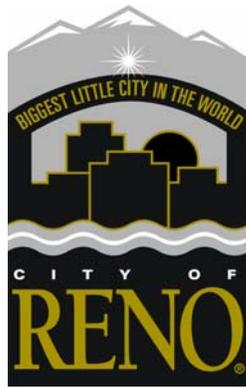


SECTION I
—
INTRODUCTION

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May 9, 2006

Honorable Mayor and Members of the City Council:

I am pleased to present the City of Reno's proposed operating plan for Fiscal Year 2006/07, which details a \$467.3 million city-wide budget, including the Redevelopment Agency, and a \$176.8 million General Fund operating budget, including transfers. This is the ninth year that the City has produced a program based budget. This format makes the budget a meaningful policy tool for the City Council and allows the residents of Reno to know what will be accomplished as well as the resources necessary for individual programs in the upcoming fiscal year. This is the fifth year that the budget document has included each department's 5-year business plan (program goals and strategies). This process provides a direct link between the planning of programs and the implementation of those programs in the budget.

As in the prior year, sales tax revenues have continued to reflect an improving economy in Nevada. Sales tax revenues in the areas of auto sales and area construction have remained the primary contributors to sales tax revenue increases thus far in the 2005/06 fiscal year. However, sales tax revenues, by their nature can be volatile. This is why the proposed FY 2006/07 budget continues to reflect a moderately conservative estimate for this and other revenue sources. I feel that continuing the philosophy of restructuring of resources and refocusing of service efforts, which have been an emphasis throughout my time with the City, remains the most prudent business direction at this time. Our provision of services is based upon how well we can structure our operation to continue to make it more efficient and customer-service oriented. This budget continues to place emphasis on the Council's annual priorities, strategic planning, quality services, neighborhood services and citizen involvement.

The City will continue to enjoy a strong financial position with both a \$6.7 million Undesignated General Fund Reserve (4%) and a \$5.7 million Stabilization Fund projected at the end of the 2006/07 fiscal year. However, during the prior legislative session, in an effort to address unusual spikes in assessed value, the legislature passed, and the governor signed into law, AB 489. AB 489 caps property tax bills of owner-occupied single-family residents and low income apartment owners at 3% per year. All other property owners have a cap using a 10-year rolling average or 8% whichever is less compared to twice the CPI. The cap is established at the greater of the two. This resulted in a loss of nearly one million dollars in fiscal year 2005/06, with incremental increases to this loss in each subsequent year, depending on future growth in assessed values. At the time of the estimate, it was unknown by the State and the County as to how the abatement calculation was to be determined and its accuracy unclear. For fiscal year 2006/07, the estimated loss is approximately \$2.7 million. This includes the cumulative effects of the prior year loss, the current year loss, and any prior year new construction, which is now included in the abatement.

Operational Improvements/Savings/ Service Level Enhancements/Council Priorities

The proposed budget includes a number of proposed operational improvements and savings programs such as internal audits of the Communications and Technology Department and of the City's self-insured health care plans/third party administrator; and a proposed cap on expenditures in the continuance of the 2% departmental holdback plan.

The proposed budget also reflects service level enhancements consisting of the funding of twenty-two and one-half (22.5) new positions in the following Departments: Finance; Fire; Communications and Technology; Public Works; Parks, Recreation, and Community Services; Community Development and Human Resources.

In the Finance Department, a part-time administrative secretary will be utilized to provide clerical assistance for the sidewalk vendor program. This position will coordinate all aspects of the sidewalk vendor program including customer contact, public noticing requirements, public hearings, etc.

The Fire Department includes the addition of a rescue team, which consists of three fire equipment operators and six firefighters. Due to the opening of the Cold Springs Station and a significant increase in call volumes in the downtown area, there was a shifting of rescue units that required a replacement rescue unit at the Downtown Station.

In the Communications and Technology Department, an assistant emergency communications director position has been added to manage the day-to-day operations of the dispatch center which will provide the necessary backup to the Emergency Communications Director, allowing more efficient management of dispatch contract and service agreements.

In the Public Works Department, a property management assistant, an engineering technician, a City Architect and two associate civil engineer positions have been added. The property management assistant will provide the support needed to assist with the inventory of all City-owned property, including ReTRAC and 1 East First Street leases, and ongoing property acquisition and sales for the City and Redevelopment Agency. The City Architect will provide architectural oversight of City projects. The engineering technician and the two associate civil engineer positions will provide assistance for the increased workload associated with the sewer collection system rehabilitation, capacity analysis/modeling and facility planning.

In the Parks, Recreation and Community Services Department, two additional park maintenance worker positions have been added. These additions will increase maintenance of restrooms, shelters, picnic areas and plazas throughout the city.

In the Community Development Department, an office assistant position has been added to the Building Division. This additional clerical support is needed to maintain levels of service in the Building Permit Division, which has shown a 13% increase in work volume from the prior year. A senior civil engineer, assistant planner, and code enforcement officer have been added to the Planning Division. The senior civil engineer is needed as a land development engineer for analysis of complex land use applications. The assistant planner position will be related to the development and implementation of design standards. Finally, the additional code enforcement officer will be supported by fees collected for special use permits (SUP). This position will monitor SUP conditions and focus on compliance with those conditions.

Lastly, in the Human Resources Department, a limited term management analyst position is being continued to maintain the current levels of service to fulfill the recruitment contract with Civil Service.

The Council Priorities for fiscal year 2006/07 are Public Safety, Planning, Communications, Redevelopment and Intergovernmental Cooperation. These priorities have been addressed in the proposed budget in the following manner:

- The traffic team that was authorized last fiscal year will continue to increase police presence in the community and address an important community concern by providing additional traffic enforcement;
- The number of reserve officer positions has been increased to nineteen, which will provide additional foot patrol in the downtown, along East Fourth Street and in other portions of the City's redevelopment areas;
- Construction of a portion of the public safety portion of the south community service center is scheduled to begin with the construction of a fire station and a police service counter at Veterans and Steamboat Parkways;
- Funding for graffiti removal is included to permit timely removal throughout the City;
- The narrowing of North Virginia Street will occur in the Fall of FY 2006/07;
- The master plan for the use of properties acquired as a part of the ReTRAC properties will be completed early in FY 2006/07; and
- As mentioned above, funding has been included for an assistant planner to develop/implement design standards.

Some of the continuing priorities which are included in the proposed budget are:

- Maintaining our successful Community Pride Grant Program by providing funding for Neighborhood Advisory Boards to select projects to improve the quality of life in their neighborhoods;
- Providing for increased enforcement of the conditions of special use permits by adding a code enforcement officer specifically for that purpose;
- Maintaining the current level of support for arts and culture programs and grants; and
- Operating the "4 Steps into the Future" program in conjunction with Hug High School.

Major Challenges in the Next Year

On-going Legislative Impacts

As assessed value continues to grow at a rate that exceeds the cap imposed by AB489, the City will experience a growing loss of property tax revenues. It is estimated that, for the 2006/07 fiscal year, the loss in property tax revenue that the City would have had available for services will be approximately \$2.7 million.

For the upcoming legislative session, there is potential for a property tax initiative, a tax and spending control initiative and reduction or elimination of franchise fees to local governments. Each proposal could have a significantly negative economic impact on the City. The property tax initiative would limit property taxes to one percent of taxable value and although extremely difficult to determine at this point could decrease City property tax revenues by millions of dollars annually, beginning in the 2009/10 fiscal year. The tax and spending control initiative would limit the amount of revenues the City is able to collect by CPI and growth in population each year. Any revenues collected in excess of this limit could not be retained for future projects. Finally, an elimination of all franchise fees would result in a loss of \$14 million annually, or the elimination of telecommunication franchise fees would cause a shortfall of \$5.2 million in the annual General Fund budget.

In addition, the City's worker's compensation liability for heart and lung-related illnesses for safety personnel continues to grow at an alarming rate. Based on an actuarial study completed by Mercer, Oliver and Wyman, Reno liability exposure, reflecting claims activity as of June 30, 2004, is estimated at \$492 million. Although this amount is not due now, it will become due over the next 10 years to 20 years as the claims mature. Consequently, the City must begin setting aside funds now to fund these future claims.

Redevelopment and Downtown

The downtown has experienced a loss of assessed value of approximately \$151.63 million since the 1999/00 fiscal year. This equates to a loss of approximately \$4.3 million in tax increment revenues to the Redevelopment Agency. Assuming an average annual loss and today's interest rates, this represents a loss of bonding capacity of approximately \$7.7 million. Projects such as the Palladio, Chambolle, River's Edge (the theatre corner parcel) and the retail development at 10 North Virginia Street will help offset some of this loss.

In May 2006, if approved by Council, Redevelopment Area #2 will be established to help eliminate blight and improve economic vitality of seven sub-areas of the City. This infusion of development in these sub-areas will help to maintain the current trend of economic improvement throughout the City.

Planning Activity

The Planning workload has increased significantly in all areas. The north and south current planning teams are handling well over 100 land development cases per year, are reviewing record numbers of building permits and are also involved in the review of final subdivision maps, business licenses, etc.

Community Service Centers

The City Council has approved a new approach in the provision of City services—to decentralize services which are more neighborhood-oriented in order to make services more readily

accessible to our citizens. To do this, it will be necessary to construct 3 new community service centers—north, south and central, beginning with police sub-stations in each area and fire stations, where applicable, as the first phase. Since the City’s current centralized police station is inadequate to house the Department, given the number of police officers which have been added in recent years, it is important to begin the construction of the first phase of all three community service centers at the earliest possible date. Adequate funding to do this remains a challenge. City staff continues to assess potential solutions to this dilemma.

Major Opportunities in the Next Year

Retail/Mixed Use Projects

Reno is entering into an exciting time with the recently completed Downtown Events Center, the River’s Edge, the Mills B. Lane Justice Center, the Summit Sierra Mall in the south, and with construction under way on the Palladio, plans for a Ballroom to complement the Downtown Events Center, plans by Cabela’s to construct a 125,000 sq. ft. retail sporting goods facility in the west, and the potential Hilton renovation project, which would include condominiums, a water park, and retail stores.

The Cabela’s project requires a very complicated financing plan consisting of the use of STAR bonds, Special Assessment District (SAD) bonds, and Redevelopment Tax Increment bonds. The Cabela’s project will be one of the first STAR bonds projects used in the State and, consequently, will require special attention in regards to the timing of the various approval steps required. These projects will not only provide a large financial boost to the Truckee Meadows region, but will also provide Reno residents with additional amenities for which they currently have to travel long distances to receive.

Capital Improvement Program

The recommended Capital Improvement Plan for FY 2006/07 includes the following highlights:

- Street Reconstruction and Rehabilitation - \$ 5,500,000
- Neighborhood Revitalization Program - \$ 200,000
- Neighborhood Traffic Calming - \$ 50,000
- Truckee River Restoration Program - \$ 1,311,300
- Fire Vehicle Replacement Program - \$ 1,000,000
- Neighborhood Park Improvements - \$ 1,360,550
- Truckee Meadows Water Reclamation Facility and Stead Facility Expansion - \$29,750,000
- Sanitary Sewer Rehabilitation/Improvements - \$26,259,200
- Lawton Sewer Interceptor - \$ 4,100,000

As a result of the legislature’s actions related to local government finances, a continuation of a conservative financial posture continues to be recommended. Therefore, as in past budget years, we have used conservative revenue growth projections for the FY 2006/07 budget. In addition, it was again necessary to constrain service and supply expenditures for next year to the current year’s level with very few exceptions. This budget, however, does contain sufficient funding for

the Council's priorities and will allow us to maintain a stable position through the end of the 2006/07 fiscal year. The proposed budget also addresses some major challenges, such as redevelopment and parks and recreation, while taking advantage of opportunities, such as the financial boost the numerous construction projects are expected to deliver over the next year. We will, however, continue to give careful attention to the emerging economic, financial and revenue trends throughout the year to ensure this result.

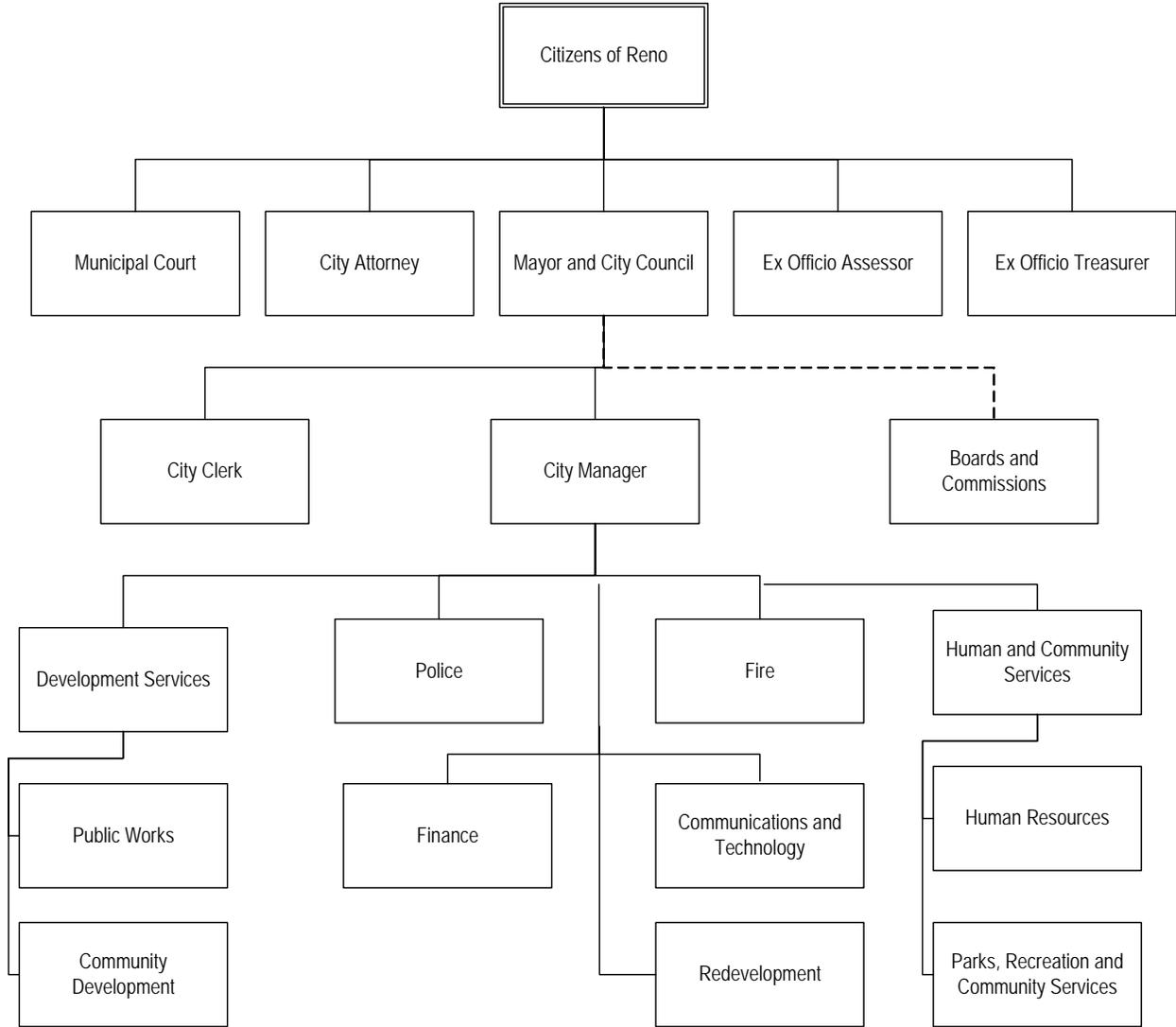
I wish to thank the City Council members for their hard work and determination in setting policy direction for the City. Let me assure you that the City's staff and I are dedicated to implementing that policy direction to provide the best quality of life possible for the City's residents. I believe that this proposed budget contains the necessary programs and allocation of resources to accomplish just that.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles E. McNeely". The signature is fluid and cursive, with the first name "Charles" being the most prominent.

Charles E. McNeely
City Manager

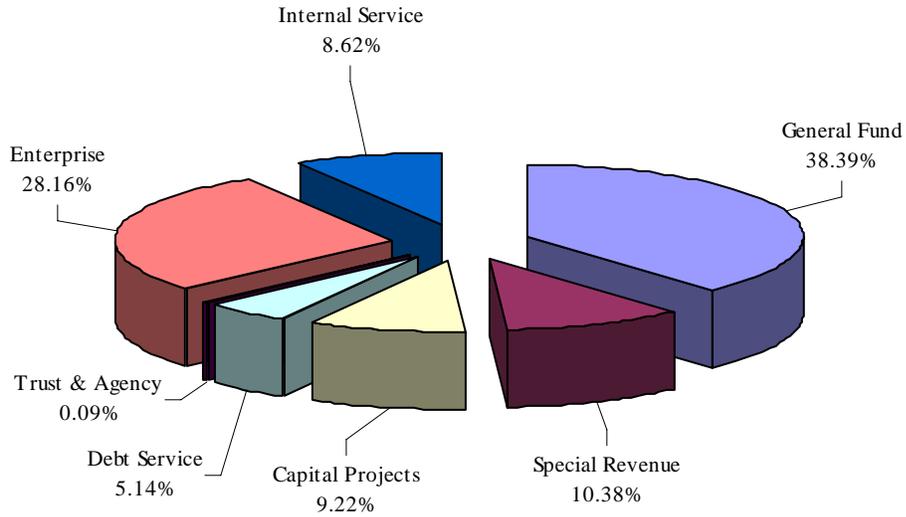
City Organizational Chart



Budgets by Fund Type

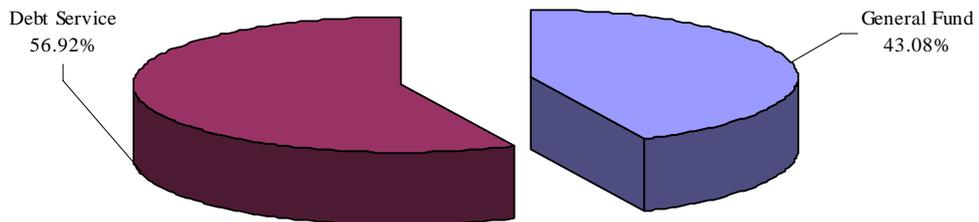
06/07 City Budget by Fund Type

\$460,418,159



06/07 Redevelopment Agency Budget by Fund Type

\$6,900,116



The City of Reno's Vision, Values, and Goals

Our **PURPOSE** is to provide community-supported services and programs designed to assure the safety and well-being of all Reno's residents.

VISION:

Reno.. "The Biggest Little City in the World" ...the most livable of Nevada cities; the focus of culture, commerce, and tourist activity in Northern Nevada...a city where:

All residents have the opportunity to participate in community decisions.

A vibrant, diversified, economic environment is promoted.

Proactive, responsive, efficient and accountable governmental services are provided for all the people.

A healthy ecological environment is promoted.

Quality education is promoted.

A safe community is maintained.

Intergovernmental cooperation is promoted.

VALUES:

Respect: *To be respectful, cooperative, and inclusive in every contact.*

Responsibility: *To take individual responsibility to be ethical in improving City efficiency, effectiveness, and teamwork.*

Responsiveness: *To be responsive to customers' concerns and implement plans accordingly.*

Results: *To achieve timely, innovative, and tangible results in all City efforts.*

GOALS:

1. Finances: Develop to the fullest potential financial resources.

2. Safety: Promote the safety of the community and a feeling of security among citizens and visitors.

3. Infrastructure: Plan and assure infrastructure reliability and regulatory compliance.

4. Redevelopment: Revitalize downtown Reno as the economic, civic, and cultural center of the community.

5. Efficiency & Effectiveness: Provide for maximum efficiency and effectiveness in delivery of City services.

6. Customer Service: Provide responsive customer service and fair and open public processes.

7. Communication: Promote confidence in the expenditure of public funds by informing, educating, and involving citizens.

8. Leadership: Serve as a leader to promote regional action to ensure effective, efficient and equitable delivery of services for the residents of Reno.

9. Environment: Plan growth which is sensitive to the environment and recognizes significant community resources.

10. Economic Development: Encourage a diversified economic base which provides for long-term economic health and improved quality of life.

The Council's Vision reflects the type of community the City wishes to provide for its residents and visitors. The Values represent the standards of behavior expected of all City employees in the conduct of their duties. The Council's Goals represent the long-term guidelines the City will follow to ensure the Vision becomes reality. The City's programs are set up to meet certain Council Goals.

Each year, the Council identifies certain priorities which establish the programs and services funded for the fiscal year. These priorities may span fiscal years. The City Manager then selects a team to spearhead the City's efforts in meeting the Council's priority programs.

Making Reno Great: Five-Year Objectives

For the past seven plus years “Building a Better Reno” has been part of the focus of the City, departments and employees. In Fiscal Year 2004/05, the City took on a new initiative, “Making Reno Great.” The following is a five year plan that helps to specify what the City will accomplish.

Each Department developed programs that support Making Reno Great as part of the annual budget. The major areas of focus for Making Reno Great are listed in the Program Summary in each departmental budget. The following list defines the major initiatives of focus for Making Reno Great:

Vitality in the Downtown

Develop a vibrant downtown and river front corridor that serves as a neighborhood, a diversified recreation destination, and a place for families to shop, eat, and recreate.

- Prepare a new regional center plan and revised land development code that articulates the vision for downtown and provides a streamlined process for development and redevelopment.
- Diversify the businesses downtown and on the riverfront corridor to include more mixed use development which support the downtown as a neighborhood, business district, recreation and retail destination.
- Encourage active uses along the riverfront corridor.
- Encourage pedestrian-friendly development, especially focused around a major transit access point or public amenity.
- Partner with RTC and other county and state organizations in the conceptualization, design and implementation of bus rapid transit and transit oriented development (TOD) corridors, to support the downtown as a neighborhood and business district.
- Partner with and assist the Redevelopment Agency to identify areas and issues that may benefit from a proactive approach by Code Enforcement, thus enhancing the vitality in the downtown area.
- Facilitate the development of downtown business opportunities; coordinate affordable housing with Community Resources staff; and identify opportunities for high density market rate housing within the redevelopment district.
- Encourage infill development projects along with the adaptive reuse of existing commercial and residential building inventory in order to maximize existing community resources and infrastructure.
- Promote the redevelopment of vacant properties and vacant or substandard buildings.

Infrastructure Well Kept

Anticipate, plan and implement programs to improve the City infrastructure to meet the needs of a growing City, so that the City maintains and improves the quality of life the citizens.

- Continue the investment in improvements of City streets, sewers, lighting, signaling, park and greenbelt maintenance, and sewer treatment; to effectively support the growth and modernization of City infrastructure.

- Partner with RTC and other county and state organizations in the conceptualization, design and implementation of rapid transit and traffic corridors, to support the region with an emphasis on effective commute patterns and alternatives, safe and secure neighborhoods, and well designed pedestrian walkways.
- Continue to plan for and invest in the development of new parks, greenbelts and open space throughout the City to help in the establishment of neighborhoods and open spaces.
- Improve infrastructure to ensure safe, clean and enhanced aesthetics of neighborhoods and communities
- Recognize the value to the City of public improvements that are part private developments and develop an effective program to assure the delivery of quality infrastructure.
- Ensure parking capacity keeps pace with downtown development.

Strong Economy

Partner with business, Washoe County and Sparks, business development organizations, schools and universities, and private organizations to create an environment that attracts a variety of new businesses to the area, with an emphasis on the high technology, medical, scientific and research industries.

- Work in close conjunction with all partners, in the development and implementation of a forward thinking regional plan, to develop business/research centers in the City, Washoe County and Sparks.
- Develop a long range fiscal model for the implementation of the regional plan that encourages economic and job growth, especially in the research and development job sector.
- Partner with the colleges and universities and businesses, to support the emphasis on quality education and technology, by designing and implementing a technology friendly environment through the planned design and use of broadband, wifi, and other high technology infrastructure in regional planning and City projects.
- Provide efficient and effective development processing, permitting and inspections.
- Develop regional center and transit oriented development plans to encourage a streamlined development process in areas targeted for development and redevelopment.
- Establish partnerships with local regional centers; enhance the business attraction and retention program; provide technical assistance program to area businesses to enhance economic development opportunities.
- Continue to develop the Reno Growth Opportunity Fund and other small business financing initiatives; encourage public/private partnerships to attract new businesses and assist existing enterprises; enhance corporate presence in the office core; identify funding sources to finance new programs, projects, strategies, and initiatives.
- Improve processes and develop multiple methods for payment of fees, fines and revenue, to assure they can easily be paid by citizens or collected.

Innovative Leadership

Develop and attract innovative and forward thinking leadership to enhance the City's ability to be great and continuously improve.

- Analyze City service models and recommend and implement approaches that better serve a growing City and the use of new technology and Internet commerce to provide and improve services to citizens.
- Develop and implement succession planning and career planning in each Department of the City to assure advance planning occurs for retirement vacancies.
- Implement a Management Development program that equips leaders to become effective managers to enhance internal recruitment for supervisory and management positions.
- On an ongoing basis, examine and revise internal systems and processes to empower staff to more effectively and rapidly respond to changing conditions (e.g., labor market, changes in the economy, etc.) while maintaining necessary accountability and control.
- On an ongoing basis, examine and revise external systems and processes (e.g., code enforcement, infrastructure maintenance, etc.) to provide for less direct supervision and to promote quicker resolution of problems.
- Empower employees to problem solve by disseminating the authority to address issues.

Opportunities for Arts, Culture and Recreation

Continue to expand art, cultural and recreational opportunities in the downtown art district, while implementing plans for public art, cultural activities and recreation in neighborhood and business areas.

- Expand the use of public art and cultural events to help neighborhoods and business districts develop an identity and bring art to neighborhoods and business districts.
- Evaluate programs offered to citizens and park usage and maintenance, to partner with Sparks, Washoe County and the RSCVA to assure programs meet the needs of the citizens and are economically sustainable.
- Partner with Washoe County and Sparks in a greenbelt and open space plan to assure the quality of life and recreational opportunities for the future of the area.

Neighborhood Excellence

Support the work of citizens, the Council and the City in the development of strong neighborhoods that that have unique identities, high quality education, safe and secure environments, and improve the quality of life for citizens as neighbors and a community.

- Utilize the NABs for citizen input and reaction to programs that will create a great City and neighborhoods.
- Work closely with RenoDirect to provide direct contact with citizens regarding issues and requested services.
- Provide education to the public to promote cleaner and safer neighborhoods.
- Partner with County and community organizations to help neighborhoods develop strong identities and high quality educational and cultural services.
- Partner with other agencies, departments, and community organizations to help neighborhoods develop safe and clean environments for their residents.

RENO CITY COUNCIL PRIORITIES

FY2006-2007

PUBLIC SAFETY

Maintain high level of police and fire protection throughout Reno with special emphasis on graffiti and traffic enforcement and an appropriate presence in the area around the Community Assistance Center; develop and implement a funding plan for the public safety portion of the community service centers.

COMMUNICATIONS

Enhance communications with the residents and businesses in the city and region by proactively identifying emerging issues; updating and improving the existing integrated public information strategy; and communicating more effectively the identified key issues, policy decisions made, and actions taken by the City Council.

PLANNING

Communicate and collaborate with residents and businesses to further the development of Reno as a “Great City” by enhancing citywide plans, preparing plans for newly expanding areas of the city, updating and creating new neighborhood plans, and enhancing design and development standards.

REDEVELOPMENT

Continue to diversify the downtown experience for residents and visitors alike, work with the private sector to further develop and increase housing in the downtown area and enhance and improve the availability of commercial establishments supporting residential activity.

INTERGOVERNMENTAL COOPERATION

Increase cooperation and collaborative efforts with Washoe County, the City of Sparks and the Washoe County School District by fostering elected official-to-elected official discussions regarding issues of common interest to enhance service delivery to citizens.

Strategic Business Planning In Reno: Planning, Budgeting, and Quality Assessment

The City of Reno has put great effort into making sure that our organization stays at par with the private sector in the area of improvements in effectiveness and efficiency. We believe that our organization has accomplished a major transformation by using results-oriented management and performance measurement, and that these methods provide a conceptually convenient and simple vehicle that allows the City to adapt to the new and rapidly changing environment we are all a part of, and to provide our citizens with information that will increase their confidence in government.

The Strategic Business Planning System links together in a single unitary process the annual cycle of the City's significant planning, budgeting, and quality assessment activities. This process coordinates service delivery and assures that each City service provided contributes to the goals and objectives outlined in the City's Vision Statement and the City Council's priorities. The system also provides an open channel to elected officials, the Manager, and other employees with up-to-date information, as well as policy options and alternatives.

Elements of the System

The System is driven by, and aligned with, these major components:

- The Council's vision for the year 2010.
- The Council's Five-Year Action Plans: At the Council's annual retreat, the City Manager and his team present the Council with proposed five-year goals and outcomes designed to implement the Council's vision for the year 2010. The Manager and Council then develop and adopt Action Plans to attain these goals and outcomes.
- The City Council's adopted priorities for the fiscal year: Key City-wide initiatives developed by the Council and the Manager at their annual retreat; inter-departmental teams designated by the Manager are responsible for the successful implementation of these priorities.
- Five and One-Year Business Plans: Each year, for each of the City's service delivery programs, departments systematically formulate five and one-year plans to further the goals, objectives, and priorities of the Council as well as the adopted long term Financial, Facilities, Streets, Capital Improvement, and Housing Plans. Each plan includes performance indicators.

System Implementation

- A Comprehensive Annual Budget Process that links the program budget and the capital improvement plan with the Five-Year Action Plans, and implements program objectives included in the Five and One-Year Business Plans. All appropriations within departments are allocated to defined service delivery programs, each with a short description of purpose, five-year business plans, annual program objectives, and performance measures to facilitate program evaluation.

- Major quality assessment activities:
 - Departmental Performance Audits that focus on a department's compliance with the key elements of the City's Organizational Vision.
 - Public/Private Competition for Services. In addition to the system of performance measurement and benchmarking that assesses the efficiency and effectiveness of each City service on an annual basis and to assure that Reno citizens receive high quality services at the best possible price, it is the policy of the City to periodically test its services against the market. As a part of the competitive process, an assessment of the efficiency and effectiveness of the in-house service selected for competition is conducted prior to issuance of a Request for Proposals.
 - Targeted local, statewide, and national benchmarking, including customer satisfaction measures.
 - Pay-For-Performance. Annual management and employee performance reviews (review past performance and establish expectations for the year to come) based on achievement of goals and objectives outlined in approved Plans.