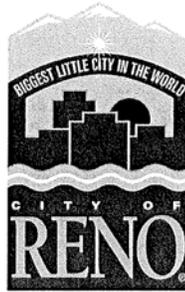


SECTION I
—
INTRODUCTION

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May 18, 2010

Honorable Mayor and Members of the City Council:

I am pleased to present the City of Reno's proposed operating plan for Fiscal Year 2010/11, which details a \$349.2 million City-wide budget, including the Redevelopment Agency (RDA), and a \$170 million General Fund operating budget, including transfers. This is the thirteenth 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. The budget document includes each department's 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.

Sales tax revenues so far this year have reflected a continued downward trend of the economy in Nevada. Sales tax revenues in the areas of auto sales and area construction declined significantly in the last two fiscal years. These declines continue to prove that sales tax revenues, by their nature, can be volatile. This is why the proposed FY 2010/11 budget continues to reflect a moderately conservative estimate for this and other revenue sources. Continuing the philosophy of restructuring resources and refocusing service efforts 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 have a \$6.1 million Undesignated General Fund Reserve (4%) and a \$1.9 million Stabilization Fund at the end of the 2010/11 fiscal year. The City reserves are lower than they should be and in some instances are not in compliance with our various fund policies. The City will begin to rebuild the stabilization fund in fiscal year 10/11, in future years the City must continue to rebuild the stabilization fund, increase the required General Fund Reserve and rebuild other reserves that are needed.

The proposed budget includes no new positions. Service levels have been reduced going forward in order to address the financial issues for this fiscal year, so no new departmental positions have been added. Furthermore, the following are steps taken to address the reductions in resources:

- Reduction of 387.5 Full-time Equivalent (FTE) positions over the past two years with estimated savings of \$26m
 - Reduction-in-force of 100 employees implemented in February and May, 2010
 - Remaining 287.5 positions were a result of attrition and freezing vacant positions over the last two years
- No cost of living adjustments for the largest police union which agreed to forego cost of living adjustments and both fire unions which are still under negotiation. Only adjustments required by resolution or current contracts are in the budget.
- Fire Apparatus Deployment changes which resulted in overtime costs reduction
- Reductions to services and supplies in all departments

The Council Priorities for Fiscal Year 2010/11 are the same as those in Fiscal Year 2009/10 and are Financial Management; Consolidation; Public Safety; Arts & Culture, Special Events; Communication; Green Initiative; and Parks, Recreation and Community Services. These priorities have been addressed in the proposed budget in the following manner:

- “Green” programs consistent with Council goals have been implemented and will continue with use of stimulus funding.
- Funding for graffiti removal was reduced, but not eliminated, due to the economy, and the City will continue to remove graffiti throughout the City as resources allow.
- Enhancing oversight of financial issues of the City with special emphasis on monitoring revenues and expenditures and implementing fiscal strategies to address the changing economic conditions, with the creation of the Office of Management and Budget to compliment Finance.

Due to new Government Accounting Standards Board pronouncements, a number of programs previously tracked as special revenue funds, enterprise funds or internal service funds were moved to the General Fund. These programs include: Parks, Recreation and Community Services; Special Events; Stabilization Funds; Planning; Dispatch Services and Communications and Technology. These changes are reflected throughout the budget document in the General Fund revenues and expenditure changes, as well as the other fund types.

Major Challenges in the Next Year

The legislature removed Ad Valorem Tax funding for Capital Projects in Fiscal Year 2009/2010; therefore, the City replaced those funds with funds provided by the General Funds. The City was able to accomplish this because of other legislative changes not

having the projected losses originally anticipated. For this year, any projects funded in the past by Ad Valorem Tax funding had to seek alternative funding sources, including General Funds. The City continued to fund minimal capital projects for Fiscal Year 2010/2011 through the General Fund.

To balance the Fiscal Year 2010/2011 budget, all departments reduced expenditures to minimum levels. In addition, there was a reduction in force of approximately 100 FTE's, in addition to attrition and freezing of vacancies. The City now has 387.5 vacant positions that will not be filled in the near future.

The City's Sanitary Sewer Fund does not generate sufficient revenues to cover capital needs. The current rate structure includes a 4% increase each year, and while this continues to cover operations and maintenance and debt service it does not leave sufficient funds to cover the capital needs. Staff is currently working on a new rate structure that would cover all operations and maintenance, debt service and capital needs. This will need approval by Council before implementation and Council will have to set the policy to determine the amount of capital funding each year.

The City's workers' 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 to 20 years as the claims mature. Consequently, the City must begin setting aside funds to fund these future claims.

Redevelopment and Downtown

The downtown has experienced a loss of assessed value of approximately \$118 million since the 1999/2000 fiscal year. This equates to a loss of approximately \$3.6 million in tax increment revenues to the Redevelopment Agency. For the 2010/11 fiscal year, RDA #1 assessed values decreased by \$41.7 million, per Washoe County estimates.

In 2005, Redevelopment Area #2 was established to help eliminate blight and improve economic vitality of seven sub-areas of the City. For the 2010/11 fiscal year, RDA #2 assessed values decreased \$51.7 million, per Washoe County estimates.

Legislative Session

The Nevada Legislature is in session in 2011, with a significant budgetary shortfall projected. As we share many of the revenues with the State, the County and the School District, we have reason to be concerned and cautious. The State shortfall and the current taxing system within the State of Nevada do not provide for easy solutions. We will have to be vigilant during the session to discourage loss of additional revenues to the municipalities.

Major Opportunities in the Next Year

Retail/Mixed Use Projects

Triple A Baseball has become an impetus for redevelopment. Several new restaurants have been added to the Freighthouse District, which complement the baseball stadium and help to spur economic growth in the downtown area. We are hopeful that this trend will continue.

Capital Improvement Program

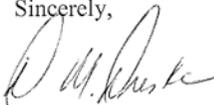
The Capital Improvement Plan for FY 2010/11 includes the following highlights:

Street Reconstruction and Rehabilitation	15,500,000
Neighborhood Revitalization Program	\$200,000
Neighborhood Traffic Calming	\$100,000
Fire Vehicle Replacement Program	\$100,000
Various Sewer Projects	\$7,500,000
Energy Projects	\$21,352,148

As a result of the legislature's actions related to local government finances, as well as the current trend in the economy, 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 2010/11 budget. In addition, it was again necessary to constrain service and supply expenditures for next year to below the prior year's level. This budget, should allow us to maintain a stable position through the end of the 2010/11 fiscal year. We will continue to give careful attention to the emerging economic, financial and revenue trends throughout the year to ensure this result.

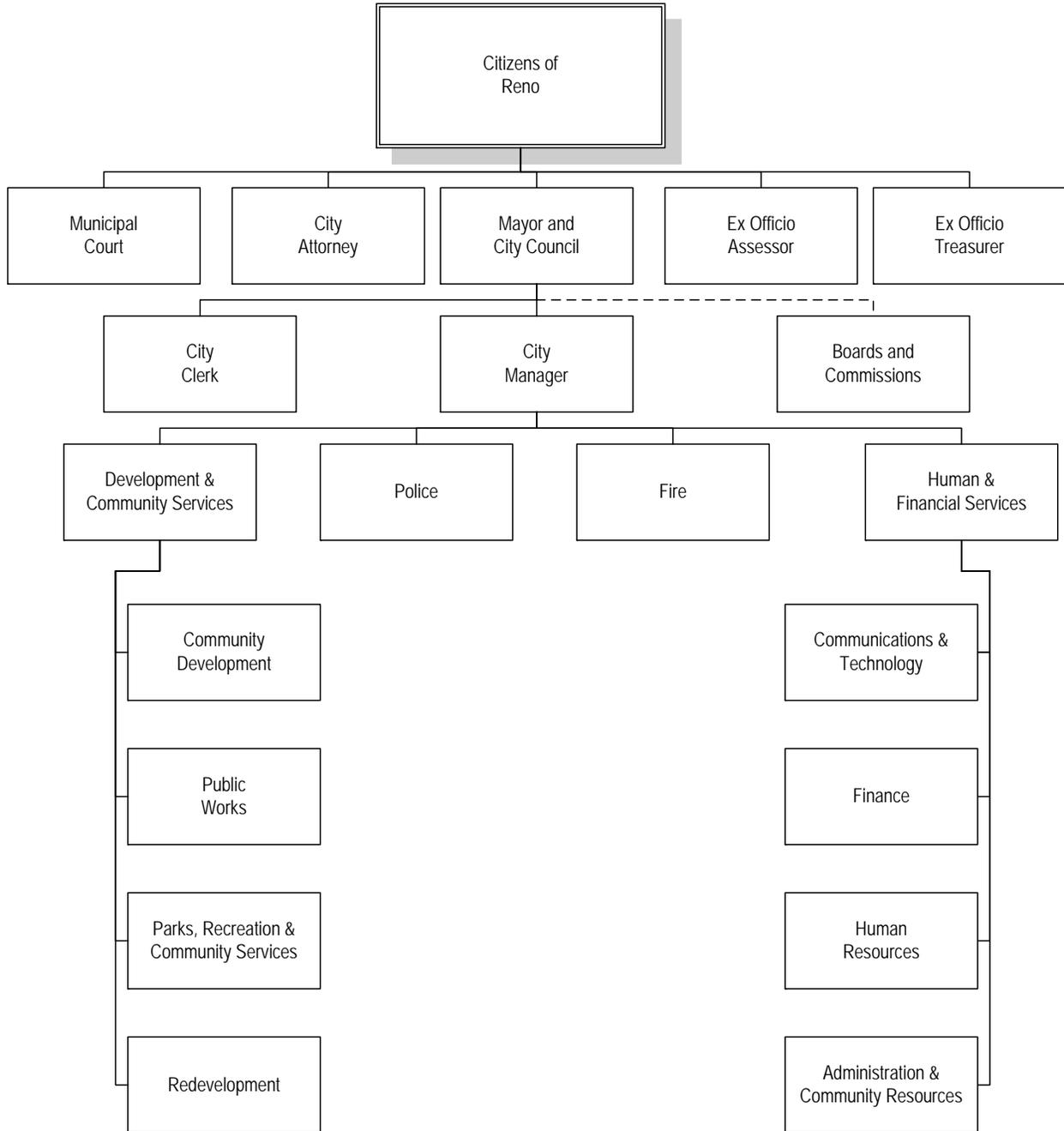
I wish to thank the City Council members for their hard work and determination in setting policy direction for the City. I would also like to thank the Department Directors and especially the Budget staff for their significant efforts in balancing this budget. Substantial modifications to programs and staffing levels have occurred through a team effort on behalf of your staff. Let me assure you that the City 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,



Donna M. Dreska

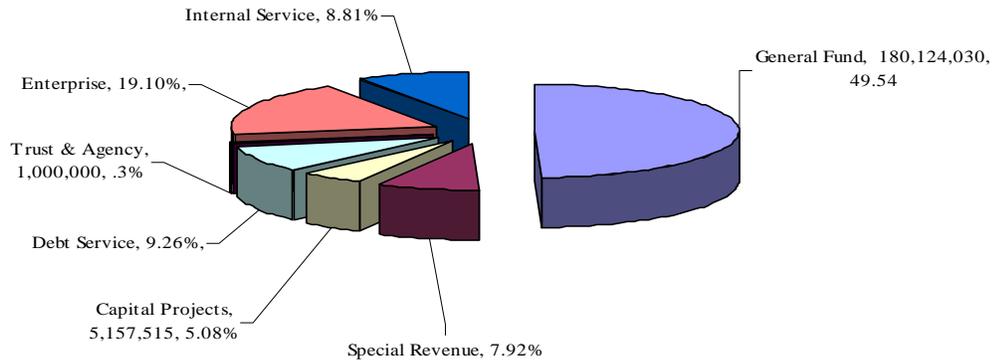
City Organizational Chart



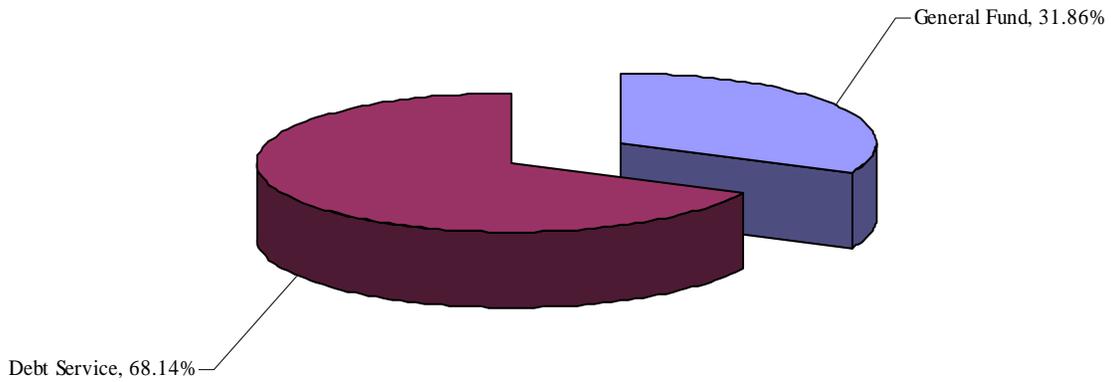
Budgets by Fund Type

Budgets by Fund Type

10/11 City Budget by Fund Type
\$343,095,289



10/11 Redevelopment Agency Budget by Fund Type
\$6,110,985



The City of Reno's Vision and Values

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 residents' concerns and implement plans accordingly.*

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

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.

RENO CITY COUNCIL PRIORITIES FY2010-2011

COMMUNICATION

Enhance communication with the residents and businesses in the city and region by proactively identifying emerging issues, implementing long-range communication strategies, and communicating key issues, policy decisions and actions taken by the City Council.

FINANCIAL MANAGEMENT

Enhance oversight of the City's financial issues with special emphasis on monitoring revenues and expenditures, and implementing fiscal strategies to address changing economic conditions.

PUBLIC SAFETY

Maintain high level of police and fire protection throughout Reno with special emphasis on substance abuse issues and response times and develop a plan for Fire Department Facility expansion.

GREEN INITIATIVES

Enhance the City's efforts to reduce its impact on the environment and provide leadership in the community to encourage residents and businesses to join in this effort.

PARKS, RECREATION AND COMMUNITY SERVICES

Focus on partnerships and opportunities to provide outstanding Parks, Recreation and Community Services to Reno's citizens and visitors, provide maintenance of existing facilities within available resources and offer quality programs and services. Communicate and engage community stakeholders and user groups to ensure community recreation needs are met.

CONSOLIDATION

Consolidate the governments or governmental functions of the City of Reno and the City of Sparks, Washoe County, the Washoe County School District and other entities as they determine consolidation is desirable, reduces taxes and/or improves services.

ARTS & CULTURE, SPECIAL EVENTS

Enhance partnerships and opportunities supporting arts, culture and special events benefitting Reno's citizens and visitors, focus efforts to plan and maintain arts and culture facilities, special event venues and to provide quality programs and services. Communicate with community stakeholders and user groups to ensure arts, culture and special event needs are met.

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:

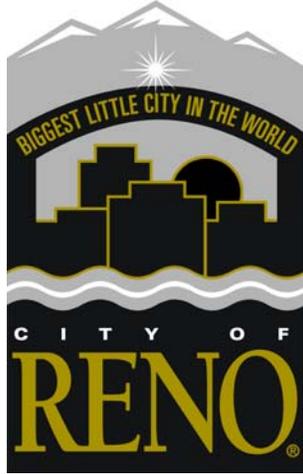
- The Council's vision for the year 2015.
- The Council's Five-Year Action Plans: At the Council's annual retreat, the City Manager and his team present the Council with proposed five-year goals and outcomes designed to implement the Council's vision for the year 2015. The Manager and Council then develop 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.



THIS PAGE FOR NOTES