%	4.00%	Projections from Napa County Assessor
Sales Tax (% Change)	1.90%	3.90%	3.60%	3.60%	3.60%	3.60%	3.60%	Projections from Muni Services
Transient Occupancy Tax (% Change)	2.50%	2.40%	2.20%	2.20%	2.20%	2.20%	2.20%	Inflationary increase in in room rates.
Investment Earnings Rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	Increase of 0.5% per year through 14/15; 0.75% in 15/16 through 16/17; 1% per year through the rest of the plan
Inflation (% Change)	2.00%	2.40%	2.20%	2.20%	2.20%	2.20%	2.20%	Projections from Muni Services
Salaries (% Change)	0.00%	1.67%	1.67%	1.67%	1.89%	1.89%	1.89%	Assumes 100% CA CPI each year for COLA and Step
Healthcare Benefits (% Change)	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	Assumes City will pay approximately 85% of premium increases
PERS Benefits (% Change)	1.00%	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	Estimated on adjusted ROI of 7.25% to 7.5%
Other Benefits (% Change)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	Continue historical increase trend
Services & Supplies (% Change)	0.00%	2.40%	2.20%	2.20%	2.20%	2.20%	2.20%	Hold the line for 12/13 - inflation in out years
Capital Outlay (% Change)	0.00%	2.40%	2.20%	2.20%	2.20%	2.20%	2.20%	Hold the line for 12/13 - inflation in out years
Authorized Positions (# Change)	0	1	1	1	1	1	1	1 new General Fund position each year beginning in FY 2013-14

Inflation (Consumer Price Index): Inflation is the measure of the increase in cost of goods and services. Inflation impacts many revenue and most expenditure categories and is the foundation for many of the assumptions throughout the forecast period. Inflation is projected to average 2.2% per year from FY 2014-15 through the end of the forecast period (FY 2018-19.)

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.

Factors Not Included In the Forecast

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

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

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

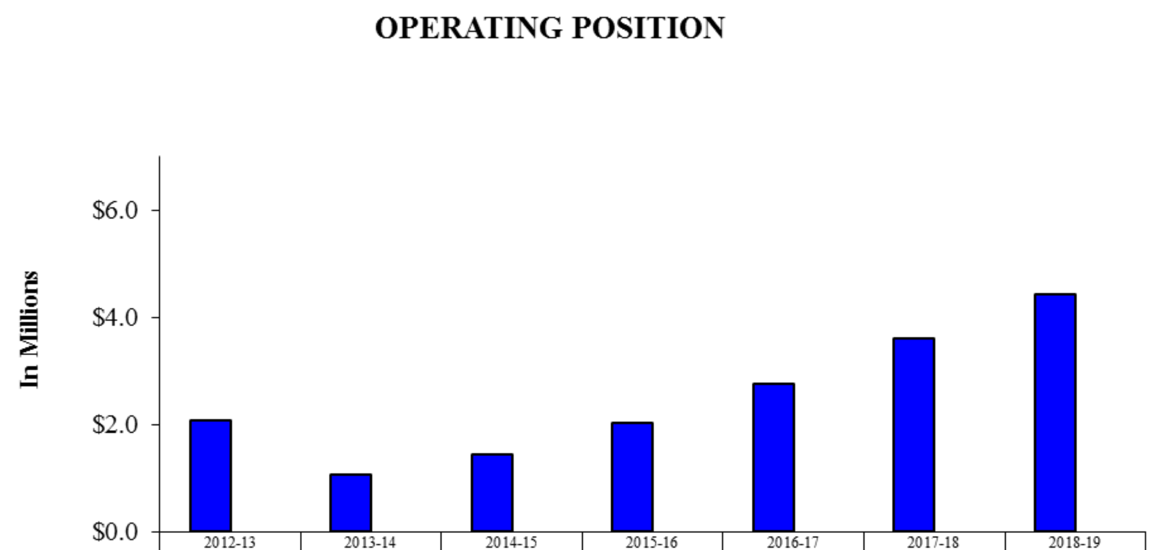
    1. Establishing equipment and other infrastructure replacement funds.
    2. Increasing General Fund contribution to the CIP.
    3. New or enhanced programs.
    4. Potential state impacts.

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

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

Forecast Summary and Results

Operating position refers to the City's ability to match revenues to expenditure levels, i.e. if revenues exceed expenditures, the City will have an operating surplus. The opposite is true if revenues fall below expenditures, then the result is an operating deficit. Over the forecast period, the City's revenue and expenditure projections generate a positive operating position for fiscal years 2012-13 through 2018-19.



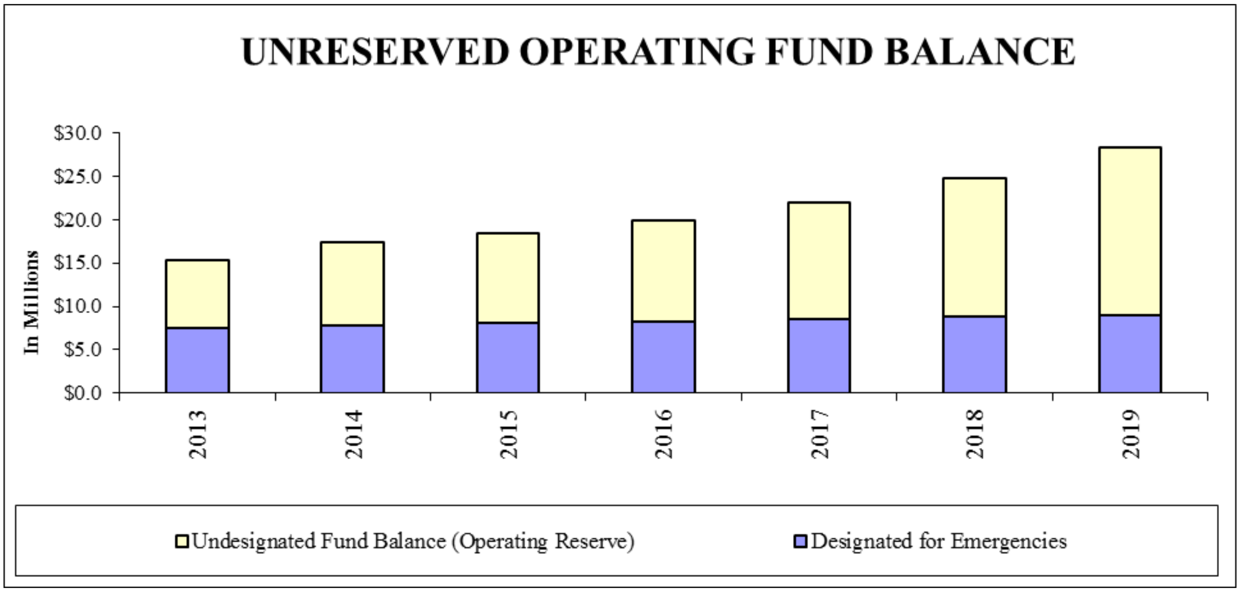
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Operating Surplus / (Deficit)	2.07	1.06	1.45	2.02	2.77	3.61	4.42
% of General Fund Expenditures	3.22%	1.60%	2.12%	2.86%	3.76%	4.70%	5.54%

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 one new General Fund position in each year. Any additional increases in either salary or benefits will erode the positive operating position estimated above.

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

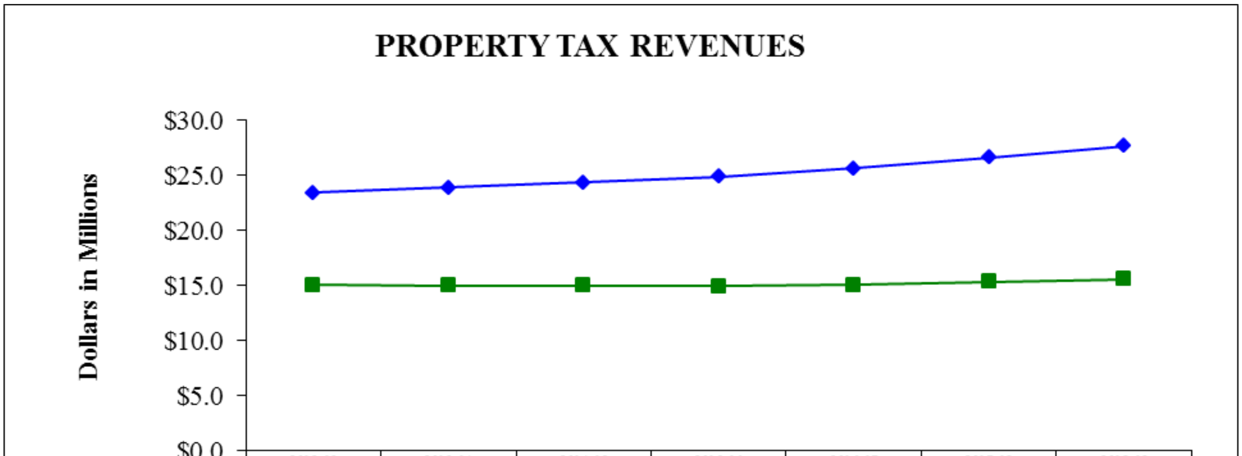
The anticipated operating surplus for the LTFP resides inside the target range of two to five percent, with the exception of FY 2013-14 (under by 0.6%), and FY 2018-19 (Over by 0.54%).

Unreserved Operating Fund Balance



The Operating Position discussed on the previous page reflects a surplus in the City's operating position in fiscal year 2013 and continuing through 2019. 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.

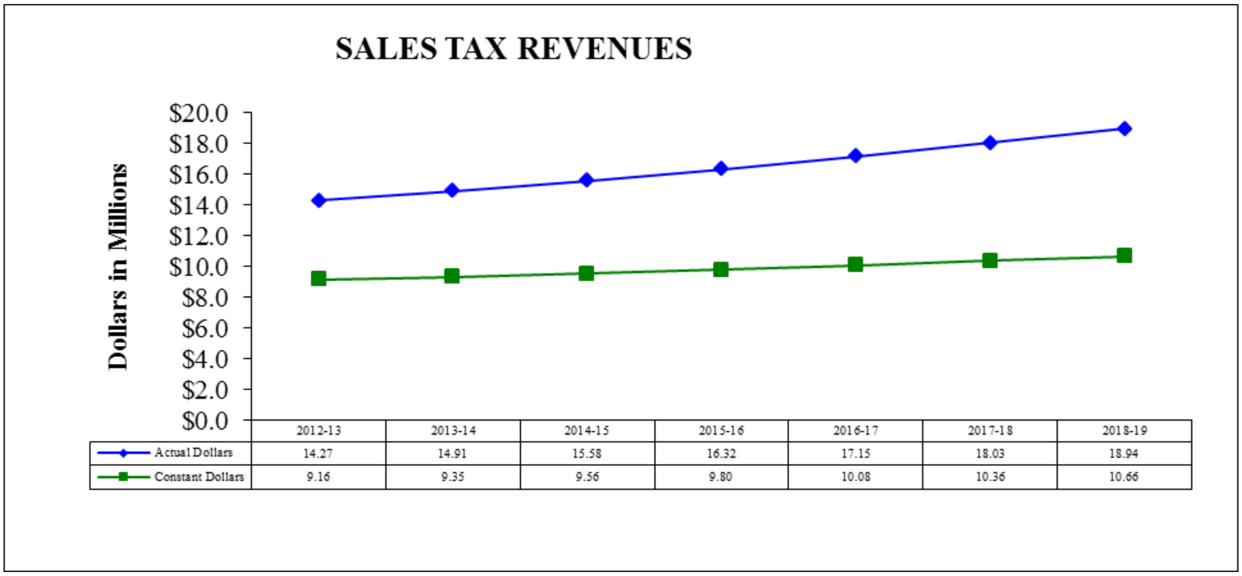
Property Tax Revenues



	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Actual Dollars	23.42	23.89	24.37	24.86	25.60	26.63	27.69
Constant Dollars	15.04	14.98	14.95	14.93	15.04	15.31	15.58

Property Tax continues to be the City's largest source of revenue and represent 37% of total revenues in FY 2012-13. As a result of the recent recession home values decreased across the state, but are now beginning to rise. The County Assessor has indicated property taxes are expected to show steady gains, averaging between 2%-4% per year over the next six years.

Sales Tax Revenues



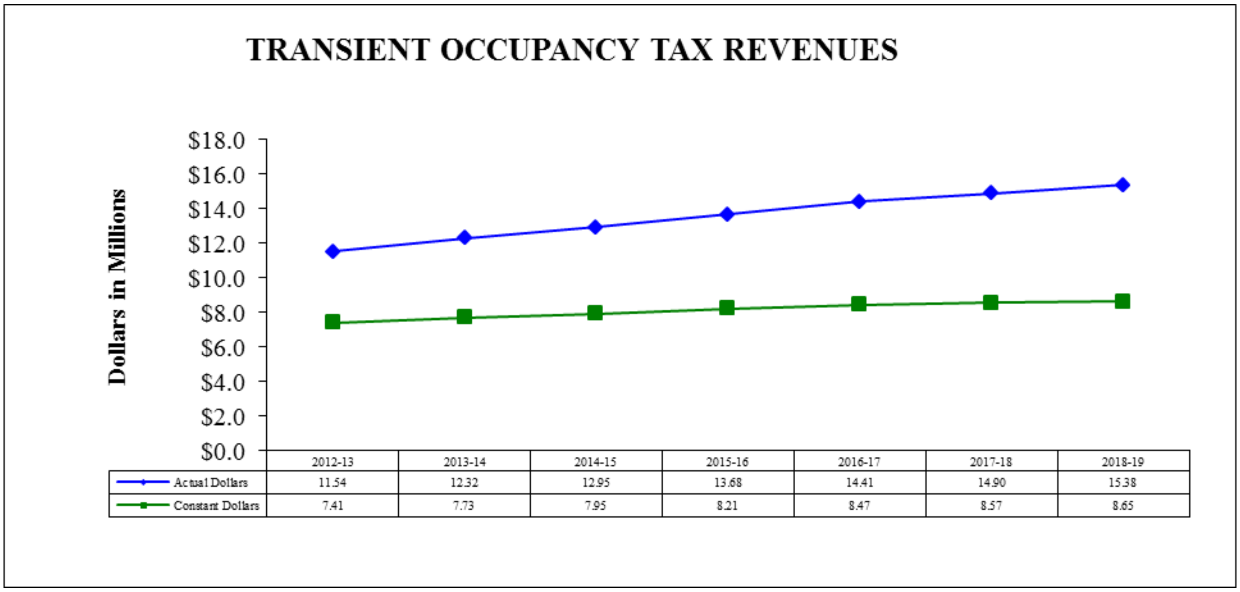
Sales tax is one of the City's most economically sensitive revenue sources and continues to be the City's second largest revenue source. Projected new development is expected to bring an incremental amount of sales tax revenue.

Sales Tax Revenue Forecast
(in thousands)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Base Sales Tax *(Excludes Prop 172)*	$ 13,415	$ 13,938	$ 14,523	$ 15,184	$ 15,924	$ 16,746	$ 17,617
Prop 172 *(Public Safety)*	855	889	921	854	988	1,024	1,061
Incremental Increases:							
Retail	included	80	133	187	240	259	267
Totals	**$ 14,271**	**$ 14,907**	**$ 15,577**	**$ 16,224**	**$ 17,152**	**$ 18,028**	**$ 18,944**
% Increase	*0.0%*	*4.5%*	*4.5%*	*4.2%*	*5.7%*	*5.1%*	*5.1%*

Using the assumption of recessionary pressures easing through 2012-13 and recovery continuing with moderate economic expansion in subsequent years (including planned commercial development), sales tax revenues are expected to see an average increase of 4.9% over the next six years.

Transient Occupancy Tax Revenues



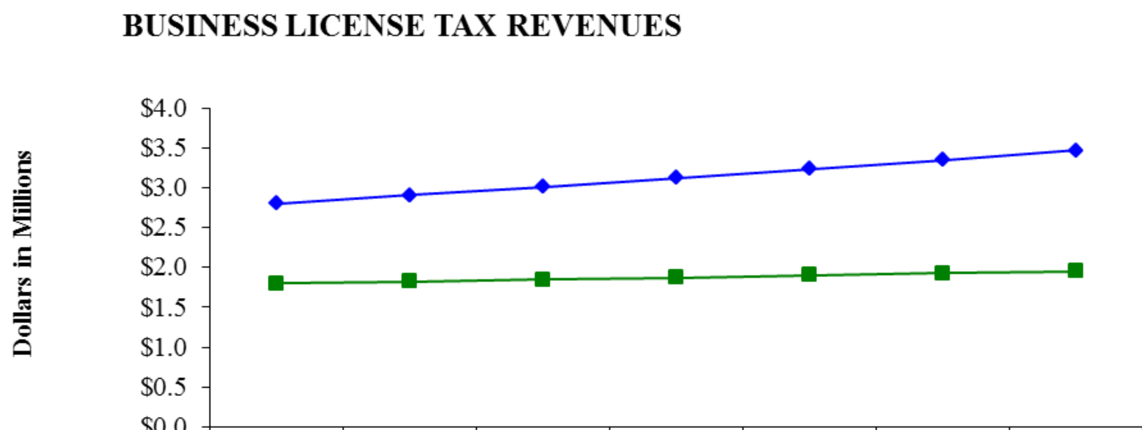
Transient occupancy tax is the other of the City's most economically sensitive revenue sources and is the City's third largest revenue source. Projected new hotel development is expected to bring an incremental amount of transient occupancy tax revenue.

Transient Occupancy Tax Revenue Forecast (in thousands)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Base Transient Occupancy Tax	$ 11,540	$ 11,817	$ 12,077	$ 12,343	$ 12,614	$ 12,892	$ 13,176
Incremental Increases:	0	501	872	1,335	1,798	2,010	2,202
Totals	**$ 11,540**	**$ 12,318**	**$ 12,949**	**$ 13,678**	**$ 14,412**	**$ 14,902**	**$ 15,377**
% Increase		*6.7%*	*5.1%*	*5.6%*	*5.4%*	*3.4%*	*3.2%*

Using the assumption that our existing facilities are nearing capacity, only a small average annual increase equal to assumed inflation of 2.2% for room rate increases has been included. Likely development projects that include the Napa River Inn expansion, a Hotel in the South Gasser area, and the opening of a large hotel (e.g. 150+ rooms) are phased in conservatively and their contribution will appear beginning in FY15/16. Overall, transient occupancy tax revenues are expected to see an average annual increase of 4.9% per year during the forecast period.

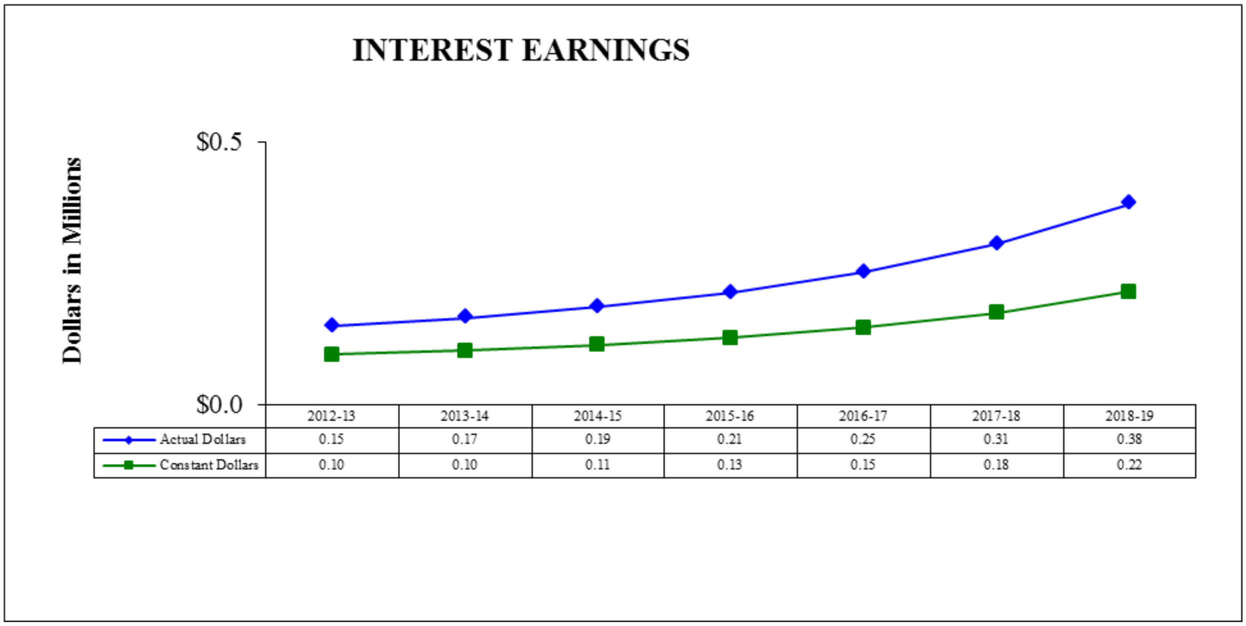
Business License Tax Revenues



	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Actual Dollars	2.80	2.91	3.01	3.12	3.23	3.35	3.47
Constant Dollars	1.80	1.82	1.85	1.87	1.90	1.93	1.95

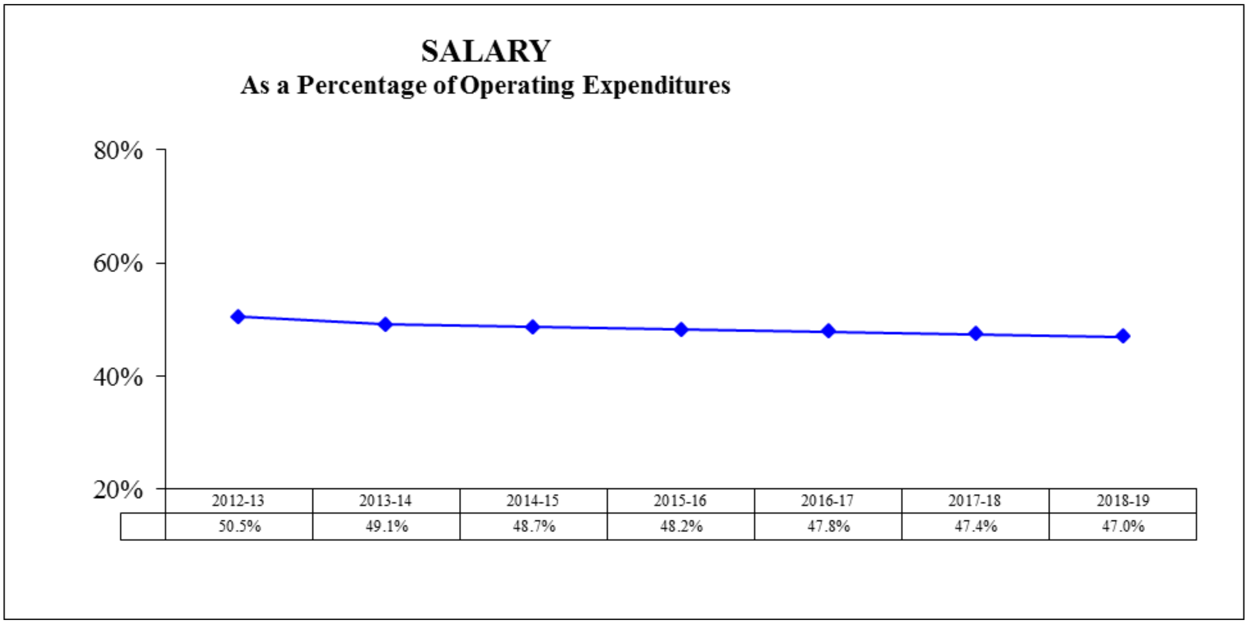
Business license tax revenues are based on gross receipts of business conducted within the City. It is anticipated that future growth will occur at a rate consistent with inflation.

Interest Earnings



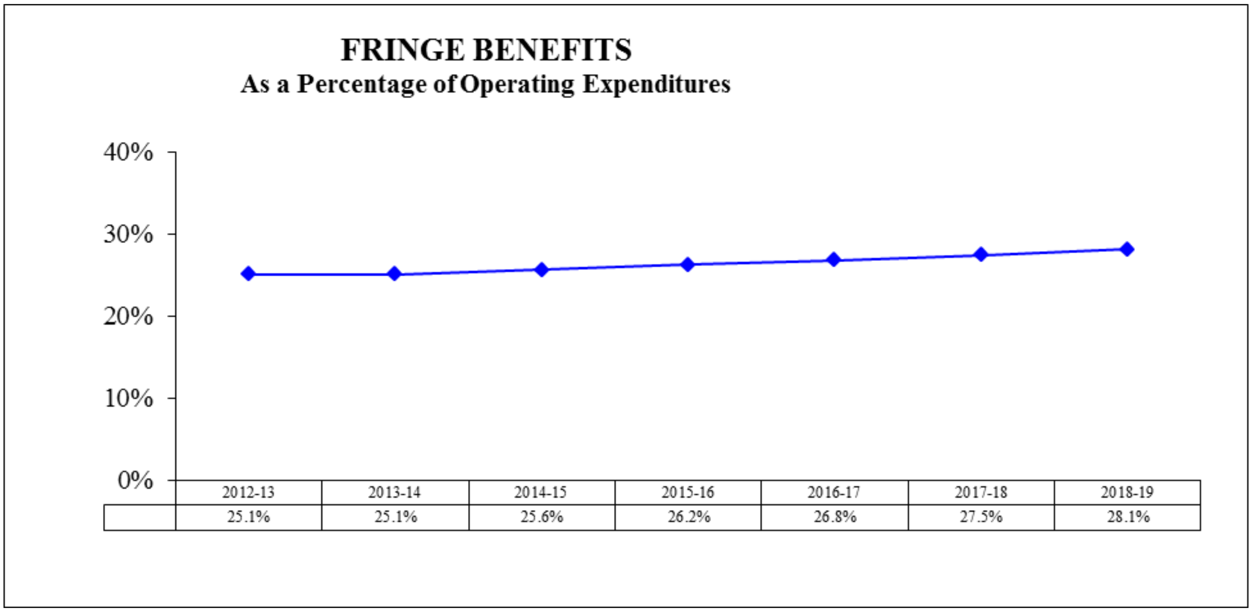
This revenue is based on the earnings generated by the investment of cash on hand. The General Fund portfolio is made up of accumulated revenues in excess of expenditures. It is also comprised of funds committed for Capital Improvement Projects and other purposes, but not spent. Much of the portfolio is invested in short-term instruments because of these commitments; therefore, anticipates lower yields. Interest rates are assumed to remain fairly low – equating to approximately 0.5% in FY 2012-13 through FY 2014-15 increasing by approximately 0.25% per year per budget cycle before reaching the maximum assumption of 1.0% for both FY 2017-18 and FY 2018-19.

Salary as a Percentage of Operating Expenditures



Salaries continued to account for almost 50% of the City's operating expenditure budget. The relative percentage is reducing through the life of the plan due to the fact that only one new position per year is assumed throughout the life of the plan.

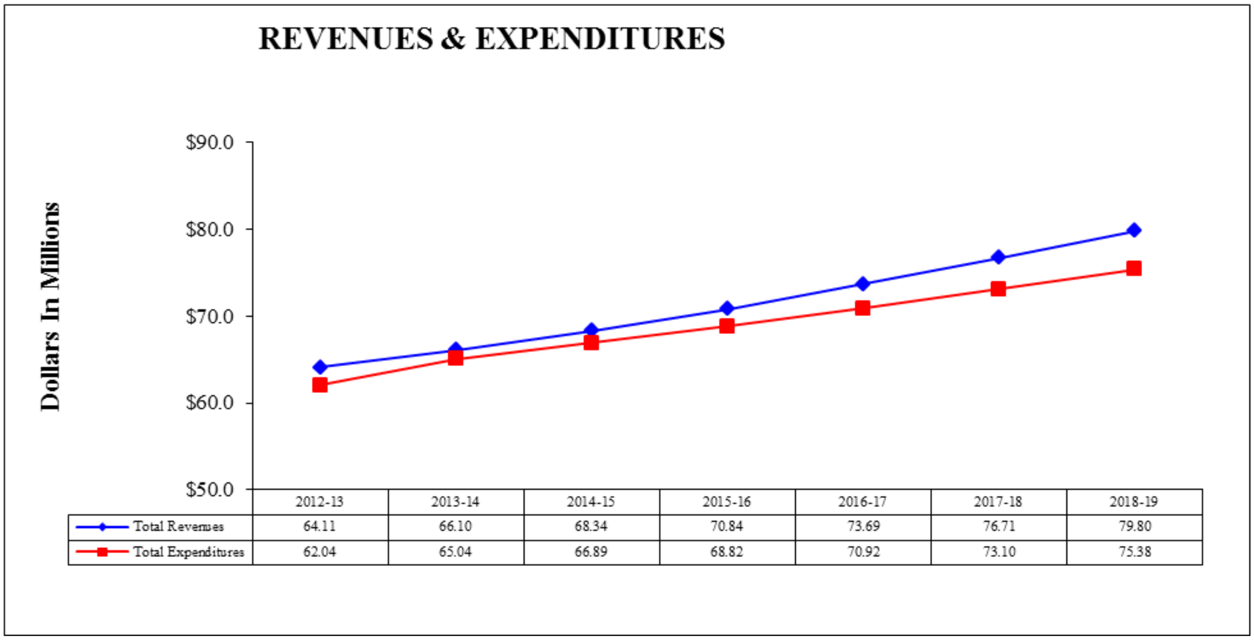
Fringe Benefits as a Percentage of Operating Expenditures



The employee benefits category reflects a moderation of growth throughout the forecast period. The growth rate comes primarily from projected increases in CalPERS and Medical premiums. There is an inherent vulnerability in this forecast in respect to the anticipated increases in the California Public Employee Retirement System (CalPERS) employer rates. These rates vary, based on the market performance of CalPERS assets, the number of City employees covered by the retirement system, their base wage rates and other factors. These rates are also impacted by a recently negotiated second tier retirement benefit structure and will partially offset recent CalPERS action to adjust its investment earnings forecast. Since state law requires that CalPERS be fully funded, participating agencies like Napa, other cities and counties and the State government are required to make up market losses through increased employer contribution rates, which adds to the volatility of the rates.

Increases in health care costs are projected to continue to be significant at an average annual 8.1% growth rate. This estimate assumes the City bearing at least 85% of the future premium increases for both medical and dental coverage.

Revenues & Expenditures



	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total Revenues	64.11	66.10	68.34	70.84	73.69	76.71	79.80
Total Expenditures	62.04	65.04	66.89	68.82	70.92	73.10	75.38

Total revenues are forecast to grow by an average annual increase of approximately 5% per year. Continued economic recovery, in addition to hotel and retail development projects contribute to revenue growth.

While there is expected moderation of benefit costs, expenditures are projected to increase at an average annual rate of 3.4% per year. Projected expenditures include retirement contribution increases as projected by CalPERS, medical and dental increases (averaging 8% for city paid benefits) and COLA. One new position per year beginning in FY 2013-14 has been included in the projections.

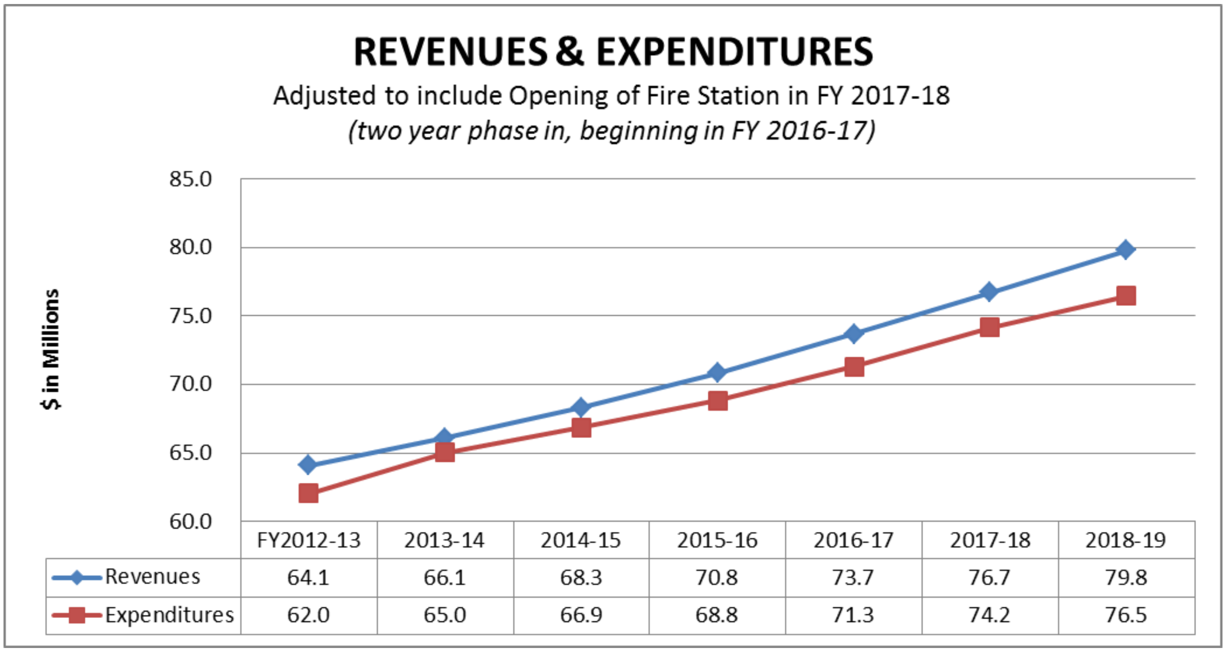
As indicated on the graph, the forecast predicts that the City will experience a positive operating position through 2019, given the assumptions in the model.

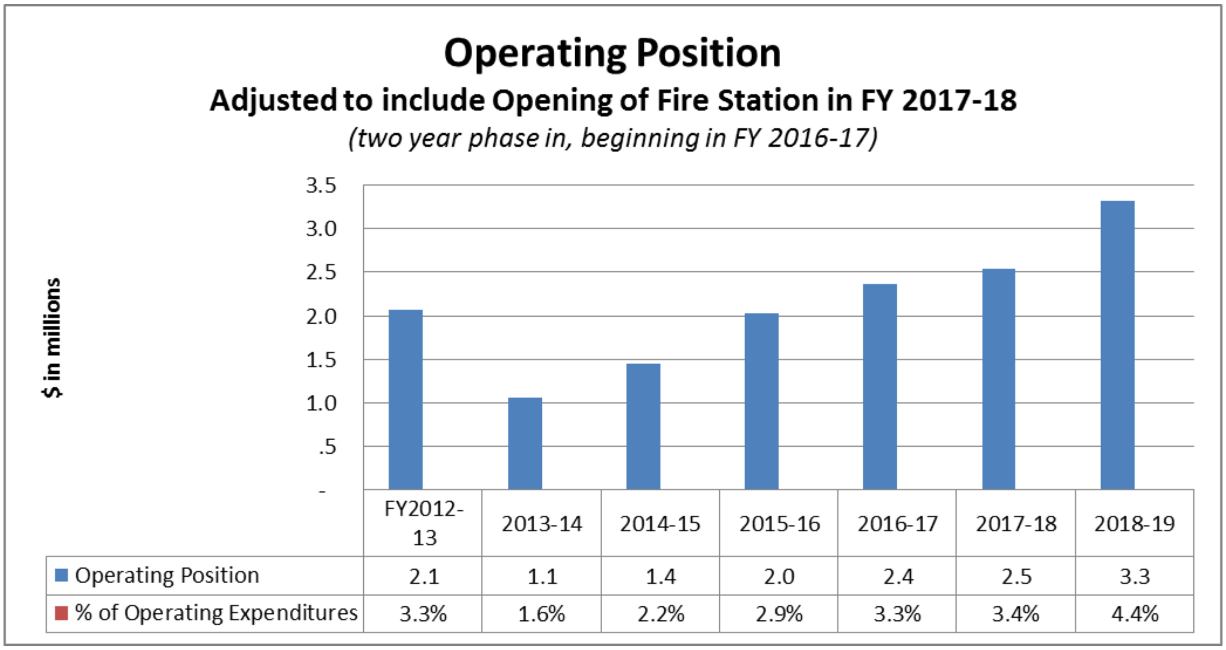
VI: ALTERNATE SCENARIOS

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

in actual dollars	FY2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Operating Costs for Fire Station #5					$ 403,962	$ 1,067,873	$ 1,092,606

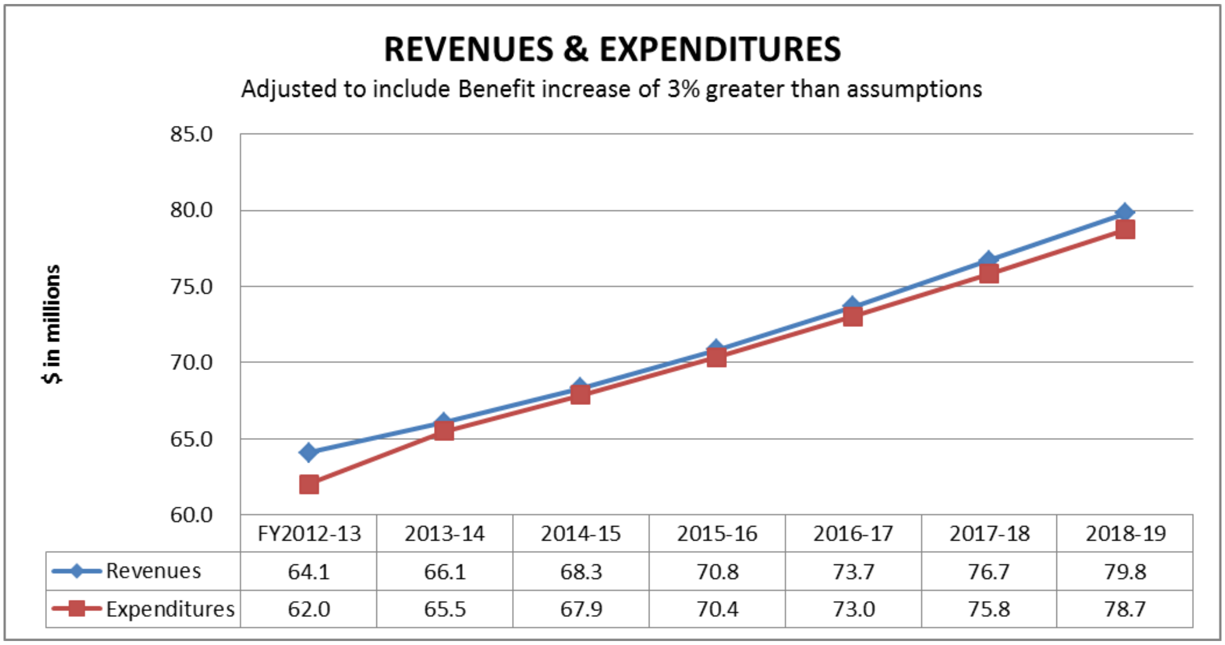
The operating costs for opening Fire Station #5 are estimated to total $1.1 million, but will be phased in over two years. Approximately 97% of the costs are related to five new sworn personnel, with the remainder of the funds being required for the maintenance of the new facility and equipment.

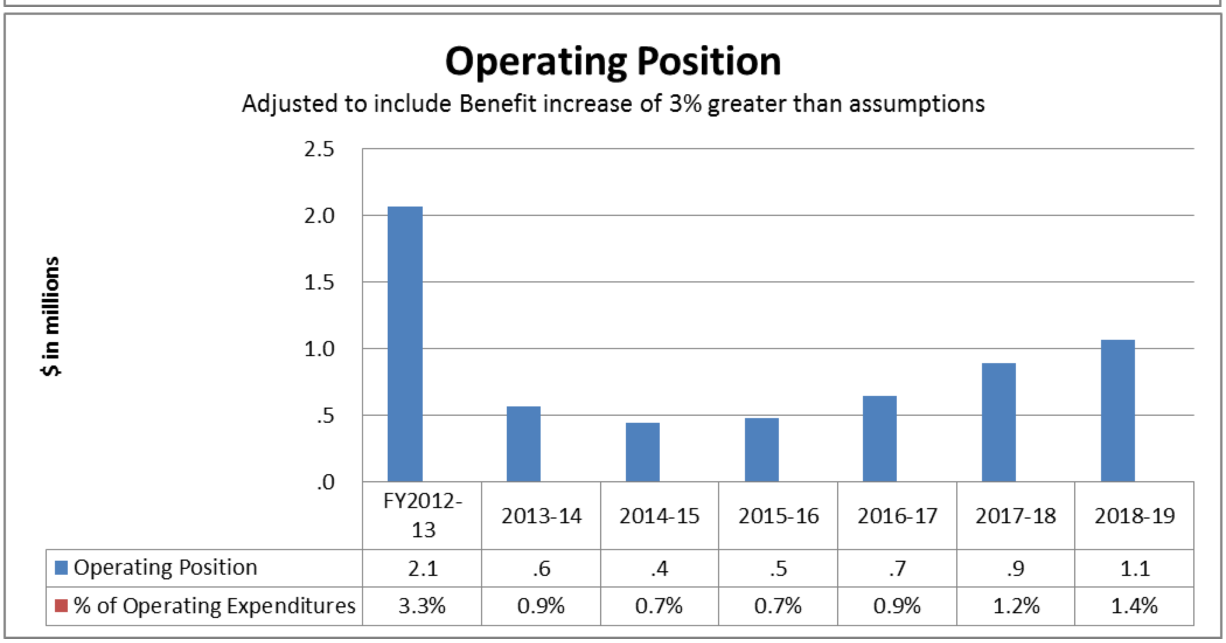




Alternate Scenario #2 – Combined Benefit Increase of 3% greater than assumptions *(e.g. Retirement, Medical, Retiree Medical, etc.)*

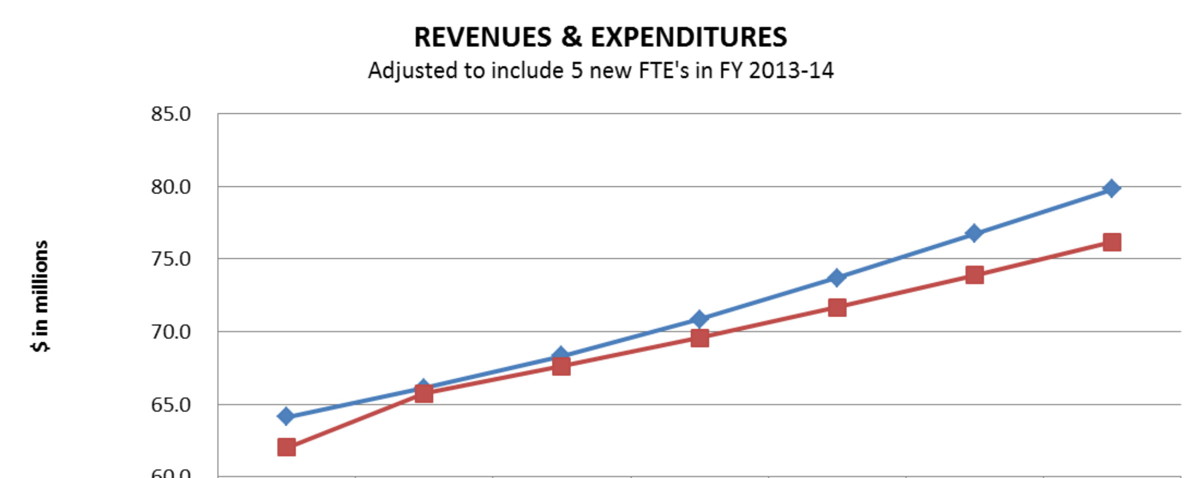
in actual dollars	FY2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Combined Benefit increase *(e.g. Retirement, Medical, Retiree Medical, etc.)*	-	489,145	1,003,774	1,545,448	2,116,496	2,718,759	3,354,208



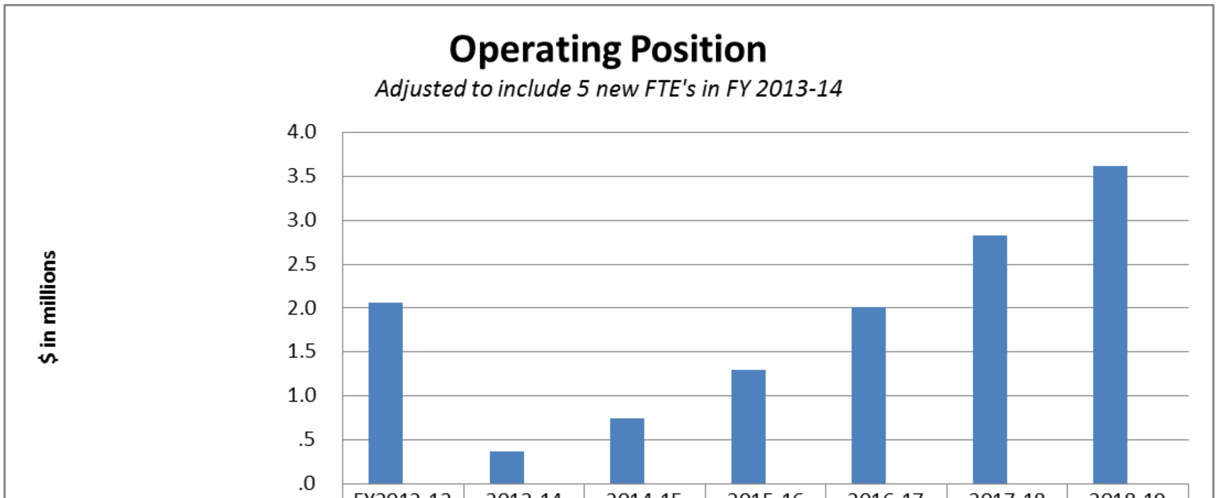


Alternate Scenario #3 – Increase five General Fund positions in FY 2013-14

in actual dollars	FY2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
5 new General Fun positions in FY 2013-14	-	690,560	709,654	729,551	751,650	774,713	798,795

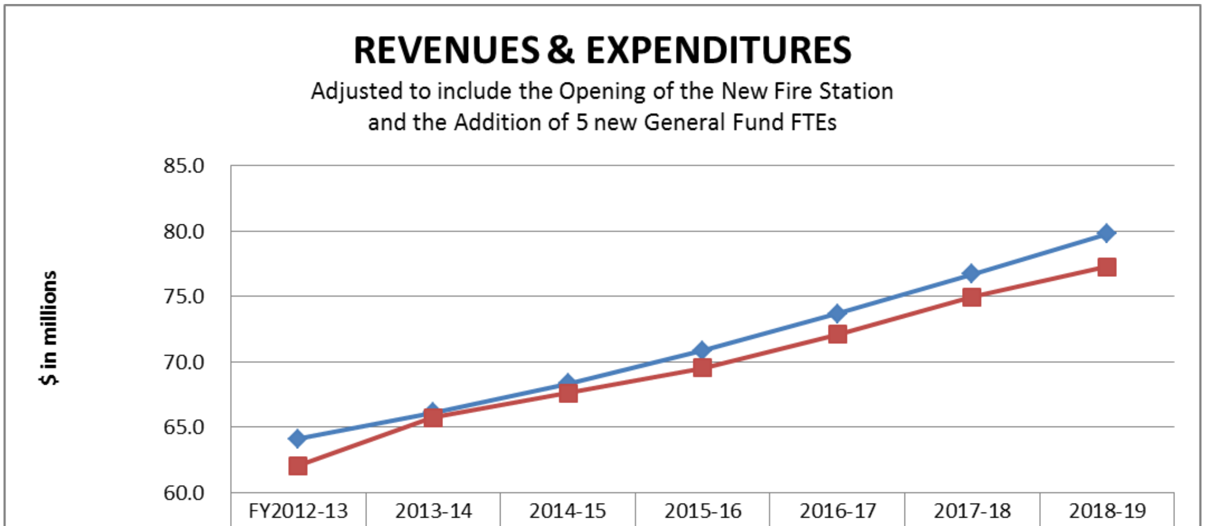


	FY2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Revenues	64.1	66.1	68.3	70.8	73.7	76.7	79.8
Expenditures	62.0	65.7	67.6	69.6	71.7	73.9	76.2

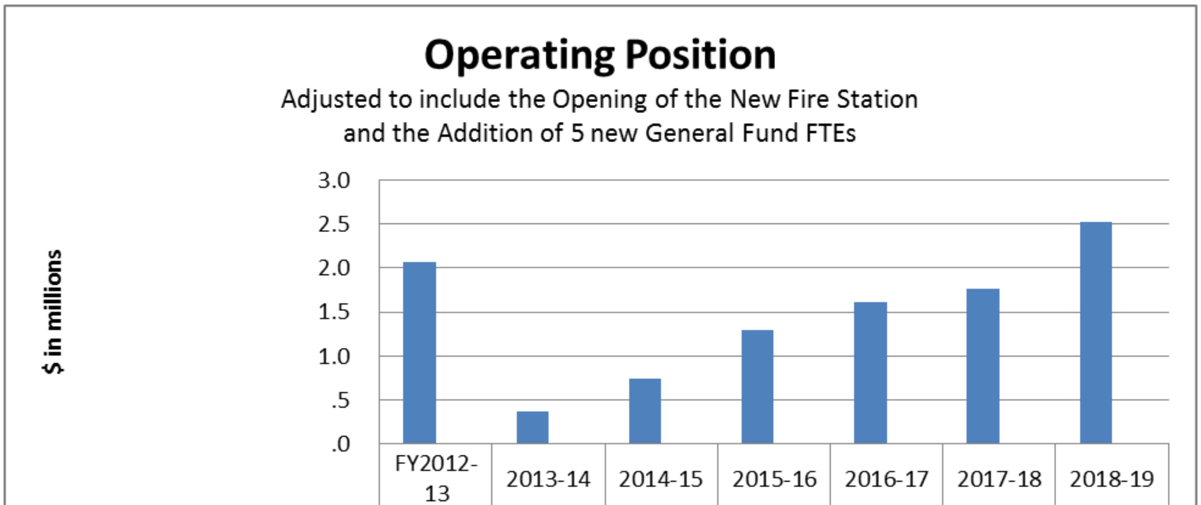


	FY2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Operating Position	2.1	.4	.7	1.3	2.0	2.8	3.6
% of Operating Expenditures	3.3%	0.6%	1.1%	1.9%	2.8%	3.8%	4.8%

The combined impact of Alternate Scenario #1 – Impact of opening Fire Station #5 in FY 2017-18 and Alternate Scenario #3 – Increase of five General Fund positions is shown in the following graphs:



	FY2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Revenues	64.1	66.1	68.3	70.8	73.7	76.7	79.8
Expenditures	62.0	65.7	67.6	69.6	72.1	74.9	77.3



	FY2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Operating Position	2.1	.4	.7	1.3	1.6	1.8	2.5
% of Operating Expenditures	3.3%	0.6%	1.1%	1.9%	2.2%	2.4%	3.3%

VII: 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 reinstate programs and service reductions put in place during the recent recession.

In addition, the report does not identify or quantify the lack of funds necessary to provide for the capital projects needed to meet expanding program requirements and to repair, maintain, and in some cases replace existing infrastructure. Failure to address these infrastructure needs on a timely basis will result in increased liability and rapidly escalating costs as relatively inexpensive preventative maintenance projects become reconstruction projects due to deferred spending.

It should also be noted this plan focused on the City's ability to provide for operating service delivery programs that are currently in effect using existing sources of revenue. Clearly there is a need for the growth of current programs. The City anticipates the need for additional facilities including a fire station, parks, trails and bridges, but we have not allowed for sufficient new staff to meet the increasing demands.

In conclusion, it is important that we hit our revenue and expenditure targets and assumptions to accomplish the goals within this Long Term Financial Plan, as doing so enables us to achieve our long term operational needs of the City. Over the last two fiscal years, the City has been successful in making tough decisions to contain costs. However, given the City's tenuous financial position it is imperative that we insure our revenue streams remain healthy (specifically Property Tax, Sales Tax, and Transient Occupancy Tax) to provide stability to our community. Toward this end, the importance of a strong Economic Development presence cannot be overstated as it is a primary vehicle for generating and stabilizing revenues. For example, Economic Development is presently working on projects that include new hotel developments and the revitalization of the Shops at Town Center. Unfortunately, with the State imposed dissolution of the Redevelopment Agency, we have a need to find alternative ways to fund economic development incentives. One example would be the creation of a Community Facilities District. 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 FY2013-14 and FY 2014-15 Budget; others will require considerable study and evaluation involving interested stakeholders.

VIII: 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