ATTACHMENT 1

2020

Long-Term Financial Forecast

2020 Long Term Financial Forecast
Trends and Forecast Analysis

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I: INTRODUCTION

This document is the City of Napa's Long Term Financial Forecast (LTFF). Staff regularly updates the forecast to assist in planning for a successful future for the City of Napa. The entire City organization is committed to doing all that is necessary to develop and stabilize our financial base because a strong financial foundation is essential to the provision of critical services to the community. Regardless of whether the economy is expanding, contracting, or remaining stable, financial planning is always a prudent activity, and maintenance of the LTFF is essential to sound fiscal management. In general, budgetary problems will result when revenues do not keep pace with expenditures, but there is more to financial planning than trying to keep the budget in balance. The LTFF provides the strategic foundation to understanding the various trends to allow a comprehensive review of programs and services provided to the community and how these needs may change both in the near-term and long-term.

Purpose of the Long Term Financial Forecast

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

The LTFF lays the foundation for the budget, aiding both the City Manager and Council in establishing priorities and allocating resources appropriately. This year's forecast continues a steady growth trend in the Napa Valley, which has a positive impact on revenues, expenditures, and the breadth and level of service provided to the community.

Components of this Long Term Financial Forecast

The City's forecast is focused on emerging issues and has been documented for public review to encourage input and feedback from various stakeholders.

This forecast includes the current fiscal year (FY 2019/20) and a ten year forecast through FY 2029/30, a statement of current financial position and a trend analysis for FY 2009/10 through FY 2018/19.

The LTFF is not able to predict with certainty the City's fiscal future, rather it serves as a tool to highlight significant trends or issues that must be addressed if the City's goals are to be achieved.

The following table displays the status of the recommended issues for study/action from the 2019 LTFF.

Description/Item	Status	Comments
Continued monitoring of hotel development projects and impacts/reliance on transient occupancy tax revenue projections	Ongoing	Baseline Transient Occupancy Tax revenues have not shown significant growth since FY17; will continue to monitor potential impacts of new development on pre-existing hotels.
Financing of the proposed Civic Center project and budgeting for ongoing debt service payments	In process	Finance continues to work with project managers and financial consultants on the Civic Center project.
Fiscal policy changes to provide parameters for usage and replenishment of reserve balances	In process	Finance updated the General Fund Reserve policies with the FY 2019/20 and 2020/21 budget adoption. Policy updates for other fund reserves are in process.

II: FINANCIAL FORECAST

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

Development of the Financial Forecast

An updated financial forecast for the fiscal years 2020/21 through 2029/30 has been developed for the General Fund. The objective of the financial forecast is to provide a frame of reference for evaluating the City's financial condition as a basis for decision-making.

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

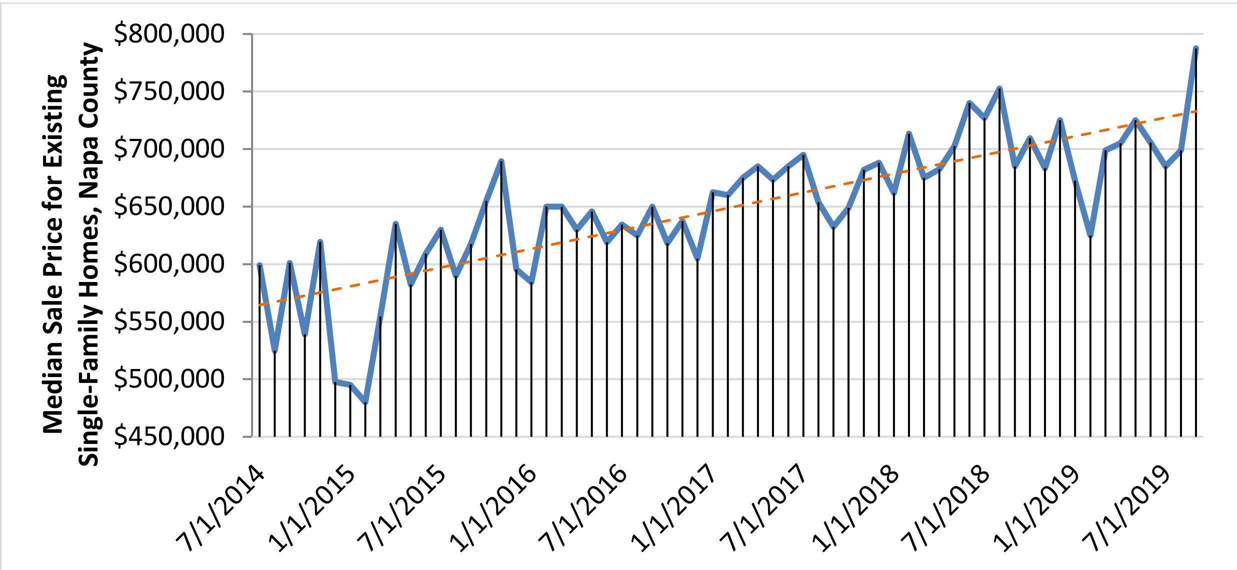
The financial forecast reflects the fact that we are in a time of steady growth through the life of the forecast (FY 2029/30), although the rate of growth is slowing as compared to prior fiscal years. This growth provides for a financial forecast that enables projected revenues to exceed projected expenditures, thereby providing resources to address capital and operating needs.

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

- Housing market
- Consumer Confidence
- Unemployment rate
- State Fiscal Health Index
- State and Federal issues

Housing Market

The median sales price has steadily climbed over the past five years. The graph below tracks the median sales price for an existing single-family home in Napa County. For the year ending September 30, 2019, the average median sales price was $702,000.



Data Source: California Association of Realtors

Consumer Confidence

The Conference Board's *Consumer Confidence Survey*™ indicates that the Consumer Confidence Index™ has a fair amount of volatility and experienced two sharp declines in 2019. While confidence has since rebounded, Napa has reason to be cautious in light of our reliance on elastic revenues.

Unemployment Rate

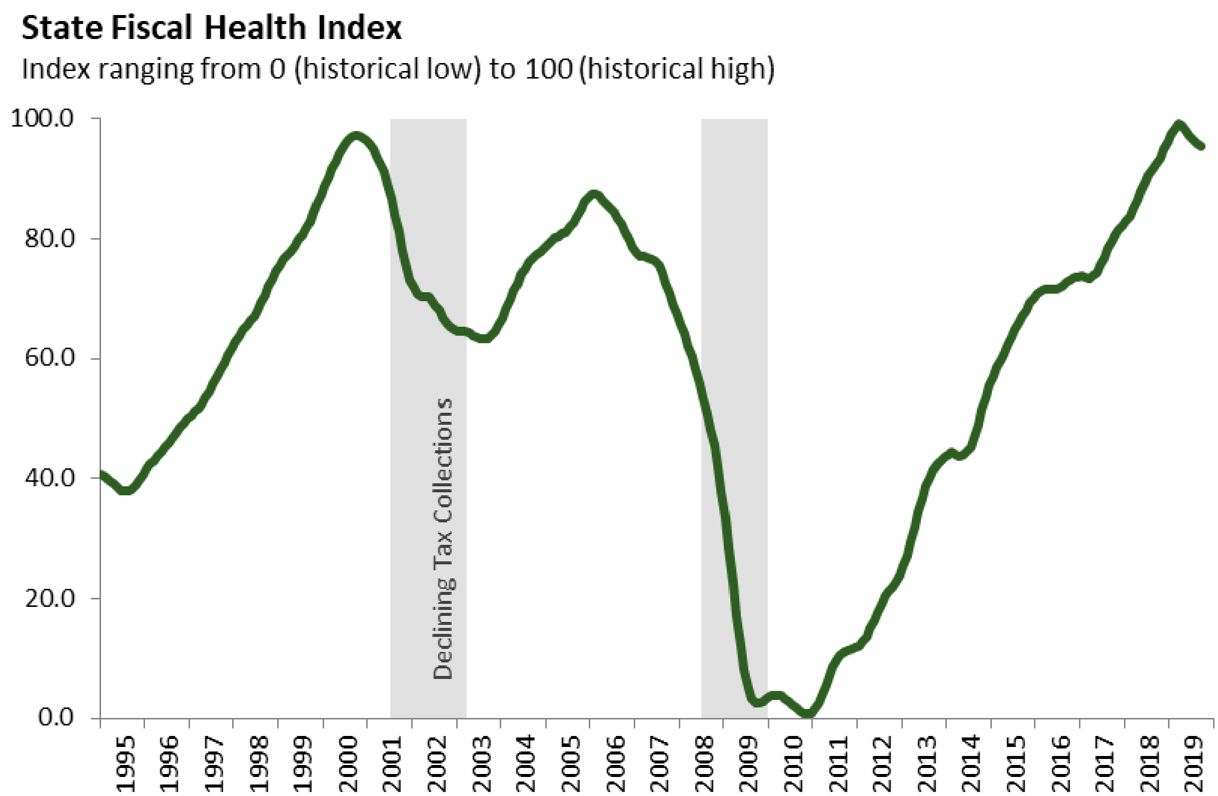
The unemployment rate in the County of Napa has declined over the past year from 2.5% in September 2018 to 2.2% in September 2019 according to the California Employment Development Department. While a low unemployment rate typically means the economy is doing well, employers are having more difficulty finding and retaining workers.

The State unemployment rate was essentially flat in the last year, going from 3.9% in September 2018 to 4.0% in September 2019. Over that time period both the labor force and the number employed decreased by about 150,000.

The National unemployment rate is also declining, and was 3.5% in September 2019, and 3.7% in September 2018.

State Fiscal Health Index

The State Fiscal Health Index is calculated monthly by the Legislative Analyst's Office, and combines ten different economic factors to obtain an overall picture of California's fiscal health. As of September 2019, the Index had declined for six straight months; declines of this duration and magnitude have not been observed since the last recession.



Local, State and Federal Issues

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

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

While most traditional indicators show the The Federal Reserve Board has lowered interest rates three times in 2019, in the hopes that lower rates will drive consumer and business borrowing and increase economic growth. Per the Fed, no further decreases are planned unless economic deterioration occurs.

Revenue and Expenditure Assumptions

The Long Term Financial Forecast includes a baseline (most likely) revenue assumption, along with a recession scenario. The key assumption differences between these scenarios are as follows:

Most Likely:

Sales Tax: 3.7% average annual increase
Transient Occupancy Tax: 1.5% increase per year plus most likely new development estimate

Recession:

Assumes declining Sales Tax and Transient Occupancy Tax in FY 2020/21 and FY 2021/22, with revenues increasing in FY 2022/23 forward

The assumptions (most likely scenario) utilized in this forecast are summarized below:

- Revenue Assumptions
    - Property Tax: 4% growth/year, plus $1.2 million in Excess ERAF (50% of annual anticipated amount of $2.4 million)
    - Sales Tax: 3.7% average annual growth
    - Transient Occupancy Tax: 1.5% growth/year for existing hotels plus estimated new development
    - Business License Tax: 3%
    - Other Revenues: 1.6% average annual growth
    - Transfers In: 3.3% growth/year
- Expenditure Assumptions
    - Salaries: 3.3% growth/year (combined COLA and step increases)
    - Health/Dental: 3.5% growth/year
    - CalPERS: 6.0% average annual growth, using rates and amounts calculated by an actuarial study
    - Professional Services: 1% growth/year
    - Internal Services: 2.9% average annual growth
    - Materials and Supplies/Capital Outlay: 2% growth/year
    - Fiscal Policy Transfers
        - 1% Operating Budget transfer to the CIP General Reserve
        - 2% Operating Budget transfer to the CIP Facilities Reserve
        - $150,000/year transfer to the Equipment Replacement Reserve
    - Other Transfers
        - $900,000/year transfer to the Sidewalk Replacement Fund

Factors Not Included in the Forecast

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

- Other non-recurring revenues and expenditures have also not been included such as major non-recurring development fees and expenditures or one-time transfers to rebuild reserves.

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

    1. Impact of Civic Center Project.
    2. New positions
    3. New or enhanced programs.
    4. State impacts (e.g. offset for lost Redevelopment Agency Tax Increment).

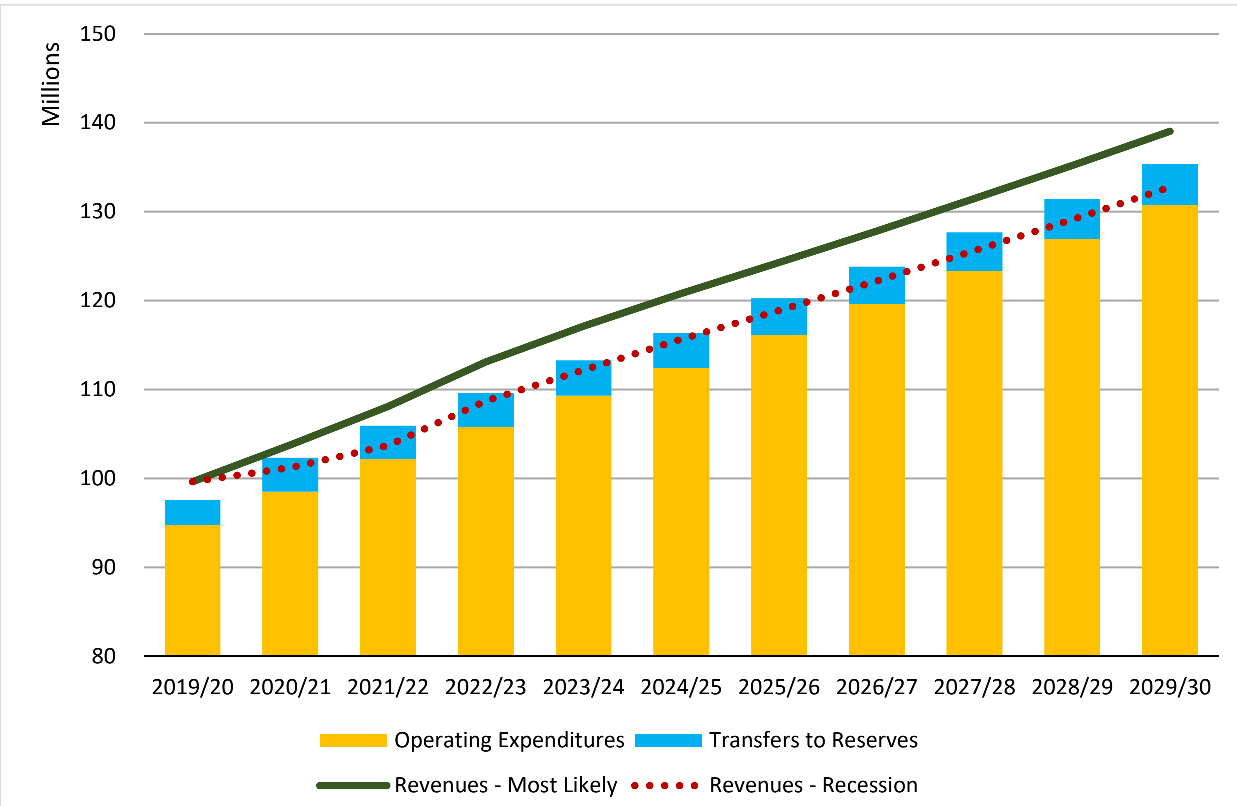
- Only sizable commercial development under construction or with a high likelihood of becoming reality has been included.

Forecast Summary and Results

Operating position refers to the City's ability to match revenues to expenditure levels, i.e. if revenues exceed expenditures, the City will have an operating surplus. If revenues fall below expenditures the result is an operating deficit. Over the forecast period, the City's revenue and expenditure projections generate a positive operating position for fiscal years 2019/20 through 2029/30.

Most Likely (in millions)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Revenue	99.63	103.76	108.09	113.11	117.12	120.81	124.30	127.83	131.48	135.20	139.04
Expenditures	97.55	102.33	105.92	109.60	113.27	116.37	120.27	123.84	127.67	131.41	135.36
Surplus / (Deficit)	2.08	1.43	2.17	3.51	3.84	4.44	4.03	4.00	3.81	3.79	3.68

Revenues & Expenditures



Total General Fund revenues are forecast (using the most likely scenario) to grow by an average annual increase of approximately 3.4% per year. Continued economic growth, in addition to planned hotel and retail development projects contribute to the forecasted revenue growth.

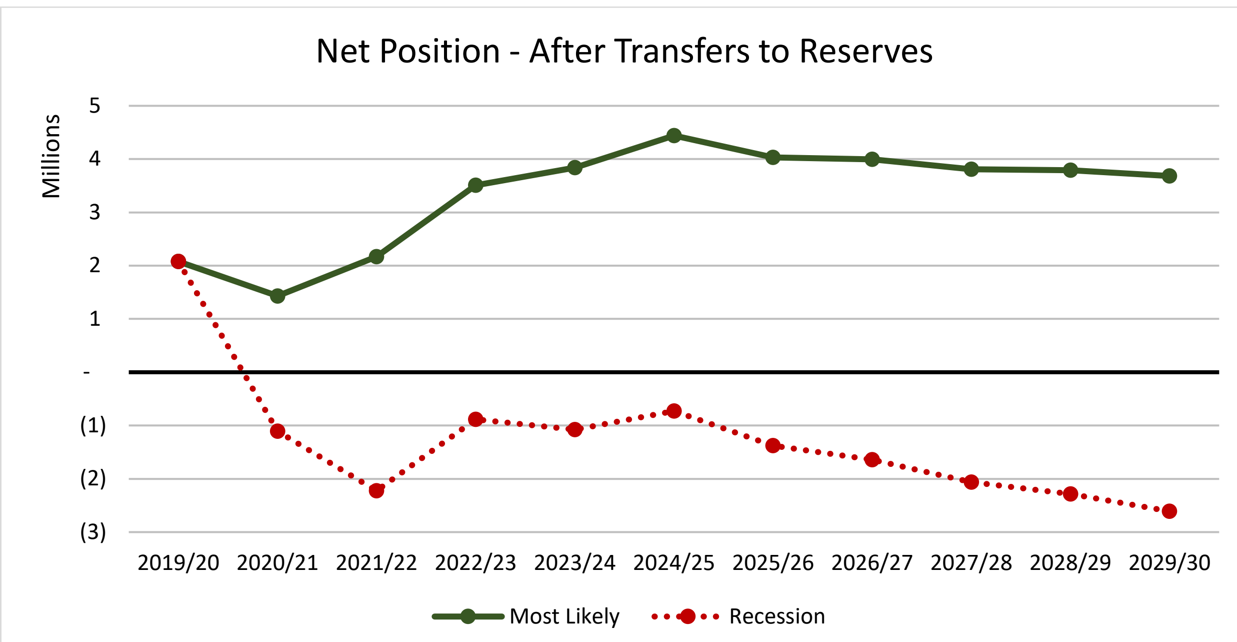
Expenditures are projected to increase at an average annual rate of 3.3% per year. Projected expenditures include retirement contribution increases as projected by CalPERS, other benefit increases, and cost of living adjustments (COLA). No new positions are included in this forecast in order to make clear the amount of total potential surplus available for Council direction.

For years 2019/20 through 2024/25, annual revenue growth is higher than annual expenditure growth. As we move into the latter half of the forecast, expenditure growth outpaces revenue growth.

The recession scenario results in a loss of $50.7 million of revenue over the six-year forecast, with FY 2029/30 revenue $6.3 million lower in the recession scenario as compared to the most likely scenario. As mentioned in the Economic Assumptions section, this difference is the result of building in a slowdown in sales tax and transient occupancy tax revenue growth and new development (e.g. new hotel rooms) in FY 2020/21 and FY 2021/22.

The expenditures shown do not include new positions, and do not add to or significantly alter programs over the life of the forecast. The forecast does include program additions/changes included in the FY 2019/20 and 2020/21 adopted budget.

The significance of the potential swing in revenue makes planning for the future necessary. Additionally, expenditures will need to be controlled so that their growth does not outpace revenue growth. The forecast as shown uses conservative growth rates for both revenue and expenditures.

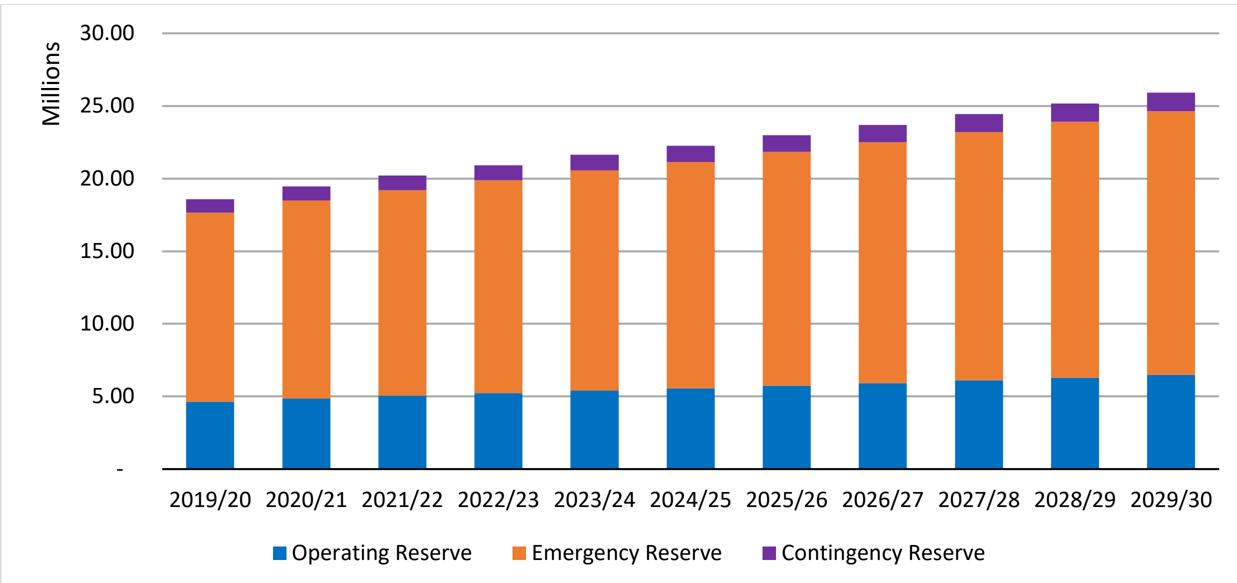


The City is projecting a positive operating position (surplus) throughout the life of the forecast, based on the Most Likely scenario. The graph shows the anticipated surplus amount after transfers to CIP and General Fund reserves. Per adopted fiscal policy, any remaining surplus is to be transferred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

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

Increases in labor costs (salary and benefits) are the primary driver of expenditures, which are projected to increase each year by the estimated COLAs and step increases for employees. The CalPERS discount rate change, which began its 5-year phase-in period in FY 2018/19, also has an effect on rising benefit costs.

Reserve Fund Balances

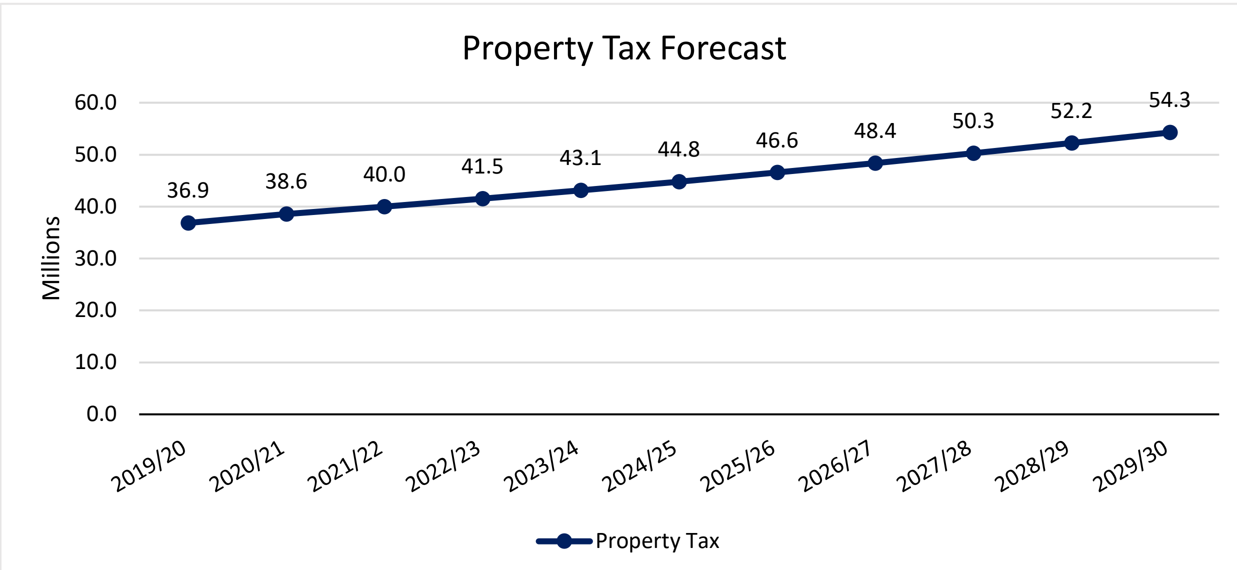


The fiscal policy sets the levels of the Operating, Contingency, and Emergency Reserves at 5%, 1% and 14% of the budgeted operating expenditure appropriations for each year, respectively. As described previously, the Operating Position of the City is likely to be positive throughout the next six years.

Revenue Forecasts

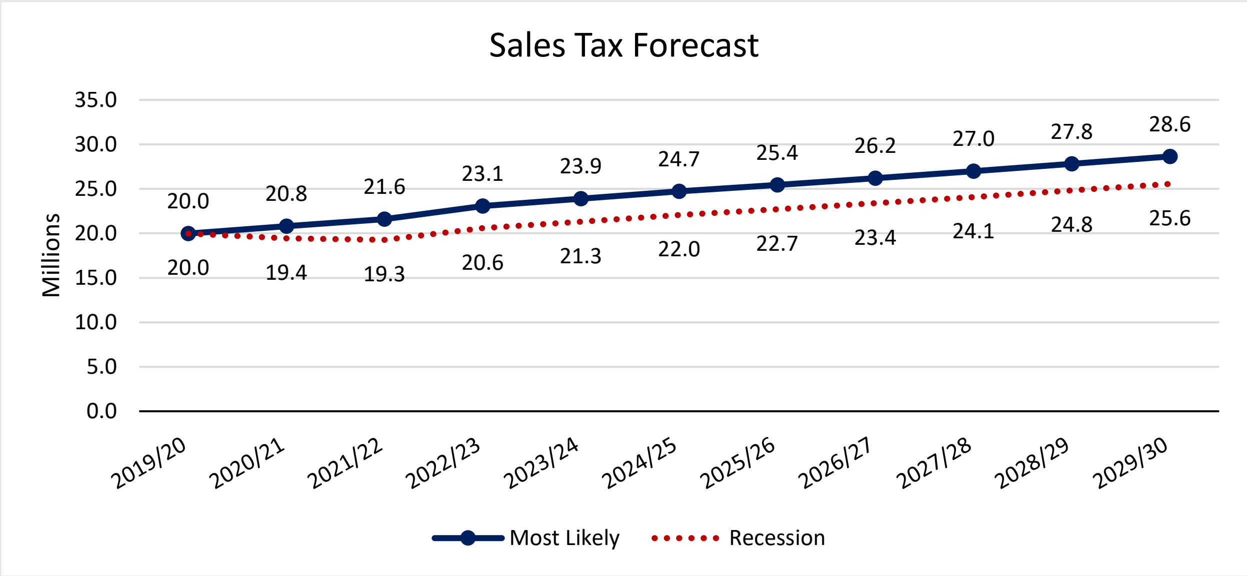
Most Likely (in millions)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Property Tax	36.85	38.59	39.98	41.53	43.14	44.82	46.57	48.38	50.27	52.23	54.27
Sales Tax	19.97	20.80	21.60	23.07	23.89	24.71	25.45	26.21	27.00	27.81	28.64
Transient Occupancy Tax	23.24	24.50	26.47	28.06	29.21	29.98	30.54	31.04	31.55	32.03	32.51
Business License Tax	3.98	4.10	4.22	4.35	4.48	4.61	4.75	4.89	5.04	5.19	5.35
Other Taxes	2.60	2.62	2.65	2.68	2.70	2.73	2.76	2.79	2.81	2.84	2.87
Licenses and Permits	2.35	2.38	2.40	2.43	2.45	2.48	2.50	2.53	2.55	2.58	2.60
Charges for Services	6.03	6.12	6.22	6.32	6.42	6.52	6.63	6.73	6.84	6.95	7.06
Other Revenue	2.90	1.27	1.22	1.24	1.27	1.29	1.32	1.34	1.37	1.40	1.43
Transfers In	3.92	3.35	3.44	3.31	3.42	3.53	3.65	3.77	3.89	4.02	4.15
Total Revenues	**101.84**	**103.72**	**108.20**	**112.97**	**116.98**	**120.67**	**124.15**	**127.68**	**131.32**	**135.04**	**138.88**

Property Tax Revenues



Property Tax continues to be the City's largest source of revenue in the General Fund and represents 37% of total General Fund revenues in FY 2019/20. The County Assessor has indicated property taxes are expected to show steady gains, likely averaging 4% per year over the next ten years. Property Tax is not adjusted in our recession scenario.

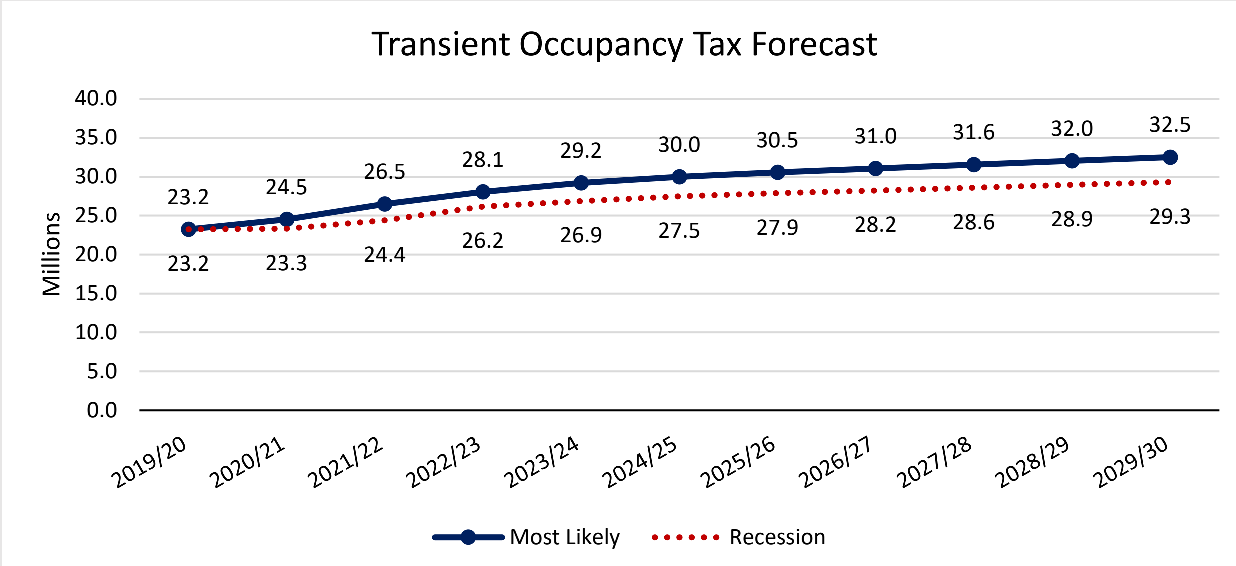
Sales Tax Revenues



Sales tax is one of the City's most economically sensitive revenue sources and continues to be a strong revenue source at 20% of General Fund revenues (in FY 2019/20).

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

Transient Occupancy Tax Revenues



Transient occupancy tax is the other of the City's most economically sensitive revenue sources and has surpassed Sales Tax to be the City's second largest revenue source at 23% of General Fund revenues. Projected new hotel development is expected to bring additional transient occupancy tax revenue as shown in the table below.

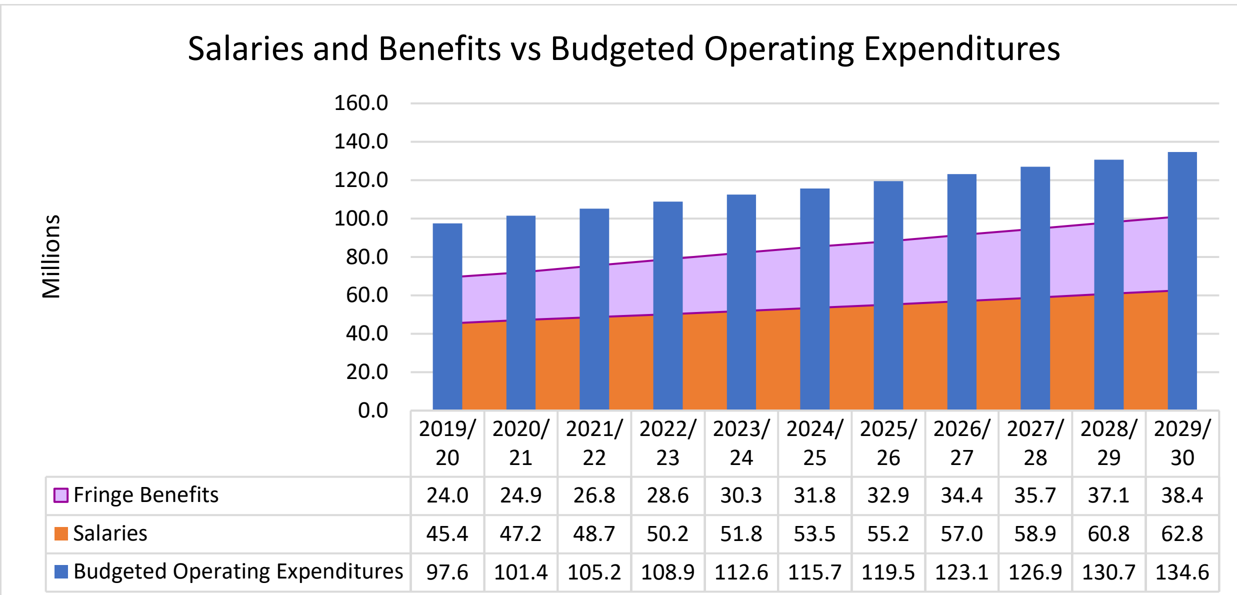
Transient Occupancy Tax Revenue Forecast (in millions)											
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Base TOT	19.95	20.25	20.55	20.86	21.18	21.49	21.82	22.14	22.47	22.81	23.15
New Development (Most Likely)	3.29	4.25	5.92	7.20	8.04	8.49	8.72	8.90	9.08	9.21	9.35
Total	23.24	24.50	26.47	28.06	29.21	29.98	30.54	31.04	31.55	32.03	32.51
Year-over-Year % Increase		5.42%	8.05%	6.00%	4.10%	2.63%	1.87%	1.65%	1.64%	1.50%	1.50%

An average annual increase of 1.5% for room rate increases has been included in the base TOT calculation. Overall, transient occupancy tax revenues are expected to see an average annual increase of 3.4% per year during the forecast period.

Expenditure Forecasts

Most Likely (in millions)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Salaries and Benefits	70.25	74.00	77.28	80.48	83.67	86.38	89.66	92.75	96.02	99.23	102.62
Services	19.75	20.41	20.72	21.04	21.37	21.71	22.05	22.40	22.76	23.13	23.49
Materials and Capital Outlay	2.87	2.95	3.00	3.06	3.13	3.19	3.25	3.32	3.38	3.45	3.52
Transfers Out	4.69	4.08	4.18	4.29	4.39	4.47	4.57	4.67	4.77	4.87	4.98
Budgeted Expenditures	97.55	101.43	105.19	108.88	112.56	115.75	119.53	123.14	126.93	130.68	134.60
Contributions to Non-CIP Reserves	0.00	0.90	0.73	0.72	0.72	0.62	0.74	0.70	0.74	0.73	0.76
Total Expenditures	**97.55**	**102.33**	**105.92**	**109.60**	**113.27**	**116.37**	**120.27**	**123.84**	**127.67**	**131.41**	**135.36**

Salaries and Benefits vs Budgeted Operating Expenditures



Salaries continue to account for just under 50% of the City's operating expenditure budget. The relative percentage is relatively constant through the life of the forecast, ranging from 46% to 47%. Employee benefits grow from 25% to 29% of total expenditures through the life of the forecast. The bulk of these costs are due to increasing CalPERS expense. Over the span of the forecast, salaries increase by 38.3% from FY 2019/20 budgeted amounts, while CalPERS costs increase by 78.9%. Again, these increases are based on the current number of employees, and does not add any new positions to the forecast.

III: FINDINGS

The preceding forecast, and the historical trends in the Financial Trend Analysis section to follow, indicate that the City of Napa is in a period of fiscal stability. The local economy is strong as reflected in revenue growth across the board. However, some of the baseline assumptions used push expenditure growth higher than revenue growth by the end of the forecast, and the City will need to plan its budgets accordingly to manage expenditures.

It should be noted that this forecast focuses on the City's ability to provide for operating service delivery programs that are currently in effect using existing sources of revenue at current staffing levels. This forecast does not include the Civic Center project under current consideration by Council; nor does it include new positions or further changes to CalPERS pension calculations.

It is important that we hit our revenue and expenditure targets and assumptions to meet the long term operational needs of the City. It is imperative that we continue to ensure our revenue streams remain healthy (specifically Property Tax, Sales Tax, and Transient Occupancy Tax) to provide stability to our community.

The following actions warrant consideration by the City Council and City staff in order to stabilize and secure the City's fiscal future.

IV: RECOMMENDED ISSUES FOR STUDY/ACTION:

- Continued monitoring of hotel development projects and impacts / reliance on transient occupancy tax revenue projections
- Analysis of potential Civic Center building projects and related financing parameters
- Fiscal policy updates to provide parameters for usage and replenishment of non-General Fund reserve balances

VI: FINANCIAL TREND ANALYSIS

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

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

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

Overview of the City's Financial Condition

The City's General Fund operating revenues increased for the seventh year in a row, showing increases in all three of the City's major revenue sources. From FY 2017/18 to FY 2018/19, Property Tax increased by 8.8%, Sales Tax by 8.1% and Transient Occupancy Tax by 12.8%. Overall, total revenue increased by $4.5 million, or 4.8%.

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

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

Some areas of concern include:

- Community programs and services must continue to be evaluated to ensure needs are met in the most effective and efficient way possible.
- Benefit costs are on the rise due to the CalPERS discount rate decrease
- The City has substantial deferred maintenance costs that will need to be addressed.
- The City is reliant on elastic revenue sources, and these revenue sources are susceptible to negative impacts from fragile global and national economies.
- The Fed has reduced rates three times in four months, raising concerns about the national economy.
- The State Fiscal Health Index (as calculated by the Legislative Analyst's Office) currently suggests that an economic slowdown may be imminent. While the index number is high, it has declined for six straight months as of September 2019.
- Growth of the City's baseline Transient Occupancy Tax has slowed, and will need to be closely monitored.

We must plan with caution and continue to maintain a positive operating position for the upcoming years, keeping in mind potential fiscal opportunities and threats.

Summary of Trends & Indicators

The FY 2008/09 through FY 2019/20 financial trend analysis combines several sources of data into a meaningful overview of the General Fund's current financial position, and assists the City Administration and Council in making determinations that will lead to adoption of City fiscal policies. Reports examined as part of this analysis include those combining information from budgets and financial reports, annual State Controller's Reports, and the International City Management Association's (ICMA) Trend Monitoring System.

The following pages contain a listing of the indicators analyzed as part of this financial trend analysis and a brief summary of the rating assigned to each indicator. An expanded discussion of each indicator follows the summary. The table below is a summary of the indicators and the assigned ratings over the past five LTFFs.

Indicator	2014/15	2015/16	2016/17	2017/18	2018/19
Revenues per Capita	F	F	F	F	F
Property Tax Revenues	C	F	F	F	F
Sales Tax Revenues	F	F	F	F	F
Transient Occupancy Tax Revenues	F	F	F	F	C
Business License Tax Revenues	F	F	F	F	F
Fringe Benefits as Compared to Total Operating Expenditures	C	C	C	C	C
Salary Expenditures as Compared to Total Operating Expenditures	F	F	F	F	F
Capital Outlay as a Percentage of Operating Expenditures	C	C	F	F	F
Operating Position	F	F	F	F	F
Reserve Fund Balances	F	F	F	F	F
Liquidity Ratio	F	F	F	F	F

Favorable (F):	This trend is **positive** with respect to the City's goals, policies, and national criteria.
Caution (C):	This rating is used when there are factors influencing the indicator that may not be apparent in existing trend, but could result in a **change** of status from a **positive** to a **negative** direction in the future.
Warning (W):	This rating indicates that a trend has **changed** from a positive direction and is going in a direction that may have an **adverse** effect on the City's financial condition. The City also uses this rating to indicate that, although a trend may appear to be favorable, it is not yet in conformance with adopted fiscal policies.
Unfavorable (U):	This trend is **negative**, and there is an immediate need for the City to take corrective action.

Indicator Number	Description	Finding	Comments
General Fund Revenue Trends			
1	Revenues Per Capita	F	Revenues per capita have been steadily climbing since FY 2009/10. Historically, revenues have grown faster than the City's population.
2	Property Tax Revenues	F	FY 2018/19 reflected an increase of 8.8% due to increasing property values and an active resale market. We currently project growth continuing at 4% per year.
3	Sales Tax Revenues	F	Napa's sales tax revenue tends to follow economic cycles. Sales Tax revenue increased by 8.1% from FY 2017/18 to FY 2018/19.
4	Transient Occupancy Tax Revenues	C	Baseline revenue growth has been lower than expected for the past three fiscal year. Growth assumptions have been reduced in the current forecast.
5	Business License Tax Revenues	F	Business license tax revenues are based on gross receipts of individual businesses. Revenue increased by 3.9% in FY 2018/19.
F: Favorable C: Caution W: Warning U: Unfavorable			

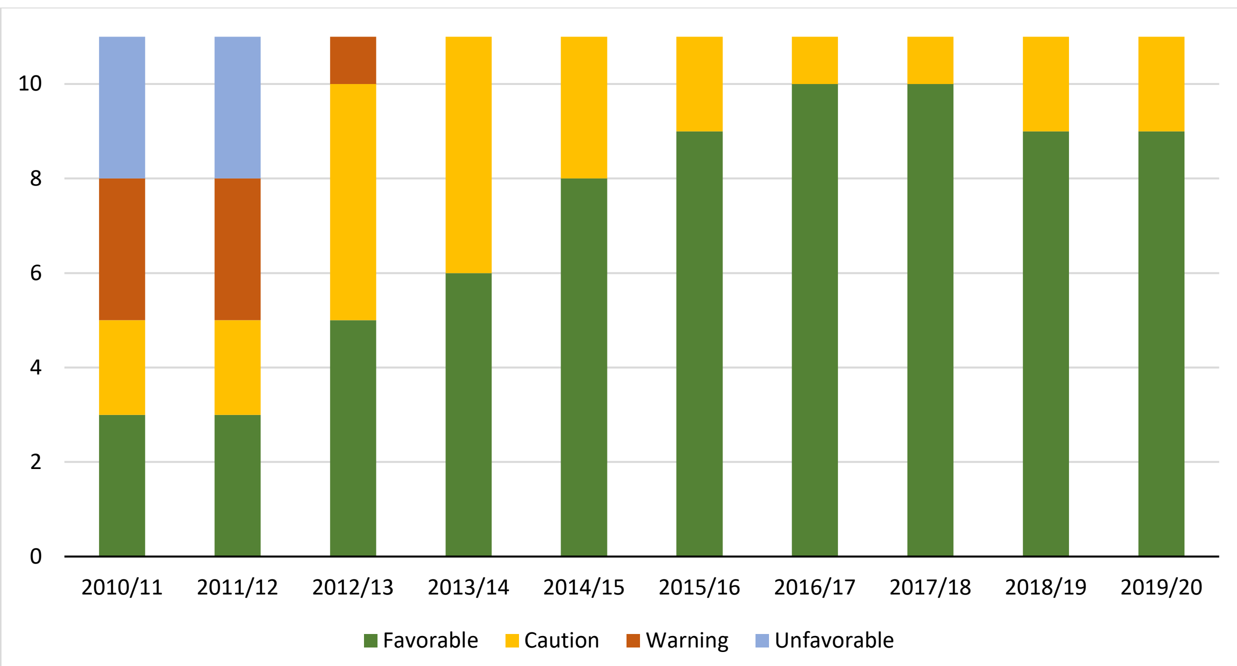
General Fund Expenditure Trends			
6	Fringe Benefits vs Total Operating Expenditures	C	Fringe benefit costs as compared to the city's total operating expenditures have stabilized through increased cost sharing and employee incentives to control the increased cost of benefits. However, the recent CalPERS discount rate change will cause pension costs to nearly double over the forecast period.
7	Salary Expenditures vs Total Operating Expenditures	F	Salary expenditures as compared to operating expenditures have remained relatively stable over the past five years.
8	Capital Outlay as a Percentage of Operating Expenditures	F	Fiscal policy was created in FY 2015/16 to create an Equipment Replacement Reserve. Regular contributions to this reserve will provide a stable source of funds for capital outlay.
General Fund Operating Position Trends			
9	Operating Position	F	The City's General Fund has had a positive operating position for the past nine years (FY 2010/11 through FY 2018/19). The City adopted fiscal policies include a goal that current revenues will be sufficient to support current operating expenditures.
10	Reserve Fund Balances	F	The City has accomplished compliance with all of the Reserve Policies.
11	Liquidity Ratio	F	Liquidity is measured by comparing current assets to current liabilities. A liquidity ratio of less than 1:1 can indicate insolvency. A ratio above that is considered favorable. The City has been able to maintain a liquidity ratio well above 1:1 for the past ten years.
F: Favorable C: Caution W: Warning U: Unfavorable			

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

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

Rating Changes

TOT Revenue and the cost of Employee Fringe Benefits continue to earn "Caution" ratings. There are no changes as compared to prior year. The generally positive rating on all trends and indicators shows Napa's continued growth, although post-recession expansion is slowing.



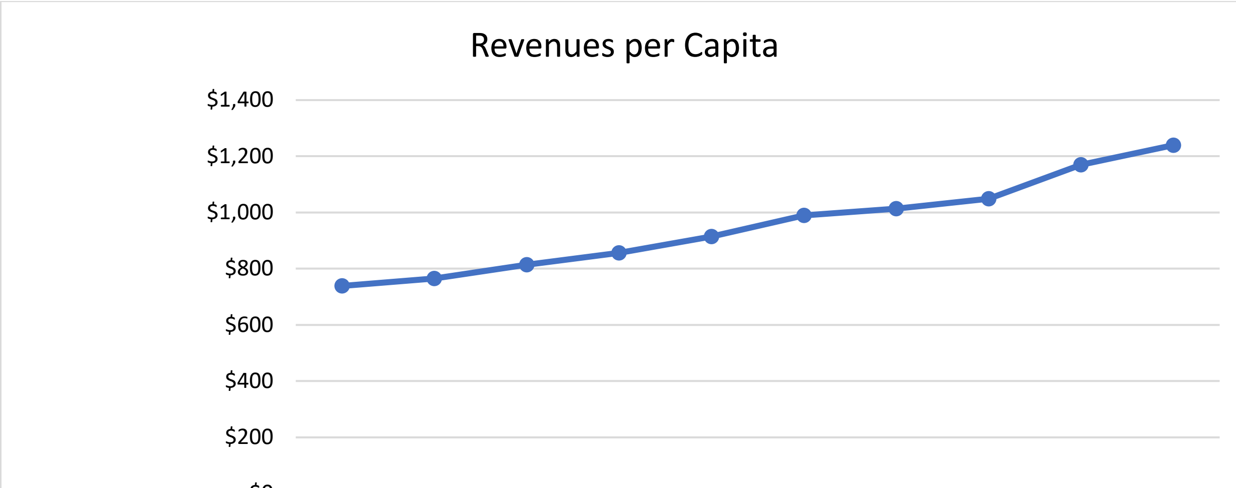
General Fund Revenue Trend Indicators

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

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

- Revenues per Capita
- Property Tax Revenues
- Sales Tax Revenues
- Transient Occupancy Tax Revenues
- Business License Tax Revenues

Indicator 1: Revenues Per Capita



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenues per Capita	739	765	814	857	914	990	1,013	1,049	1,170	1,240

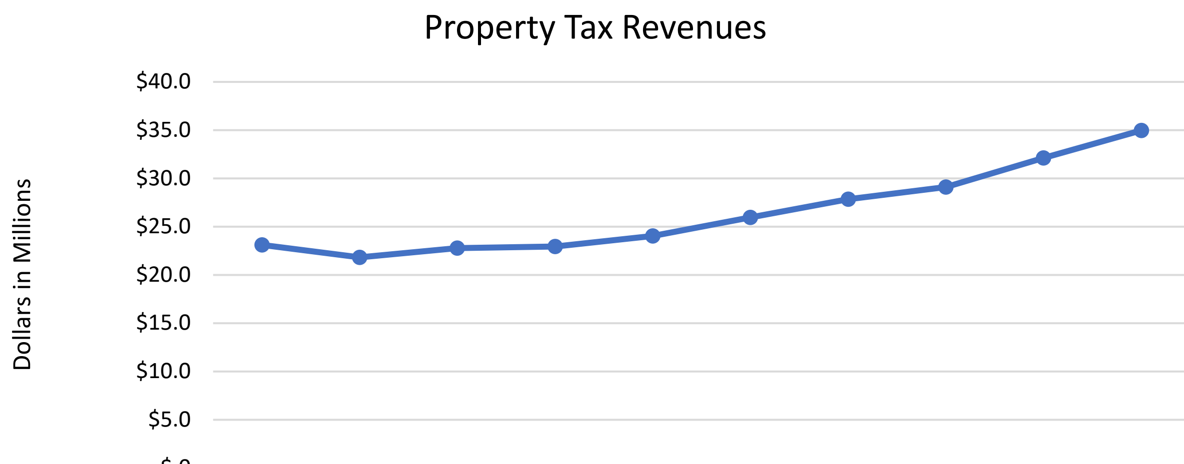
2020 Finding: **Favorable**
2019 Finding: **Favorable**

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

Comments and Analysis
Since FY 2009/10, revenues per capita have steadily increased. These increases are largely driven by tourism and increased transient occupancy tax and sales tax collections, as well as escalating property values and retail and hotel development within the City. Population growth has been slow over this period, averaging 0.1% per year over the past ten years.

The 2019 rating of Favorable remains in 2020 for this indicator due to continued growth.

Indicator 2: Property Tax Revenues



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Property Tax	23.1	21.8	22.8	23.0	24.0	26.0	27.8	29.1	32.1	35.0

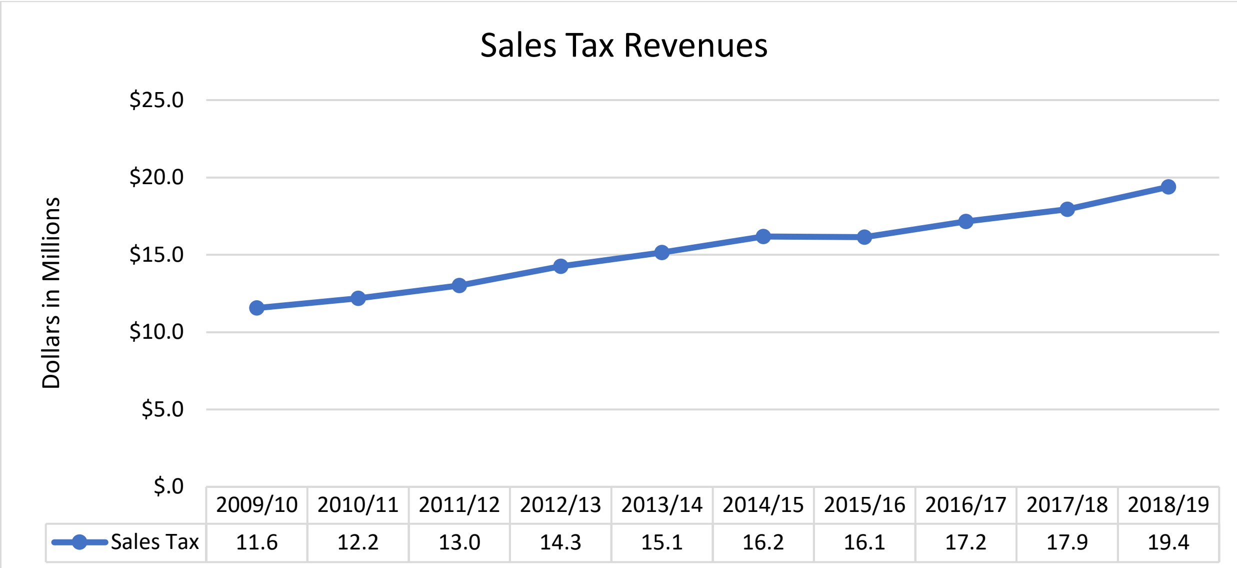
2020 Finding: **Favorable**
2019 Finding: **Favorable**

Description
Property tax revenues are evaluated over time to measure the City's economic health. Property taxes are the City's largest source of revenue and are relatively inelastic in that they should remain constant as the economy changes. By State law (Proposition 13), the County levies property taxes at one percent of full market value at the time of purchase. Assessed values can be increased by no more than two percent per year. The City also has the authority to impose an excess property tax levy to pay debt service on voter-approved debt. Currently, no such debt exists.

Comments and Analysis
FY 2018/19 reflected an increase of 8.8% ($2.5 million) in property tax growth. In FY 2017/18 and 2018/19 $0.5 million of excess ERAF was posted to the General Fund. In the forecast, it is assumed that 50% of the projected annual $2.4 million of excess ERAF will be posted to the General Fund ($1.2 million/year). The increase in property tax is due to increasing property values and an still active, though slowing, resale market. Furthermore, steady growth is projected for FY 2019/20 and forward, though at a lower rate than observed in the past few fiscal years.

The 2019 rating of Favorable remains in 2020 due to eight years of positive growth, along with projections of continued growth throughout the life of the forecast.

Indicator 3: Sales Tax Revenues



2020 Finding: **Favorable**
2019 Finding: **Favorable**

Description

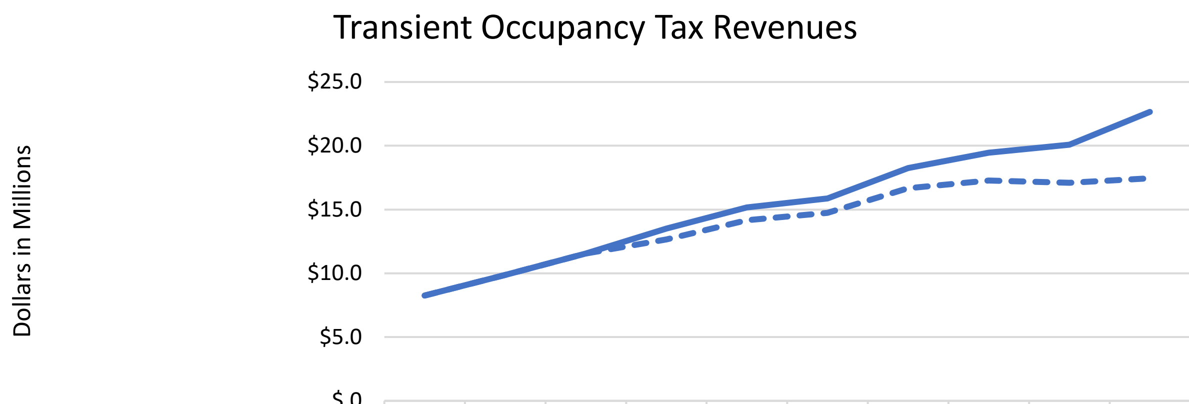
Sales tax revenue is a strong indicator of the city's economic health. Sales taxes are the City's third largest source of revenue (20%) and are elastic in nature, varying with changes in the economy. The California Department of Tax and Fee Administration levies the sales tax on most retail sales with principal exemptions applying to sales of food for home consumption and prescription drugs. The overall Napa County sales tax rate is 7.75%, of which the City receives the 1.0% local portion. The city also receives a portion of the 0.5% earmarked for public safety as mandated by the State (Proposition 172), as well as a portion of the 0.5% for County Measure T (recorded in a separate fund for qualified transportation projects).

Comments and Analysis

Napa's sales tax revenue is heavily dependent on the tourism industry and therefore tends to follow economic cycles. Sales Tax receipts have since increased year over year since the recession low of FY 20019/10, with the exception of the slight decline in FY 2015/16. The City continues to see strong growth in food products, particulary restaurants and food markets. While slowdowns are anticipated in some categories, it is expected that anticipated new development and continued tourism will keep revenues growing.

The 2019 rating of Favorable remains in 2020 for this indicator due to continued growth in Sales Tax receipts and the strength of Napa businesses.

Indicator 4: Transient Occupancy Tax Revenues



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Baseline TOT	8.3	9.9	11.6	12.7	14.2	14.7	16.7	17.3	17.1	17.4
TOT with New Development	8.3	9.9	11.6	13.5	15.2	15.9	18.3	19.5	20.1	22.7

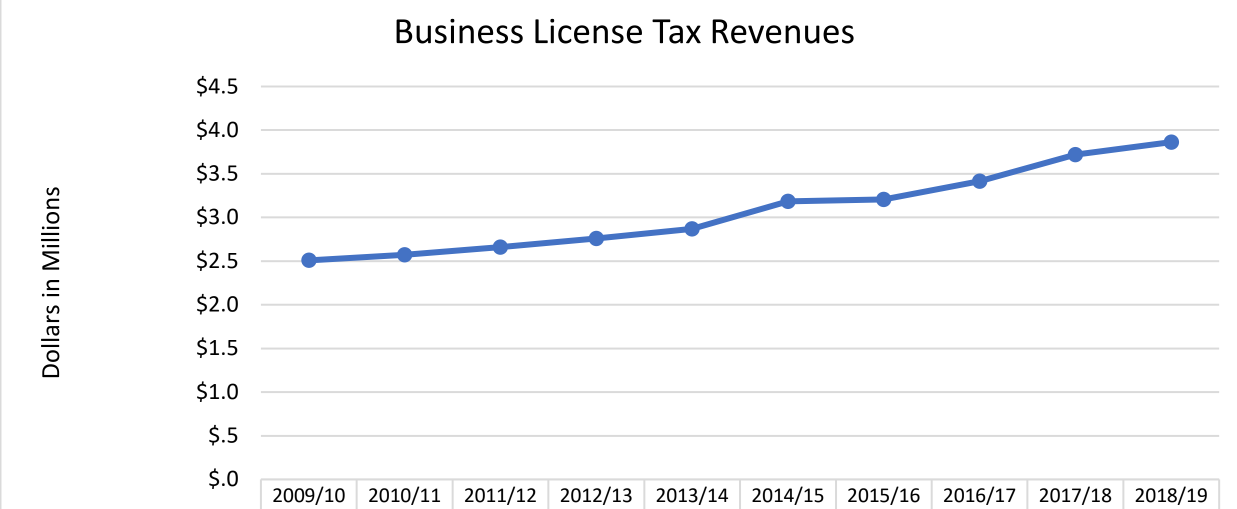
2020 Finding: **Caution**
2019 Finding: **Caution**

Description
Transient occupancy tax revenue (TOT) is a strong indicator of the city's economic health. This revenue source is the City's second largest source of revenue (23.0%) and is elastic in nature, varying with changes in the economy. The City of Napa levies the tax on rooms at hotels, motels, bed and breakfasts and vacation rentals within the City. The tax rate is 13%, of which 1% goes to an Affordable Housing Fund. An additional 2% assessment rate is collected on behalf of the Tourism Improvement District, bringing the total rate paid to 15%.

Comments and Analysis
Napa's transient occupancy tax revenue is heavily dependent on the tourism industry and therefore tends to follow economic cycles. The City experienced a significant rise in tourism beginning in FY 2010/11, along with increasing room rates, which are indicated by the strong upward trend in overall TOT receipts in the past ten fiscal years. While the City is still experiencing revenue growth in this category, the actual baseline growth rate slowed in recent years. This revenue source will be monitored to see if growth continues and how new development affects overall revenue.

The 2019 rating of Caution remains in 2020 due to continued low revenue growth in established hotels, as well as a potential economic slowdown that could impact both revenue and future hotel development.

Indicator 5: Business License Tax Revenues



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Business License	2.5	2.6	2.7	2.8	2.9	3.2	3.2	3.4	3.7	3.9

2020 Finding: **Favorable**
2019 Finding: **Favorable**

Description

Business license tax revenue accounts for 3.9% of the City's revenues, and is a good indicator of the City's economic health. This tax is generally based on gross receipts of individual business within the City. Much like sales tax revenues, business license tax revenues are relatively elastic as they vary directly with changes in the economy.

Comments and Analysis

Business license tax was at a high of $3.5 million in FY 2008/09 and then took a sharp turn downward in FY 2009/10 (-29%) as the business community reacted to the national recession. Receipts have since steadily increased from the low of FY 2009/10. Revenues are projected to increase in the future due to continued development and business growth in Napa.

The 2019 rating of Favorable continues in 2020 reflecting continued positive growth of Business License receipts, and projections of continued growth throughout the life of the forecast.

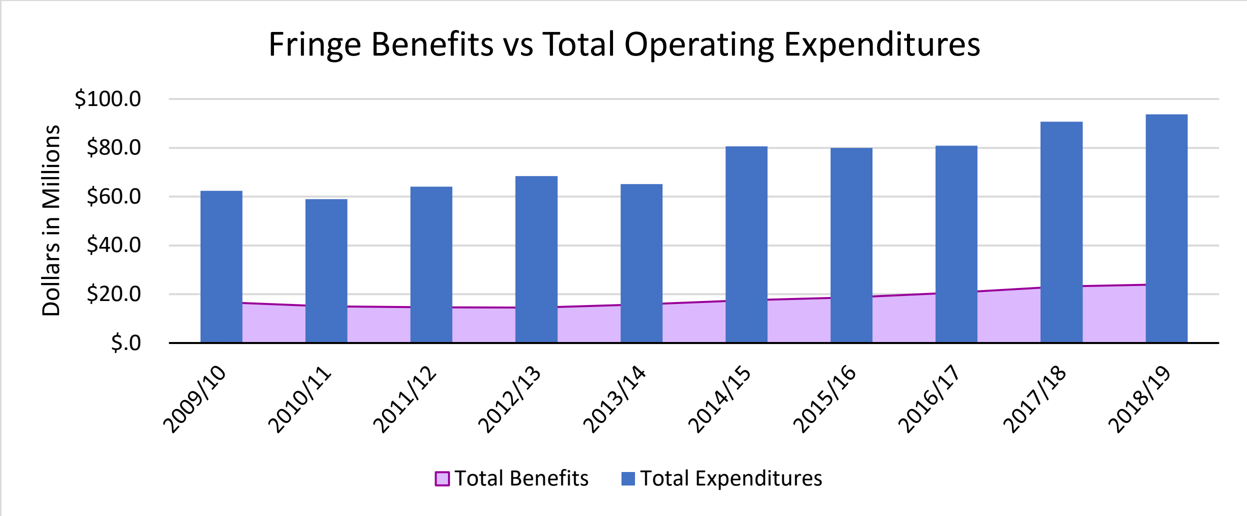
General Fund Expenditure Trend Indicators

General Fund expenditures are largely indicative of the level and types of services the City provides. Changes in the total dollar amount of expenditures can indicate a shift in the level of services delivered, either because demand has changed or because the cost of maintaining existing services has increased or decreased. Therefore, the analyses that follow show not only the change in total dollars, but changes in the types of expenditures for the past fiscal year.

A full expenditure analysis is provided for the following:

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

Indicator 6: Fringe Benefits vs Total Operating Expenditures



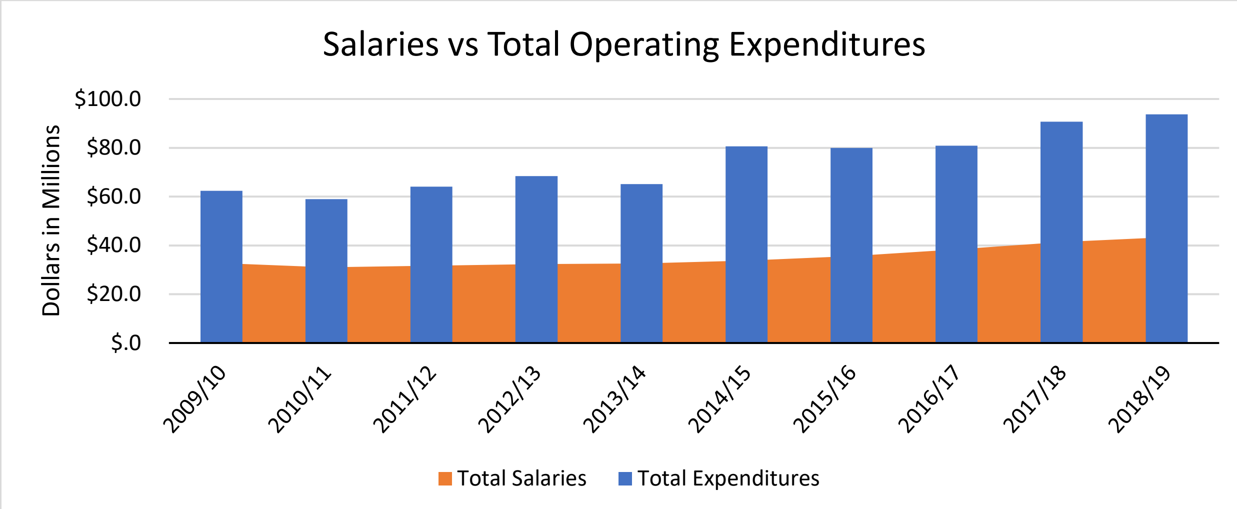
2020 Finding: Caution
2019 Finding: Caution

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

Comments and Analysis
Fringe benefit costs have ranged from 21-27% of the City's total operating expenditures over the past ten years. CalPERS' 2016 reduction of its discount rate from 7.5% to 7.0% has a significant impact on the City's future pension costs. Additionally, the potential for future further discount rate adjustments increases the risk of these costs continguing to escalate.

The 2019 rating of Caution for this indicator remains as Caution in 2020. Although the City has demonstrated the ability to manage some impact of increasing benefit costs through increased cost sharing and employee incentives to control the increased cost of benefits, the volatility of fringe benefits (specifically pension plan and medical costs) and the significance of fringe benefits as a whole (approximately 26% of the City's operating costs), require strong and constant management of this indicator.

Indicator 7: Salaries vs Total Operating Expenditures



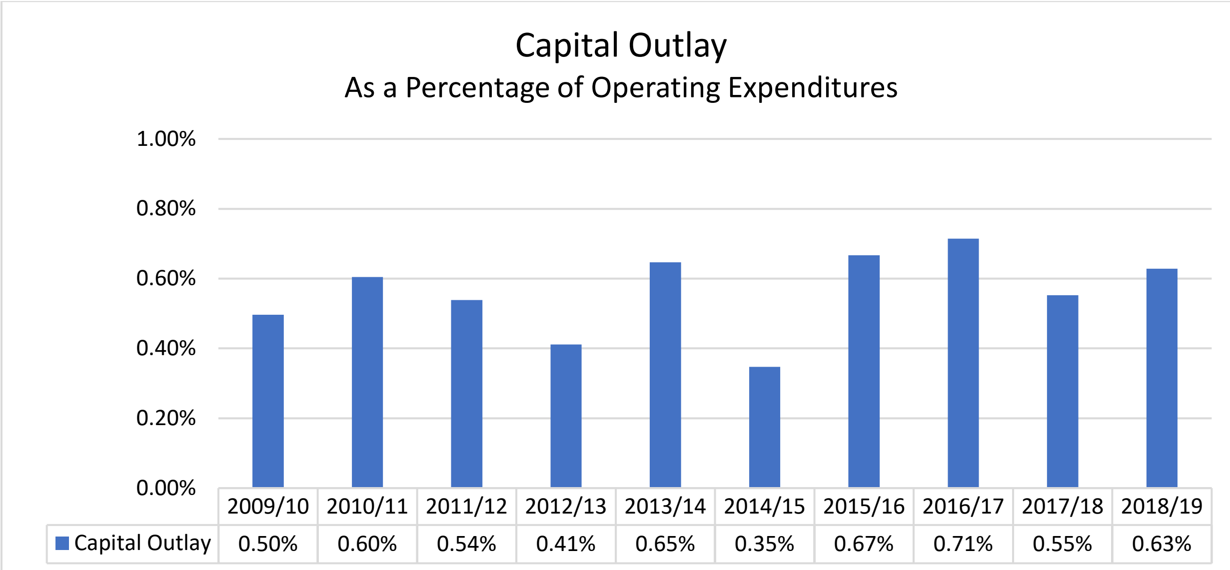
2018 Finding: Favorable
2017 Finding: Favorable

Description
These expenditures include salary and wages paid to regular, part-time, and temporary staff and represent 42-52% of General Fund disbursements over the last ten years. Any changes in salary expenditures will have a material impact on the City's finances.

Comments and Analysis
Salary expenditures as compared to operating expenditures have remained relatively stable over the past ten years, and has remained at or below 50% for the past eight years. Continued monitoring of this indicator is warranted since these expenditures represent the largest category of General Fund operating costs, and directly drive many of the benefit amounts, including pension costs.

The 2019 rating of Favorable continues in 2020 for this indicator as the consistency over ten years demonstrates active management of salary costs. As cost of living adjustments for employees are negotiated, salary costs are expected to increase significantly, which will also drive benefit costs up. The City will need to continue to monitor and manage salaries and thoroughly analyze new position requests.

Indicator 8: Capital Outlay as a Percentage of Operating Expenditures



2020 Finding: **Favorable**
2019 Finding: **Favorable**

Description
This category includes General Fund expenditures to replace radios, equipment, computers and other IT components and any purchases of capitalizable assets. This category does not include capital project expenditures for the construction of improvements or buildings, or for infrastructure such as streets or storm drains. Additionally, this category does not include replacement vehicles as the City has a Vehicle Replacement Policy that provides a mechanism for that funding. The ratio of capital outlay to total operating expenditures is an indicator as to whether worn or obsolete equipment is being replaced. A decline in this ratio over a period of years may indicate that capital outlay needs are being deferred and that inefficient or obsolete equipment is being utilized.

Comments and Analysis
While spending has fluctuated over the past 10 years, on average the annual amount spent is equivalent to 0.56% of total operating expenditures. Additionally, an Equipment Replacement Reserve was created in FY 2015/16, and is currently receiving $150,000 per year from the General Fund. An analysis of current equipment will be conducted to determine how much should be set aside annually to ensure that all City equipment is replaced as needed. This commitment to funding equipment replacement is the main driver of the Favorable finding.

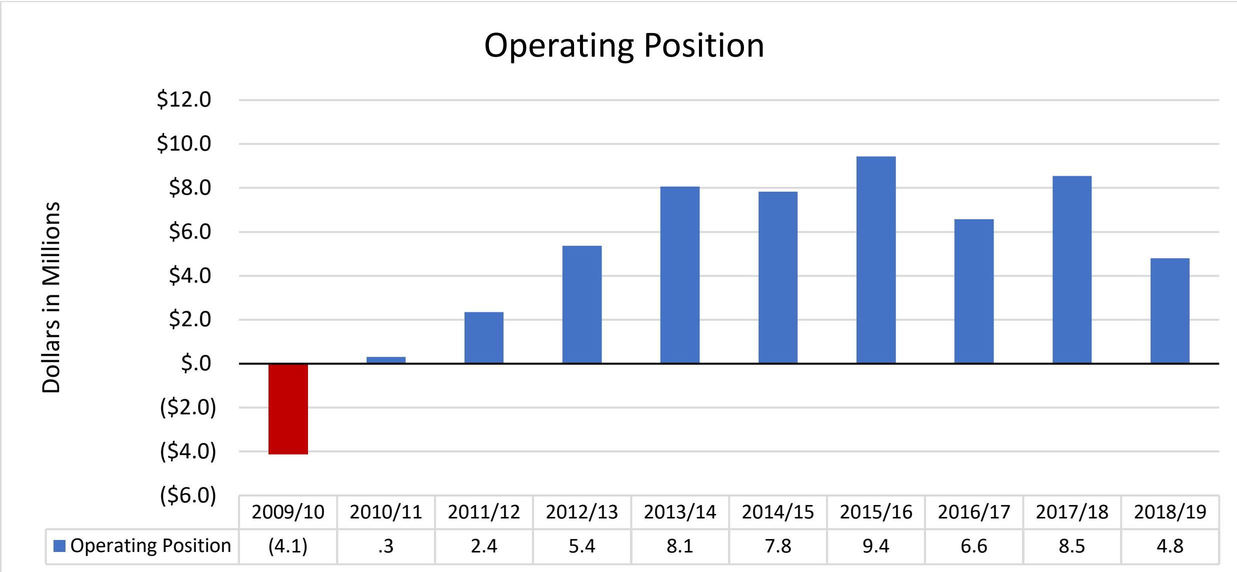
General Fund Operating Position Trend Indicators

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

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

- Operating Position
- Projected Balance of Reserve Funds
- Liquidity Ratio

Indicator 9: Operating Position



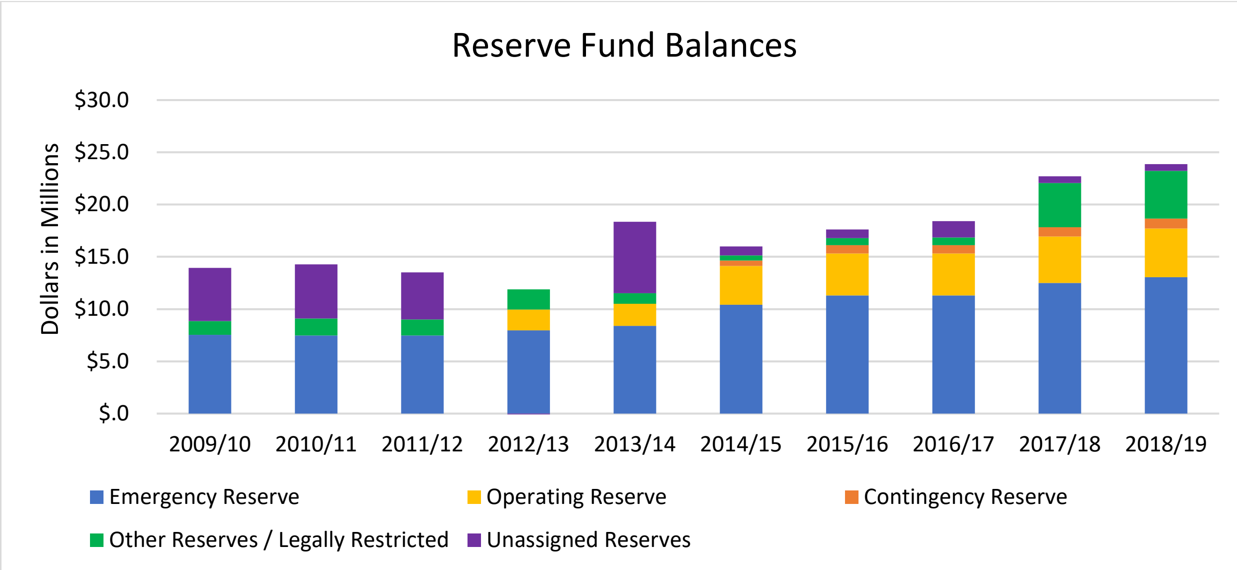
2019 Finding: **Favorable**
2018 Finding: **Favorable**

Description
This indicator measures the City's ability to balance operating revenues, excluding fund balances from the prior year, against operating expenditures. When operating revenues exceed operating expenditures an operating surplus is achieved. A deficit occurs when the reverse happens and the City is forced to utilize available fund balances from prior years. The above calculation excludes transfers to CIP Reserves from the operating expenditures total.

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

The 2019 rating of Favorable remains in 2020 due to the City's ability to sustain a positive operating position for the past nine years.

Indicator 10: Projected Balance of Reserve Funds



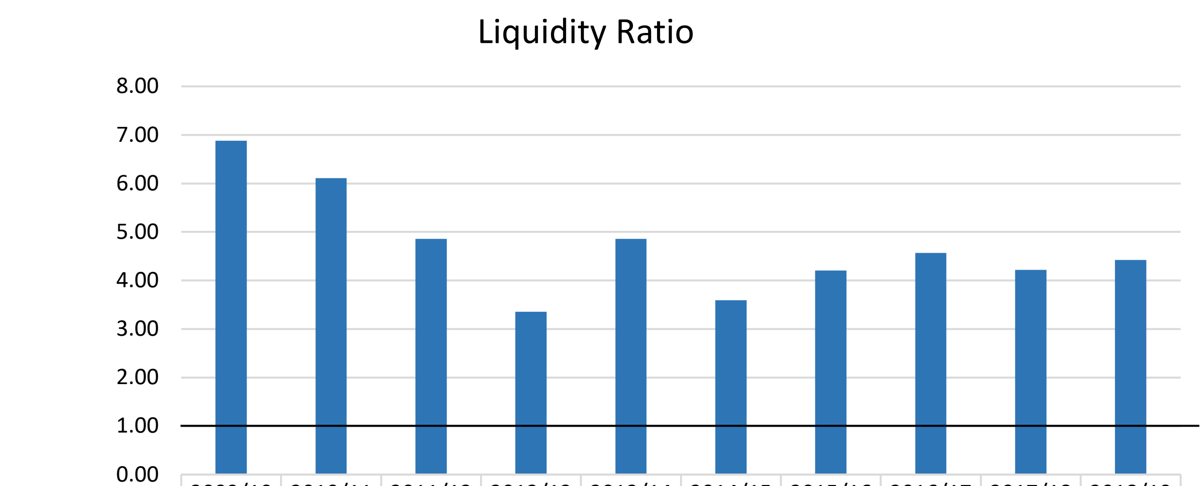
2020 Finding: **Favorable**
2019 Finding: **Favorable**

Description
The City has three main reserves available for use in the event of a financial emergency, short-term revenue fluctuations or an economic downturn. The Emergency Reserve, Operating Reserve and Contingency Reserve are funded with the use of fiscal year-end surplus dollars. The City attempts to operate each year at a surplus to ensure the maintenance of adequate fund balance and reserve levels.

Comments and Analysis
The City has a fiscal policy designating an amount of annual operating expenditures as an emergency reserve and has achieved full compliance since the policy was first implemented in FY 2007/08 at 12% of operating expenditures and then increased in FY 2014/15 to 14%. Undesignated Fund Balance was used to meet budget shortfalls during the recession.

An adjustment to the Fiscal Policy in June 2013 created an Operating Reserve and provided for the transfer of “undesignated” reserves to the CIP Facility Reserve and the CIP Reserve, as shown in fiscal years 2012/13 through 2014/15. The Operating Reserve is to be maintained at 5% of operating expenditures. The Contingency Reserve has a funding goal of 1% of operating expenditures. All reserves are currently fully funded per fiscal policy.

Indicator 11: Liquidity Ratio



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Liquidity Ratio	6.88	6.11	4.86	3.36	4.86	3.59	4.21	4.57	4.22	4.42

2020 Finding: **Favorable**
2019 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 4.42 at the end of FY 2018/19, meaning the City's General Fund has enough current assets to cover its current liabilities more than four times over.