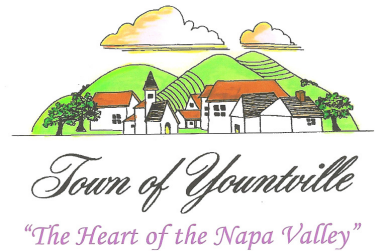


Letter of Transmittal



MAYOR & TOWN COUNCIL MEMBERS:

On behalf of Interim Town Manager Robert Tiernan, I am pleased to submit the proposed fiscal year 2007/08 Operations Budget for the Town of Yountville. This budget plan continues Yountville's practice of budgeting cautiously with respect to anticipated revenues and fund reserves, while utilizing our financial resources to provide a wide range of services and programs to the community, and accumulating fund resources to undertake important capital maintenance and infrastructure improvements.

The proposed budget presents balanced General, Water and Wastewater Enterprise operating plans, and proposes to undertake an aggressive Capital Improvement Program.

Financial Overview

Yountville's FY 2007/08 total budget request is \$14.69 million. The primary components of the budget include: the General Fund at \$4.11 million, Water Operations at \$708,000, Wastewater Operations at \$651,000, and Debt Service at \$265,000. This budget proposal includes 31 Capital Improvement Program projects totaling \$8.82 million.

In aggregate, total estimated revenues will be \$13.28 million, total expenditures \$14.69 million - the net result is the use of \$1.41 million in accumulated fund reserves, primarily for planned capital projects.

General Fund Overview

As proposed, the General Fund will operate in surplus by \$1.34 million. Estimated general revenues are \$5.45 million and \$4.11 million is to be appropriated for department operating expenses. A majority of the surplus, \$1.31 million, is to be transferred to other reserves, enterprises, capital project and special revenue funds as required by policy or necessitated by operating or capital planning purposes. As planned, most of the surplus, \$1.13 million, will be transferred to the Special Projects, Community Center, and Water Service funds.

The General Fund undesignated reserve is \$775,000, about 19% of proposed operating expenditures; this level is prudent, however following close-out of FY 2006-07 there may be sufficient resources to enable the transfer of an additional \$25,000 to \$50,000 to augment this reserve. A total of \$33,000 is not appropriated and is available for general operating purposes.

There are two important structural changes of note to the General Fund revenue and expenditure plan: (1) Community Hall fees and operations are now incorporated here, and restated into prior year totals. The Hall has in recent years required a General Fund operating subsidy, that amount,

\$75,000, will stay in the fund to defray Community Hall department operations. (2) The fees and contract costs of providing building inspection and plan checking services will now be delineated separately in general revenues and Planning Department expenses. In total the above changes add \$187,000 to revenue and \$284,000 to expenditures, respectively.

General Revenues

The FY 2007-08 General Fund revenue estimate is \$5.45 million, which is \$430,000 (or 8%) ahead of the budget estimate for FY 2006/07. Important increases are projected in Transient Occupancy Taxes, Building Permit and Plan Checking Fees, Lease Revenue, and Community Hall User Fees that are now reflected in the General Fund.

Major General Revenue Sources

General Fund revenue, net of transfers, is estimated to be \$5.39 million, of which \$4.60 million, or 85%, is derived from 4 sources:

1. Transient Occupancy Taxes (TOT) - \$3.30 million
2. Sales Taxes - \$575,000
3. Property Taxes - \$420,000
4. Vehicle In-Lieu Fees - \$300,000

The remaining \$791,000 results from Lease Revenue, Program User Fees, Franchise Taxes, and other taxes.

Staff is mindful of statewide, regional and local economic conditions and for that reason we have budgeted conservatively for our 4 primary general revenues sources:

- 1 TOT – the budget estimate is based on 3% growth, and assumes that no new inn rooms will be online in 2007-08.
- 2 Sales Taxes - growth is projected to be flat because two restaurant establishments are or will be offline by mid- fiscal year. This may be partially offset by increased activity for other businesses.
- 3 Property Taxes - are projected to increase by 5% over the previous year. This is less than the recent trend of 7% to 8% increased growth in assessed valuation would dictate, and reflects our concern that the real estate market has slowed.
- 4 Vehicle license In-Lieu Fees - are projected to rise by over 3%. A majority of this subvention is tied to the growth in local assessed valuation, however a portion is based on sales activity that is currently in a low growth phase.

General Expenditures

The General Fund is requesting an expenditure budget of \$4.11 million and transfers-out of \$1.31 million in FY 2007/08. This is up by \$376,000 (or 7%) from the previous budget. The primary reasons for the increase include: increased public safety contract costs, increased

building inspection and plan checking service activity, the addition of two full-time staff in Public Works /Wastewater, and important planned capital outlay expenditures.

The proposed budget plan incorporates a three percent overall adjustment in salary rates for all positions. A total of \$101,000 is requested for important capital outlay purchases: for records management purposes, to replace our computer network server, to upgrade and replace the Council Chambers audio system, for Public Works vehicle replacement, and for the Community Hall facility.

Personnel & Staffing

The FY 2007-08 budget plan calls for the utilization of 28.84 full-time equivalent (FTE) positions; 23.80 FTE for regular permanent staff, and 5.04 FTE for part-time seasonal staff. The budget proposes to add 2 regular positions – 1 FTE in Public Works, primarily for maintenance of government buildings, streets and parks; and 1 FTE in Wastewater, principally for Treatment Plant operations. These additions are an integral part of a plan to reorganize Public Works to further maintain Town and public facilities, as well as to continue succession planning in the Public Works general and enterprise departments. The Community Services Department has seen reductions in FTE for part-time staff associated with recreation programs and use of Community Hall.

Two tables in the ‘Overview’ section of the Budget list the authorized positions and the FTE allocations to each department.

Water Enterprise

The FY 2007-08 budget plan appropriates \$708,000 for Water Operations; this is \$48,000 less than in the previous year, and the decline is due to a projected reduction in costs associated with water rights. However, the fund will continue to operate in deficit - by \$139,000 - and a General Fund subsidy transfer of \$187,000 will again enable the fund to operate in balance and make a \$50,000 contribution to its Capital Improvement Fund. The Operating Fund is projected to begin FY 2007-08 with a reserve balance of \$91,000 – 12% of operating expenses. This level is insufficient to begin funding a rate stabilization reserve.

There is no rate increase factored into revenue estimates this year. In January 2007 the Town adopted the recommendations of the Water & Sewer Rate Study and implemented a 7% rate increase that further emphasized conservation-based rates; at this time Staff is monitoring the revenues to determine if another rate increase is warranted in the following fiscal year.

This budget proposal affirms the feasibility of leasing or selling all or a portion of our NBA/Kern water rights, and therefore projects a reduction in this cost of about \$115,000 should the Town end its agreement for these rights. The recently concluded Water Supply Plan Update suggests that we have sufficient water resources, with our Rector Reservoir Water allocation and our Municipal Well Emergency Water Supply, to meet our current and dry year needs without NBA/Kern rights. In the 2 fiscal years since FY 2004/05, NBA/Kern costs increased from \$184K to \$265K, and are projected to be nearly \$300,000 this year – a 63% secular increase, or annualized at 17% per year. This cost is subsidized by the General Fund and is not sustainable over the long-term.

The Capital Improvement Fund will end the current year with about \$65,000, less than the cost to replace or construct a major main. This fund relies on impact fee revenue and a transfer from the Water Operating Fund to accumulate resources for capital improvement of the water distribution system.

Sewer Enterprise

As planned, the Sewer Operating Fund will operate in deficit by \$36,000 following the transfer of \$87,000 to the enterprise's capital improvement funds. This deficit will be financed through the use of accumulated fund reserves, after which the fund will still have a 32% reserve against operating expenditures.

The proposed operating expenditure plan requires \$651,000 – a \$27,000 increase (4.3%) over the prior year. Most of the increase is associated with the addition of 1 FTE for an O.I.T., which will serve the Collection and Treatment departments. The addition of this staff will ensure that 3 FTE are directly assigned to plant treatment.

There is no rate increase factored into sewer revenue estimates this year. In January 2007 the Town adopted many of the recommendations of the Water & Sewer Rate Study and implemented a 5% rate increase for residential customers and a multi-faceted rate increase for commercial customers that emphasized actual cost-of-service principles. Staff is now monitoring the revenues to determine if the new sewer rate structure is generating the revenues necessary to eliminate the deficit, fund rate stabilization, and enable the Town to reevaluate the amounts contributed to the capital improvement funds.

The Joint Capital Recovery Fund begins FY 2007-08 with \$487,000, and it receives monies from equal capital contributions of \$37,000 from both the Veterans Home and the Town, as well as a share of impact fees. Funding of \$120,000 would be appropriated to upgrade plant equipment, and the proposed capital budget continues to support the Title 22 Plant Upgrade Project (\$250,000) that would move the plant toward zero-discharge and provide additional reclaimed water for other users. It is anticipated that the fund may require other additional sources of funding to complete the Title 22 Project.

The Sewer Capital Fund begins FY 2007-08 with \$1.53 million. The proposed CIP calls for the use of \$670,000 for 5 projects. This fund accumulates financial resources from impact fees as well as a regular capital contribution from the operating fund. The fund is owed \$236,000 from the Water Capital Improvement Fund, which to be repaid from a share of Water Connection Impact Fees. The Sewer Capital Improvement Fund current has sufficient reserves to cover improvements and unforeseen emergencies.

Capital Improvement Program

The total five-year CIP is \$17.15 million, with \$8.83 million proposed to be undertaken in FY 2007-08.

Of the \$8.83 million in projects proposed to be funded, \$5.50 million is a placeholder for the Community Center Project (a more accurate figure will be obtained when the project is put out

for bid), \$1.04 million is wastewater related; \$700,000 is for affordable housing, \$435,000 is for street and transportation, \$375,000 are drainage and flood control related, \$125,000 is for Parks Improvements, and \$304,000 is for various improvements that include accessibility, utility undergrounding, tree & sidewalk repairs, and Town beautification.

This plan will require the utilization of \$3.53 million in Town fund resources, and \$5.30 million from other financing sources. As specified in the proposed schedule of interfund transfers, the General Fund will contribute \$550,000 to the Community Center Project Fund and \$400,000 to the Special Project Fund

Two tables in the budget document enumerate the projects and their proposed sources of funding for the current year CIP.

Debt Obligations

The Town remains free of general obligation debt – debt that is associated with the property owners of Yountville. The current debt service obligation of the Town is the 2005 Floodwall Improvement Bond, which is paid for with the Town’s portion of Countywide Measure A. Sales Tax revenue. The current annual payment is \$265,000, and the debt will be paid off by 2018.

Summary

Council and Staff have worked together over the years to ensure that a high level of services are provided, while prudently establishing and maintaining reserves to finance operations and provide a sound basis for current and long-term capital improvement planning. I expect that this tradition will continue.

I want to thank Town Staff for their time and patience in assisting in the preparation and discussions that culminated in the production of the Town’s budget plan for fiscal year 2007-08.

Staff looks forward to the Budget Study Sessions with the Town Council and the opportunity to discuss this Operations Plan and Town priorities for the upcoming fiscal year.

Respectfully submitted,

Richard F. Stranzl
Finance Director

May 23, 2007