



Quarterly Financial Report  
*As of June 30, 2013*  
**UNAUDITED**

## **Introduction**

This report provides an analysis of the City's General Fund revenues and expenditures for the fourth quarter of the 2012-13 fiscal year. The numbers in this report are **PRELIMINARY ONLY**, as the year is not yet officially closed, and the annual Financial Audit is scheduled to begin in November, 2013.

The Audited Financial Statements will be presented to the City Council in early 2014.

## **Management's Overview**

The City's two year budget for fiscal years 2011-12 and 2012-13 was adopted by the City Council on June 21, 2011. The Mid-Cycle review, which included adjustments to structurally balance FY 2012-13 was adopted by the City Council on June 5, 2012. The 1<sup>st</sup> Quarter report was presented to the City Council on November 20, 2012. The City Council reviewed the 2<sup>nd</sup> Quarter report on February 19, 2013. The 3<sup>rd</sup> Quarter report was presented to the City Council on May 21, 2013.

As the following report will detail, the City of Napa is estimating closing FY 2012-13 in a positive position due to the combination of stronger than expected revenues, particularly sales and transient occupancy taxes, and one-time savings from departmental under expenditures.

Additionally, an overview of the City's General Fund CIP Reserves, and the budgeted use of those reserves will be provided, summarizing the City's recent reserve use / contribution.

Thirdly, although the focus of this report is the FY 2012-13 estimated revenues and expenditures, it is necessary to consider the FY 2013-14 Budget and beyond to ensure long-range perspective when considering one-time (e.g. CIP Projects) or on-going (e.g. additional positions, benefits, programs) adjustments to the Budget.

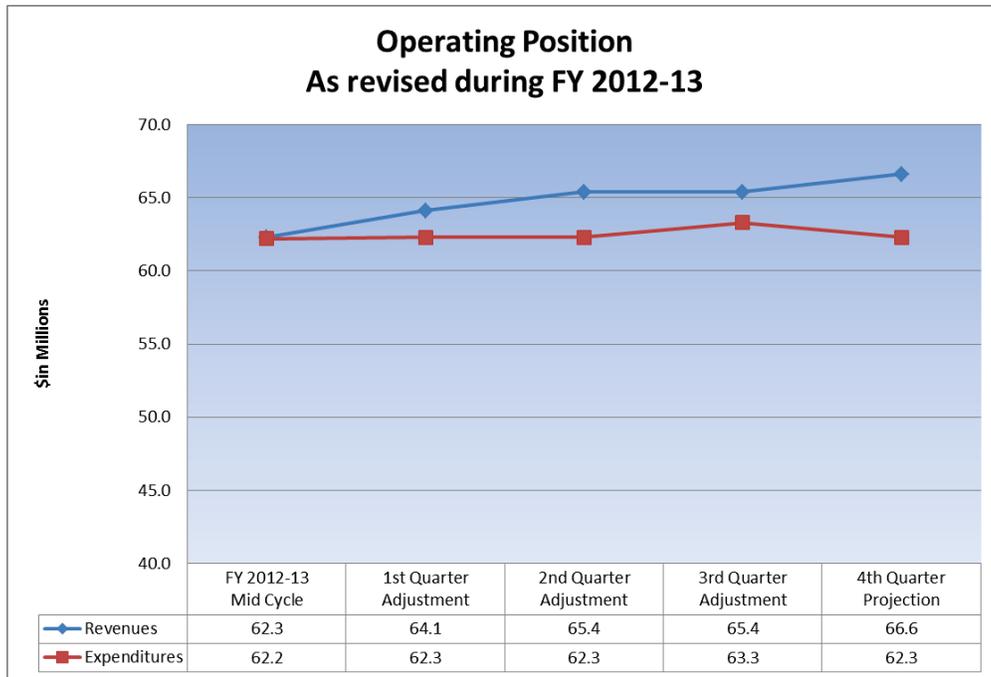
Finally, as in previous quarterly reports, the final section "What we are watching", will provide a brief summary of the potential issues and impacts at the national, state and local levels.

## **FY 2012-13 Budget**

The FY 2012-13 Budget as adjusted in June 2012 (Mid-Cycle Review) estimated revenues at \$62.2 million and expenditures at \$62.1 million, resulting in a balanced General Fund budget. Adjustments approved to revenue and

expenditure projections in fiscal year 2012-13 increased the forecasted June 30, 2013 positive operating position to \$2.2 million.

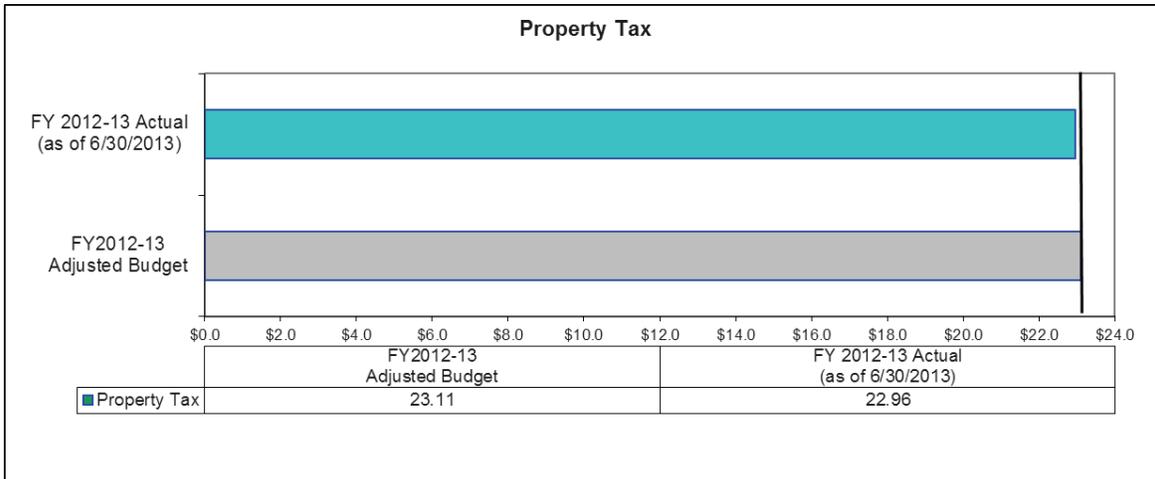
Based on our current analysis, the budgeted operating *surplus* of \$2.2 million increased to \$4.3 million through a combination of increased revenues (\$1.2 million) and one-time departmental savings (\$0.9 million). The ending operating position for the City will be finalized during the upcoming financial audit. The graph below reflects the changes in the FY 2012-13 operating position as reported to the Council during the quarterly reports.



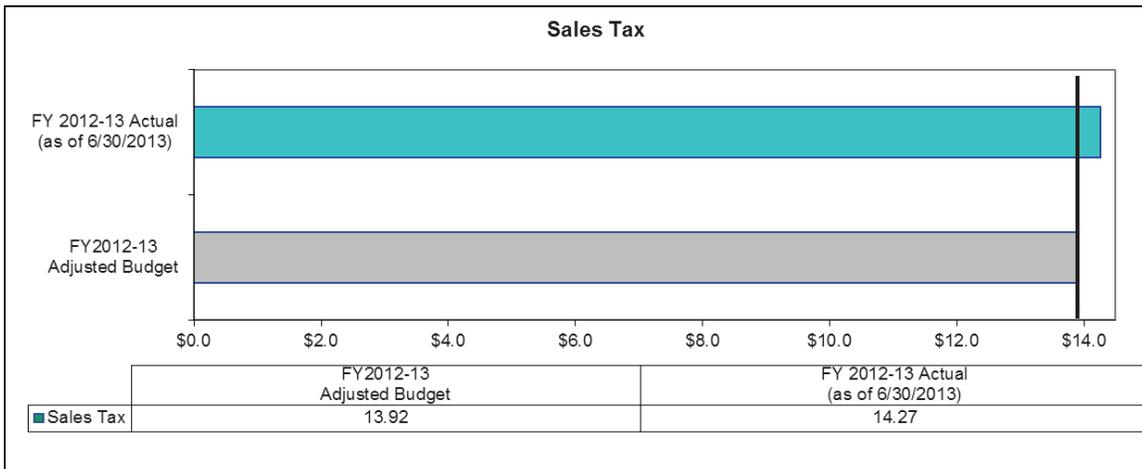
**Major Revenues**

Property Tax - The FY 2012-13 Property Tax Receipts were estimated at \$22.7 million during the Mid-Cycle budget review. The Property Tax revenue projection was increased by \$0.4 million (to \$23.1 million) as part of the 1<sup>st</sup> Quarter Report due to increased activity in the real estate market. Property Tax Receipts for FY 2012-13 are currently projected to be slightly under the adjusted budget, totaling \$23.0 million.

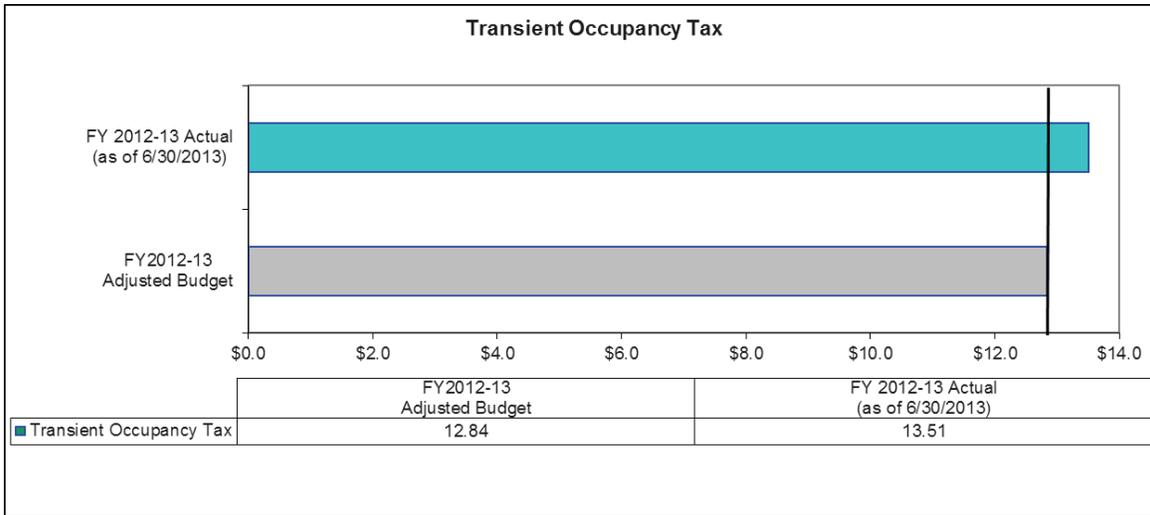
The City’s major source of property tax revenue to the General Fund is residential property (77.6%), followed by commercial property (12.2%) and industrial property (5.1%).



Sales Tax – Sales Tax for FY 2012-13 was estimated to total \$12.7 million during the Mid-cycle review. Additional increases totaling \$1.2 million were approved throughout the fiscal year bringing the revised estimate to \$13.9 million. Sales Tax receipts are currently projected to be over the adjusted budget by \$0.4 million for an estimated total of \$14.3 million. Sales Tax receipts in FY 2012-13 were driven by new car sales, gasoline prices and strong restaurant receipts.



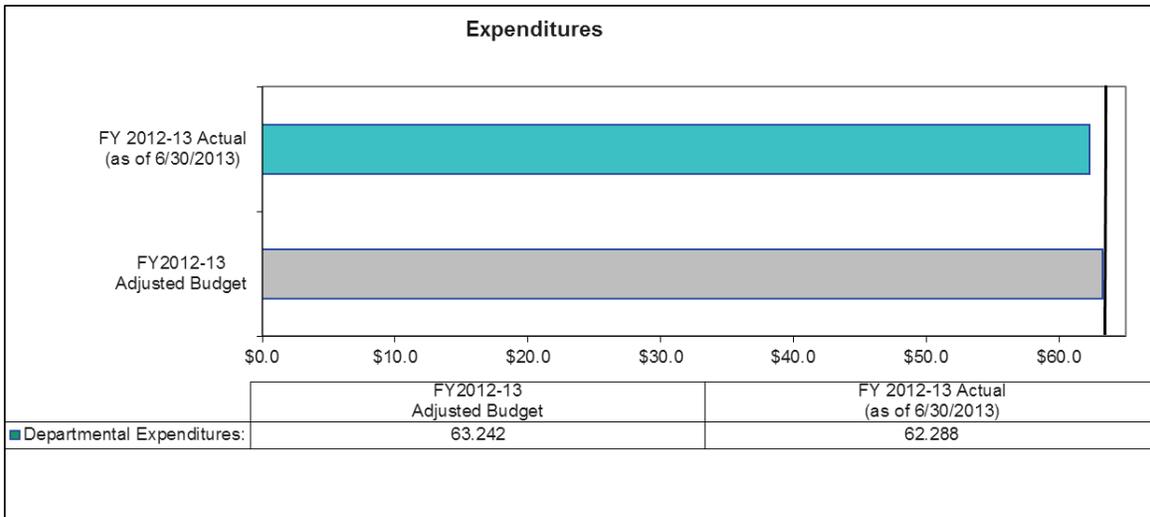
Transient Occupancy Tax (TOT) - Tourism in the Napa Valley continues to strengthen, providing additional indication of the economic recovery. FY 2012-13 TOT Revenue was estimated \$10.8 million during the Mid Cycle review. As part of the 1<sup>st</sup> and 2<sup>nd</sup> Quarterly Reports, Council approved budget adjustments totaling \$2.0 million resulting in a total adjusted budget of \$12.8 million. TOT receipts are currently projected to be over budget by \$0.7 million for a total of \$13.5 million. There are currently 23 hotels, 19 bed and breakfast establishments and 36 vacation rentals generating transient occupancy tax revenue within the City. The most significant growth factor for the FY 2012-13 TOT revenues is new rooms coming on line (most notably in the Meritage Hotel).



**Expenditures**

Estimated June 30, 2013 expenditures anticipate all operating expenditures to fall within the total budget appropriation. As stated earlier, the final operating budget for FY 2012-13 (which includes carry forward, budget resolutions and adjustments throughout the fiscal year) was \$63.2 million. It is estimated that FY 2012-13 expenditures will total \$62.3 million, which is \$0.9 million under budget.

The following chart tracks the General Fund expenditures as compared to the adjusted budget.



Additional analysis and details on expenditures will be provided upon completion of the FY 2012-13 Financial Audit.

**General Fund Reserves**

As per the City’s Fiscal Policy updated as part of the FY 2013-14 & FY 2014-15 Budget Adoption, the City maintains an Operating Reserve of 3%, an Emergency Reserve of 12%, and a Contingency appropriation of 1% of the annual General Fund Operating Budget. In addition to those reserves, the City has also set

targets for the allocation of any remaining Operating Surplus to meet ongoing needs including future facilities, and continued investment in capital improvements. The Fiscal Policy identifies the first 2% of an annual operating surplus will be earmarked for current and future facility needs (CIP Facilities Reserve), and the balance of the surplus will be allocated to planned capital improvements (CIP Reserve) in order to ensure we are able to meet the service and infrastructure needs of the City.

The FY 2012-13 General Fund is estimated to complete the year with a \$4.3 million operating surplus. This surplus is a result of increased revenue adjustments throughout FY 2012-13, primarily in Sales and Transient Occupancy taxes. The operating surplus in the adjusted budget was \$2.2 million; however, increased by \$2.1 million (to \$4.3 million) as a result of increased revenues and expenditure savings of as detailed in Table 1 below.

*Table 1 – General Fund FY 2012-13 Revenues and Expenditures – UNAUDITED*

<b>General Fund Revenues &amp; Expenditures</b>	<b>FY 2012-13 Adjusted Budget</b> <i>(as of 6/30/2013)</i>	<b>FY 2012-13 Unaudited</b> <i>(as of 6/30/2013)</i>	<b>% to date</b> <i>(Budget to Actual)</i>
<b>Operating Revenues</b>			
Property Tax	23,109,826	22,958,903	99%
Sales Tax	13,915,172	14,266,682	103%
Transient Occupancy Tax	12,840,293	13,507,761	105%
Business License Tax / Other Tax	4,284,922	4,926,605	115%
Licenses and Permits	1,200,000	1,179,165	98%
Charges for Services	4,977,355	4,926,104	99%
Intergovernmental	617,158	637,176	103%
Investment Earnings	150,000	30,878	21%
Miscellaneous Revenues	205,153	193,760	94%
Transfers In	4,144,276	3,970,925	96%
<b>Sub-Total Operating Revenues</b>	<b>65,444,155</b>	<b>66,597,958</b>	<b>102%</b>
<b>Sub-Total Operating Expenditures</b>	<b>63,242,346</b>	<b>62,287,939</b>	<b>98%</b>
<b>Operating Surplus/ (Deficit)</b> <i>(Operating Revenues less Total Expenditures)</i>	<b>2,201,809</b>	<b>4,310,019</b>	
Carry Forward		(263,688)	
Transfer to CIP Facilities Reserve		(1,328,222)	
Transfer to CIP Reserve		(2,718,109)	

*Please note: The Transfers to CIP Facilities Reserve and CIP Reserve are further detailed on page 6.*

The FY 2012-13 Nonrecurring General Fund activity is estimated to complete the year with a \$0.9 million positive operating position as detailed in Table 2.

Table 2 – Nonrecurring General Fund FY 2012-13 Revenues and Expenditures - UNAUDITED

<b>General Fund Nonrecurring Revenues &amp; Expenditures</b>	<b>FY 2012-13 Adjusted Budget</b> <i>(as of 6/30/2013)</i>	<b>FY 2012-13 Unaudited</b> <i>(as of 6/30/2013)</i>	<b>% to date</b> <i>(Budget to Actual)</i>
<b>Non-Recurring Revenues</b>			
<i>Property Tax (Excess ERAF)</i>	2,115,591	2,115,591	100%
<i>Charges for Services</i>	2,085,191	907,719	44%
<i>Intergovernmental</i>	672,235	559,193	83%
<i>Miscellaneous Revenues</i>	6,000	9,000	150%
<i>Transfers In</i>	145,000	145,000	100%
<b>Non-Recurring Revenues</b>	<b>5,024,017</b>	<b>3,736,503</b>	<b>74%</b>
<b>Non-Recurring Expenditures</b>	<b>5,070,619</b>	<b>2,818,824</b>	<b>56%</b>
<b>Net Impact of Non Recurring</b>	<b>(46,602)</b>	<b>917,680</b>	
<i>Carry Forward (Net)</i>	-	(429,683)	
<i>Transfer to CIP Reserves</i>	-	(487,997)	

**Transfer to Reserves:**

As shown in Table 1 and Table 2, due to the operating surplus projected for FY 2012-13, the City will be allocating the surplus to fund necessary reserves in accordance with the City's Fiscal Policy. Please note, as revenues and expenditures are adjusted throughout the year, future projections are revised to incorporate adjustments for on-going activities (e.g. TOT & Sales Tax receipts), meaning the increase in ongoing revenues received in FY 2012-13 have already been included in the FY 2013-14 and 2014-15 adopted budgets.

The estimated surplus will result in the following allocations to the various reserve funds:

- 1) \$0.7 million will be carried forward to FY 2013-14 for ongoing Operating and Nonrecurring Projects (e.g. Structural Analysis of the Seminary Street Building; Housing Element of the General Plan; Legal Support of NCFA negotiations). This will increase the FY 2013-14 operating budget from \$66.4 million to \$66.7 million, and the FY 2013-14 nonrecurring budget from \$1.3 million to \$1.7 million.
- 2) The CIP Facilities Reserve is projected to have a fund balance of \$1.5 million as of June 30, 2013. The projected transfer in from the FY 2012-13 operating surplus of \$1.3 million (2% of the FY 2013-14 Operating Budget) will bring this balance to \$2.8 million. The five-year CIP, as presented in the adopted budget, includes planned expenditures of \$1.6 million, leaving an estimated balance of \$1.2 million.

Available Balance - CIP Facilities Reserve	1,454,730
Transfer in from FY 2012-13 Operating Reserve	1,328,222
<b>Total CIP Facilities Reserve</b>	<b>2,782,952</b>
Planned Projects FY 2013-14 through FY 2017-18*	1,577,900
<b>Remaining Reserve/(Funding Shortfall)</b>	<b>1,205,052</b>

\*NOTE: Does not include funding estimate for City Hall

3) The CIP Projects Reserve is projected to have a fund balance of \$3.6 million as of June 30, 2013. The transfer in from both the operating surplus and the nonrecurring surplus (estimated to total \$3.2 million) will bring this balance to \$6.8 million. The five-year CIP, as presented in the adopted budget, includes planned expenditures of \$12.6 million, leaving a funding gap of \$5.8 million.

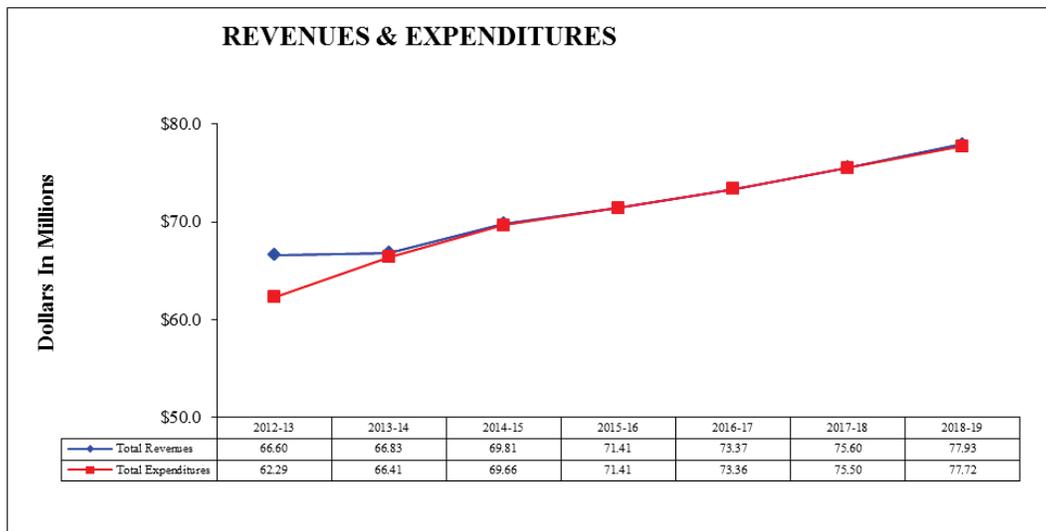
Available Balance - Capital Projects Reserve	3,589,282
Transfer in from FY 2012-13 Operating Reserve	2,718,109
Transfer in from FY 2012-13 Nonrecurring Reserve	487,997
<b>Total Capital Projects Reserve</b>	<b>6,795,388</b>
Planned Projects FY 2013-14 through FY 2017-18*	12,562,421
<b>Remaining Reserve/(Funding Shortfall)</b>	<b>(5,767,033)</b>

\* Projects in FY 2015-16 through FY 2017-18 with the exception of Fire Station #5 and the 1st & 2nd Street Roundabout do not have secured funding at this time.

An analysis of planned Capital Projects and available funding will be presented as part of the FY 2013-14 1<sup>st</sup> Quarter Report in November, 2013.

**Projected Operating Position**

The table below depicts the projected operating position for the City of Napa through FY 2018-19. Although the positive operating position is continued, the assumed contribution to Reserves is minimal, and will be available only through departmental expenditure savings or new revenues.



**What We Are Watching**

Nationally:

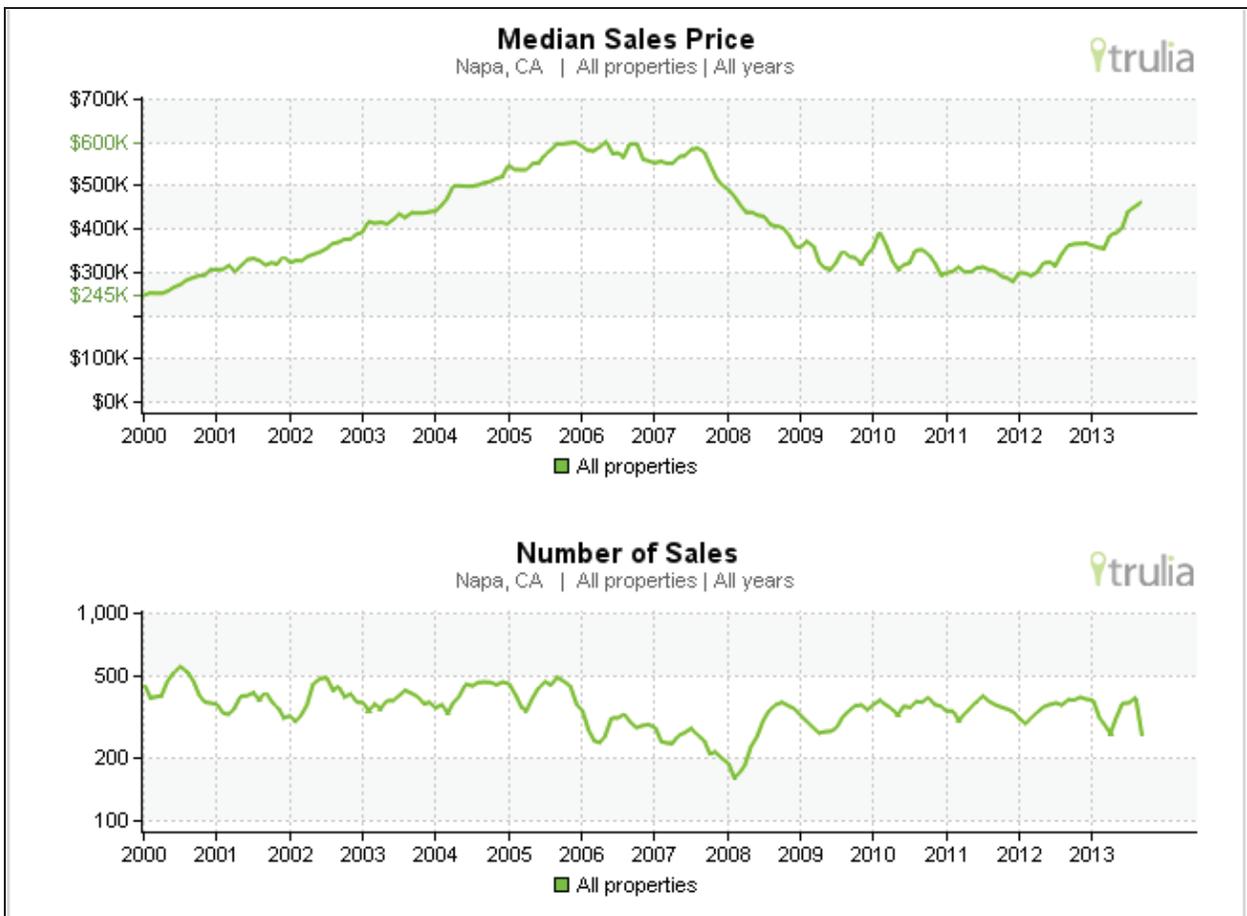
We continue to be cautiously optimistic for the future as the recovery from the economic recession makes steady progress. In particular, we will continue to pay close attention to the unsettled financial climate in Washington, to make sure we understand and are able to adjust to how resulting decisions or policies will affect the national, state and local economies.

State:

At the State level, the condition of the economy continues to be unsettled. On a positive note, the unemployment rate in the state, although still high (8.9% in August as reported by the U.S. Bureau of Labor Statistics) has fallen 1.7 percentage points since the beginning of the fiscal year (July, 2012 unemployment was 10.6%)

Local Economic Condition:

The City of Napa continues to realize growth in its major taxes (property, sales and TOT). Additionally the housing market is continuing to strengthen, as the median house prices continue to rise.



The local unemployment rate has also shown signs of recovery as the number has fallen from 7.7% in July, 2012 to 6.3% in July 2013.

**Recommendation**

Receive the preliminary FY 2012-13 year end estimates.

In accordance with Resolution R2011 93 Section 8 and 9 the City Manager is authorized to increase appropriations for specific purposes, as long as the expenditure appropriations do not exceed the amount of the donation, and the adjustment is reported to the City Council as part of the Quarterly Financial Report.

The appropriations authorized by the City Manager in FY 2012-13 are listed below:

<b>Budget Adjustment Summary</b>	<b>Revenues</b>	<b>Expenditures</b>
Police Department - Reimbursements	9,621.00	9,621.00
Fire Department - Reimbursements	22,477.09	22,477.09
Parks& Recreation - Donations	1,914.00	1,914.00
Franchise Taxes - Reimbursements	15,637.00	15,637.00
Public Works - Reimbursements for Consultant Services	144,029.05	144,029.05
CDD - Reimbursement for Consultant Services	23,309.00	23,309.00
Risk Management - Reimbursement for Legal Services	380,569.74	380,569.74
<b>TOTAL</b>	<b>597,556.88</b>	<b>597,556.88</b>