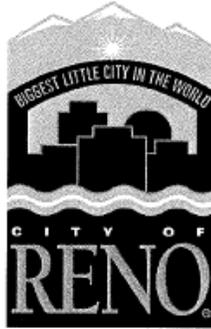


SECTION I
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INTRODUCTION

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May 17, 2011

Honorable Mayor and Members of the City Council:

I am honored to present the City of Reno's proposed operating plan for Fiscal Year 2011-2012, which includes a \$330.5 million citywide budget, including the Redevelopment Agency (RDA), and a \$164 million General Fund operating budget, including transfers. This is the fourteenth year that the City has produced a program-based budget, a format that makes the budget a meaningful policy tool for the City Council and allows the residents of Reno to know what will be accomplished, in addition to what resources are necessary for individual programs in the upcoming fiscal year. The budget document includes each department's program goals and strategies, providing a direct link between the planning of programs and the implementation of those programs in the budget.

This budget represents the third year of declining revenues since the recession began. Sales tax revenues so far this year have continued the downward trend, but we are expecting a stabilization of this source later in the year. Property taxes have again declined and are expected to continue to shrink in 2012-2013 and possibly beyond. The proposed Fiscal Year 2011-2012 budget continues to reflect a moderately conservative estimate for all 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 be as efficient and customer-service oriented as possible. This budget continues to place emphasis on the Council's annual priorities, strategic planning, quality services, neighborhood services, and citizen involvement.

In fact, this year the budget process was enhanced with input from the Reno Service Priorities Task Force, a committee established by the City Council that provided critical insight into the citizens' perspective on the relative priorities of the services the City provides. Looking at 58 different services, the committee provided a report that prioritized each service as "top priority," "high priority," "medium priority," and "low priority." The report was used by staff and the Council to evaluate funding and staffing decisions across all City departments.

The City will have a \$6.2 million Undesignated General Fund Reserve (4%) at the end of the 2011-2012 fiscal year, enhanced by a budgeted \$3.9 million Stabilization Fund to help deal with changes throughout the year. The City reserves are lower than they should be and in some instances are not in compliance with our various fund policies. 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 in order to respond to the revenue losses for this fiscal year, so no new departmental positions have been added. Furthermore, the following are steps that have been taken to address the reductions in resources:

- Reduction of 534.5 Full-time Equivalent (FTE) positions over the past three years;
- Non-represented employees taking a 7.5% pay cut, Police and Fire unions taking pay cuts along with other concessions; and
- Reductions to services and supplies in all departments

The Council Priorities for Fiscal Year 2011-2012 are Financial Management; Economic Development; Public Safety; Arts, Culture and Special Events. These priorities drive the service levels and programs in the proposed budget.

Major Challenges in the Next Year

To balance the Fiscal Year 2011-2012 budget, all departments reduced expenditures to minimum levels. In addition, there was a reduction in force, in addition to attrition and freezing of vacancies. The City now has 534.5 vacant positions that will not be filled in the near future.

The City identified a number of issues in the Comprehensive Annual Financial Report for the year ended June 30, 2010 that needed to be addressed to strengthen the City's financial position and ensure that all Nevada Revised Statutes were met. Working with the Department of Taxation and the Committee on Local Government Finance, staff created a corrective action plan that will be fully implemented by June 30, 2012.

The City's Sanitary Sewer Fund does not currently 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. Any changes 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.

Overall, service levels are down to those last seen in the early 1990s in most departments. Additional revenue loss and the need for further austerity measures are both likely in the upcoming year.

Redevelopment and Downtown

The downtown has experienced a loss of assessed value of approximately \$118 million since the 1999-2000 fiscal year, equating to a loss of approximately \$3.6 million in tax increment revenues to the Redevelopment Agency. For the 2010-2011 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 2010-2011 fiscal year, RDA #2 assessed values decreased \$51.7 million, per Washoe County estimates.

Major Opportunities in the Next Year

The Capital Improvement Plan for Fiscal Year 2010-2011 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 State Legislature's actions related to local government finances, as well as the current long-term trend in the local and national economies, a continuation of a defensive financial posture is recommended. Therefore, as in past budget years, we have used conservative revenue growth projections for the Fiscal Year 2011-2012 budget. In addition, the City continues to apply retrenchment and austerity measures designed to minimize cost, while using process management tools to seek higher efficiency in service delivery. This budget should allow us to maintain a stable position through the end of the 2011-2012 fiscal year. We will continue to give careful attention to the emerging economic, financial and revenue trends throughout the year to ensure this result.

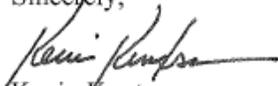
With the beginning of this fiscal year and the installment of the new City Manager, we will have additional opportunities for redesigning the organization and analyzing the way we deliver services in every department. Tools such as performance measurement, process improvement, and managed competition will provide additional prospects for reducing cost and creating value.

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 particularly the Office of Management & Budget staff for their significant efforts in

creating this budget. Substantial modifications to programs and staffing levels have been identified through a team-based effort, resulting in a budget that adequately provides core services while responding to projected revenue losses.

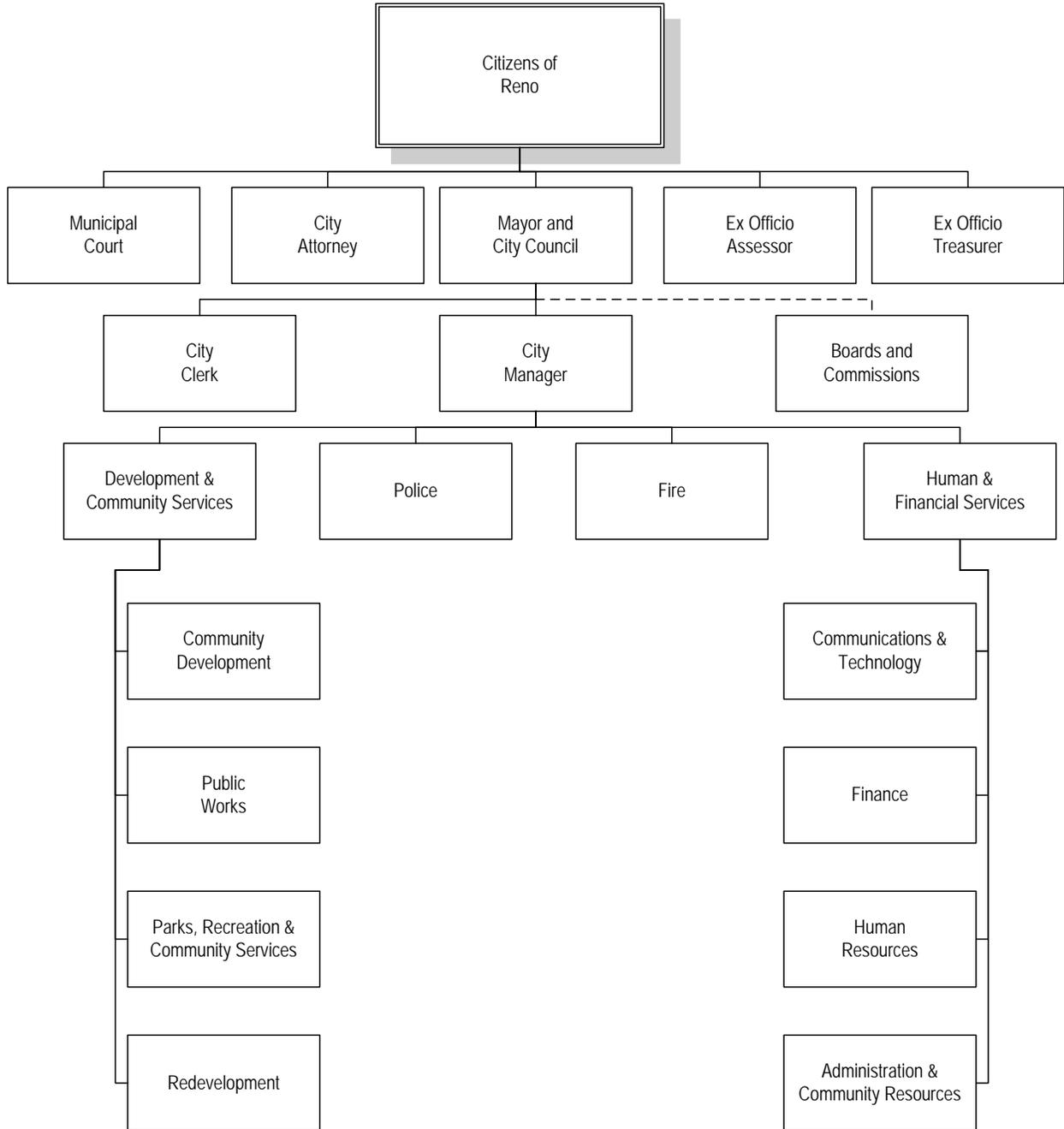
Despite the unprecedented and substantial impacts of the recession, City staff and I are dedicated to implementing Council policy direction to provide the best quality of life possible for the City's residents. I believe that this proposed budget contains the necessary programs and allocation of resources to accomplish just that.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Knutson", written over a horizontal line.

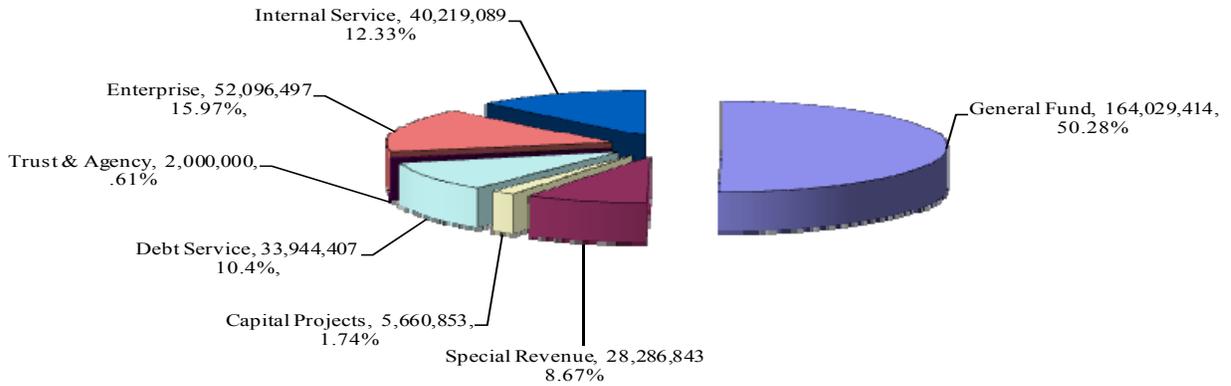
Kevin Knutson
Interim City Manager

City Organizational Chart

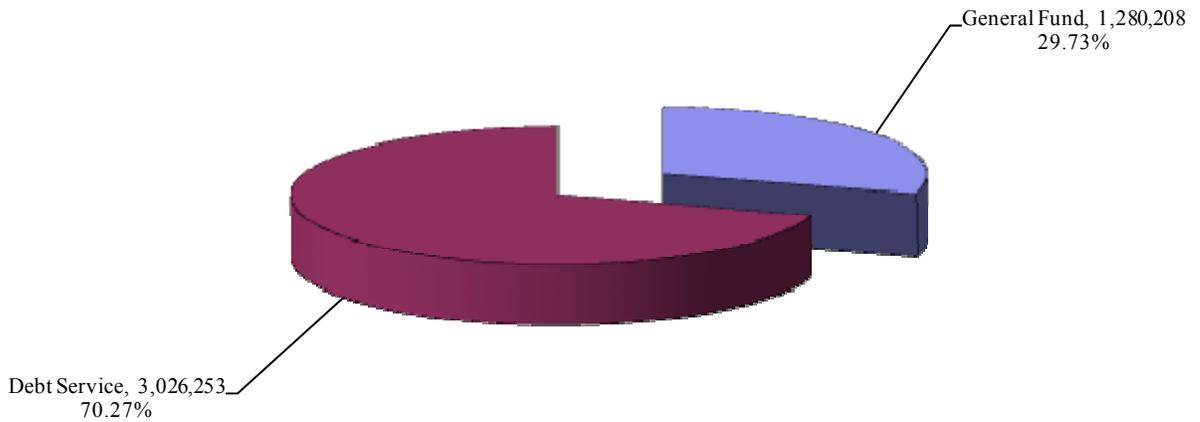


Budgets by Fund Type

11/12 City Budget by Fund Type \$326,237,103



11/12 Redevelopment Agency Budget by Fund Type \$4,306,461



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 FY2011-2012

FINANCIAL MANAGEMENT

- Review debt portfolio for options to potentially restructure debt to ensure debt service requirements are met.
- Use long-term financial planning tools to find solutions that address problems over the next five to ten years.
- Where possible, leverage consolidation or shared services internally and externally to reduce costs.
- Use a managed competition program to reduce costs.
- Implement a process management program to increase efficiency and effectiveness.
- Conduct audits/reviews of contracts, grants and bonds to ensure compliance.
- Restructure healthcare and other negotiated benefits to minimize cost.

ECONOMIC DEVELOPMENT

- Develop an economic development strategy for the City that includes working with all regional partners.
- Emphasize “Green” jobs and industries.
- Find ways to bolster tourism.
- Use communication assets to engage the community in spurring economic development.
- Increase the number of jobs in the community by working with partners to leverage scarce resources and ensure accountability.

PUBLIC SAFETY

- Deliver core Police and Fire services.
- Plan for adequate sewer and other infrastructure maintenance.
- Analyze the role of medical response within the current two-tiered system.
- Find creative ways to manage risk and the associated costs.
- Find ways to involve the community in issues like code enforcement, graffiti and foreclosures.
- Leverage communication resources, such as Reno DIRECT, to engage the community.
- Work with the Municipal Court to identify ways to reduce costs while still reducing recidivism.
- Research and identify methods to improve tourism and improve the quality of life for our citizens and visitors.

ARTS, CULTURE AND SPECIAL EVENTS

- Grow current tourism base and attract new visitors.
- Protect and add to both regional and local special events.
- Encourage community events that add to local quality of life.
- Partner with Neighborhood Advisory Boards to encourage neighborhood arts, culture and special events.
- Build relationships with all non-profits to preserve and enhance existing events in Reno.

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 a single unitary process the annual cycle of the City's significant planning, budgeting, and quality assessments 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:

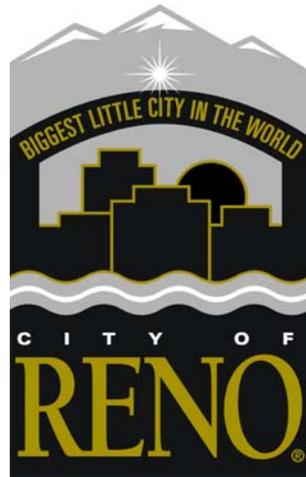
- The Council's vision for the year 2015.
- The Council's Five-Year Action Plans: At the Council's annual planning session, the City Manager and his team present the Council with proposed five-year goals and outcomes designed to implement the Council's vision for the year 2015. The Manager and Council 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 planning session; inter-departmental teams designated by the Manager or 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 assess 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 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.



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