*UPDATED

Item No: 20

Report to the City Council
Council Meeting of September 13, 2016

Agenda Section: **New Business**

Subject: **Council Discussion of Measure D and Potential Budget Adjustments**

CEQA Status: **Not a CEQA Project**

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Approved By: **Jennifer Phillips, City Manager**

This staff report is intended to provide a financial overview and historical documentation of the national, state and local events and decisions that led to the City's current financial challenges. No information in this staff report should be construed as opinion favoring or opposing these events and decisions.

BACKGROUND

Beginning in early 2015, staff has been providing the City Council and the community with information and updates regarding the state of the City's financial condition. In February 2015, the City Manager presented the first Long Range Financial Forecast (LRFF) which showed that the City had insufficient General Fund revenues to maintain current levels of staffing and services as well as maintain an acceptable Assigned General Fund Reserve balance. In addition, the LRFF showed that there was (and remains) inadequate revenue to address the City's seriously neglected infrastructure and capital needs. See Attachment A – Long Range Financial Forecast Report February 2015.

At the February 2015 Council Goal Setting Session, staff reported the City's inability to operate in a functional manner. The City's continuous underfunding of government operations over many years (decades) had resulted in substandard governance and delivery of services that were well below acceptable base levels. In other words, the "status quo" of the City's operations is at a substandard, inadequate level. The new management team estimated at that time that the City required an additional $2 million in revenue annually for the City to operate in a legal, fiscally responsible, efficient and professional manner. The City Council adopted the goal of securing the City's financial future and identified several revenue generation options for the staff to pursue including fee and rate studies, economic development, and tax measures. See Attachment B – 2015 Council Goal Setting Session Minutes February 27, 2015 and Attachment C – 2015 Council Goals Staff Report March 24, 2016.

In May 2015, staff presented the draft FY 2015-16 budget that required nearly $1 million in expenditure reductions due to insufficient revenues to cover existing services. This was a very difficult process for the Council, community and staff. Ultimately, the Council eliminated funding for two positions (one in the City Manager's Office and one in the Police Department), reduced library hours, and reduced various other departments' budgets and service levels in order to balance the City's budget. See Attachment D – FY 2015-16 Budget Adoption Staff Report June 23, 2015. At the adoption of the FY 15/16 budget, staff estimated the General Fund Reserve would be at 23% at year-end FY 2015-16. During FY 2015-16, the City Council authorized nearly $600,000 to cover unexpected expenditures. As a result, it was anticipated the General Fund Reserves would be decreased to an estimated 22% as indicated in the June 14, 2016 Budget Presentation to City Council. The City's General Fund Reserve continues to decline, while necessary due to inadequate revenue, this practice is at odds with sound fiscal management.

On September 8, 2015, the City Council created the Ad Hoc Revenue Source Task Force to address the City's financial challenges outlined above, and evaluate possible additional revenue sources for the City. The Task Force, a broad-based, diverse group of mostly community members, unanimously agreed that the City's finances were dire. The Task Force delivered a final report to the City Council on February 9, 2016 that recommended six actions for City Council consideration to increase revenues. See Attachment E – Ad Hoc Revenue Source Task Force Report. After a review of the City's revenues and current financial status, the Task Force recommended that the Council consider the following actions: (1) implement the process to increase sales tax by 0.5 percent; 2) implement the process to increase the City's real estate transfer tax to 1.0 percent; 3) raise transient occupancy tax revenues by increasing the number of hotel rooms; 4) proceed with the request for proposal process for the sale of one or more City properties; 5) proceed toward annexation of contiguous unincorporated lands, in cooperation with Napa County Local Agency Formation Commission (LAFCO) and the County of Napa; and 6) create an economic development committee comprised of residents, businesses and appropriate City representatives. This report was received at the February 9, 2016 City Council meeting and discussed at the February 11, 2016 Goal Setting. See Attachment F- 2-11-2016 Special Goal Setting Minutes.

Staff updated the City's LRFF in February 2016. Despite some modest revenue growth including the new hotel TOT revenues, the City's overall General Fund revenues only slightly outpaced assumed expenditures over the projected ten-year period with no funding available for either deferred or current maintenance needs or any expansion of services or administration. See Attachment G - February 9, 2016 LRFF. However, at that time the City had not discovered the State Revolving Loan Fund issue which culminated with the City's commitment to repay $2.1 million to the State. The City submitted a repayment schedule to the State and is still awaiting a response. The LRFF does not include repayment of the $2.1 million.

At the 2016 Council Goal Setting Session, the Council continued to support the goal of securing the City's financial future, along with retaining qualified staff and proper project management. Attachment H – Council Goals Staff Report March 8, 2016. As Staff and the City Council acknowledged at this meeting, the City continues to struggle in meeting legal and regulatory requirements, is not able to deliver the level of services desired by the community and has unmet public administration obligations to ensure sound governance. In short, the Council and Staff again concluded that although significant progress has been made in the overall administration, the City is unprepared due to inadequate funding and reserves to address critical City needs.

At public meetings between March 2016 and June 2016, the City Council discussed and considered a variety of revenue enhancing options. See Attachment I – Informational Item: Review of Additional Revenue Options including Parcel Tax, Payroll Tax and Gross Receipts Tax Staff Report March 8, 2016; Attachment J – Informational Item: Review of General Obligation Bonds as Possible Revenue Measure Staff Report March 22, 2016; Attachment K – Voter Survey Results for a City Charter and Vital Services Measure in St. Helena Staff Report; Attachment L – Consideration of a Sales Tax Measure for the November 2016 Ballot Staff Report May 10, 2016; Attachment M – Consideration of, and Direction to Staff on Steps for a Sales Tax Measure for the November 2016 Ballot and Issuance of the Request for Proposals for Adams Street Staff Report May 24, 2016.

Staff developed the City's FY 2016-17 budget as a "status quo" budget with no increases in already underfunded programming, staffing or services due to modest increases in revenues. The General Fund Reserve also remained below 25% of expenditures, once again leaving the City at risk of being unprepared to address the unbudgeted emergencies that routinely befall cities. The City also left vacant two additional full-time positions, one in the Library and one in the Parks Division, due to insufficient revenue to fund these on-going positions resulting in a reduction in services to the community. The additional repayment of the $2.1 State loan was included based on the proposed repayment scheduled which offers only a modest payment in FY 2016-17. Again, the "status quo" budget left the City operating at inadequate, not fully functional levels of service. See Attachment N – FY 2016-17 Budget Adoption Staff Report June 14, 2016 and Attachment O - FY 2016-17 City Manager's Budget Letter June 14, 2016. Importantly, the City's Budget Letter states that if additional General Fund revenues are not secured, service reductions will be required in FY 2017-18.

In recognition of the City's continuing revenue shortfalls, on July 12, 2016 the City Council approved the submission of a ballot measure (Measure D) to the City's voters to approve a ½ percent transactions and use taxes ordinance at the General Municipal Election to be held on Tuesday, November 8, 2016. Measure D is a general tax measure that would generate an estimated $1.4 million in revenue annually to support the City's General Fund. All revenue generated by Measure D would stay in St. Helena. While Measure D will not solve all the City's revenue problems, its new revenue will assist the City in maintaining existing levels of service and in providing some funding toward the City's failing infrastructure and other unmet needs. On August 30, 2016 the City published an educational facts sheet that provides further information about the tax measure.

DISCUSSION

Across California, cities are facing unprecedented financial challenges. Some of the root causes of cities' distress can be connected to major events and decisions such as passage of Proposition 13; continuous approval by the State Legislature of unfunded mandates and regulatory requirements imposed upon local governments; voter initiatives that eliminated/reduced taxes or expanded services; a supermajority requirement for many tax increases; the Great Recession; public employee pensions and lower than projected earnings in the CalPERS investment portfolio; the State's diversion of revenues from cities including the Education Revenue Augmentation Fund (ERAF), and the high cost of doing business in California. Three cities in California have filed for bankruptcy and many others continue to struggle with limited revenues and rising costs. Therefore, St. Helena is not alone in its financial challenges.

Though small, St. Helena is nonetheless a full service city delivering both legally-required and discretionary services to the community. Full-service cities such as St. Helena must satisfy a staggering number of legal, regulatory, and professional responsibilities that the community rarely sees. Just a few examples of such legally-required responsibilities include the Americans with Disabilities Act (ADA), emergency preparedness standards, the Family and Medical Leave Act (FMLA), the Fair Labor Standards Act (FLSA), the Fair Housing Act (FHA), the National Pollution Discharge Elimination System (NPDES), and the Occupational Safety and Health Administration (OSHA) law are imposed by the federal government. Other examples are harassment awareness training, street sign standards, playground safety, workers' compensation, affordable housing laws, open government laws, the Law Enforcement Officers' & Firefighters Bills of Rights, the Brown Act and the Public Records Act, State Division of Dam Safety, State Department of Water Resources and the Fair Employment and Housing Act (FEHA), which are imposed by the State of California. Compliance with these myriad laws and requirements imposes enormous burdens and staffing needs on the City. To comply, and to reduce the City's legal exposure, St. Helena, like other cities, must have adequate staff and resources. Compliance is mandatory, not optional.

The City of St. Helena has a Municipal Code and adopted policies that further impose laws on it and its citizenry. Some illustrations are building codes, land use and zoning laws, nuisance/code enforcement laws, sign laws, speed limits, noise laws, leaf blower laws, parking, purchasing policies, and budget authority. Though the community expects that the City will enforce these laws, the City has little or no budget to do so.

Finally, city leadership is expected to meet a professional standard which includes openness and transparency; community engagement; compliance with City policies and procedures; and proper financial, records, human resources and project management. Compliance with all of these laws, regulations, and standards requires adequate revenue to fund these critical aspects of local government administration.

Over the past 20 years, St. Helena has made decisions that directly or indirectly impacted the City's financial condition. These decisions have culminated into the current financial challenges facing the City which can be categorized as:

- inadequate revenue to cover ongoing expenses and maintain services to meet community expectations;
- insufficient reserves in the General Fund, Water Fund and Wastewater Water Fund;
- lack of capital replacement funds; and
- seriously deteriorated infrastructure due to years of deferred maintenance coupled with a limited asset management program inhibiting staff's ability to effectively manage City assets.

Important decisions have been made that positively impacted the City's finances. These consist of the purchase of the Adams Street parcel for $3 million (currently valued at $12 million); approval of the Los Alcobas Hotel which is expected to generate over $1 million annually in TOT revenue; purchase of the Railroad Avenue property; passage of Measure A for flood control projects and Measure T for street improvements (beginning in 2019); passage of a parcel tax to fund the construction of the Fire Station; and significant increases in water and wastewater rates in 2011. Despite these positive decisions, however, the City's financial condition remains dire, and City's operations below functional levels.

The Fire Department's operation as a paid-by-call service has been another significant cost saving for the City. A full service fire department would increase operational costs by well over $1 million annually. In addition, the community's generous donations have provided funding for the purchase of many of the fire engines and equipment, relieving the City of this financial obligation. However, this historic model is at-risk due to lack of affordable housing in St. Helena. Paid-by-call firefighters must live within 10 minutes of the Fire Station and currently the department has six vacancies that it is unable to fill. If solutions to this problem cannot be found, the City will be faced with considering full-service options and identifying the necessary funds to pay for this far more costly model.

Other events and decisions have put a strain on the City's finances. Examples of these include:

- construction and management of the $37 million comprehensive flood control projects that continue to require General Fund contributions;

- not approving rate increases for 20 years until 2011 to properly operate the water and wastewater system;
- a locally operated but regionally serving public library with historically a $1 million annual General Fund budget;
- lack of financial controls and transparency to fully understand City's financial condition;
- a City-operated Police Department to deliver highest level of service and response time;
- deferred and inadequate infrastructure maintenance to streets, sidewalks, trees, parks, vehicles, and buildings;
- limited economic development and tourism related initiatives; and
- opposition to revenue generating options such as sales tax initiatives and hotel development.

The City of St. Helena is at a critical crossroad, and the community is facing major decisions that will set a course for the future of the City and have significant financial impacts. Some of these include consideration of an Updated General Plan, initial consideration of hotel developments, availability of adequate affordable and workforce housing, possible sale/lease of the Adams Street and City Hall properties, initial consideration of two sizable residential developments, water and wastewater rate increases; and addressing growth and tourism.

As noted, the City is obligated to fund the necessary staffing and resources needed to comply with federal and state laws. Violation of these laws places the City at serious financial and legal risk and must remain a priority. Compliance is mandatory, not optional. In addition, the City has been unable to rigorously enforce the City's municipal codes; the City has enforced City codes at a nominal level based mostly on health and safety compliance. However, the community has a great interest in enforcement of these codes and is often disappointed when the City cannot respond to their complaints.

Staff and the Council have placed great emphasis on improving the management of the City over the past two years. Funding for adequate staffing and required resources is key to continuing this effort which in the long term is expected to keep City costs down by reducing errors and risk, increasing efficiencies, complying with federal and state mandates, improving operations and achieving and maintaining a functional government.

Another critical aspect of the City's financial sustainability is achieving and maintaining adequate reserves and replacement funds. Reserves provide government agencies with options for responding to unexpected—but inevitable-- issues that include sharp declines in revenue, cash flow shortfalls, unbudgeted major repairs for City owned infrastructure and buildings, and unexpected expenditures, lawsuits and extreme events, such as floods, fires and earthquakes. For the past several years, the City of St. Helena has had an informal Council goal of maintaining a 25% General Fund Reserve which equates to approximately $2.5 million. As Staff has emphasized to the Council and the community, even a 25% reserve is minimal in adequately protecting St. Helena from the kinds of risks that are certain to befall every community.

The Government Finance Officers Association (GFOA), a national organization that promotes excellence in state and local government finance, recommends that governments establish a formal policy on the level unrestricted General Fund balance. Generally accepted accounted principles (GAAP) define unrestricted General Fund balances as including committed, assigned and unassigned fund balances. There is no set amount or standard for General Fund Reserve amounts as each government agency is expected to consider its own unique circumstances and risks. Factors to consider include the diversification of its revenue streams, revenue volatility, exposure to one-time risks such as disasters, immediate capital needs, state budget cuts, drain on General Fund by other funds, and impact on bond rating.

The City of St. Helena has possible exposure in all of these areas, rendering a 25% goal too low. For example, both the water and wastewater enterprise funds are experiencing financial challenges. The water fund, due to drought related lower water use, is operating at a loss and the wastewater enterprise fund has depleted its reserve. If a major, unexpected event occurred at either facility, the General Fund Reserve must have adequate funds available to cover the expenditures. Once again, doing so is mandatory, not optional. The majority of the City's revenues come from property tax, sales tax and transient occupancy tax and thus was deeply impacted by the Great Recession and would be again impacted with another economic downturn. The City is also at high-risk of natural disasters including floods, fires and earthquakes. Also, the City will need to issue debt in the near future for the water and waste water systems, and possibly for a new city hall, police station and corporation yard. Without additional revenue, the City cannot meet a higher, more appropriate General Fund Reserve amount and presents a weaker financial condition to rating agencies resulting in higher interest rates for bond sales.

Government agencies establish replacement funds to ensure adequate funds for replacement of all capital assets. When cities build projects and purchases equipment, most cities take basic steps to identify the useful life of the asset, establish a fund and make an annual contribution to fund the replacement/renovation of the asset. St. Helena, however, has not established any such replacement funds. As a result, the City has made all major building repairs and vehicle, equipment, computer, and large machinery purchases from operating revenues. This is not a sound financial or governmental practice. A majority of the City's assets have been used beyond their useful life but no funds are available for repair, replacement or renovation. Three of the most notable assets that are well beyond their useful lives (and substandard) are the City Hall, Police Station and Corporation Yard. Four other important buildings are also in need of repairs and renovation. The Carnegie Building, although recently restored, has concerning issues with the elevator and needs all the windows replaced. The Crane

Park building, used for summer camps has been poorly maintained and requires many repairs and upgrades. And two of the City's "newer" buildings, the library and fire station, require repairs and improvements to ensure they remain properly maintained.

The City is also responsible for maintenance of the streets, public sidewalks, and parks. On February 10, 2015 staff presented the Pavement Management Program, which rated the City's streets at a pavement condition index of 54 out of 100. This report demonstrated that the City's streets and roads are ranked low among Bay Area cities, and that at current funding levels the deterioration will continue, with a sharp increase in the costs of repair and replacement. See Attachment P – Pavement Management Program Report February 10, 2015. The passage of Measure T, with funds beginning in 2019 estimated at $665,000 annually, and modest gas tax and transportation grants will help the problem to some extent, and should enable the City to begin a street maintenance program that, over a multi-year period of time, can improve and maintain the City's streets to only a 65 rating. This rating is still in the "at-risk" range. The goal for proper pavement condition maintenance is generally 80. This will not enable the City to bring its road system anywhere near to the level necessary for safety, function and cost containment. In short, the City has insufficient funds to maintain not only its streets, but also all City assets, including the downtown sidewalks, City trees, parks, play equipment and ball fields, and City buildings.

One of the main purposes of a city is to provide services to its community. The ability to deliver the desired level of services and standard of maintenance hinges completely on the availability of revenue. Due to a lack of available ongoing funding the library has sharply reduced its hours of operation and all part-time staff are funded through non-profit support. Recreation programs cannot be expanded to meet growing demand, and cuts may soon be necessary. The City performs street sweeping at minimal levels. The City cannot enhance its police services for more traffic and parking enforcement or school/community services. Code enforcement is performed only on health and safety matters. Highly desired community events are limited to only a few each year, and many are funded through private donations and ticket sales. These discretionary services are at risk of further reductions and/or elimination if the City does not secure additional revenue.

It must be emphasized that passage of Measure D will not fully solve the City's financial challenges. The City must consider and secure other revenue enhancing options that will provide stability and the ability to withstand unexpected events.

If Measure D fails to pass, the City will be required to make tough choices. Non-essential, discretionary programs and services such as the library, recreation programs, park maintenance, traffic enforcement and other valued services will be vulnerable to reductions and/or elimination. The financial, legal and operational sustainability of the City, and compliance with mandatory legal requirements imposed by federal and state laws, must be the priority. Therefore, after years of underfunding both essential City obligations and discretionary programs and services, a crisis point has been reached. To appropriately operate and fund essential City services (police, fire and public works) the City must live within its means and eliminate those services it cannot support financially. Deferred maintenance of streets, parks and buildings must be addressed; reserves for vehicle replacement, building repairs, IT equipment and large equipment must be established; essential project, financial and records management positions must be funded and filled with capable staff; the downtown and public sidewalks and public trees must be properly maintained; a new city hall, police station and corporation yard must be funded and built in the coming years, and a formal General Fund Reserve goal must be established by the City Council and then strictly followed.

If Measure D does not pass in November 2016, staff will return to the City Council in January 2017 with recommendations to the amend the FY 2016-17 Adopted Budget to begin the painful process of identifying discretionary service reductions that could include partial or total elimination of the Recreation Department, significant reductions to or closure of the Library, and partial or full closure of City parks. This initial process will be the precursor to consideration of the FY 2017-18 budget which will propose further service reductions. Failure to take those steps will only lead to further erosion of the City's ability to operate and provide any services.

RECOMMENDED ACTION
Information only.

Attachment A – LRFF February 2015
Attachment B – Notes from Council Goal Setting – February 2015
Attachment C – Council Goals Staff Report - March 2015
Attachment D – FY 2015-16 Proposed Budget Staff Report
Attachment E – Task Force Final Report
Attachment F – Special Goal Setting Minutes – February 2016
Attachment G – 2016-2026 LRFF
Attachment H –Council Goals Staff Report – March 2016
Attachment I – Revenue Options Staff Report
Attachment J – General Obligation Bonds Staff Report
Attachment K – Voter Survey and Vital Services Measure
Attachment L – Consideration of Sales Tax Measure
Attachment M – Sales Tax Measure and Adams Street RFP
Attachment N – FY 2016-17 Proposed Budget Staff Report
Attachment O – FY 2016-17 Budget Letter

Attachment A

Long Range Financial Forecast

City of St. Helena 2015 – 2025

February 2015

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Summary of Findings and Recommendations

The City of St. Helena is located in the heart of the Napa Valley and has a population of approximately 6,000 residents. The City was incorporated in 1876 and reincorporated in 1889. St. Helena is a general law city and operates under a Council-Manager form of government. The City Council is comprised of five members, with a directly elected Mayor serving a two year term, and the other four at-large members serving four-year overlapping terms. The City Manager, is appointed by the Council and is responsible for administration of City affairs and implementation of Council policy.

The City's Fiscal Year (FY) 2014-15 Operating and Capital Budget is $10.6 million with approximately 67 budgeted positions. As a full-service City, St. Helena has the following departments: City Manager, Planning and Community Improvement, Recreation, Library, Finance, Public Works, Police and a voluntary Fire Department.

The Long Range Financial Forecast (LRFF) has been developed to help the City of St. Helena plan a path of stability. This begins with the principle that the City must operate with a long-term structurally balanced budget and strong reserves to have an effective role in sustaining the vitality of our community.

This analysis is centered on the City's General Fund because it is the primary operating budget for tax supported municipal services. Long range financial forecasting assists the City in making decisions that lead to our ability to sustain core services to the community.

The City has weathered the Great Recession through budget cuts that included reduction of staff and deferred maintenance. This report presents a potential range of financial outcomes, none of which are certain, based on available data and conditions. It recommends strategies that City Council and staff can take now to ensure the ongoing provision of core municipal services over the next few years. The LRFF also offers strategies for the Council to consider in terms of revenue options that can provide additional revenues to strengthen the City's financial health. The findings and recommended strategies provide a road map for financial stability to help lead the City through the next ten years of economic uncertainty and begin to identify the financial limitations and revenue options for the future.

It is important to note that this is the first LRFF and is intended to serve as a tool for financial planning and decision making in the years ahead. It should become a standard practice for the City to update this plan annually.

The LRFF uses two revenue scenarios and two expenditure scenarios to illustrate trends of the City's expenditures and revenues over the next ten years. The FY 2014-15 Adopted Operating Budget is used as the base for all scenarios.

The two revenue forecasts are as follows:

- **Baseline** - The baseline revenue growth estimate is based on a continuing modest economic recovery. This forecast is similar to the actual revenue growth the City incurred over the last ten years. However, economic history shows that over a ten year period, the country always experiences a recession. Therefore, this baseline forecast can be considered optimistic, but still conservative.

- **Baseline with a minor recession -** This forecast assumes a minor recession during Fiscal Years 2018 through FY 2020, which is in line with fundamental economics that have shown that the country experiences a recession about every ten years.

The two expense forecasts are as follows:

- **Current levels with escalators –** This expense forecast is based on the FY 2014-15 expenditure levels, which includes current level of staffing and services. Annual escalators are based on modest cost increases as described in the following section. In addition projections are provided for the annual Assigned General Fund Reserve, which serves as the City's "savings account" for emergencies.

- **Current levels with escalators and with modest level of asset recapitalization -** This second expense forecast is identical to the above forecast except it includes an annual expenditure of $1.6 million for capital projects. Necessary staffing increases to perform and oversee these projects are not included in the operating budget as it is clearly evident the City is unable to afford just the annual capital expense. No Assigned General Fund Reserve is provided in this forecast, because in this scenario the General Fund is immediately in an operating deficit, which only worsens with each year.

Using a set of assumptions, currently available data and economic projections, the following findings were reached.

Summary of Findings

1. Operating Revenues:

Recent modest gains in revenue through an improving economy and reductions in expenditures and deferred maintenance helped the City begin its recovery from the Great Recession.

- *Using the baseline revenue forecast, the City faces a budget deficit in the first year, due to expenses exceeding revenues. Beginning in FY 2017, forecasted net operating revenues slightly exceed expenditures. Note: the FY 2016 property tax revenue was increased to reflect the higher level of property tax collected in FY 2014 per the CAFR.*

- *The baseline with a recession revenue forecast shows a scenario in which the City revenues basically equal expenditures.*

2. Assigned General Fund Reserve:
The Council has set an informal goal of achieving and maintaining a 25% Assigned General Fund Reserve. This amount is deemed essential not only based on the informal Council goal, but is also considered a reasonable amount by industry standards based on an expectation of retaining reserves that equal three months of operating expenditures. Also, if the City has any anticipation of borrowing funds or issuing bonds, the rating agencies consider this reserve as part of their ratings. A sustained 25% Assigned General Fund Reserve can assist the City in achieving a better credit rating and thereby being eligible for lower interest rates on bonds or loans. The current forecasts show the Assigned General Fund Reserve to fluctuate from 16% to 24% until the 25% target reserve is met in FY 2024.

- *Under the baseline forecast, beginning in FY 2016, the Assigned General Fund Reserve balance is at $2.1 million, which is below the 25% informal Council goal. This reserve remains below the 25% informal goal through FY 2024. Therefore, even though the City's net operating budget shows a surplus beginning in FY 2018, there is inadequate revenue to maintain a critical Assigned General Fund Reserve balance of 25%.*

- *If the economy experiences a minor slowdown as illustrated in the second revenue forecast the result will be General Fund revenues meeting expenditures but a growing Assigned General Fund Reserve deficit that totals $1.9 million, and a reserve at 12%. This is due to the fact that even though the reserve amount remains relatively stable at $1.8 to $2.0 million, expenditures increase each year requiring a contribution to maintain a higher percentage.*

3. Operating Costs:
The City's current staffing level of 67 employees along with a volunteer fire department are diligently delivering the programs and services to the community and managing all the required administrative functions as well. It is important to recognize that staffing levels remain at near recession lows, while revenues now exceed pre-recession highs.

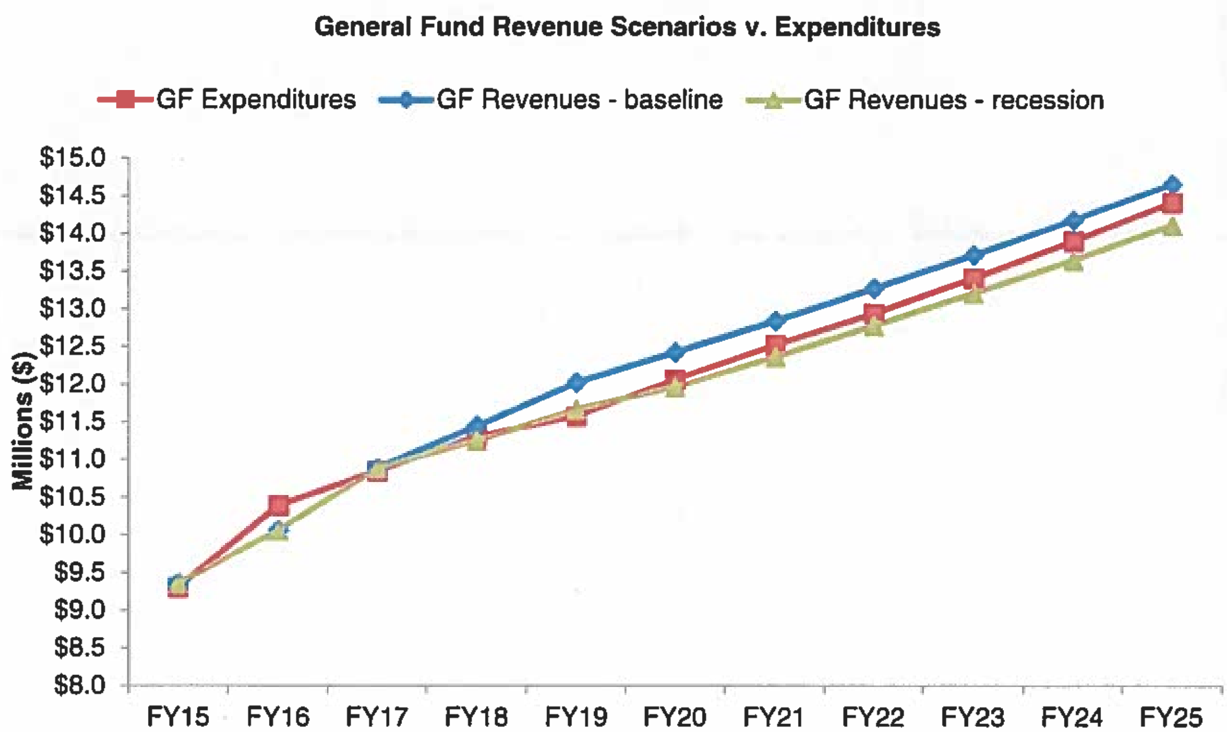
- *The base costs to provide the current level of City services will continue to grow over the next ten years. Cost increases currently known are driven by scheduled increases in CalPERS pension rates, employee salaries and healthcare premium increases. General City operating expenses are expected to increase due to CPI. In addition, in FY 2016, the General Fund must assume a $528,000 State Revolving Fund Debt Service payment. This payment continues through 2028 (three years beyond the forecast). More detail on this payment is provided in the next section.*

- *Under both revenue forecasts, the first year requires either a reduction in expenditures by $300,000 or use of Unassigned General Fund Reserves. In subsequent years revenues slightly exceed expenditures, but adequate ongoing funding is not available to allow the City to add critical administrative staffing, or enhance services. Nor is funding available to hire additional consultants, fund new programs or initiatives, implement unfunded mandates or support community proposals. Essentially, as forecasted with the current* *revenue sources, the City has inadequate revenue to maintain current levels of staffing and services, as well as maintain an acceptable Assigned General Fund Reserve balance. The inability to add any additional staff or respond to unfunded state and federal mandates could place the City at risk. It is important to note that the current staffing levels are considered inadequate and the workload exceeds capacity.*

4. ***Asset Recapitalization:***
   - *In an effort to control costs, the City has deferred maintenance of buildings, parks, streets and information technology asset needs. There are currently insufficient monies in the General Fund budget to address the City's asset recapitalization needs. At some point, the City may be faced with significant costs to replace or repair a major building subsystem, park amenity, IT upgrade or roadway paving that will spike the budget and compete with ongoing services for revenue.*

   - *There is also insufficient revenue to support any type of bond measure or loan for the purpose of building a new city hall, police station, corporation yard or community center.*

In summary, the following graph illustrates the two revenue projections when compared to the projected expenses (without asset recapitalization).



Strategies for Sustainability

Many cities across California are facing similar revenue and expense challenges and no one action can resolve this financial challenge, but with solid and diverse strategies, a city can begin to develop a course of action that is focused on delivering core services and achieving their own goals. The following strategies are recommended as proactive steps the City of St. Helena should be prepared to take in order to continue delivering core programs and services to the community.

1. ***Closely manage General Fund expenses.*** *Through the annual budget process it is vital that a strong focus on core and essential services remain a guiding principle. It is important to recognize that the expense structure of the forecast does not take into consideration additional expenses related to any increases in staffing, programs and services that are unforeseen at this time. The increases included in this plan are fundamentally nondiscretionary, covering projected pension cost increases, healthcare cost increases, growth of salaries at a modest rate, general inflation and the state loan payment of $528,000. An annual mid-year budget update should be presented to Council to provide an estimate of year-end revenue and expenditures projections, allowing Council the opportunity to make necessary adjustments. Staff continues to seek cost savings through efficiencies.*

2. ***Regularly review fees for services.*** *In 2012 staff prepared a fee schedule for Planning, Building and Public Works related fees for services. It was adopted by Council in May 2012 but overall cost recovery was not significantly enhanced. Since that time Planning and Building staffing levels have decreased and recently have been increased again. An updated fee study should be conducted and a target cost recovery rate should be set by the Council. Building, planning and public works fees should then be regularly reviewed and adjusted to achieve this cost recovery rate.*

3. ***Conduct an annual Council goal setting process to identify community priorities and seek opportunities for community based financial support.*** *The City is expected to provide core and essential services to the community and maintain its infrastructure, while also complying with all laws and mandates. Full compliance requires a base level of staffing and funding that is adequate to perform all these functions. Many of these functions are purely administrative and have no source of revenues. Other community priorities and initiatives may have the opportunity to collaborate with the private or non-profit sectors. These existing or potential partnerships should be identified and explored.*

4. ***Evaluate additional revenue measures.*** *Any increase, addition or extension of a tax or assessment requires approval by registered voters or property owners, as provided by law. Monies raised would depend on the level of tax or assessment levied. Before moving forward on any new revenue measure, the City needs to explore how the existing*

revenue measures are viewed as well as what type of additional revenue measures voters might be likely to pass, if any.

Opportunities that the City could explore include:

a. *Sales Tax increase requires a majority vote if the uses are general in nature or a 2/3rd vote if the uses are specific.*

b. *Real Property Transfer Tax requires the City to become a charter city, which could necessitate a significant public process that would require dedicated staffing and funding, to create a charter, which must then be approved by a majority vote. Recently, a California city became a charter city for the sole purpose of enacting a real property transfer tax, and in every other aspect of law continues to follow general California law. As a charter city, a real property transfer tax could be placed on the ballot and requires a majority vote for passage.*

c. *Parcel Taxes can be used for a variety of municipal services and are considered a special tax and therefore require a 2/3rds vote to pass.*

d. *Assessment Districts can be used to fund landscaping, parks, streetlight maintenance, and roadway maintenance and construction. The primary issue is that Proposition 218 limited assessment districts to funding for property-related costs with a finding of special benefit. It is likely that roadway maintenance would be a general benefit and could not be funded by an assessment district.*

4. ***Evaluate opportunities for economic development.*** *Two of the City's three main sources of revenue are sales tax and transient occupancy tax. The additional revenue provided by the City's newest hotel is estimated to provide the General Fund with $900,000 in additional revenue. Without this additional revenue, it is forecasted that the City would continue the projected operating deficiency that begins in FY 2016 for ten years. An economic development strategy should be developed that helps guide the City in determining the types and amount of business development it is interested in retaining and attracting.*

5. ***Explore opportunities to annex contiguous unincorporated areas of Napa County.*** *The City provides services and supports residents and businesses in neighborhoods immediately surrounding St. Helena. There have been discussions for many years regarding the annexation of the Meadowood community, for example. Annexation of certain neighborhoods would result in the City receiving an increase in revenue with minor increases in expenditures.*

6. ***Develop a long-term funding plan for asset recapitalization of municipal facilities, parks, IT upgrades (software and hardware) and streets.*** *The City has not set aside adequate funds to recapitalize its major assets to rehabilitate or replace assets as*

needed. In the FY 2014-15 Adopted Budget, the City created two replacements funds; one for equipment in which $30,000 was set aside; and a second for buildings for which $25,000 was set aside.

a. Buildings – The City owns and maintains approximately 64,000 square feet of government buildings. In 2012, the City eliminated the Government Buildings function within Public Works. Since then, existing staff and some contract services have been used to keep the buildings operating. No preventative maintenance has been performed in nearly three years. The City established a building replacement fund in FY 2014-15 to cover major repairs or to replace buildings and deposited $25,000. Currently, the Parks crews have assumed the government buildings duties.

b. Parks – The City owns 10 parks and four pathways totaling approximately 40 acres. The Parks crews maintain all the parks and pathways, and as noted above now also maintain the government buildings. The City has not established an asset replacement fund to cover major repairs, replace equipment, or address safety concerns related to failing infrastructure.

c. Information Technology – The City contracts with a private IT consulting company to support its network, PC and service needs. It has become industry standard to replace PCs every 3-5 years and to make enhancements to servers, storage and other IT equipment annually. The City established a computer replacement fund in FY 2014-15 and deposited $30,000 into the fund. Generally, PC replacements and other IT infrastructure and equipment are funded from the annual operating budget.

d. Streets – The City is responsible for 26 centerline miles of roadway. The Pavement Management Plan, presented to Council in February 2015 provided estimates for maintaining and improving the City's streets. The Plan shows that an additional $1.25 million of annual road maintenance is inadequate to maintain the City's streets at a Pavement Management Index of 58. An investment of $2.5 million annually would maintain the Pavement Management Index at 58 and an investment of $3.5 million annually would increase the Pavement Management Index to 63. In FY 2018, Measure T is expected to provide the City with approximately $665,000 annually for pavement management projects. This revenue is included only in the asset recapitalization scenario, as it can be used only for pavement management projects.

Risks to the Forecast

Every projection is a combination of assumptions based on analysis of historical data, use of actual data when available (e.g., labor contracts, CalPERS rates estimates), and educated assumptions based on an analysis of available information. In addition to the built-in uncertainty of projections, the City continues to experience a particularly volatile economic climate and uncertainty in the future of revenue and major expenses that could impact the City's budget. The major risks to these projections are discussed below. This discussion is meant to provide an overview of the major issues and projections that the City will have to monitor and update in the years to come.

1. **Volatile Economy** - The City's revenues are impacted by what is going on in the economy. As evidenced in the recent recession, the City's three largest revenue sources, property, sales and transient occupancy taxes, are tied to the broader economic trends.

2. **Pension Costs** - CalPERS pension costs continue to rise and are projected to increase through 2020. The projections in this forecast are based on five years of CalPERS estimates and then extrapolated out at a 1% increase per year. CalPERS continually reassess the employer contribution and based on market returns and other factors, rates can be increased or decreased annually. The past few years the stock market has experienced gains, which provide revenue towards the CalPERS liabilities. As was experienced in the early 2000's, declines in the stock market can result in increased employer contributions.

3. **Compensation Increases** – The Memorandum of Understand (MOU) with the St. Helena Employees Association expires in January 2016 and the MOU with the St. Helena Police Officers Foundation expires in 2017. Increases in compensation will be discussed as part of renegotiating both of these MOUs. Currently the expense forecast includes merit increases and modest salary increases to keep pace with inflation.

4. **Health Premiums** - The City pays 100% of employee and dependent health premiums. Health premiums are projected to continue to rise over the next decade by 6% annually. The risk is that health premiums rise faster than forecast, increasing total compensation costs. As mentioned in the expense section, the City's insurance pool is exploring a self-funded insurance program which would offer cost containment if successfully implemented.

5. **Asset Recapitalization** - The City has not been putting monies aside for maintenance of municipal buildings, streets, IT and park facilities. At some point, the City may be faced with significant current-term costs for replacement or repair of a major building subsystem, park amenity, software package or roadway paving that will spike the budget and compete with ongoing services for revenue.

6. **Major New One-Time Expenses** - The expenditure forecast does not include any provisions for unexpected one-time expenses, such as changes in legislation, unexpected events, acts of nature or other such factors that could require the City to expend a significant amount of General Fund monies.

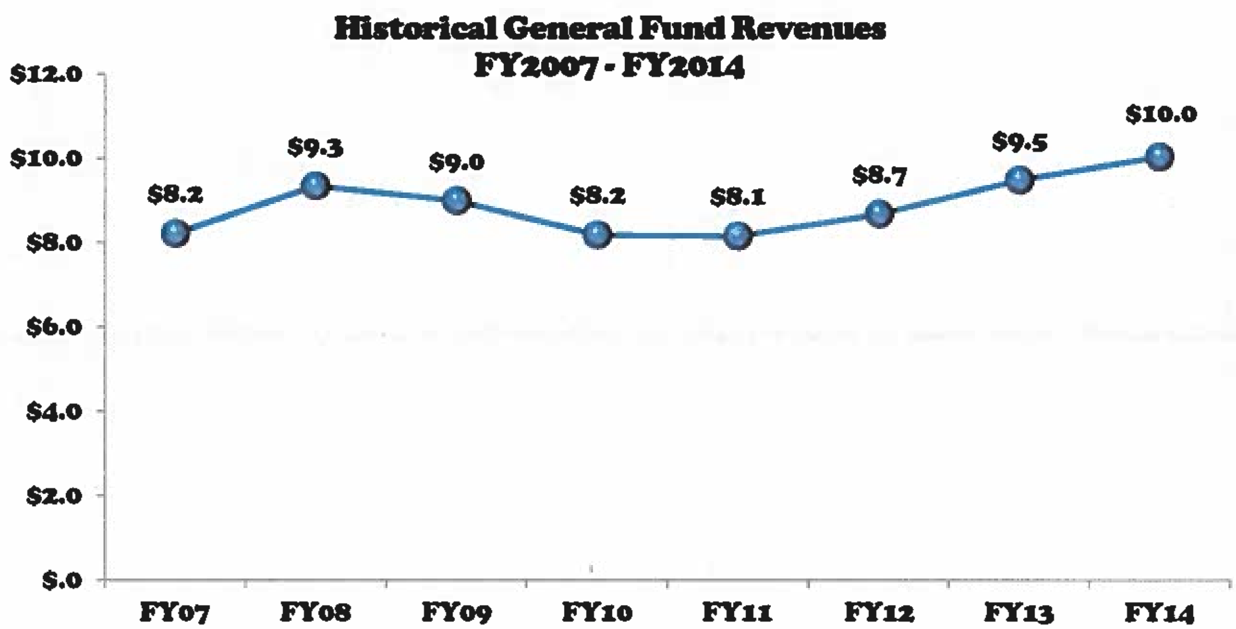
In summary, the LRFF is intended to illustrate revenue and expense trends over the next ten years and is an important tool to develop financial strategies to ensure the City is financially stable. The next few years will require strong leadership, community involvement and difficult decisions as a plan for fiscal stability is developed and implemented.

Historical Perspective

St. Helena has gone through a period of economic volatility over the last six years. Led by a decrease in revenues in FY 2009, the City made reductions in staffing and deferred Citywide maintenance in order to balance the budget. In FY 2009, the City employed 82 full-time equivalent (FTE) staff members, and when compared to the current FY 2014-15 budget, this number has been reduced to 67, a 18% reduction in staff Citywide. General Fund revenue in FY 2008 totaled $9.3 million, compared to $8.1 million in FY 2011 and $10 million in FY 2014.

City Revenues

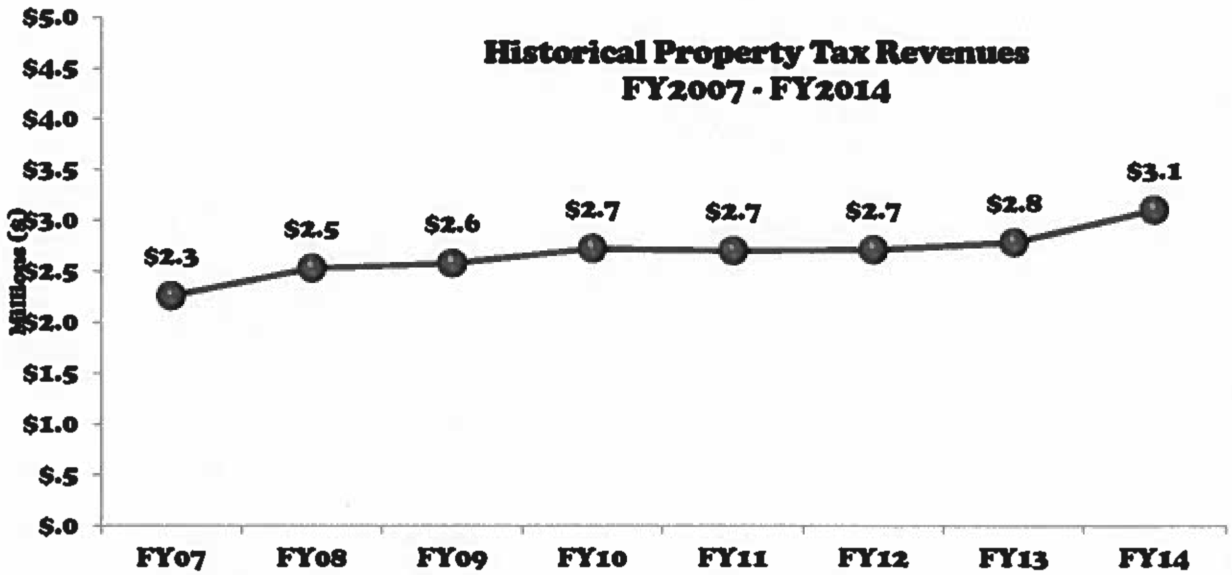
The City has several revenue sources, with the major three sources being sales, property and transient occupancy taxes. The following chart illustrates the past eight years of total General Fund revenue and the impact of the Great Recession is clearly illustrated by the decline in revenues in FY 2008-09 and continuing into FY 2010-11. This chart also illustrates that the City's General Fund revenue now exceeds pre-recession levels, yet staffing levels remain at near recession lows.



Numbers in $ Millions – source: FY 2007 through FY 2014 CAFRs

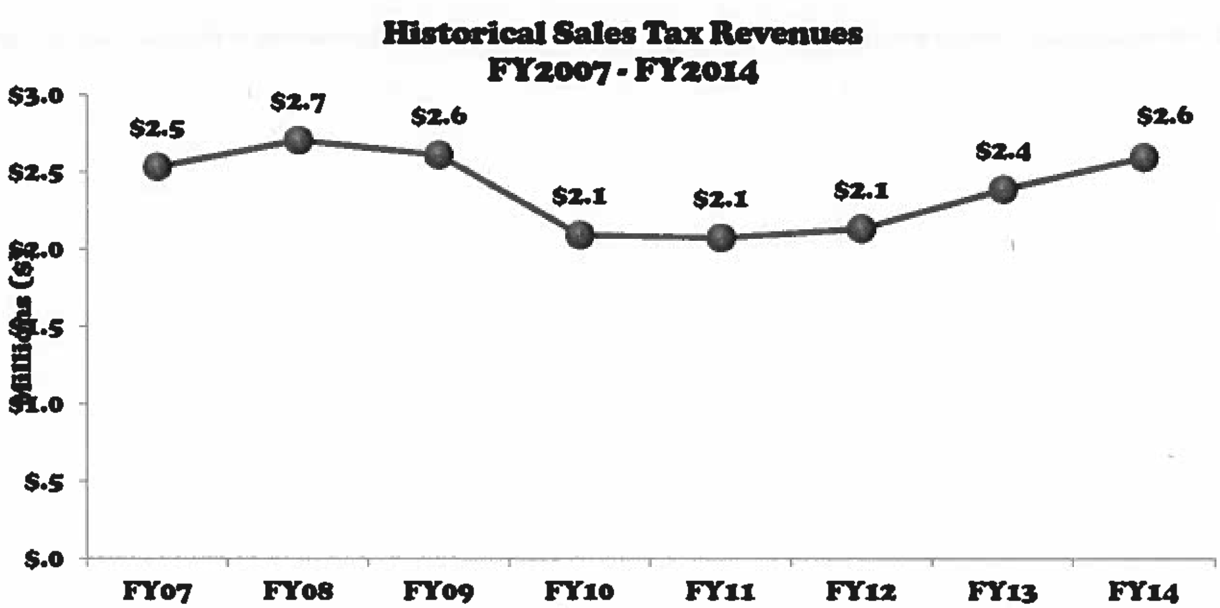
The City has three major sources of General Fund revenue: property tax, sales tax and transient occupancy tax.

Property tax revenue was only modestly impacted by the Great Recession by remaining steady rather than increaings for three years but has experienced increases in FY 2013 and FY 2014.



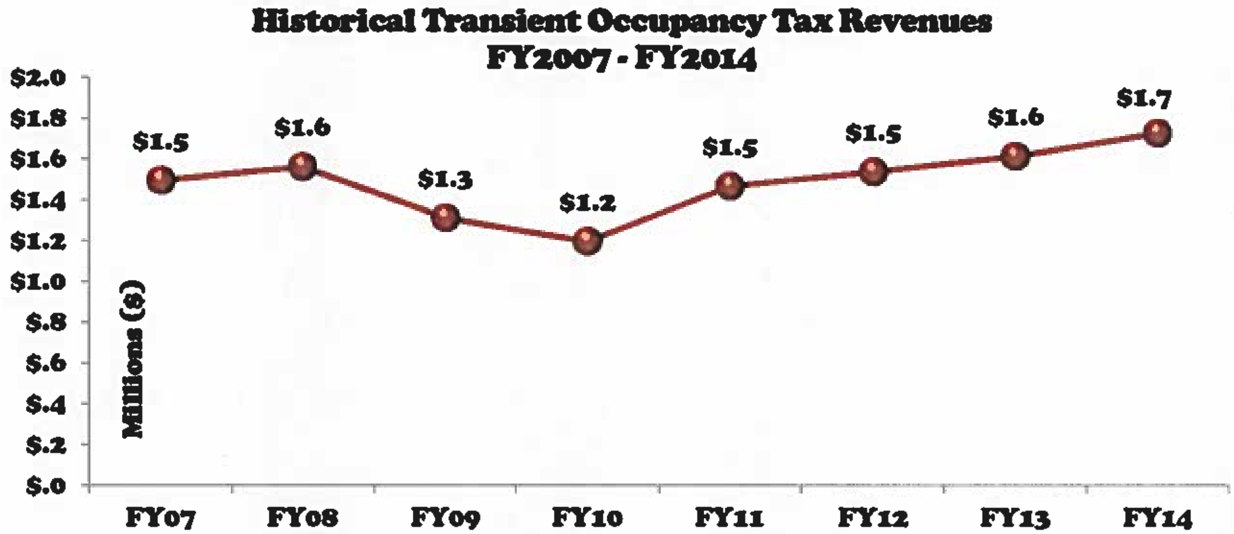
Numbers in $ Millions – source: FY 2007 through FY 2014 CAFRs

Sales tax revenue declined to a low of $2.1 million in FY 2010-11 and remained at this rate for two more years and began rebounding in FY 2013 with another increase in FY 2014.



Numbers in $ Millions – source: FY 2007 through FY 2014 CAFRs

Transient Occupancy Tax is the City's third largest revenue source and similar to sales tax revenue declined during the Great Recession, but has been slowly increasing each year and exceeded prerecession levels in FY 2013-14.

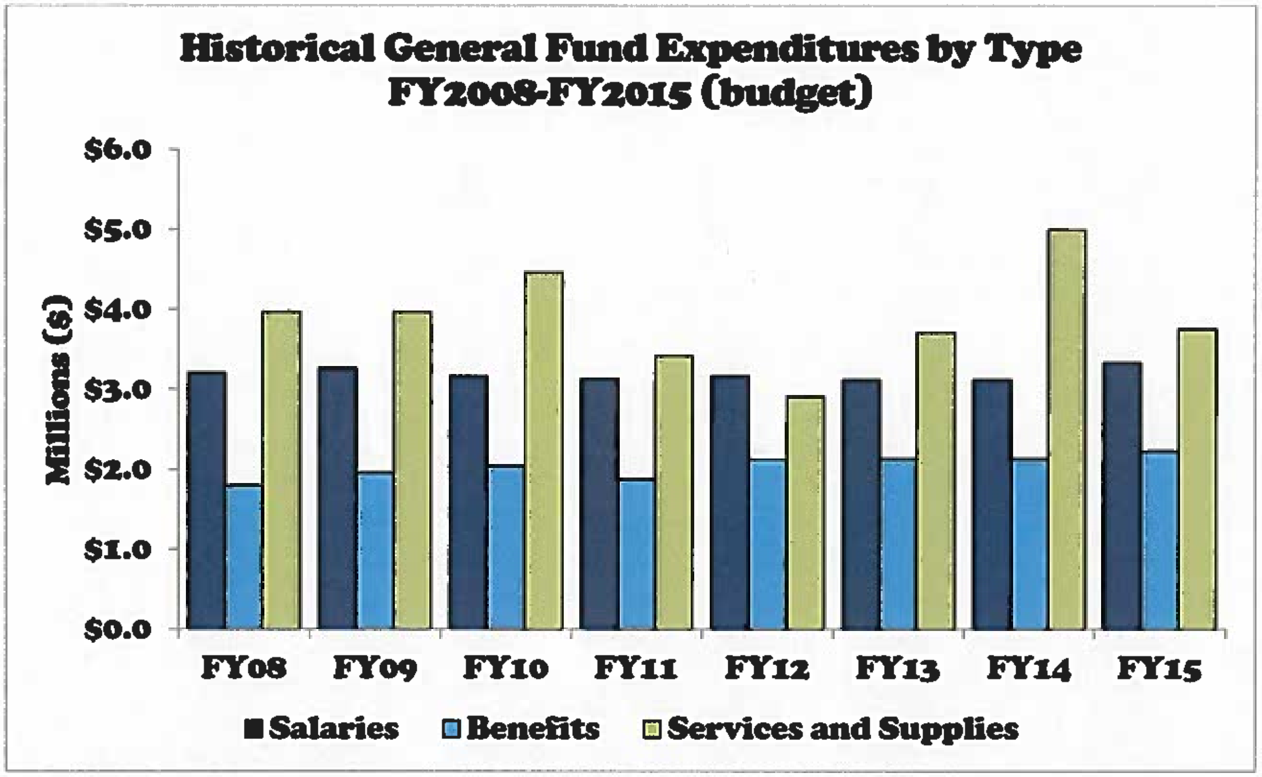


Numbers in $ Millions – source: FY 2007 through FY 2014 CAFRs

A fourth revenue source, specifically fees for planning and building services, experienced a decline in FY 2014. In FY 2013, actual license and permit revenue totaled nearly $440,000 and in FY 2014, actual revenue totaled slightly over $300,000. Other sources of General Fund revenue include in-lieu vehicle license fees, fines, penalties, interest earnings, rents, and other charges for services. These revenues have remained relatively flat or experienced slight increases over the past few years.

City Expenses

In response to the Great Recession and related decline in revenues, the City worked diligently to reduce its operating costs, achieved mostly by reductions in staffing. The City has established and maintains 21% Assigned General Fund Reserve of budgeted operating expenditures. In addition, the FY 2014-15 budget had indicated an Unassigned General Fund reserve of $2.26 million. However, following the completion of the FY 2013-14 Comprehensive Annual Financial Report, this amount was reduced to $1.29 million.



	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Salaries	$3.2	$3.3	$3.2	$3.1	$3.1	$3.1	$3.1	$3.1
Benefits	$1.8	$1.9	$2.0	$1.9	$2.1	$2.1	$2.1	$2.1
Services & Supplies	$4.0	$4.0	$4.5	$3.4	$2.9	$3.7	$5.0	$3.7
Total	**$9.0**	**$9.2**	**$9.7**	**$8.4**	**$8.2**	**$9.0**	**$10.2**	**$9.3**

***Numbers in millions*

This period of retraction was difficult on the City, with reductions coming in the following areas and are described in more detail below:

- **Preservation of Service Levels:** A major focus during the recession was to achieve cost savings by reducing staffing levels and deferring maintenance while preserving service levels.

- **Administrative Staffing:** Throughout the City, mostly administrative positions were eliminated in an effort to preserve services to the community. This approach can work in the short term to weather an economic downturn, but within a few years, the backlog of work and the inability to meet legally required mandates grows exponentially, resulting in an exhausted staff, potential legal exposure, and a frustrated community.

- **Capital Projects:** Few projects have been funded through the General Fund over the past several years. Due to the City's poor road condition, $1.2 million was budgeted in FY 2014-15 for road repairs. The budgeting of these funds results in an estimated General Fund unreserved fund balance of $1.09 million, which is being adjusted per the FY 2013-14 CAFR to $.1 million.

- ***Salary and Benefit Costs:*** *Personnel costs, which include salaries and benefits, make up more than 60% of the City's General Fund expenditures in the FY 2014-15 Adopted Budget. Both the Police Officers Foundation and St. Helena Employees Association agreed in their recent contracts to contribute more towards the employer's PERS contribution, while also receiving modest salary increases to offset these contributions. These actions have helped to reduce the City's pension contributions.*

  Subsequent reforms enacted independently by the City to create a second benefit tier for employees hired after July 2012 and reforms implemented by the Public Employees' Pension Reform Act of 2013, will eliminate enhancements prospectively and have required the City's employees to contribute more toward their benefits.

  Most recently, CalPERS recalculated pension contributions to include a higher rate related to mortality, resulting in an increase in the City's PERS contribution that will be effective in FY 2017 through FY 2023. This rate increase is in addition to the rate increase announced in April 2013, which will become effective in FY 2015-16. Also, for FY 2016, PERS created a new contribution formula that includes an annual lump sum employer payment of unfunded liability. These changes result in a nearly 25% increase in employer PERS contribution for FY 2016 and estimated 4% increases thereafter.

- ***Supplies and Services:*** *An area of major expense reductions was in the area of supplies and services. However, supplies and services are increasing annually due to cost increases in equipment, materials and consulting services. In FY 2014 expenditures increased by nearly $1.0 million due to the $1.9 million refund paid to grantors related to the City's flood response.*

Forecast Revenues and Expenses

The City has worked diligently during these challenging and volatile economic times to manage its budget. Reductions in expenditures have resulted in revenues exceeding expenses in the last four years. At the same time, the City is experiencing cost pressures from CalPERS' contribution rate increases, health premiums, merit & salary increases, along with general CPI increases that put this trend at risk. In addition, the City has not been putting monies aside for the long-term funding for recapitalization of facilities, parks, information technology or streets. This has led to significant current funding needs, which will only increase in the future and/or result in severe deterioration of the City's building and infrastructure assets if not addressed in the near term.

The forecasts included in this plan have been made for revenues and expenses over the next ten fiscal years based on the best available information. Due to the volatile and unpredictable nature of General Fund revenues, two revenues scenarios have been developed for this forecast: one with a baseline and a second that is a baseline with a minor recession. Two expense forecasts are used for this plan, one that focuses on operating expenses, while the second includes the financial challenges in addressing the City's asset recapitalization needs. This section discusses these two forecasts.

Revenues

Projections of future revenue are based on a set of assumptions at a point in time and intended to highlight trends and should be updated annually. Because the City's three major revenue sources for the General Fund (property, sales and transient occupancy taxes) are affected by the economy, significant changes in the local, regional and national economic outlook, positive or negative, can shift these revenue sources significantly. As realized in the reductions in revenue that started in FY 2009-10, history is not always a reliable indicator of the near future. That being said, this plan assumes in the forecasts that recent improvements in economic conditions locally and nationally will continue at a modest pace over the next several years. The baseline forecast predicts a modest but still positive (optimistic) forecast, while the baseline with a minor recession includes a very minor recession for three years.

To capture the uncertainty of revenue growth, this forecast includes two revenue scenarios:

- **Baseline** - The baseline revenue growth estimate is based on a continuing modest economic recovery. This forecast is similar to the actual revenue growth the City incurred over the last ten years. However, economic history shows that over a ten year period, the country always experiences a recession. Therefore, this baseline forecast can be considered optimistic, but still conservative.

- **Baseline with a minor recession** – this forecast generally follows the baseline forecast but illustrates the impact of a minor recession in FY 2018 through FY 2020.

The table below shows the escalator assumptions for the revenue sources under these two scenarios. The difference in the revenue forecasts between the baseline and baseline with a minor recession are in sales tax, property tax, and transient occupancy taxes.

Revenue	Baseline Forecast Growth Per Year	Baseline with Recession Growth Per Year
Property & VLF Tax	3%	2 to 3%
Sales Tax	3%	-1 to 3%
Transient Occupancy Tax	4%	2% to 4%
Other Taxes	4%	4%
Licenses and Permits	0%	0%
Other Revenue	5%	5%

The City's major revenue categories are discussed below, as well as the assumptions used for each forecast.

Property Taxes. After three years of flat revenues of a moderate decline , property tax revenue began increasing again in FY 2013. This increase is due to rising property values from existing homes and the sale of homes. St. Helena is projected to experience minor new development over the next ten years. Increases in property tax are based mostly on increases in property values.

- **Baseline** - Under the City's baseline growth scenario, property taxes are assumed to grow at an annual increase of 3%, which assumes full Proposition 13 increases of 2.0% per year plus an additional 1% increase due to property turnover and new growth, for a total forecast growth rate of 3%.

- **Baseline with a minor recession** – In this scenario, property taxes follow the same annual increase of 3% except during FY 2018-2020 when the annual increase is reduced 2% annual and returns to 3% in FY 2021.

Sales Tax. Growth in sales tax depends on a variety of factors but for St. Helena it is the economy and tourism that have the largest impact. Five-year sales tax projections are provided to the City by MuniServices, the City's sales tax consultant. MuniServices provides growth scenarios for the City on a quarterly basis.

- **Baseline** - The 3% annual growth level assumes moderate growth in sales taxes in line with long-term inflationary expectations.

- **Baseline with a minor recession** – This projection assumes an annual growth rate of 3% each year. A minor recession in fiscal years FY 2018 through 2020, reduces sales tax growth to 1% in the first year, -1% in the second year and 1% in the third year. The 3% escalator is reinstated in FY 2021.

Transient Occupancy Tax (TOT). The City charges 12% transient occupancy tax on all overnight stays when occupying a room or rooms or other living space in a hotel, inn, tourist home or house, motel or other lodging (defined below) unless the stay is for a period of 31 days or more.

- **Baseline** – Under the City's baseline growth scenario, TOT is projected to increase 4% annually. In addition, the opening of the Las Alcobas Hotel is projected for FY 2016-17 with an additional $500,000 in TOT. The following two fiscal years each include $200,000 in additional revenue for a total of $900,000 annually in additional TOT by FY 2019-20.

- **Baseline with a minor Recession** – TOT is projected to increase 4% and is reduced to 2% for FY 2017-18 through FY 2019-20 and returns to 4% through the end of the forecast. The additional TOT from Las Alcobas is included at the same rate as in the baseline forecast.

Other Taxes, Licenses, Permits and Other Revenues. These revenues comprise the remaining 25% of the General Fund revenues and their escalating assumptions range from 0% increase for licenses and permits; 1% for interest and rents, 2.4% for charges for services and 5% for other revenues.

Expenses

The City's expense profile includes a combination of costs that the City controls and does not control. For example, the City controls labor costs to the extent that it authorizes a certain number of positions and negotiates labor contracts that govern pay and benefits. Pension costs, on the other hand, (the result of past labor negotiations and CalPERS contracts) are a cost the City has little control over in the near term. The third category for expenses is services and supplies. This category includes most non-labor expenditures.

The major assumptions in the City's cost projections are included in the table below and are further discussed thereafter.

Forecast Expense Assumptions		
Expense	Growth per Year	Notes
Salaries	2.5%	Increases based on merits and moderate CPI
Pension Costs	-8% to 22%	Based on PERS estimates
Health Premiums	6%	Experience and industry projections
Other Benefits	3.8%	Moderate growth compared to health care
Services and Supplies	4.5%	Lower growth rate than last two years

Salaries. For the projection, salaries are assumed to grow at a modest rate of 2.5% per year. Without any changes to staffing totals or the granting of any significant salary increases, this represents the anticipated cost of step increases for those employees not at top step, as well as very modest cost of living increases. Over the past two years, the City has added a few select, critical positions. This expense scenario does not include additional positions. New services, unfunded mandates and other demands will require the addition of positions over the next ten years.

Pension Costs. The City is a part of the California Public Employees Retirement System (CalPERS) and is required to pay an employer contribution toward the contracted pension benefits as determined by CalPERS. City employees pay a portion of pension costs based on a CalPERS formula and some employees contribute more through negotiated cost sharing.

Pension cost projections are provided by CalPERS on an annual basis. In addition, rate increases for the mortality rate adjustment are also factored into this forecast as well as the unfunded liability payment being imposed in FY 2015-16. These factors result in a 25% increase in the City's PERS contribution for FY 2015-16. In the following years, the contribution rates fluctuate from an increase of 9% to a decrease of 9% and finally level off to 1% increase in the last few years of the forecast.

Health Premiums. The City pays 100% of employee health care premiums. This means that as premiums rise, the City's contribution increases as well. Based on recent history and expectations for increases over the next decade, the City assumes health premium costs will increase 6% per year. However, the City's is a member of the Redwood Empire Municipal Insurance Foundation (REMIF) which is currently exploring a self-funded program for health care. If this can be accomplished, REMIF is projecting that for the first few years, the member cities would experience no cost increases. More information will be forthcoming as REMIF continues work on this proposal.

Other Benefits. In addition to health premiums, the City provides dental and vision care to employees. This is not expected to increase as fast as health premiums and is projected to rise at an average of 3.8% per year.

Services and Supplies. These non-employee costs were reduced during the Great Recession but have increased in recent years. These costs are projected to increase at a modest rate of around 4.5% per year through the projection period. However, this projection may be too low as material costs and operational needs are already being identified as near term needs. In addition, with the limited capacity of full-time staff, the City retains consultants to perform necessary work.

Also included in this category is the State Revolving Fund Loan annual payment of $528,000 beginning in FY 2016. Measure A funds are not available to cover this loan amount as had been the case since the debt was incurred in FY 2009 for the partial funding of the flood control project. As this is a long term obligation, it is factored into the expense budget for all ten years of the forecast. Upon release of the Measure A funds in FY 2018, the City will have options regarding use of these remaining funds estimated to be approximately $4.5 million.

Assigned General Fund Reserve at a minimum 25%. Based on an informal Council goal and industry best practices, the City's Assigned General Fund reserve should be 25% of budgeted operating expenditures. This goal is not achieved in either of the revenue scenarios and unachievable when expenditures toward asset recapitalization are illustrated.

The graphs and tables below show the results of the revenue projections as compared to the expense projection.

Scenarios

The following section illustrates the two revenue forecasts, both of which utilize the same expense forecast.

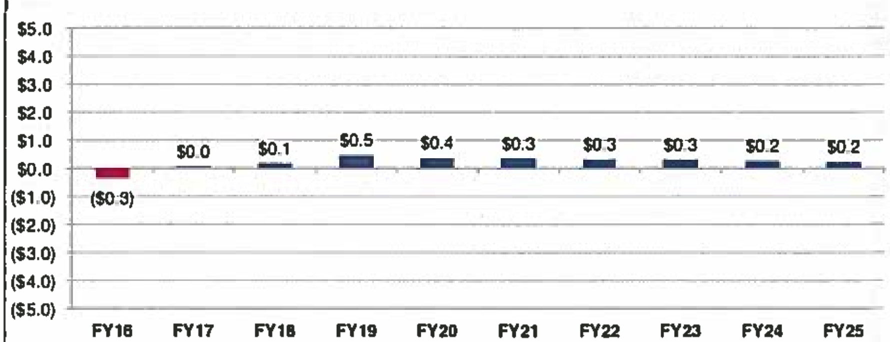
Baseline Revenue Forecast – Net Operating Revenues

The baseline revenue growth estimate is based on a continuing modest but optimistic economic recovery. This forecast is similar to the actual revenue growth the City incurred over the last ten years.

Baseline Revenue Forecast

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Revenues											
Property Taxes & VLF	$3.4	$3.9	$4.0	$4.2	$4.3	$4.4	$4.6	$4.7	$4.8	$5.0	$5.1
Sales Tax	$2.5	$2.6	$2.7	$2.8	$2.9	$3.0	$3.0	$3.1	$3.2	$3.3	$3.4
Transit Occupancy Tax	$1.7	$1.8	$2.4	$2.7	$3.0	$3.1	$3.2	$3.3	$3.5	$3.6	$3.8
Other Taxes	$0.2	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3
Licenses and Permits	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
Other Revenues	$0.9	$1.0	$1.0	$1.1	$1.1	$1.2	$1.2	$1.3	$1.4	$1.4	$1.5
Total Revenues	**$9.4**	**$10.1**	**$10.9**	**$11.4**	**$12.0**	**$12.4**	**$12.8**	**$13.3**	**$13.7**	**$14.2**	**$14.7**
Expenses											
Salaries	($3.3)	($3.4)	($3.5)	($3.6)	($3.7)	($3.8)	($3.8)	($3.9)	($4.0)	($4.1)	($4.2)
PERS	($0.9)	($1.1)	($1.2)	($1.3)	($1.2)	($1.3)	($1.3)	($1.3)	($1.3)	($1.4)	($1.4)
Health Premiums	($0.8)	($0.9)	($0.9)	($1.0)	($1.0)	($1.1)	($1.1)	($1.2)	($1.3)	($1.4)	($1.4)
Other Benefits	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.6)	($0.6)	($0.6)	($0.6)	($0.7)
Services & Supplies	($3.8)	($4.5)	($4.7)	($4.9)	($5.2)	($5.4)	($5.6)	($5.9)	($6.2)	($6.4)	($6.7)
Total Expenses	**($9.3)**	**($10.4)**	**($10.8)**	**($11.3)**	**($11.6)**	**($12.1)**	**($12.5)**	**($13.0)**	**($13.4)**	**($13.9)**	**($14.4)**
Net Operating Revenues		**($0.3)**	**$0.0**	**$0.1**	**$0.5**	**$0.4**	**$0.3**	**$0.3**	**$0.3**	**$0.2**	**$0.2**
Beginning Assigned GF Reserve	$2.0	$2.1	$1.8	$1.8	$1.9	$2.4	$2.7	$3.0	$3.3	$3.6	$3.9
Operating Surplus/(Deficit)		($0.3)	$0.0	$0.1	$0.5	$0.4	$0.3	$0.3	$0.3	$0.2	$0.2
Net Assigned GF Reserve		$1.8	$1.8	$1.9	$2.4	$2.7	$3.0	$3.3	$3.6	$3.9	$4.1
Assigned GF Reserve of 25%		$2.6	$2.7	$2.8	$2.9	$3.0	$3.1	$3.2	$3.4	$3.5	$3.6
Assigned GF Reserve surplus/(deficit)		($0.8)	($0.9)	($0.9)	($0.5)	($0.3)	($0.1)	$0.1	$0.2	$0.4	$0.4
Ending Unassigned GF Reserve	$0.1							$0.1	$0.3	$0.7	$1.2

Key Assumptions:
1) Sales taxes grow at 3.0% per year
2) Property taxes grow at 3%per year FY 15/16 adjusted to CAFR actuals
4) Salary expense grows at 2.5% per year (COLA). No change in headcount for 10 years
5) PERS expense includes cost of recent actuarial assumption changes approved by CalPERS board in April 2013 and February 2014 and estimates for issued Oct 2014
6) Beginning Unassigned GF Reserve adjusted per the FY 2013-14 CAFR



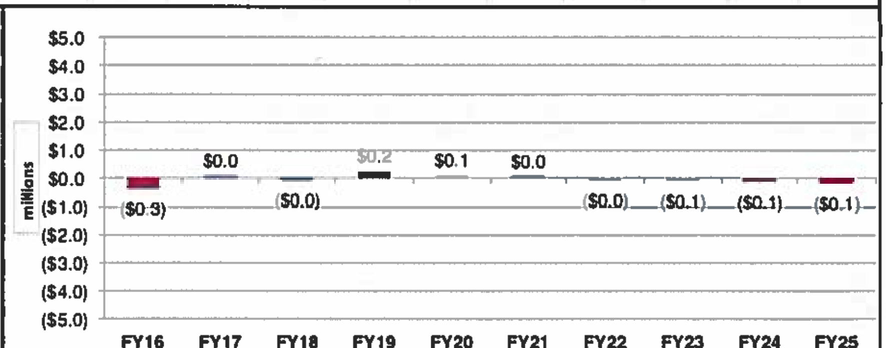
Baseline with a minor recession – Net Operating Revenues

The baseline with a minor recession forecast assumes the same level of revenue growth as the baseline however a minor recession is included in FY 2018 through 2020.

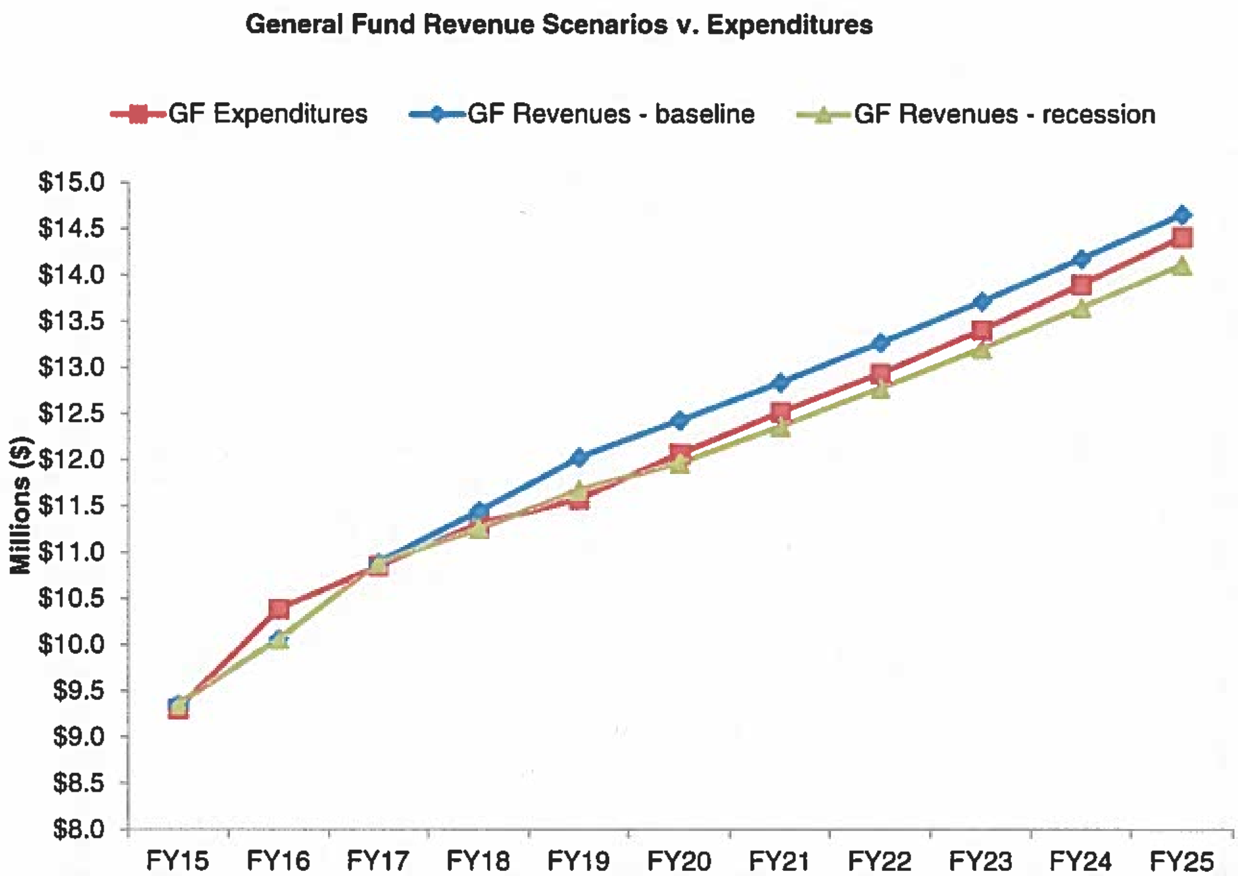
Baseline Revenue Forecast (Recession)

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Revenues											
Property Taxes & VLF	$3.4	$3.9	$4.0	$4.1	$4.2	$4.3	$4.4	$4.6	$4.7	$4.8	$5.0
Sales Tax	$2.5	$2.6	$2.7	$2.7	$2.7	$2.8	$2.9	$3.0	$3.0	$3.1	$3.2
Transit Occupancy Tax	$1.7	$1.8	$2.4	$2.7	$3.0	$3.1	$3.2	$3.3	$3.5	$3.6	$3.8
Other Taxes	$0.2	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3
Licenses and Permits	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
Other Revenues	$0.9	$1.0	$1.0	$1.1	$1.1	$1.2	$1.2	$1.3	$1.4	$1.4	$1.5
Total Revenues	$9.4	$10.1	$10.9	$11.3	$11.8	$12.1	$12.5	$13.0	$13.4	$13.8	$14.3
Expenses											
Salaries	($3.3)	($3.4)	($3.5)	($3.6)	($3.7)	($3.8)	($3.8)	($3.9)	($4.0)	($4.1)	($4.2)
PERS	($0.9)	($1.1)	($1.2)	($1.3)	($1.2)	($1.3)	($1.3)	($1.3)	($1.3)	($1.4)	($1.4)
Health Premiums	($0.8)	($0.9)	($0.9)	($1.0)	($1.0)	($1.1)	($1.1)	($1.2)	($1.3)	($1.4)	($1.4)
Other Benefits	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.6)	($0.6)	($0.6)	($0.6)	($0.7)
Services & Supplies	($3.8)	($4.5)	($4.7)	($4.9)	($5.2)	($5.4)	($5.6)	($5.9)	($6.2)	($6.4)	($6.7)
Total Expenses	($9.3)	($10.4)	($10.8)	($11.3)	($11.6)	($12.1)	($12.5)	($13.0)	($13.4)	($13.9)	($14.4)
Net Operating Revenues		($0.3)	$0.0	($0.0)	$0.2	$0.1	$0.0	($0.0)	($0.1)	($0.1)	($0.1)
Beginning Assigned GF Reserve	$2.0	$2.1	$1.8	$1.8	$1.8	$2.0	$2.0	$2.0	$2.0	$2.0	$1.9
Operating Surplus/(Deficit)		($0.3)	$0.0	($0.0)	$0.2	$0.1	$0.0	($0.0)	($0.1)	($0.1)	($0.1)
Net Assigned GF Reserve		$1.8	$1.8	$1.8	$2.0	$2.0	$2.0	$2.0	$2.0	$1.9	$1.7
Assigned GF Reserve of 25%		$2.6	$2.7	$2.8	$2.9	$3.0	$3.1	$3.2	$3.4	$3.5	$3.6
Assigned GF Reserve surplus/(deficit)		($0.8)	($0.9)	($1.1)	($0.9)	($1.0)	($1.1)	($1.2)	($1.4)	($1.6)	($1.9)
Ending Unassigned GF Reserve	$0.1										

Key Assumptions:
1) Sales taxes grow at 3.0% per year reduced to 1% in FY 18, -1% in FY 19 and 1% in FY 20
2) Property taxes grow at 3%per year reduced to 2% in FY 18-20
3) TOT grows at 4% per year reduced to 2% in FY 18-20
4) Salary expense grows at 2.5% per year (COLA). No change in headcount for 10 years
5) PERS expense includes cost of recent actuarial assumption changes approved by CalPERS board in April 2013 and February 2014 and estimates for issued Oct 2014



In summary, the graph below illustrates the two revenue projections when compared to the projected expenses.



In addition to general operating expenses, the City has capital assets it is responsible for maintaining and replacing when their useful life has expired. Like many cities in California, St. Helena has significantly reduced its General Fund contribution to preventative and ongoing maintenance of its capital assets.

The City has not set aside adequate funds to recapitalize its major assets to rehabilitate or replace assets for streets, parks, buildings and information technology as needed. In the FY 2014-15 Adopted Budget, the City created two replacements funds; one for equipment in which $30,000 was set aside; and a second for buildings for which $25,000 was set aside. This section discusses these major areas of asset recapitalization and steps the City should be taking to develop asset plans and funding reserves in an effort to put aside adequate funds to maintain these important City assets.

The City's water and wastewater long-term rehabilitation is funded and allocated through the water and wastewater enterprise fund and is not included in this analysis.

The City is responsible for maintaining government buildings, parks, and streets and must also ensure adequate and secure information technology for both the staff and citizens to store and access information.

Buildings – The City owns and maintains approximately 64,000 square feet of government buildings including city hall, fire station, Carnegie Building, library, police station and park restrooms. In 2012, the City eliminated the Government Buildings function within Public Works. Since then, existing staff and some privatization of services have been used to keep the buildings operating. Recently, the Parks crews have assumed the government buildings duties. No preventative maintenance has been performed in nearly three years. The City established a building replacement fund in FY 2014-15 to cover major repairs or to replace buildings and deposited $25,000.

Best practices in building management require, what is often referred to as the recapitalization of these assets. This means the replacement of building sub-systems (e.g., roofs, electrical distribution equipment, HVAC, floor coverings, parking lots, paving, fire alarms, etc.) that wear out over time.

There are several ways to fund these improvements:

1) **Pay for expenses as they occur from available operating funds.** A pay-as-you-go approach to maintaining government buildings only works when the City has created a facilities replacement reserve to fund needed major subsystem replacements. The City is not reinvesting in facilities, and there is a backlog of deferred items from at least 1990 on city hall and the police station just to name two significantly deteriorated buildings. As a result, a pay-as-you-go funding mechanism cannot provide the adequate annual funding needed to maintain and replace needed subsystems.

2) **Set monies aside as a percent of building value.** It is common to set aside funds based on building value. A common amount is 1% to 2% of a building's value

3) **Forecast replacement costs and dates** for subsystems and set monies aside sufficient to replace these systems as needed. Under this method, the City reviews the age and condition of each major subsystem, estimates the replacement cost and date, and develops a funding plan that would allow for proper replacement of subsystems over time. This option provides a good estimate of actual needs.

Parks – The City owns 10 parks and four pathways totaling approximately 40 acres. The Parks crews maintain all the parks and pathways, and as noted above now also maintains the government buildings. The City has not established an asset replacement fund to cover major repairs or replace equipment.

Having monies to replace play structures, resurface courts, and re-seed fields is not only a safety issue but community enjoyment issue for the City. The City should develop a park asset plan which would identify the cost of recapitalization of park assets which would be based on an average number of assets per year for replacement based on lifespan and estimated cost of each unit. Funding options for recapitalization of park assets is identical to those listed above for buildings.

Information Technology – The City contracts with a private IT consultant company to provide its network, PC and service needs. It has become industry standard to replace PCs every 3-5 years and to make enhancements to servers, storage and other IT equipment annually. The City established a computer replacement fund in FY 2014-15 and deposited $30,000 into the fund. Generally, PC replacements and other IT infrastructure and equipment are funded from the annual operating budget.

The City should develop an IT strategic plan that identifies the hardware, software, network, storage and security needs for the next five years. Currently, the City's IT infrastructure is outdated and insufficient to meet current storage, operational and security needs. In addition, funding is only available to support one technician on site for 12 hours a week. For a $20 million organization, this level of technical staffing is not sufficient. Funding for the recapitalization of IT assets is identical to those listed above for buildings.

Streets – The City is responsible for 26 centerline miles of roadway. The Pavement Management Plan, presented to Council in February 2015 provided estimates for maintaining and improving the City's streets. The Plan shows that an additional $1.25 million of annual road maintenance is inadequate to maintain the City's streets at a Pavement Management Index of 58. An investment of $2.5 million annually would maintain the Pavement Management Index at 58 and an investment of $3.5 million annually would increase the Pavement Management Index to 63. In FY 18, Measure T is expected to provide the City with approximately $665,000 annual for pavement management projects. This revenue is included only in the asset recapitalization scenario, as it can used only for pavement management projects.

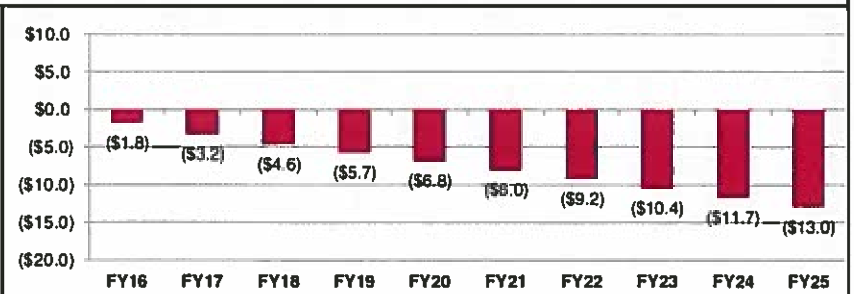
Funding for roadway maintenance is funded by State Gas Tax monies. The FY 2014-15 Adopted Budget estimates the City will receive approximately $160,000 annually from source. These revenues are not nearly enough to keep up with the maintenance requirements. Unfortunately, as roadways deteriorate, the cost of returning the roadways to adequate conditions rise significantly. For example, a roadway that could be maintained by periodic sealing and re-paving may require complete reconstruction if not maintained properly.

To illustrate the financial challenges faced by the City related to asset recapitalization, the following chart depicts a revenue scenario using the baseline forecast and $1.6 million annual expenditure for asset recapitalization. This includes $1.25 million for pavement projects and $300,000 for parks and building maintenance, and $50,000 for IT assets. With inadequate revenue to cover this minor contribution towards asset recapitalization, the net operating budget experiences a nearly $13 million deficit by FY 2025. Over the 10 year period, total unfunded operating expenses are estimated at $74.2 million.

Baseline Revenue Forecast (optimistic) with Asset Recapitalization

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Revenues											
Property Taxes & VLF	$3.4	$3.9	$4.0	$4.2	$4.3	$4.4	$4.6	$4.7	$4.8	$5.0	$5.1
Sales Tax	$2.5	$2.6	$2.7	$2.8	$2.9	$3.0	$3.0	$3.1	$3.2	$3.3	$3.4
Transit Occupancy Tax	$1.7	$1.8	$2.4	$2.7	$3.0	$3.1	$3.2	$3.3	$3.5	$3.6	$3.8
Other Taxes	$0.2	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3
Licenses and Permits	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
Other Revenues*	$2.2	$1.0	$1.0	$1.1	$1.1	$1.2	$1.2	$1.3	$1.4	$1.4	$1.5
Total Revenues	**$10.6**	**$10.1**	**$10.9**	**$11.4**	**$12.0**	**$12.4**	**$12.8**	**$13.3**	**$13.7**	**$14.2**	**$14.7**
Expenses											
Salaries	($3.3)	($3.4)	($3.5)	($3.6)	($3.7)	($3.8)	($3.8)	($3.9)	($4.0)	($4.1)	($4.2)
PERS	($0.9)	($1.1)	($1.2)	($1.3)	($1.2)	($1.3)	($1.3)	($1.3)	($1.3)	($1.4)	($1.4)
Health Premiums	($0.8)	($0.9)	($0.9)	($1.0)	($1.0)	($1.1)	($1.1)	($1.2)	($1.3)	($1.4)	($1.4)
Other Benefits	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.6)	($0.6)	($0.6)	($0.6)	($0.7)
Services & Supplies	($3.8)	($4.5)	($4.7)	($4.9)	($5.2)	($5.4)	($5.6)	($5.9)	($6.2)	($6.4)	($6.7)
Total Expenses	**($9.3)**	**($10.4)**	**($10.8)**	**($11.3)**	**($11.6)**	**($12.1)**	**($12.5)**	**($13.0)**	**($13.4)**	**($13.9)**	**($14.4)**
Net Operating Revenues	**$1.3**	**($0.3)**	**$0.0**	**$0.1**	**$0.5**	**$0.4**	**$0.3**	**$0.3**	**$0.3**	**$0.2**	**$0.2**
Unassigned General Fund Reserve (per forecast)	$1.3		$0.0	$0.0	$0.0	$0.0	$0.0	$0.1	$0.5	$0.9	$1.5
Asset Recapitalization - Pavement	($1.1)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)
Asset Recap - Other	($0.2)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)
Net Operating Revenues with Asset Recap	**$0.0**	**($1.8)**	**($3.2)**	**($4.6)**	**($5.7)**	**($6.8)**	**($8.0)**	**($9.2)**	**($10.4)**	**($11.7)**	**($13.0)**

Key Assumptions:
1) Sales taxes grow at 3.0% per year
2) Property taxes grow at 3% per year FY 15/16 adjusted to CAFR actuals
4) Salary expense grows at 2.5% per year (COLA). No change in headcount for 10 years
5) PERS expense includes cost of recent actuarial assumption changes approved by CalPERS board in April 2013 and February 2014 and estimates for issued Oct 2014
6) Includes $665,000 in revenue beginning in FY 18 for Measure T pavement maintenance
*7) FY 15 includes $1.29 GF unreserved fund balance for Asset Recapitalization



City of St. Helena
Annual Strategic Planning Meeting
February 27, 2015 9 am-4 pm
Meeting Notes

9:00 A.M. (Fire Dept. Conference Room)

1. **CALL TO ORDER AND ROLL CALL**
   Mayor Galbraith called the meeting to order at 9:00 A.M. Council Members present: Peter White, Sharon Crull, Paul Dohring and Greg Pitts. Mayor Galbraith introduced Dr. Bill Mathis, who is the professional facilitator for this meeting.

2. **PUBLIC COMMENT**
   - Three things: 1) broaden horizons, 2) think big, need long-view perspective and be visionary with big ideas, 3) set quantifiable goals and accountability in meeting our goals
   - Four principles for budget: 1) say yes, 2) we have jewels in our community like the library and fire house, 3) think of bigger pie vs. cutting, more money with services, 4) align decisions with values of citizens, such as education, open space, bringing people in, sense of community, contribution of workers, safe schools and access.
   - Would like to see more patrolling on streets that have higher traffic volumes or known problems
   - Keep family values in mind, family programing is key and consider what is already working such as the Library and Lego Club!
   - Bicycling/Drivers – PD needs to focus on better enforcement; need better bike paths/lanes
   - Difficulties with Budget – we need to look at new ways of organizing government, and what services are funded; this means culture shift – all options need to be on the table, look for synergy with other communities
   - Support of Library – we hope there is a draft report from the meeting today so the community can view and comment on
   - We need more money for our community, we want to see a tax to fix roads and increase safety, especially related to children's safety and student safety
   - Friends of Library: Friends and Foundation continues to fund the Library, citizens /residents are more likely to use services of library than PD or Fire. We should reconsidered roundabouts downtown
   - Our economic reality is a sobering reality, we need to make hard decisions and move forward, but need to understand we can't have everything. Don't be swayed by a few loud voices, these don't fully represent our community, we should focus on revenues and needs

- Economic Development is our highest priority, the business community wants to partner and the Chamber can help with increasing revenue, development fees are driving revenue, economic vitality can be helped by Chamber, we should focus on using an open mind and collaboration
- Revenue should be moved to the top of the priority list, non-profits need fiscal support, partnering can further benefit the community , we should also compare to what other cities are funding

3. PURPOSE OF ANNUAL PLANNING SESSION

City Manager Phillips: We don't have staff capacity to deliver services and staff is struggling to meet required functions. Each department will discuss current roles and responsibilities, and address what is needed to be a functional department with reasonable staffing schedules.

Staff would like feedback from Council so we can prioritize needs. We would also like to hear directly from Council on:

- Council addressing their ideas
- Status of Staff Capacity
- City Manager's Goals
- New Member Integration into Council
- Status of Budget
- Priorities
- Next Steps – March 24th review and adoption of goals and priorities

Dr. Mathis opened a discussion with the Council that focused on the items listed below:

4. COUNCIL'S PERSPECTIVE OF ROLES AND CHALLENGES

- What is my role on Council?
- My approach to City Business?
- 3 Biggest challenges for the day?
- My Ideal Outcomes for the session?

5. CHALLENGES AS SEEN BY COUNCIL

- Ability to deliver core services
- Economic growth vs. stay small (reductions)
- General maintenance vs. falling behind
- Business friendly vs. keeping town character
- Budget reduction impact vs. new ideas/direction

Council Member Dohring:

Role: oversight to make sure we are using our resources justly, equitably and effectively, providing essential core services and maintaining public safety. Approach: To get signal from community; it's what the community wants. Want to hear about core values and our mission statement so that we can better serve the community. Need to know vision and mission before we can move forward with long-term goal setting. Three Challenges: 1) Improving communication with community to effectively manage existing polarities; 2) Maintaining our commitment to seek common ground; 3) Emphasizing the importance of ongoing professional planning and financial expertise. Ideal outcomes from today: not to be gloom and doom but realistic and positive about government. Optimistic as well as a realistic view of City operations

Council Member Crull:

Role – develop policies, policy-making group and look to City staff to execute. Main priority is addressing revenue. Can't cut our way out of this problem, especially with limited ways to raise revenue. Business approach: need to focus, have goals to implement; City Manager Phillips is doing great job of setting the course, however we have out of date record keeping system and need to continue on a better track. Challenges: revenue and engagement with community with a wider group of people and would like to see a more balanced community voice. Outcome – need to feel that we are taking steps forward while getting input from community for their priorities. Need to look at ways to allocate services, outsource, sharing services with other towns, etc.

Council Member Pitts:

To serve as a voice for future generations; our General Plan needs to be put into a financial model; never had this. We need to explore options for engagement like social media. Need to analyze how much revenue we needed to function and focus on approved projects first. Need to get smart and pragmatic about change – there is logic and reason behind decisions. Want more volunteerism and collaboration in our small town. While we're short on money, we need to encourage improvement plans – without building more. Raising occupancy plans and working collaboratively, helping business community. Need to empower volunteers so they can help in all of these needs and desires. Biggest challenge today: be open minded, think big ideas, listen and work through as community. Ideal outcome would be to have an Action Plan.

Council Member White:

Role: Conduit between citizens/City government/staff. Policy maker; making resources available to staff so they can carry out the goals we decide. Need to prioritize goals with revenue for staff to carry out. Need capacity in City Hall to implement. We've cut back in many areas – need to bring all ideas for raising new revenue that we've been talking about for so long. Need to focus on long range goals. We have to provide staff in order for them to carry out. Challenge – Can't say "no" but must say "yes" as we decide from everything on the table what we can proceed on and implement, supporting staff during this process. We're all frustrated.

Mayor Galbraith:

Role: To work collaboratively with colleagues as they work with the City; making decisions that need to be made. Leading Council – We need money; we're revenue short – must identify sources of revenue and then proceed to raise them. Time is short and we need to move now. We have long term issues and need shorter and quicker results; becoming a Charter City will help, move to adopt a property transfer tax, these will help right the ship. Focus on revenue today, move forward with ideas after making decisions after today.

6. **10-YEAR FORECAST/BUDGET 2015-16**

City Manager Phillips: Two critical services: Water and Sewer that must continue and be well managed. General Fund revenue comes from property tax, sales tax, TOT and more. Our organization is working hard to deliver services; some areas are difficult to deliver. We need to organize our revenues, focus on the increases, plan for next recession, look at revenue sources all while working toward a 25% general fund reserve. Haven't hired any new staff except for a couple of part time interim positions; bringing in just enough revenue to cover what's due. We need to do is focus on covering basic operating costs. Our capital assets are our responsibility and include buildings, streets, public safety and technology. Costs are rising, park assets and streets and buildings are not being taken care adequately. Serious building issues will continue and we do not currently have funds or plans to address these issues. Equipment is out of date and needs to be upgraded or replaced, such as police vehicles, computers and software. Really appreciate staff, Council members and the community. We have a dynamic team today with a lot of confidence in them as they work together to make St. Helena amazing.

7. **DEPARTMENT ACTIVITIES, CAPACITY AND NEEDS**

City Manager Phillips – Administration Department: Overview of current staffing in City Manager's office. She explained her current roles, duties, and what her basic job description is as well as her staff's, which are the HR Manager and City Clerk. Additional positions are needed to address the current workload. Council asked about possibility of sharing services, which could be considered. Her priority would be getting records manager/coordinator on board, and an Administrative Assistant to support the two managers. However, although this option covers only functional services, currently there is no room for more staff in City buildings.

Finance Department: Finance Director took Council through the duties, roles, and all that is mandated to get done each year. Additional positions are needed to address the current workload. Council asked about sharing services with neighboring communities and outsourcing grant administration, how current grants are managed and how much grant work one employee can handle. Partnering with other cities and outsourcing may be options but, it would depend on the situation/program and more information would be needed to make this determination.

Fire Department: Fire Chief has a new hire coming in March to serve as Administrative Assistant and explained all current duties and roles of Fire Department. Programs include: fire suppression, safety programs, school programs, on site programs for kids and more. He's paid to work one day per week (Thursdays); however, he works full time on a volunteer basis. Fire dept. will be cross training their new admin asst. with Administration. City Manager is working on emergency preparedness with Fire and other departments will work together to update the plan. Volunteer organization handles 740 calls annually the top three reasons for calls are: 1) medical, 2) falls by elderly, 3) public assist fires.

Library: Library Director presented one chart, as the Library is staffed at a functional level. She explained the structure of employees, volunteers, library advisors and all roles and duties. She talked about Library services and what they offer. If the library budget is cut, services would be impacted. Council asked about the people who use our Library who do not live in St. Helena and was looking for creative opportunities for contributions from users that are not residents. Council also asked about reviewing best practices for small libraries, increasing use of volunteers, automation of services, and other options to help off-set costs.

Planning Department: Community Development, Planning, permits, zoning, etc. Building inspection functions are contracted out and chain of command, roles and duties were discussed. Good relationships and partnerships help in small cities with limited resources. City does not have dedicated staff focused on affordable housing, code enforcement or economic development. Department has come a long way to today; there used to be one person taking care of all duties; now there are three full time permanent staff members in this Planning Department. Also, there is a potential of having a new Planning Director coming on board next month who can help to expedite projects. Council would like to have a new Economic Development Director who can handle issues at hand, oversee all that needs to be completed; there is no capacity currently for anyone to take that on.

Police: Police Chief explained her Org Chart. The department is in need of additional staff to help balance the workload, additional staff would allow for current staff to take vacation and holidays without the managers having to backfill. The department has no administrative support staff. The Police Dog is worth the funding, because in the long run he saves the department money, while building relationships in the community.

Public Works (including Water and Wastewater) – Went through the process of the Department that includes Parks, Wastewater Plant, Encroachment permits, Public Works, all Water issues –

regional, storm water, trees, engineering. Additional staff is needed to ensure all laws and regulations are being met and facilities are properly maintained.

Recreation – With very limited staff (only 2.5 full-time employees), recreation provides summer Camps, Teen Center, Performance, Classes, summer staff, schools, facilities management, temps, sports, high school, summer, summer picnics, working with schools and supplements with the help of volunteers. They also partner with other towns, Calistoga, Yountville to improve and expand programing. Local businesses help to underwrite some of the costs in Soccer and other sports and a scholarship fund is currently being evaluated.

8. Council Discussion / Priorities & 9. Priority Setting/Goal: 2015-16

Highest needs/Projects by Council Member

Mayor Galbraith:

1. City's revenue - 1½ % Property Transfer Tax
2. Look at our Fees
3. Utility Enterprises

Council Member Dohring:

1. Start with Mission and Goals
2. Agrees with Mayor on his goals
3. Infrastructure

Council Member Pitts:

1. Solid long term financial plan
2. Transportation
3. Alternative Housing = Shared Service

Council Member Crull:

1. Right hotel, facelift, right fit in community
2. Looking at fees
3. Agrees with above

Council Member White:

1. Revenues
2. Capital Improvement – Reinvestment
3. Economic Development Director

Additionally, Council agreed that the following should be priorities:

- Long term financial plan should be updated annually
- Focus on what the City must have to operate. Grants are important. New hotels facilitated and expansion of existing hotels – either approve and see why approved pieces aren't being done; why are we at 53% when Yountville is 80% occupancy?
    - Existing hotels, occupancy rates
    - Why existing hotels are not expanding
  - Property Transfer tax

Public Comment:

- Thank you so much for doing this; long overdue. Need high wage jobs; develop transportation solutions; streets; cost-benefit for City projects; City sponsored events; build up the middle class; Garden events with food; use professional people in town, retired, volunteers. Campaign for 2/3 vote; parking meters; design review board.
- Support the Transfer tax
- New hotel, Harvest Inn, will be renovated; annex Meadowood,; want to have fun together – revenue raising by community dinner = fun fund raiser
- Long term affordable housing from commercial developers coming in to the city

9. Summary by Council Members/Next Steps

- Thanks to everyone for coming; very educational for us in hearing from staff today; fantastic job. We all need to understand that we don't have cash; we all feel the hit in our revenue problem. Need to become functional – we can get there.
- Appreciate the positive input, all going the same direction; looking forward to progress and support.
- Thank you for coming; incredible group of people. Need to keep moving forward; when we come up with programs and look forward to March 24.
- I (Mayor) do endorse my colleagues and elegance of community input helped me a lot. This was well thought through presentation. Hope that everybody will take the word into the community. We need adequate staff on firm footing. Need revenue – property transfer tax will help us, also the TOT side is mostly in hands of private enterprise. CM has looked down the road and is figuring into her financial forecast. Let's take time to read and understand. Community needs to understand and support us.
- Very optimistic in going forward; can see the staff we have, our City Manager and staff are dedicated to the City. We all need to look at the work being done. We're

committed to fiscal planning, wastewater planning. We're focused in the right direction with competent folks here. Need 2-way communication with all. As we set forth short term goals, need to also plan long term and come up with measurement so we can gauge how well we're doing.

- City Manager – wants to deliver services; is a doer – this has been very helpful to her and staff; very optimistic.

- **Summary of Top 6 Goals by Council - Outline of initiatives to be brought back as goals by March 24, 2015:**
    - Property Tax Transfer Tax
    - Look at all fee schedules and bring back options
    - Utility Enterprise rates and cost with recommendations
    - Set priorities for infrastructure improvements; bring back priorities
    - Bring back long term financial improvement plan – reviewed annually – include hotel completions and new and proposed projects
    - Hire Economic Manager/Assistant City Manager.

- **Present Goals and Priorities to Council for final review and adoption on March 24, 2015.**

Meeting adjourned at 3:32 p.m.

Attachment C

Report to the City Council
Council Meeting of March 24, 2015

Agenda Section: **New Business**

Subject: **Approval of the 2015 Strategic Objectives**

CEQA Status: **Not a project**

Prepared By: **Jennifer Tuell, Assistant to the City Manager (Interim)**

Approved By: **Jennifer Phillips, City Manager**

BACKGROUND

On February 27, 2015, in a special public meeting City Council met to discuss and develop the Annual Strategic Plan/Objectives. The purpose of this meeting was for City staff provide the Council and community information regarding the current levels of services, department roles and responsibilities, staffing capacity, City organizational structure, City Manager's goals, and financial and organizational challenges. The overall goal of the meeting was for Council to set objectives directing and guiding staff in decision making, and prioritization of work for the upcoming year. Each Council member was able to share their personal views and approach to City business, biggest challenges and ideal outcomes for the meeting. Approximately 35 community members attended the planning session, and the majority stayed for the entire day. Public comment was made available at both the beginning and end of the meeting.

DISCUSSION

Each council member discussed their role on Council and personal views on the current challenges facing St. Helena. Then heard from staff the current activities, roles, responsibilities and capacity of each department. The key discussion topics have been summarized below. For additional information the meeting notes are attached: ***Meeting Notes: 2015 Annual Strategic Planning Meeting.***

City Council: Current Challenges

- Need revenue sources to make the City functional
- Need better understanding of funding needed to be a functional City
- Make educated decisions before implementing projects/changes
- Provide resources to staff, so that Council goals can be implemented
- Community Engagement:

  - Better communication with the residents
  - Find common ground between polarizing opinions
  - Hear a more balance community voice
  - Wider group of people participating in government
  - Better understanding of community priorities
  - Utilization of technology for community input: Social media
- Partner with other organization to share services and resources
- Seek out help from subject matter experts

City Staff: Current Challenges

- Staff is unable to address the current workload with present staffing levels
- Limited staff have done everything possible to maintain service levels even though budgets have been cut, volunteers have been utilized to help fill in some gaps
- Many managers are working well over a 40 hr. work week, and still unable to address workload
- Managers have to fill in for admin level jobs, because there is a very limited pool of employees to back fill for vacations, holidays and sick days
- 20.5 new positions are needed to make departments functional
- Estimated cost of new positions is $2.2M

Department	# of Positions	Est. Annual Cost
City Manager's Office	5	$515,000
Finance	1	$101,000
Fire		
Library		
Planning & Community Improvement	5	$574,000
Police	3.5	$393,000
Public Works	4	$408,000
Recreation	2	$187,000
Totals	**20.5**	**$2,178,000**

Outcome:

After hearing from the public, Council Members and staff, an in-depth discussion about priorities followed. Each Council member discussed their highest priorities, goals and objectives for the coming year. Under a unanimous agreement Council identified six initiatives to focus on in the upcoming year, that all support the goal to **Secure City's Financial Future.** The Strategic Objectives are:

1. **Long-term Revenue Options:**

Explore the adoption of a Property Transfer Tax, coupled with identifying the process to become a Charter City.

2. **Fee Changes:**
   Direct staff to review all current and potential City fee schedules, then identify options and areas where changes, increases or addition of new fees would help to close funding gaps. These options will be brought back and presented to Council for consideration.
3. **Financial Assessment of Water & Waste Water:**
   Conduct a financial assessment of the Water & Waste Water Enterprise Fund (similar to the Long Range Financial Forecast) and review options that may help to close funding gaps. These options will be brought back and presented to Council for consideration.
4. **Infrastructure Needs:**
   Identify infrastructure needs for all City facilities and assets, set priorities and identify the funding needs to make improvements and options for funding and implementation. These plans will be brought back and presented to Council for consideration.
5. **Long Range Financial Forecast (LRFF)**
   Implement a standard practice of reviewing the LRFF annually, and more often if applicable. This annual review should include updates on the hotel completion and inclusion of new and proposed projects.
6. **Economic Manager/Assistant City Manager**
   Identify ongoing revenue to hire a manager focused on economic development and special projects. This position could also be structured as an Assistant City Manager.

FISCAL IMPACT

Fiscal impacts related to these strategic objectives will be addressed in the upcoming FY 2015/16 Budget, except #6 Economic Manager/Assistant City Manager which is being presented to the Council on this same agenda.

RECOMMENDED ACTION

It is recommended by the City Manager and the Executive Staff team that the Council, by resolution, adopts the goal of Securing the City's Financial Future for the upcoming year, and the six objectives to be implemented in FY 2014-15 and FY 2015/16.

ATTACHMENTS

1. Meeting Notes: 2015 Annual Strategic Planning Meeting
2. Resolution

Attachment D

Report to the City Council
Council Meeting of June 23, 2015

Agenda Section: **Regular Business**

Subject: **Consideration of Resolution No. 2015-70 Adopting Fiscal Year 2015/16 City of St. Helena Annual Budget**

CEQA Status: **Not a CEQA project**

Prepared By: **April Mitts, Finance Director**

Approved By: **Jennifer Phillips, City Manager**

BACKGROUND

On February 24, 2015, the City Manager presented to the City Council a Long Range Financial Forecast, which provided a high level view of projected General Fund revenues and expenditures over the next ten years. This forecast indicated that with only modest increases in operating expenditures the City was projected to fall short in revenues in the coming years, especially when any type of capital expenditures were included.

In February 2015, the City Council held an all-day goal setting session to discuss priorities for FY 2015-16. The goal of securing the City's financial future was set and six strategic objectives were agreed to that would help guide the City over the year ahead.

On May 11, 2015, staff presented the draft proposed FY 2015-16 budget during a seven-hour workshop. This draft budget was presented with an estimated $1 million General Fund shortfall. Each department presented their proposed budgets and many offered service options for Council consideration and direction for staff to further pursue and analyze for the purpose of reducing expenditures and presenting a balanced proposed budget to Council as required by State law.

On June 9, 2015, the City Manager presented to Council a staff report with proposed General Fund budget reductions and various revenue enhancements (Attachment A). In addition the City Council was presented information about the use of Tweed Trust Funds. After much discussion the Council provided direction to the City Manager regarding the proposed budget reductions and revenue enhancements and adopted Resolution No. 2015-61 (Attachment C) re-establishing governing framework for the administration of the Tweed Trust Funds for St. Helena Public Library. From this direction, staff has finalized the Proposed Fiscal Year 2015/16 Budget which is balanced and being presented to Council for consideration and adoption.

DISCUSSION

General Fund

Seven items were presented to the City Council for budget reduction consideration.

1. Postpone filling the Economic Vitality/Assistant City Manager Position
    - Estimated GF Savings = $118,150
2. Reduce City Attorney Budget by $100,000
    - Estimated GF Savings = $100,000
3. Close City Hall During Winter Holidays - proposal of furloughs for staff
    - Estimated GF Savings = 40,800
4. Library Services - Reduce Library General Fund Budget
    - Estimated GF Savings = $300,000
5. Consolidation of Library and Recreation - proposal to close the Teen Center so the property could potentially be leased or sold
    - Estimated GF Savings = $0
6. Police Department Service Options - Lay off of Police Chief effective June 30, 2015 and appoint Lt. Imboden as Acting Chief
    - Estimated GF Savings = $229,400
7. Fire Department - Expenditure Reductions
    - Estimated GF Savings = $40,000

Following discussion by City Council, items #3 and #5 were removed. After the removal of these items the total General Fund savings is $785,500.

Additional Information Gathered Since the June 9, 2015 Council Meeting

1. Kaiser Health Care Benefits – The City of St. Helena received confirmation from Kaiser that they are lowering their rates for fiscal year 2015/16. This resulted in a 20% reduction in anticipated rates for health care coverage. Total savings is: $118,646. A total of $78,421 for General Fund (101), $23,952 for Water Fund (561), $14,905 for Wastewater Fund (571), and $1,370 for other funds.

2. COPS (224) – The Police Department proposed new equipment that is eligible for the Citizens Options for Public Safety Grant (COPS) because it serves front line officers in the amount of $25,000.

Budget Changes by Department:

NON-DEPARTMENTAL	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$1,745,251	$1,745,739
Water Fund	$1,226,239	$1,226,239
Wastewater Fund	$ 413,931	$ 413,931
Other Funds	$ 627,076	$ 508,270
TOTAL	**$4,012,497**	**$3,894,179**
VARIANCE		**($ 118,318)**

The primary reduction in Non-Departmental is in "Other Funds" and is due to the use of the State Gas Tax. In previous years, the State Gas Tax funds were placed in the General Fund and transferred to the City's individual State Gas Tax funds. For FY 2015/16 these funds will be placed directly into the City's individual State Gas Tax fund accounts.

CITY COUNCIL	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$149,505	$135,877
Water Fund	$ 54,936	$ 52,114
Wastewater Fund	$ 31,392	$ 29,780
TOTAL	**$235,833**	**$217,771**
VARIANCE		**($ 18,062)**

The reduction in City Council is primarily attributed to: (1) the decrease in health care benefit costs through Kaiser and (2) $10,000 erroneously stated in the May 11, 2015 Proposed Budget.

CITY MANAGER	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$622,171	$481,482
Water Fund	$133,221	$110,843
Wastewater Fund	$124,345	$102,100
TOTAL	**$879,737**	**$694,425**
VARIANCE		**($185,312)**

The primary reduction in City Manager is attributed to the postponement of the Economic Vitality Manager position, the secondary reduction is due to the decrease in heath care benefit costs through Kaiser.

FINANCE	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$348,588	$340,917
Water Fund	$273,358	$267,679
Wastewater Fund	$232,598	$228,373
TOTAL	**$854,544**	**$836,969**
VARIANCE		**($17,575)**

The reduction in Finance is primarily attributed to the decrease in health care benefit costs through Kaiser.

CITY ATTORNEY	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$770,000	$670,000
Water Fund	$ 15,000	$ 15,000
Wastewater Fund	$ 15,000	$ 15,000
Affordable Housing	$ 0	$ 2,000
TOTAL	**$800,000**	**$702,000**
VARIANCE		**($98,000)**

The reduction in City Attorney was at the directive of the City Council on June 9, 2015.

PLANNING/BUILDING	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$787,918	$771,928
VARIANCE		**($ 15,990)**

The reduction in Planning/Building is primarily attributed to the decrease in health care benefit costs through Kaiser.

PUBLIC WORKS	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$1,662,849	$1,605,691
Water Fund	$ 452,918	$ 415,674
Wastewater Fund	$ 279,330	$ 273,040
Garage Fund	$ 214,820	$ 212,560
Tree City	$ 73,120	$ 72,533
TOTAL	**$2,683,037**	**$2,579,498**
VARIANCE		**($ 103,539)**

The reduction in Public Works is primarily attributed to the decrease in health care benefit costs through Kaiser.

WATER	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
Water Fund	$2,720,486	$2,768,243
VARIANCE		**$ 47,757**

The increase in the Water fund is primarily due to a combination of the following: (1) a correction from the original budget document increasing the amount the City pays to the City of Napa per the water contract and (2) a decrease in health care benefit costs through Kaiser.

WASTEWATER	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
Wastewater Fund	$897,123	$880,885
VARIANCE		**($ 16,238)**

The reduction in the Wastewater fund is primarily attributed to the decrease in health care benefit costs through Kaiser.

FIRE	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$620,702	$581,893
VARIANCE		**($ 38,809)**

The reduction in Fire is primarily due to the Fire Department expenditure reductions presented to Council on June 9, 2015.

POLICE	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$3,001,920	$2,712,578
Other Funds	$ 103,000	$ 128,800
TOTAL	**$3,104,920**	**$2,841,378**
VARIANCE		**($ 263,542)**

The decrease in the Police Department General fund is primarily due to a combination of the following: (1) the layoff of the Police Chief and appointment of Lt. Imboden as Acting Chief and (2) a decrease in health care benefit costs through Kaiser.

RECREATION	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$ 95,211	$ 93,905
Teen Center	$171,731	$169,263
Bocce Ball	$ 36,982	$ 36,495
Recreation Program	$186,841	$185,292
TOTAL	**$490,765**	**$484,955**
VARIANCE		**($ 5,810)**

The reduction in Recreation is primarily attributed to the decrease in health care benefit costs through Kaiser.

LIBRARY	May 11, 2015 Proposed Budget	June 23, 2015 Proposed Budget
General Fund	$1,079,961	$849,517*
Public Library Foundation	$ 10,353	$ 10,353
California Library Services Act	$ 0	$ 15,000
Napa Valley Now	$ 11,000	$ 6,000
Friends & Foundation	$ 103,901	$111,031
Ryan Trust	$ 10,983	$ 7,000
Tweed Trust	$ 181,753	$ 75,774
TOTAL	**$1,397,951**	**$1,074,675**
VARIANCE		**($ 323,276)**

The reductions and changes in the various Library funds are primarily due to the following: (1) not filling vacated positions, (2) cancellation of a proposed position, (3) reduction of service hours, (4) reduction in part-time staffing, (5) renegotiated contracts, (6) cancellation or reduction of subscriptions, (7) expenditures reallocated to various funds, (8) reduction in library materials and supplies, (9) a decrease in health care benefit costs through Kaiser.

*The target General Fund reduction for the Library was $300,000. To achieve this amount, reductions to the Library would have been too drastic, so the City Manager has worked with Library Staff and the Finance Director to develop the proposed budget which recommends a total General Fund reduction of $230,444.

Notes:
Most expenditure reductions listed above are one time solutions to help close the budget shortfall for fiscal year 2015-16. To address the ongoing structural deficit, the City Manager, Finance Director, Library Director, Library staff, the Library Board of Trustees, and the Friends and Foundation have committed to work over the next year to find more permanent solutions to that will allow Library still produce quality services at a reduced budget.

<u>Final Budget Summary (General Fund, Water Fund, and Wastewater Fund):</u>

GENERAL FUND:

Estimated GF Reserves (total) @ 6/30/15		$2,173,868
Total Revenues	$10,004,816	
Transfers In	$2,984	
Total GF Revenues & Transfers In		$10,007,800
Total Expenditures	($9,665,439)	
Transfers Out	($324,088)	
Total GF Expenditures and Transfers Out		($9,989,527)
Surplus to General Fund Reserve	$18,273	
Estimated GF Reserves (total) @ 6/30/16		$2,192,141
Estimated Reserve Percentage		22%

WATER FUND BUDGET SUMMARY

Water Unrestricted Net Position @ 6/30/14		$6,140,160
Estimated Water Unrestricted Net Position @ 6/30/15		$4,680,824
Total Revenues	$4,581,628	
Total Expenses	($4,855,792)	
Revenue less Expenses		($274,164)
Use of Water Cash	$266,691	
Estimated Water Net Position @ 6/30/16		$4,406,660
Restricted Funds for Water Capital Projects	$3,059,438	
Estimated Water Unrestricted Net Position @ 6/30/15		$1,347,222
Estimated Percentage of Expenses		28%

WASTEWATER FUND BUDGET SUMMARY

Wastewater Unrestricted Net Position @ 6/30/14		$1,550,443
Estimated WW Unrestricted Net Position @ 6/30/15		$328,927
Total Revenues	$2,265,235	
Total Expenses	($1,943,109)	
Revenue less Expenses		$322,126
Use of Waste Water Cash	$0	
Estimated WW Unrestricted Net Position @ 6/30/16		$651,053
Estimated Percentage of Expenses		34%

RECOMMENDED ACTION

Staff recommends adoption of Resolution No. 2015-70 approving Fiscal Year 2015-16 budget.

ATTACHMENTS

Attachment A – Resolution No. 2015-70

Revenue Source Recommendations

Prepared by

Ad Hoc Revenue Source Task Force of St. Helena

February 9, 2016

Contents

Introduction

On September 8, 2015, the City of St. Helena (the City) City Council adopted Resolution 2015-115 authorizing the establishment of an Ad Hoc Revenue Source Task Force (the Task Force) with a mission to review the City's financial challenges and based on this information to evaluate possible additional revenue sources for the City that can gain general consensus in the community and provide adequate revenue to support the City Council's goal of securing the City's financial future. The resolution provided that the Task Force would provide a final report to the City Council by January 2016, to ensure the recommendations can be discussed at the annual goal setting and any required expenses incorporated into the FY 2016-17 Proposed Budget. The Task Force will be dissolved upon submitting its final report to the City Council. City staff, led by City Manager Jennifer Phillips, was directed to guide the process and provide administrative support.

The Task Force was composed of Mayor Alan Galbraith, Vice Mayor Peter White, Planning Commission Chair Sarah Parker, and six community members nominated by the Mayor and approved by the Council. Community members were Chair Donna Hinds, retailer Wayne Armstrong, businessman Cameron Crebs, vintner Katie Leonardini, winemaker Jack Stuart, and consultant Chuck Vondra, all citizens of the City.

City staff who guided and supported the work of the Task Force were Ms. Phillips, Finance Director April Mitts, Planning and Community Development Director Noah Housh, Public Works Director Steve Palmer, and City Clerk Cindy Black. Staff provided background on the City's budget and financial condition, a legal and fiscal primer for California municipalities, and successful examples from other cities.

The Task Force met eight times at City Hall between November 4, 2015 and February 5, 2016. All meetings were open to the public and subject to provisions of the Brown Act. Members of the public attended all meetings and were given opportunities to pose questions and offer suggestions. A reporter from the Saint Helena Star was present at the majority of the meetings.

Members of the Task Force identified, discussed, evaluated, and rejected or approved revenue sources, in order of benefit and feasibility. The recommendations in this report are advisory only. The City Council has the authority to adopt the recommendations it approves and to conduct any further study or public review as necessary. Although the Task Force was briefed by staff on the financial condition and needs of the City, the primary goal of the Task Force was to identify and recommend potential revenue sources that would be useful to the City Council in its deliberations.

Executive Summary

The Task Force spent three months reviewing the City's critical financial challenges and evaluating potential additional revenue sources. Our goal was to identify sources that could gain broad support in the community and feasibly provide adequate revenue to secure the City's financial future. Revenue sources were evaluated during comprehensive, factual discussions, with the full participation of all six community members of the Task Force and technical guidance from City staff and leadership. We considered increases in existing revenue sources as well as new sources.

The Task Force recommends six actions be considered by City Council: 1) Implement the process to increase sales tax by 0.5 percent; 2) Implement the process to increase the City's real estate transfer tax to 1.0 percent; 3) Raise transient occupancy tax revenues by increasing the number of hotel rooms; 4) Proceed with the request for proposal process for the sale of one or more City properties; 5) Proceed toward annexation of contiguous unincorporated lands, in cooperation with Napa County Local Agency Formation Commission (LAFCO) and the County of Napa; and 6) Create an economic development committee comprised of residents, businesses and appropriate City representatives.

It is not our intent that the City Council necessarily implement all of the revenue sources we recommend but rather that they consider them all and enact those that are feasible and sufficient together to secure the City's financial future. The Task Force recognizes that City Council must consider a great variety of revenue sources as the financial needs of the City evolve.

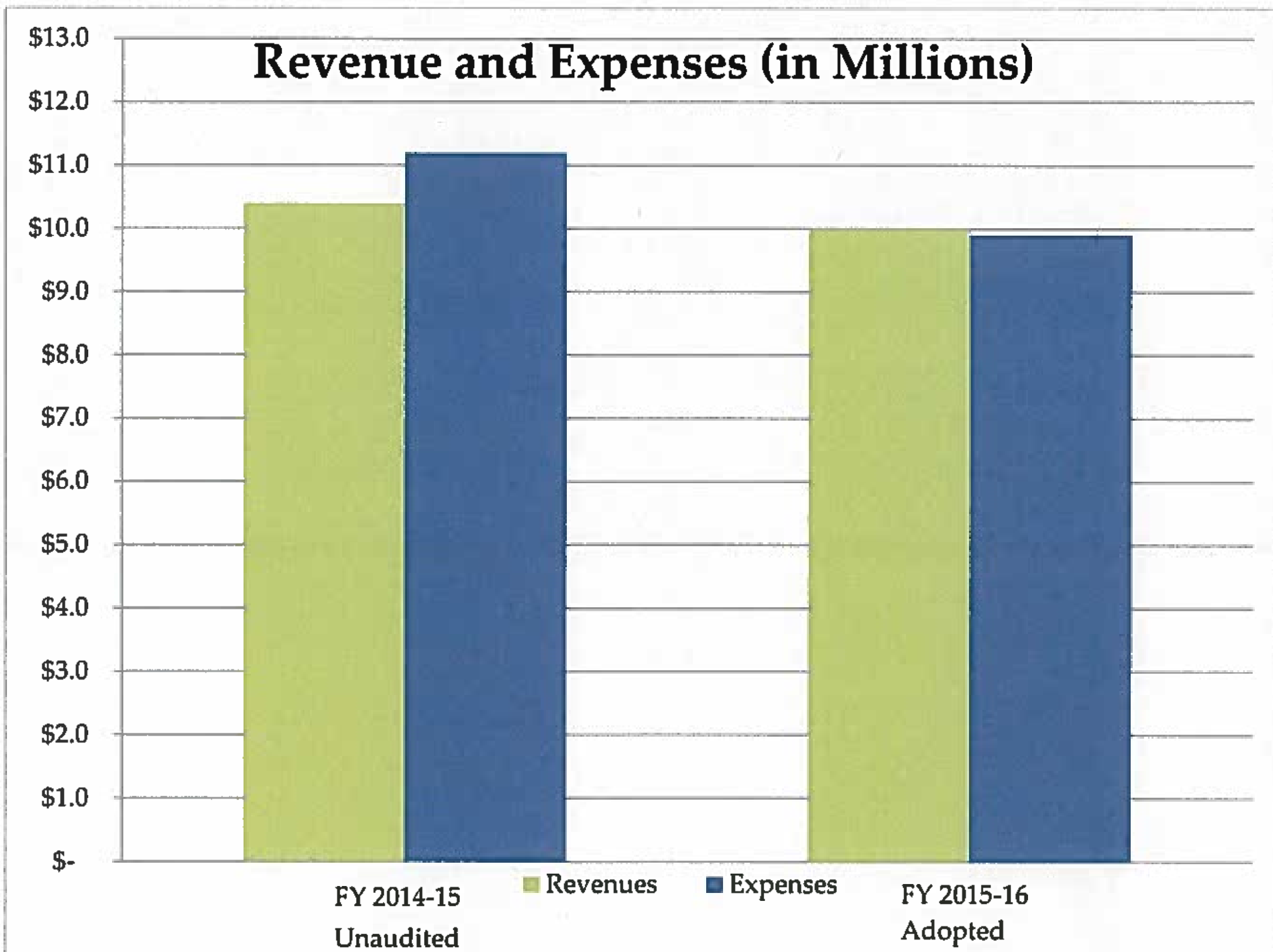
The Task Force also considered additional revenue that might be generated by paid parking, disembarkation of Napa Valley Wine Train passengers, and development of the short-term rental program. We had insufficient information to fully evaluate these options or make recommendations.

Finally, the Task Force believes that support of the community for new sources of revenue can only be achieved by encouraging widespread awareness and understanding of the City's financial challenges among an informed citizenry. Therefore we recommend that the City Council engage a communications consultant to assist the City in disseminating to the community accurate and convincing information about any revenue initiatives it adopts. Without an informed public, these actions are less likely to be supported by the community and ultimately by voters.

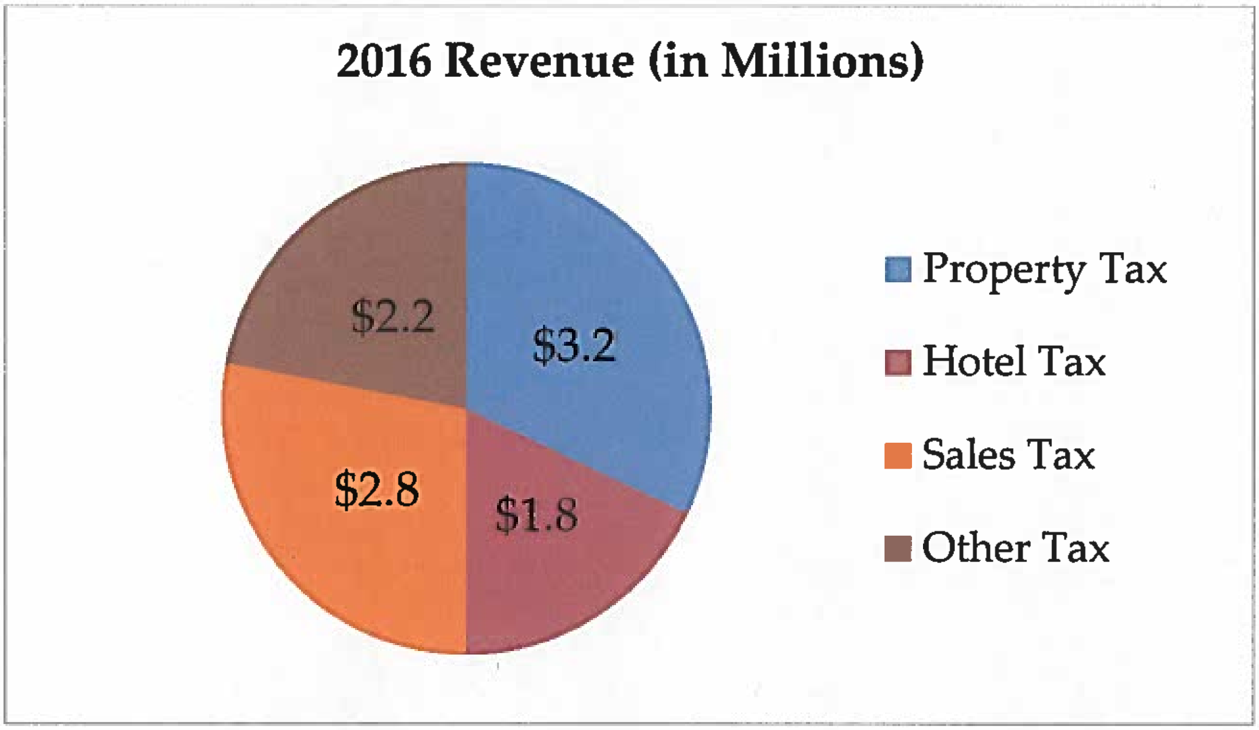
The members of the Ad Hoc Revenue Source Task Force are honored to have been chosen to be a part of this important community effort and are pleased to present our report to City Council and the citizens of St. Helena. We are hopeful you will seriously consider the information and recommendations we have presented here. Thank you.

Overview of Revenue and Budget

The City had General Fund revenues for Fiscal Year ("FY") 2014-15 of $10.4 million and General Fund operating expenses of $11.1 million. The General Fund is used to account for all financial resources except those required to be accounted for in separate funds. The Assigned General Fund Reserve serves as the City's "savings account" and should be used only for unexpected, specific and one-time purposes. The City has had an informal policy of maintaining 25 percent of annual expenditures in the Assigned General Fund Reserve. In FY 2014-15 the City withdrew over $700,000 to cover the shortfall. By reducing costs across a wide variety of areas, the 2015-16 budget calls for expenses of $9.9 million and revenues projected at $10,000,000. As of December 31, 2015 the Assigned General Reserve Fund was at $2.4 million or 23 percent of expenses.



Revenues are broken down as follows:



St. Helena's Revenue Challenge

Because of a variety of factors that have accumulated over the years, the City's current annual revenues are essentially equal to its expenditures. The lack of any revenue surplus means that the City is less and less able to provide adequate services to the community or maintain or replace its infrastructure. Previous financial forecasts based on optimistic conditions do not anticipate unexpected expenses or a likely future recession. In addition, the Assigned General Fund Reserve is too low (22 percent), with no identified funding source. City staff recommends an Assigned General Fund Reserve closer to 40 percent of operating expenditures.

The Unassigned General Fund Reserve, which is additional discretionary funds above the Assigned General Fund Reserve that are available for Council-approved uses throughout the fiscal year, is at zero. Therefore, if unexpected expenses arise, funds must be drawn from the Assigned General Fund Reserve. For a city the size of St. Helena, a $1-2 million Unassigned General Fund Reserve would be appropriate.

The City has also neglected its asset recapitalization for many years, increasing long term recapitalization costs. The City owns a collection of capital assets that include buildings, equipment, parks, vehicles, technology, streets and sidewalks, for example. Proper management of these assets would include an annual contribution to the maintenance and ultimately replacement of these assets when they reach their useful life. The City has set aside no funds to repair or place any of its capital assets.

The largest future unfunded costs include an estimated $3.1 million annually for street, sidewalk, curbs, gutter, and ramp repairs and maintenance. The City currently has a pavement condition index (PCI) of 58, which is based on a hundred-point scale established by the Metropolitan Transportation Commission (MTC). In 2015, the City spent only a few hundred thousand dollars on street improvements and as a result in the most recent draft MTC report, the City's PCI has been downgraded to 55. If this rating was equated to a letter grade, the City's roads would receive an "F". MTC's rating scales rate street condition as follows: 100-80 Very Good; 79-70 Good; 69-60 Fair; 59-50 At Risk; 49-25 Poor and 24-0 Failed. Saint Helena's streets fall into the following categories: 46 percent are in good to very good condition; 14 percent are at risk to fair; and 40 percent are failed to poor.

It is important to note that the delivery of this level of capital projects would require additional staff. Neglect of infrastructure also affects the City's buildings, parks and information technology, which are estimated to need at least $800,000 annually for needed improvements.

When factoring in the City's expected future costs, it is clear that it needs to increase revenue. The current City management has inherited a legacy of inadequate attention to the financial impacts of the challenges facing St. Helena, including the poor planning and management of the Flood Control project and our deteriorating streets and other infrastructure.

Review of all Revenue Sources

The primary revenue sources the committee agendized and discussed are summarized below.

Sales and Use Tax:

Saint Helena currently receives approximately $2.8 million in revenue each year from the sales and use tax levied by the state. The statewide minimum rate is seven-and-a-half percent of sales. Merchants in all of Napa County now collect eight percent on retail purchases of tangible goods. In cases where retailers do not collect sales tax, such as some internet sales, a use tax is collected from the buyer and paid by the seller to the state. The City of St. Helena receives one percent of such purchases made within its boundaries.

Counties and cities may, by a majority vote, levy an additional tax of up to two-and-a half percent above the state minimum, or a maximum of 10 percent. If the City of St. Helena were to enact a half-cent sales tax increase, it would generate an estimated $1.4 million additional revenue each year. One hundred percent of the funds raised by a sales tax increase enacted by St. Helena would go to the City. Such increases require a simple majority of voters to approve an increase if the uses of the revenue are to be general in nature, or two-thirds majority if the use is for a specific purpose. It has been estimated that non-residents pay a portion of St Helena's sales tax revenue, making such a measure attractive as a revenue source.

A sales tax measure on St. Helena's November 2010 ballot failed, with the recession no doubt playing a part. The Task Force agrees that the success for any sales tax measure is dependent on public outreach and education. We reviewed the recent half-cent sales tax increase implemented by the City of Hayward, which passed with a two-thirds majority (only a simple majority was necessary). Hayward's city management shared with us what they considered the keys to their success, which included engaging a communications consultant, creating a list of projects that would be supported by the funds raised, and getting local interest groups to walk precincts—not only to promote the measure, but also to ask citizens what they thought the money should be used for.

The County of Napa may place multiple tax measures on the November 2016 ballot and in future years. If these measures pass and accumulate over time, keeping in mind the maximum sales tax of ten percent, the margin available for an increase by St. Helena becomes slimmer. In addition, if multiple revenue measures are placed on the same ballot or have recently been passed, voters may be unwilling to approve more than one or additional tax measures.

Recommendation:

The Task Force recommends that the City consider a half-cent sales tax increase, which would generate additional annual revenue of about $1.4 million. The Task Force also recommends

engaging a communications consultant to help inform the public, gather citizens' opinions, and build support for this measure.

Real Property Transfer Tax:

California's Transfer Tax Act allows a county, a city, or both to impose a tax on the transfer or conveyance of real property, with some exceptions. At present, Napa County and the City of St. Helena each collect $0.55 per $1,000 of property value when a property changes hands. Many general law cities and most counties in California collect the same amount, but some cities have become charter cities in order to collect significantly more. For example, Santa Rosa collects $2.00 per $1,000 of value, and Vallejo collects $3.30. Berkeley and Oakland each collect $15.00.

St. Helena is now a general law city. Since state law allows only charter cities to raise their real property transfer tax rates, St. Helena would have to become a charter city to do so, requiring a local ballot measure to be approved by majority vote. Emeryville recently became a charter city for the sole purpose of enacting a real property transfer tax. In every other respect that city continues to follow general California law.

Like most other real estate closing costs, real estate transfer taxes are customarily paid by the seller, but in Alameda, Contra Costa, Santa Clara, and Los Angeles counties, some city transfer taxes are split between buyer and seller. Whatever the local custom, partition of these and other closing costs are often negotiated. The City of Napa is the only charter city in Napa County.

The Task Force discussed the option of a tiered rate structure based on property value or length of ownership and rejected it, concluding that a flat rate was fairest and most effective. An exception for the transfer of regulated affordable housing was recommended.

Based on the value of conveyed properties in St. Helena in fiscal year 2014-2015, a one-percent real property tax ($10.00 per $1,000 of valuation) would generate about $1.6 million a year.

Recommendation:

The Task Force recommends that the city pursue the enactment of a one-percent real property transfer tax. Taking Emeryville's approach, St. Helena would convert to a charter city only for the purpose of raising its real estate transfer tax. All other general law practices would remain in place.

Transient Occupancy Tax:

For the privilege of occupancy in any St. Helena hotel, bed-and-breakfast, or short-term (less-than-thirty-day) rental, a visitor ("transient") is subject to a tax of 12 percent of the room rate or rent charged by the operator. The entire amount of this transient occupancy tax (TOT) collected by innkeepers is retained by the City. The TOT rate can be increased only by a ballot measure approved by a simple majority. The City currently has 224 rooms generating TOT revenue of $1.8 million annually.

By comparison, Calistoga has 720 rooms generating $5 million per year, and Yountville has 450 rooms generating $9 million. Las Alcobas, comprising 70 rooms, is expected to open in the summer of 2016 and generate TOT revenue of $1.2 million per year. (This revenue has already been recognized in the Long Range Financial Forecast prepared by City staff.) So far only one other hotel development has been formally proposed—Vineland Station on the Friedrich property south of town ($500,000 in anticipated TOT revenue).

The Task Force debated the need for additional luxury hotel rooms, which are more numerous in Yountville and Calistoga. In addition to increased TOT revenues, the addition of hotel rooms would bring additional revenues to city retail shops and restaurants. It is estimated that a typical tourist who stays a night in St. Helena spends an average of $389 per day for retail goods, dining, and wine.

Recommendation:

The Task Force recommends that the City consider one or two new hotel developments or additions to existing hotels that would create 150 to 200 new hotel rooms. We estimate such an increase would raise TOT revenues by $2.5 to $3.6 million per year.

City-Owned Properties:

The primary real estate assets owned by the City are:

- Adams Street – currently undeveloped and valued at between $9 and $12 million, with a current debt obligation of $700,000
- City Hall and Police Station – estimated value of $4.7 million
- Fire Department
- Library
- Carnegie Building
- Teen Center and the office buildings located on Railroad Avenue

City staff presented to the City Council two draft Request for Proposals (RFPs) for the City Hall property and Adams Street property. Staff expects to release the RFPs in February, 2016, with a submittal date of April 2016. The RFP does not specify a hotel, but staff anticipates that some of the proposals will be for hotel development projects.

Recommendation:

The Task Force supports the sale of one or more City owned properties (Adams Street, City Hall, Railroad Avenue) for the purpose of creating significant one-time revenue together with potential for securing significant longer term annual revenue streams of transient occupancy taxes and other economic benefits. The Task Force supports the RFP currently in process, which will provide meaningful benchmarks for revenue potential. The Task Force also understands that this issue is complex, potentially involving multiple properties, and will necessitate community input and visioning.

Annexation of Unincorporated Areas Contiguous with the City:

If the City were to annex contiguous unincorporated lands in the county outside the city limits, as is permitted by state law under certain conditions, significant revenue could be raised from property taxes, sales taxes and transient occupancy taxes (TOT). Nevertheless, annexation is a long and complicated process.

According to Brendon Freeman, executive officer of the Napa County Local Agency Formation Commission (LAFCO), areas targeted for annexation must be within the city's "sphere of influence," which at present lies entirely within its municipal boundaries. A city may file for a sphere of influence amendment, which must be supported by appropriate studies, including a California Environmental Quality Act (CEQA) evaluation and LAFCO's periodic municipal service reviews, which focus on police, fire, water, and sewer services. The last LAFCO review was in 2008, and the next is planned to take place before the end of this year.

Potential lands for annexation lie to the northeast of St. Helena (Meadowood Napa Valley, which we estimate generates over $2 million in TOT and sales tax) and along Highway 29 north and south of the city. Any annexation filing can be opposed by Napa County or affected property owners. For that reason, the City must make a case for the extension of its sphere of influence and be able to negotiate, if necessary, with the county and property owners about shared costs and benefits.

Recommendation:

The Task Force recommends that the City explore opportunities for the annexation of contiguous unincorporated lands, with special emphasis on Meadowood Napa Valley. While the process is complicated and may be contentious, it is likely to benefit both owners of annexed properties and the city, and it should be begun now. The Task Force noted that this option has few negative impacts on the community when compared to the amount of revenue that could be gained. However, it was also recognized that this option will take the longest to implement, if it is possible at all.

Economic Development Committee:

The Task Force discussed the benefits of creating an economic development committee. Many of the issues currently faced by the City are the result of a lack of long range economic planning. An community-based economic development committee could be tasked with setting goals for the City's economic sustainability; working to support local businesses, while also considering business expansion and business development programs; identifying short term wins and initiating action items; making recommendations to assist the planning commission and the City Council (advisory only); creating a long range master plan to complement the General Plan; seeking balance between the revenue initiatives and the needs of the residents; and creating a partnership for action between the community. The economic development committee would consist of citizens, business leaders, and, as appropriate, City staff and representatives from City Council and the Planning Commission.

Recommendation:

The Task Force recommends the formation of an economic development committee for the purpose of long range planning and supporting existing local business that generate sales tax and TOT tax revenues for the City.

Further Options Needing Analysis

Parking Meters on Main Street:

According to City Manager Phillips, the potential revenue that could be generation if 180 parking meters were installed in the central two-block stretch of Main Street would be over $300,000 a year. The costs to install, maintain and monitor meter were not discussed. Phillips distributed a parking analysis from Steamboat Springs, Colorado. To perform a similar analysis would cost St. Helena $30,000 to $50,000. Also discussed were the possible impacts of pushing parking into residential neighborhoods, reducing local retail sales, and creating a barrier to the City's image as a visitor-friendly downtown.

Recommendation:

The potential revenue may not outweigh the possible negative implications of paid parking. A city-wide parking study would have to be conducted to properly evaluate parking as a potential revenue source.

Wine Train Disembarkation:

The City currently prohibits passengers of the Napa Valley Wine Train from disembarking at the St. Helena railroad station. City Council approval would be required to remove the restriction and permit Wine Train passengers to disembark. At a Task Force meeting, Chamber of Commerce CEO Pam Simpson suggested developing tourist packages combining Wine Train tickets and hotel accommodations. The possibility of charging the Wine Train a per-passenger fee for the right to disembark was also discussed. In general, the Task Force did not object to allowing Wine Train disembarkation, but the question of regulatory requirements for point-to-point transportation was raised.

Recommendation:

The Task Force recommends further research to determine the benefits, obstacles and drawbacks of permitting Napa Valley Wine Train passengers to disembark in St. Helena.

Short-Term Rentals:

The committee discussed the possibility of increasing revenues from short-term vacation rentals by incorporating minimum usage or "use it or lose it" language into the short-term rental ordinance. While the Task Force recognized such a change as a potential revenue source, members did not believe the potential revenues that would be generated warranted further consideration without additional research.

<u>Recommendation:</u>

The Task Force had no specific recommendations regarding short-term vacation rentals.

Public Education

Throughout our Task Force meetings, members recognized the critical need to inform the entire community, residents and business owners, of the City's precarious condition and the need for immediate action. Each of us found our participation on the Task Force to be highly informative. Our personal experience over the last three months gave each of us a better understanding of the City's financial condition and the ways we can improve it. The Task Force expressed strong support for the current City leadership and management. The City's financial challenges developed over many years and were not created by the present administration. Righting our ship will require time, hard work and cooperation among all citizens of St. Helena.

Task Force members are committed to expanding our own educational process by sharing the information we have learned during these meetings with others in the community. Communication travels in both directions, and we hope that the community will take an active interest in the City's efforts. Stay informed, share your ideas, and participate as the City Council discusses these important matters. Finally, and to that end, the Task Force recommends that a public relations firm be hired to assist the City in effectively communicating accurate information to the community on revenue initiatives. The same approach has been used successfully by other cities, and based on St. Helena's history, without an informed public, revenue enhancements are less likely to be supported by the community and ultimately by voters.

Conclusion

The members of the Ad Hoc Revenue Source Task Force are honored to have been chosen to be a part of this important community effort and are pleased to present our report to City Council and the citizens of St. Helena. We are hopeful you will seriously consider the information and recommendations we have presented here. Thank you.

Attachment F

Minutes

ST. HELENA CITY COUNCIL

SPECIAL ANNUAL STRATEGIC PLANNING MEETING

February 11, 2016

9:00 AM to 4:00 PM Special Meeting

St. Helena Fire Department Conference Room

1480 Main Street, St. Helena

A complete video recording of this meeting, except for closed session, can be found at www.cityofsthelena.org or by calling the City Clerk at (707) 967-2792. The City Council video is the official record of the Council meeting.

1. **ROLL CALL**

Mayor Galbraith called the meeting to order at 9:00 a.m. and the flag was saluted.

Roll Call:
Present: Councilmembers Dohring, Pitts, Crull, White, Mayor Galbraith
Absent: None

2. **Public comments pertaining to the Annual Strategic Planning meeting. (Please observe the time limit of three minutes.)**

Doug Barr, Andy Bartlett, Geoff Ellsworth, Clare Kirkconnell, Mary Stephenson, Jack Stuart, Michael Caldarola, Susan Kenward, Nancy Parrish and a citizen addressed the City Council.

3. **Overview of Goal Setting Session**

Mayor Galbraith introduced goal setting session facilitator Dr. Bill Mathis.

Dr. Bill addressed the community and City Council regarding the goal setting session process and purpose. The session will consist of community information sharing, looking at accomplishments, needs and challenges, fiscal overview, community, Council and staff priorities and identify priorities for FY 16/17 budget process.

Dr. Bill requested each Councilmember highlight accomplishments from the year.

Vice Mayor White commented on thorough staff reports, staff trust, and the progress of the flood project.

Councilmember Pitts commented on the bike path in town, staff trust and the success of staff triaging problems.

Councilmember Crull commented on staff, fear of the unknown of what's next to deal with, but all issues are brought forward in a public and transparent manner.

Councilmember Dohring noted he would like public comment to have an additional 2 minutes for a total of five minutes.

City Manager Jennifer Phillips reviewed the 10 year financial forecast with Council and the community.

City Manager Jennifer Phillips shared accomplishments such as staff, solid public administration, service and delivery and gained public trust.

It was the consensus of the City Council to extend the public comment from three to five minutes.

City Attorney Thomas B. Brown shared the accomplishment of governance by the City Manager and commitment to effective governance to Council and the community.

4. **Overview of department core services, accomplishments and additional needs**

Department presentations were made highlighting the following:

- Core Services
- Accomplishments
- Additional items for consideration

Mayor Galbraith called for a short recess at 10:37 am.

The meeting reconvened at 10:50 am.

Mayor Galbraith called for a lunch recess at 12:20 pm.

The meeting reconvened at 1:17 pm.

5. **Discussion on Ad Hoc Revenue Source Task Force report**

May Galbraith reported on the Ad Hoc Revenue Source Task Force Revenue Source Recommendations Report and a round table discussion ensued.

Councilmember Pitts recused himself for the portion of the hotel subject matter of the report due to conflict and left the meeting room.

Public Comment:

Glenn Smith, Geoff Ellsworth, Ann Carr, Olicer Caldwell, citizen, George David, Mike Thomas, Andy Bartlett and Jack Stuart addressed the City Council.

Councilmember Pitts rejoined the meeting room.

The City Council discussed the sales and use tax, City owned properties, annexation, economic development committee, parking meters on Main Street, wine train disembarkation and short term rental issues raised in the Revenue Source Recommendations Report.

~~Lunch Break~~

6. Public comments pertaining to the Annual Strategic Planning meeting. (Please observe the time limit of three minutes.)

Doug Barr, Jack Stuart, Donna Hinds, Henry Lumley, Glenn Smith, Mary Stephenson, George David and a citizen addressed the City Council.

Mayor Galbraith called for a recess at 3:25 pm.

The meeting reconvened at 3:40 pm.

7. Council Generated Discussions

Dr. Bill requested each Councilmember share their vision for the community:

Councilmember Dohring noted youth and family life, regional government, affordable housing, safety and health of citizens, community infrastructure, care for working/middle class and sense of community.

Councilmember Pitts noted family friendly, community center, water security, enrichment programs, keeping charm, infrastructure and safe route to school.

Councilmember Crull noted efficient and high quality of services, public safety and maintain economic vibrant town.

Vice Mayor White noted to take care of what hasn't been taken care of, provide services, ability to keep diverse community and take care of working class, revenue to care for core infrastructure needs and affordable housing.

Mayor Galbraith noted friendliness maintained, functional city government, revenue, safe city, downtown core sidewalks, roadways, maintain level of services and tax increase to "step-up" to the needs.

8. Council Discussion/Priorities

Dr. Bill facilitated a round table discussion regarding:

a. Financial Capacity/Economic Development
b. Public Safety & Traffic
c. Planning, Development
d. Community Services
e. Utilities
f. Infrastructure
g. Administrative Capacity = Service Delivery

9. Priority Setting/Goals 2016

It was the consensus of the City Council identifying three goals:

1. Maintain our quality of life by sustaining and enhancing revenues
2. Maintain a functional and safe city by supporting and maintaining City staff
3. Manage workloads and dedicate adequate resources for proper project management

10. Summary / Next Steps

- Present Goals and Priorities to Council for final review and adoption at the March 22, 2016 City Council meeting.

ADJOURNMENT

Mayor Galbraith adjourned the meeting at 4:20 p.m.

APPROVED: **ATTEST:**

_____________________ _____________________

Alan Galbraith, Mayor Cindy Black, City Clerk

LONG RANGE FINANCIAL FORECAST 2016-2026 - UPDATE

February 9, 2016
City Council Meeting

Jennifer Phillips, City Manager

1

Overview of LRFF

- Focus is entirely on General Fund
- Second Edition of LRFF - updated
  - Base year is FY 2015-16 **Adjusted** Budget
  - Revenue & Expenses increase by calculation only
    - Expect as noted

2

Revenues and Expenses

- Revenue Scenarios
  - **Baseline** - modest economic recovery for all ten years (increases each year)
  - **Baseline with a minor recession** - same forecast as Baseline but with a minor recession in FY 2018 through FY 2020

3

Baseline Revenue Scenario

Revenue	Baseline Forecast Growth Per Year
Property Tax & VLF	3.0%
Sales Tax	4.2%
Transient Occupancy Tax	4.0%
Other Taxes	4.0%
Licenses & Permits	0.0%
Other Revenue	5.0%

4

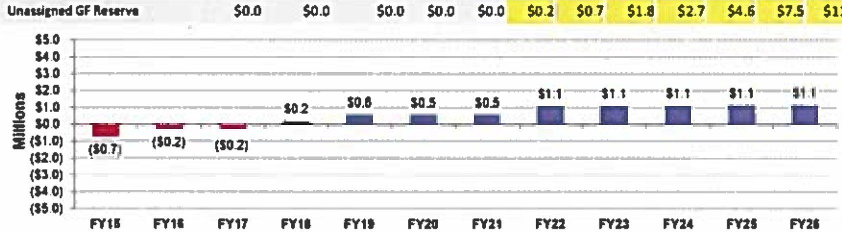
Expense Forecast Assumptions

Expense	Growth per Year	
Salaries	2.5%	Merit increases and modest increases for CPI plus Council approved increases
Pension Costs	5%	First 4 years per CalPERS estimates (15% decline in FY 2018-19) 4% thereafter
Health Premiums	6%	Experience and industry projections
Other Benefits	3.8%	Moderate growth
Services, Supplies, and IT	4.5%	Lower growth rate than last two years

5

Baseline Revenue Scenario

	unaudited FY15	adjusted FY16	estimated FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Net Operating Revenues	($0.7)	($0.2)	($0.2)	$0.2	$0.6	$0.5	$0.5	$1.1	$1.1	$1.1	$1.1	$1.1
Beginning Assigned GF Reserve	$2.3	$2.5	$2.3	$2.0	$2.2	$2.8	$3.3	$3.3	$3.3	$4.3	$5.4	$6.5
Operating Surplus/(Deficit)	($0.7)	($0.2)	($0.2)	$0.2	$0.6	$0.5	$0.5	$1.1	$1.1	$1.1	$1.1	$1.1
Ending GF Reserve	$2.5	$2.3	$2.0	$2.2	$2.8	$3.3	$3.8	$4.3	$4.3	$5.4	$6.5	$7.6
Assigned GF Reserve of 25% (goal)	$2.8	$2.6	$2.8	$3.0	$3.0	$3.1	$3.3	$3.3	$3.4	$3.5	$3.7	$3.8
Assigned GF Reserve surplus/(deficit)	($0.3)	($0.3)	($0.8)	($0.8)	($0.3)	$0.2	$0.6	$1.1	$0.9	$1.9	$2.8	$3.8
Unassigned GF Reserve	$0.0	$0.0	$0.0	$0.0	$0.0	$0.2	$0.7	$1.8	$2.7	$4.6	$7.5	$11.3



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Baseline Revenue Scenario with 40% GF Reserve

	unaudited FY15	adjusted FY16	estimated FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Net Operating Revenues	($0.7)	($0.2)	($0.2)	$0.2	$0.6	$0.5	$0.5	$1.1	$1.1	$1.1	$1.1	$1.1
Beginning Assigned GF Reserve	$2.3	$2.5	$2.3	$2.0	$2.2	$2.8	$3.3	$3.8	$4.9	$5.4	$5.6	$5.8
Operating Surplus/(Deficit)	($0.7)	($0.2)	($0.2)	$0.2	$0.6	$0.5	$0.5	$1.1	$1.1	$1.1	$1.1	$1.1
Ending GF Reserve	$2.5	$2.3	$2.0	$2.2	$2.8	$3.3	$3.8	$4.9	$6.0	$6.5	$6.7	$6.9
Assigned GF Reserve of 40% (goal)	$4.4	$4.2	$4.5	$4.7	$4.8	$5.0	$5.2	$5.2	$5.4	$5.6	$5.8	$6.1
Assigned GF Reserve surplus/(deficit)	($1.9)	($0.3)	($2.5)	($2.5)	($2.1)	($1.7)	($1.4)	($0.3)	$0.5	$0.9	$0.9	$0.9
Unassigned GF Reserve	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.5	$1.4	$2.3	$3.2

7

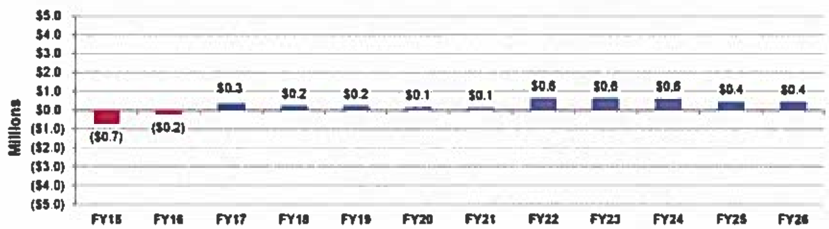
Baseline with a Minor Recession Revenue Scenario

Revenue	Baseline Forecast Growth Per Year
Property Tax & VLF	2.0% to 3.0%
Sales Tax	-1% to 4.2%
Transient Occupancy Tax	2.0% to 4.0%
Other Taxes	4.0%
Licenses & Permits	0.0%
Other Revenue	5.0%

8

Baseline with Minor Recession

	unaudited FY15	adjusted FY16	estimated FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Net Operating Revenues	($0.7)	($0.2)	$0.3	$0.2	$0.2	$0.1	$0.1	$0.6	$0.6	$0.6	$0.4	$0.4
Beginning Assigned GF Reserve	$2.3	$2.6	$2.4	$2.7	$2.9	$3.1	$3.2	$3.3	$3.3	$3.4	$3.5	$3.7
Operating Surplus/(Deficit)	($0.7)	($0.2)	$0.3	$0.2	$0.2	$0.1	$0.1	$0.6	$0.6	$0.6	$0.4	$0.4
Ending GF Reserve	$2.6	$2.4	$2.7	$2.9	$3.1	$3.2	$3.3	$3.9	$3.3	$4.0	$3.9	$4.1
Assigned GF Reserve of 25% (goal)	$2.8	$2.6	$2.8	$3.0	$3.0	$3.1	$3.3	$3.3	$3.4	$3.5	$3.7	$3.8
Assigned GF Reserve surplus/(deficit)	($0.2)	($0.2)	($0.1)	($0.0)	$0.1	$0.1	$0.1	$0.7	($0.1)	$0.5	$0.3	$0.3
Unassigned GF Reserve	$0.0	$0.0	$0.0	$0.0	$0.1	$0.0	$0.1	$0.8	$0.7	$1.1	$1.4	$1.7



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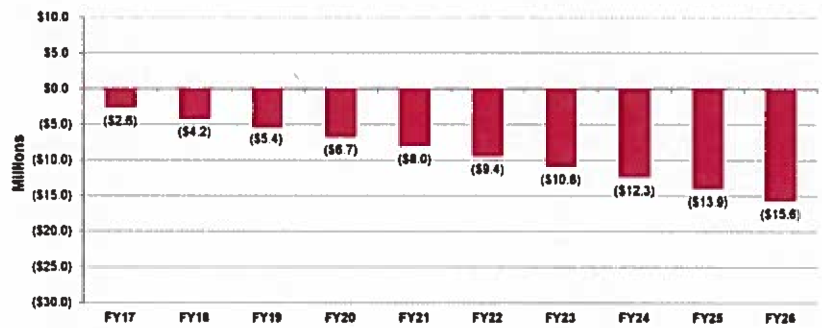
Asset Recapitalization

- Annual Funding Example = $3.9 million
  - Buildings - $500,000
  - Parks - $200,000
  - Information Technology- $100,000
  - Streets -$3.1 million
    - Streets, Curbs, Sidewalks, Gutters and Ramps

10

Asset Recapitalization

Baseline Revenue Forecast with $3.9 million Asset Recapitalization – Net Operating Revenues



11

Questions

12

Attachment G

Report to the City Council
Council Meeting of February 9, 2016

Agenda Section: **Regular Business**

Subject: **2016-2026 Long Range Financial Forecast - Update**

CEQA Status: **Not a Project**

Prepared By: **Jennifer Phillips, City Manager**

Approved By: **Jennifer Phillips, City Manager**

DISCUSSION

The City's first Long Range Financial Forecast (LRFF) 2015-25 was developed in early 2015 to help the City of St. Helena plan a path of financial stability. The next year, the LRFF 2016-2026 was developed and included FY 2014-15 unaudited actuals and the FY 2015-16 Adopted Budget. This plan was presented to the City Council on October 27, 2015 in correlation with the creation of the Ad Hoc Revenue Source Task Force so members could be provided up-to-date information regarding the City's projected revenues and expenditures.

The LRFF 2016-26 was updated to incorporate the FY 2015-16 Adjusted Budget and was presented to the Ad Hoc Revenue Source Task Force on Friday, February 5, 2015. For this update the following changes were incorporated:

- Revenues were increased by approximately $220,000 as indicated in the FY 2015-16 Adjusted Budget.
- Expenses were increased by approximately $450,000 to reflect Council approved changes including the new Fire Department service model, updated salary and benefit calculations as well as unexpected expenses. These increases were carried over into the estimated FY 2016-17 budget.
- $528,000 for State Revolving Loan Fund payments was included only through FY 2020-21, assuming Measure A will fund the remaining debt.
- In addition, a 40% General Fund Reserve target was calculated and the Asset Recapitalization projection was updated.

The Baseline Forecast (which is considered optimistic) shows positive operating revenue beginning in FY 2017-18 and an Assigned General Fund Reserve of 25% being met in FY 2019-20. Under this scenario, the Unassigned General Fund Reserve totals $11.3 million in FY 2025-26.

A new scenario was prepared using a 40% General Fund Reserve target and the Baseline Forecast. Under this scenario, the 40% reserve is met in FY 2021-22 and the Unassigned General Fund Reserve totals $3.2 million in FY 2025-26.

A Recession Forecast was also prepared which includes a minor reduction in sales, property and transient occupancy taxes during fiscal years 2018-20. This is a more realistic scenario as the economy generally experiences a recession during every ten year period. Under this scenario, the Assigned General Fund Reserve goal of 25% is met in FY 2018-19 but the Unassigned General Fund Reserve totals only $1.7 million in FY 2025-26.

Finally, using the Baseline Forecast, the Capital Asset scenario was also updated incorporating new expense estimates and identifying a new pavement condition index. Because nominal funds were spent on street improvements during FY 2014-15, the City's pavement condition index has been reduced to 58 to 55 in the draft report from the Metropolitan Transportation Commission. Without additional funding the City will be able to use only available gas tax revenue and beginning in FY 2018-19 Measure T anticipated revenue of $665,000 for street improvements. This level of funding will result in the pavement condition index remaining in the 50s.

This Capital Asset Scenario utilized was formulated around three goals: 1) improving the City's pavement condition index to 80; 2) replacing the roughly 380 curb ramps to meet American with Disabilities Act guidelines within five years; and 3) begin replacing deteriorated sidewalks, curbs and gutters. An estimated expenditure of $2 million for street improvements over five years would improve the City's pavement condition index to 80. (Note this is a change from previous LRFF documents). An annual expenditure of $400,000 over five years is estimated to update the curb ramps. Finally, $0.95 million annually is estimated to begin making improvement to sidewalks, curbs and gutters. Annually, this totals $3.35 million. Assuming current funding levels, the estimated funding short fall is $3.1 million in FY 2016-17. With the addition of Measure T in FY 2018-19, this shortfall is reduced to $2.3 and again reduces to $1.3 million with the completion of the curb ramp upgrades. Also included in this scenario are modest annual contributions to the parks of $200,000, buildings of $500,000 and information technology of $100,000 for a total of $800,000 annually. The projected outcome of this scenario shows that the City had inadequate funding to meet its basic infrastructure needs resulting in deficit of $15.3 million in FY 2025-26.

It should also be again mentioned that the City has no sinking funds for any vehicles or large equipment, streets, buildings, parks or IT. This means that anytime replacement or repairs are needed, funds must be taken from annual operating revenues and these types of expenses are not considered in any of the scenarios.

RECOMMENDED ACTION

Receive and file.

ATTACHMENTS

Attachment 1 – Baseline Revenue Forecast
Attachment 2 – Baseline Revenue Forecast with 40% General Fund Assigned Reserve
Attachment 3 – Recession Revenue Forecast
Attachment 4 – Baseline Revenue Forecast for Capital Assets

Attachment H

Report to the City Council
Council Meeting of March 8, 2016

Agenda Section: **New Business**

Subject: **Consideration and proposed approval of a resolution adopting the City Council 2016 Strategic Objectives**

CEQA Status: **Not a project**

Prepared By: **Jennifer Phillips, City Manager**

Approved By: **Jennifer Phillips, City Manager**

BACKGROUND

On February 11, 2016, in a special public meeting, the City Council met to discuss and develop the Annual Strategic Goals and Objectives. The purpose of this meeting was for City staff provide the Council and community information regarding the current levels of services, department roles and responsibilities, staffing capacity, City organizational structure, City Manager's goals, and financial and organizational challenges. The overall goal of the meeting was for Council to set objectives directing and guiding staff in decision making, and prioritization of work for the upcoming year. Each Council member was able to share their personal views and approach to City business, biggest challenges and ideal outcomes for the meeting. Approximately 40-50 community members attended the planning session, and the majority stayed for the entire day. Public comment was made available at both the beginning and middle of the meeting. This special meeting was videotaped and is available at:

http://sthelena-ca.granicus.com/MediaPlayer.php?view_id=2&clip_id=610

DISCUSSION

At the beginning of the special annual strategic planning meeting, the executive staff presented each department's core duties and responsibilities, accomplishments, and highlighted areas of additional needs which at this time there are inadequate resources available to address these needs.

The Council also discussed the Ad Hoc Revenue Source Task Force Report dated February 9, 2016. Each recommendation was discussed and Council directed staff to return with a report that provided further information on parcel tax, gross proceeds tax and a payroll tax. This information will be provided in a separate staff report.

The Council agreed that revenue enhancement continues to be the main goal of the City for 2016 but at the same time the City needs to also maintain the quality of life in St. Helena.

The Council's discussion related to goals and objectives focused on taking care of St. Helena including fixing the City's infrastructure, providing high level public safety, maintaining and supporting a diverse community, delivering efficient services, keeping current projects moving forward, and maintaining a family friendly environment.

Three goals were identified by the City Council:

1. Maintain our quality of life by sustaining and enhancing revenues
2. Maintain a functional and safe city by supporting and maintaining City staff
3. Manage workloads and dedicate adequate resources for proper project management

As part of the FY 2016-17 budget, staff will include objectives for accomplishing these goals.

RECOMMENDED ACTION

Approve Resolution ___ adopting three Council goals for 2016.

ATTACHMENTS

1. Resolution

Attachment I

Report to the City Council
Council Meeting of March 8, 2016

Agenda Section: **New Business**

Subject: **Informational Item: Review of Additional Revenue Options including Parcel Tax, Payroll Tax, and Gross Receipts Tax**

CEQA Status: **Not a project**

Prepared By: **Jennifer Phillips, City Manager**

Approved By: **Jennifer Phillips, City Manager**

BACKGROUND
During the February 11, 2016 Goal Setting Session, the City Council discussed the Ad Hoc Revenue Source Task Force report which included recommendations for Council's consideration related to revenue enhancing options. During this session, members of the community requested the City Council consider three additional taxes: parcel tax, payroll tax and gross receipts tax. Council directed staff to research these three options and return to Council with information.

DISCUSSION

Parcel Tax:
Parcel taxes are a form of property tax and can be imposed by local government, with a supermajority vote of the people, on a per-parcel basis. The City of St. Helena is authorized by the State of California to impose this tax as long as the tax is not based on the value of a property and is approved by a two-thirds vote of the electorate. A parcel is defined as an area of land in one ownership and one general use and must be located within the boundaries of the City.

The first parcel tax in California was passed in 1983 by a school district. This tax is still used heavily by school districts but has also been passed by fire protection districts, hospital districts and local governments. Over half of local government parcel taxes were passed under the Mello-Roos tax to fund new development.

There are several types of parcel taxes with the most common being:
- Flat per-parcel levy based on the existence of a parcel within the City boundaries
- Flat levy based on the square footage of land or improvements located on a parcel

- Per acre tax
- Complex calculation that determines a property's "single-family equivalent" or "benefit unit"

Some common exemptions from parcel taxes include seniors, disability and contiguous parcels. Generally the proper owner is required to file the exemption.

Between 2003 and 2014, nearly 800 parcel tax measures were placed before voters in California. Of those, 56% passed and 44% failed. As of the end of 2012, the median parcel tax was $60 for cities, $96 for school districts and $68 for special districts. The City of St. Helena has 2,433 parcels. Therefore, if the City imposed a $100 parcel tax, an estimated $243,300 would be generated annually.

<u>Payroll Tax:</u>
Payroll taxes are taxes imposed on employers or employees, and are usually calculated as a percentage of the salaries that employers pay their staff. Payroll taxes generally fall into two categories. First are deductions from an employee's wages such as social security and income tax. The second are taxes paid by the employer based on the employee's wages. These can consist of fixed charges or be proportionally linked to an employee's pay. The charges paid by the employer usually include the employer's funding of the social security system, and other insurance programs. The State of California imposes four state payroll taxes, but staff was not able to find any California cities or counties other than the City/County of San Francisco that impose a payroll tax on businesses.

In 1970, San Francisco imposed a 1% payroll tax. Along with the enactment of this tax, the Board adopted a gross receipts tax which taxed a business' total revenue before deducting expenses. Whichever yielded more money, the business paid. Businesses with less than $250,000 in payroll were exempt from the tax. In 2011, San Francisco abandoned its gross receipts tax as part of a lawsuit settlement, when a California court ruled that the two-tiered gross receipts tax was unconstitutional. In November 6, 2012 voters in San Francisco approved Proposition E, which phases out the city's current payroll tax over a five year period and replaces it with a gross receipts tax.

Staff does not have access to payroll amounts for businesses in St. Helena and therefore an estimate of revenue generated through such a tax is not feasible at this time.

<u>Gross Receipts Tax:</u>
A gross receipts tax is a tax on the total gross revenues of a company, regardless of their source. Gross receipts taxes have a simple structure, taxing all business sales with few or no deductions and taxing all transactions, including intermediate business-to-business purchases of supplies, raw materials and equipment. As a result, gross

receipts taxes create an extra layer of taxation at each stage of production that sales and other taxes do not—something economists call "tax pyramiding." Staff does not have access to gross receipts for businesses in St. Helena and therefore an estimate of revenue generated through such a tax is not feasible at this time. Staff had difficulty finding up-to-date information on which California cities and counties impose a gross receipts tax, but it appears that both the City of Los Angeles and City/County of San Francisco do impose the tax. Many California cities have a tiered business license tax based on gross receipts. St Helena charges a flat tax with additional charges based on number of employees.

Staff is unfamiliar with the process for implementation of a payroll or gross receipts tax. Significant additional research would be required if the City Council is interested in pursuing either of these taxes.

RECOMMENDED ACTION
Information only

Attachment J

Report to the City Council
Council Meeting of March 22, 2016

Agenda Section: **New Business**

Subject: **Informational Item: Review of General Obligation Bonds as possible revenue measure**

CEQA Status: **Not a project**

Prepared By: **Jennifer Phillips, City Manager**

Approved By: **Jennifer Phillips, City Manager**

BACKGROUND

During the February 11, 2016 Goal Setting Session, the City Council discussed the Ad Hoc Revenue Source Task Force report which included recommendations for Council's consideration related to revenue enhancing options. During this session, members of the community requested the City Council consider three additional taxes: parcel tax, payroll tax and gross receipts tax. Council directed staff to research these three options and return to Council with information. This information was presented to the City Council on March 8, 2016. Following the meeting, Mayor Galbraith requested an additional item be presented to the City Council on general obligations bonds.

DISCUSSION

In June 1986, Proposition 46 was passed by California voters that restored the authority of cities, counties and school districts to issue General Obligation bonds. General Obligation bonds are backed by the issuing agency, are paid by increasing local property taxes above the limited imposed by Proposition 13, and must be approved by a 2/3rd majority vote of the electorate.

General Obligation bonds are commonly used by cities, counties and school districts to finance schools, libraries, jails, and other large capital projects including street and road repair projects. Bond proceeds may not be used for equipment, maintenance or operations.

If a General Obligation bond is approved, the issuing agency is authorized to levy an ad valorem property tax at the rate necessary to repay the principal and interest of the bonds. The amount levied is calculated based on the assessed property value. Overall levy limitations exist to avoid excessive general obligation debt.

It should be noted that this "revenue option" was not presented to the Ad Hoc Revenue Source Task Force because General Obligation bonds are a financing mechanism resulting in debt versus a consistent revenue source for the City. Many of the City's General Fund revenues including sales, transient and transfer taxes can be used as collateral to issue and repay bonds. Issuing debt is always an option available to the Council to fund capital projects, but the cost of debt issuance and interest generally results in roughly doubling the cost of the capital projects. In addition, as part of the bond issuance process, the City's financial condition will be assessed and considered in determining the interest rate paid by the City.

RECOMMENDED ACTION

Information only

Attachment K

Report to the City Council
Council Meeting of March 22, 2016

Agenda Section: **<u>New Business</u>**

Subject: **Voter Survey Results for a City Charter and Vital Services Measure in St. Helena**

CEQA Status: **Not a project**

Prepared By: **<u>Jennifer Phillips, City Manager</u>**

Approved By: **<u>Jennifer Phillips, City Manager</u>**

BACKGROUND

In February 2015 the City Council adopted a Council Goal to consider long term revenue options including exploration of the process for the adoption of a real property transfer tax, coupled with identifying the process to become a Charter City. On September 8, 2015, Council directed staff to initiate the process for the City of St Helena to become a charter city and explore a real property transfer tax. On November 10, 2015, Council approved a contract with The Lew Edwards Group to provide polling and public outreach related to a City Charter and Real Property Transfer Tax.

DISCUSSION

Under the direction of the City and The Lew Edwards Group, FM3 conducted a voter survey beginning in January 26 and ending on February 6, 2016. FM3 has prepared the attached presentation and will present the survey methodology and results to the City Council.

RECOMMENDED ACTION

Provide direction to staff regarding pursuit of revenue options.

ATTACHMENTS

FM3 Presentation on St. Helena voter survey results

Attachment L

Report to the City Council
Council Meeting of May 10, 2016

Agenda Section: **New Business**

Subject: **Consideration of a Sales Tax Measure for the November 2016 Ballot**

CEQA Status: **Not a CEQA project**

Prepared By: **Jennifer Phillips, City Manager**

Approved By: **Jennifer Phillips, City Manager**

BACKGROUND

During the February 11, 2016 Goal Setting Session, the City Council discussed and considered the report from the Ad Hoc Revenue Source Task Force which included recommendations related to revenue enhancing options. On March 22, 2016, the survey results of a real property transfer tax and a sales tax was presented by staff and The Lew Edwards Group. Based on the survey results, Council directed staff to not pursue the real property transfer tax and instead return to the City Council with information about a sales tax measure for the November 2016 ballot.

DISCUSSION

Based on the Council's goal to secure the City's financial future, and the recommendations of the Ad Hoc Revenue Source Task Force, staff has been exploring revenue enhancing options for Council's consideration. A sales tax measure is a viable option for consideration.

The City has experienced minimal revenue growth in recent years and this tepid growth is expected to continue into the future due to the City's limited revenue streams, which are primarily comprised of property tax and sales tax. The City's transient occupancy tax (TOT) is expected to increase in FY 2016-17 and thereafter in FY 2017-18 due to the opening of the Los Alcobas Hotel. Despite this increase in TOT revenue, City expenses still outpace revenues and additional revenue is needed to not only adequately fund the City's operations, but also long neglected infrastructure and capital improvements within the City.

Cities in California have very few options available for raising revenues. Approving a ballot measure to increase the City's sales and use tax (or consumption tax) is an option available to the City Council for enhancing revenues. Currently, sales tax in Napa County and for all Napa cities is 8%. Several revenue initiatives could be placed on the November 2016 by various public agencies in Napa County. At this time, there is no specific information on any proposed measures. In addition, cities and counties across California are again considering sales tax increases, many struggling with similar challenges facing St. Helena. With many cities nearly built out or imposing no or slow-growth policies, uncertain economic growth over the next few years coupled with consistent increase in demand for services and deteriorating infrastructure, sales tax measures have become the means for communities to support their needs and responsibilities.

A sales tax is a direct tax on consumption that is imposed by state and local governments when goods and services are purchased. In California, sales tax rates range from 7.5% to 10%. The State imposes a 6.5% sales tax rate with an additional 1% mandatory local rate. Certain food products (groceries), prescription drugs, medical devices and items paid for with food stamps are exempt from sales tax. Attachment A includes a complete list of exemptions and exclusions from sales and use taxes. The City of St. Helena receives 1% of the 8% collected in St. Helena. Measure A accounts for the additional 0.5%, which is also received by the City of St. Helena but is restricted to specific uses (flood control). Any additional sales tax imposed by the City would be received solely by the City of St. Helena and due to Proposition 22, passed by California voters in 2010, these revenues could not be raided by the State.

Currently, the City receives $2.8 million annually in sales tax revenue. A 0.5% increase in sales tax would generate approximately $1.4 million annually and a 1% increase would generate approximately $2.8 million. Increases in the applicable tax rate can be proposed in increments of 1/8% (0.125 percent). (California Revenue and Taxation Code §§7285.9, 7285.91[1]). The combined rate of all taxes in the county pursuant to the Transaction and Use Tax Law cannot exceed 2%. (§7251.1). As noted above, Measure A accounts for 0.5%, and thus the most the City could propose is 1.5%. If the sales tax measure identifies general uses, then the measure requires a majority plus one vote to pass. (§7285.9). If specific uses are identified, then the measure would require a 2/3^rds^ vote to pass; additionally, the ordinance imposing the tax must contain an expenditure plan describing specific projects the revenues would be spent on. (§7285.91). Regardless of whether the City Council decides to pursue a general tax versus a special tax, in either instance the ordinance proposing the sales tax increase must be approved by a 2/3^rd^ vote of the City Council to be placed on the November 8, 2016 ballot. (§§7285.9, 7285.91).

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[1] Unless otherwise noted, all statutory references are to the California Revenue and Taxation Code.

An option available in connection with a general sales tax measure would be a companion advisory measure that would seek voters' input on how the general revenue raised by the sales tax measure should be used by the City. This would be a non-binding advisory measure. However, given the limitation on the number of words that may be used in the ballot question, it may prove difficult to craft a question that would generate meaningful advice or direction.

The impacts of increasing a sales tax are difficult to quantify. Each community is different and the impacts on consumers and their purchasing behavior vary. Tourism, geography, type of retail, price of gasoline, time of year, and weather, along with many other factors impact customer spending and decisions. It is not feasible for staff to conduct an analysis on the impacts on consumer spending based on a slightly increased sales tax rate over neighboring communities.

To place a measure on the November 2016 ballot, the City Council must adopt a resolution approving the proposed ballot language as it will appear on the ballot, and the underlying ordinance to be enacted if approved by the voters. Again, the resolution of the City Council would need to be approved by a 2/3rd vote of the City Council. (§§7285.9, 7285.91). The resolution must be adopted by the City Council and submitted to the County Registrar no later than 88 days before the November 8, 2016 election, or August 12, 2016[2]. The cost to place one measure on the ballot is estimated to range from $10,000 to $15,000. In addition, the Council would need to decide the percentage increase for the sales tax measure, determine if the sales tax would have an expiration date, and if the measure is a general or special tax. Again, note that if the Council decides to dedicate revenues to specific items as part of a special tax, then an expenditure plan will need to be developed to accompany the measure. The Council may also wish to consider if an advisory measure for the non-binding expenditure of funds should accompany a general sales tax measure.

RECOMMENDED ACTION
Provide direction to staff regarding continuing the process for placing a sales tax measure on the November 2016 ballot.

ATTACHMENTS
Attachment A – Sales and Use Taxes: Exemptions and Exclusions, California State Board of Equalization, July 2014.

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[2] The County Registrar will publish a schedule for submission of material for placement on the November 8, 2016 ballot, such as the City Attorney's impartial analysis, ballot arguments and rebuttal argument, if called for by the City Council.

Attachment M

Report to the City Council
Council Meeting of May 24, 2016

Agenda Section: **New Business**

Subject: **Consideration of, and Direction To Staff On Steps for a Sales Tax Measure for the November 2016 Ballot and Issuance of the Request for Proposals for Adams Street.**

CEQA Status: **Categorically exempt from the requirements of CEQA under Section 15306 as an effort to gather information on development interest for specific City owned properties within St. Helena. Any future development of a specific project will be subject to separate CEQA review and compliance.**

Prepared By: **Jennifer Phillips, City Manager**

Approved By: **Jennifer Phillips, City Manager**

BACKGROUND

The Sales Tax Measure

During the February 11, 2016 Goal Setting Session, the City Council discussed and considered the report from the Ad Hoc Revenue Source Task Force which included recommendations related to revenue enhancing options. On March 22, 2016, the survey results of a real property transfer tax and a sales tax were presented by staff and The Lew Edwards Group. Based on the survey results, Council directed staff to not pursue the real property transfer tax and instead return to the City Council with information about a sales tax measure for the November 2016 ballot. At the May 10, 2016 Council meeting, staff presented an item for Council's consideration regarding a sales tax measure for the November 2016 ballot. At this meeting, Council directed staff to return at the May 24, 2016 meeting with additional information on options relating to sales tax measures.

A sales tax is a direct tax on consumption that is imposed by state and local governments when goods and services are purchased. In California, sales tax rates range from 7.5 percentage points to 10 percentage points. The State imposes a 6.5 percentage point sales tax rate with an additional mandatory 1 percentage point local rate. Certain food products (groceries), prescription drugs, medical devices and items paid for with food stamps are exempt from sales tax. The City of St. Helena receives 1 percentage point of the 8 percentage points collected in St. Helena. Measure A accounts for the additional 0.5 percentage point, which is also received by the City of St. Helena but is restricted to specific uses (flood control). Any additional sales tax imposed by the City would be received solely by the City of St. Helena and due to Proposition 22, passed by California voters in 2010, these revenues could not be raided by the State.

Currently, the City receives $2.8 million annually in sales tax revenue. A 0.5% increase in sales tax would generate approximately $1.4 million annually and a 1% increase would generate approximately $2.8 million. Increases in the applicable tax rate can be proposed in increments of 0.125 percentage points. (California Revenue and Taxation Code §§7285.9, 7285.91[1]). The combined rate of all taxes in the county pursuant to the Transaction and Use Tax Law cannot exceed 2 percentage points. (§7251.1). As noted above, Measure A accounts for 0.5%, and thus the most the City could propose is 1.5 percentage points. If the sales tax measure identifies general uses, then the measure requires a majority plus one vote to pass. (§7285.9). If specific uses are identified, then the measure would require a 2/3rds vote to pass; additionally, the ordinance imposing the tax must contain an expenditure plan describing specific projects the revenues would be spent on. (§7285.91). Regardless of whether the City Council decides to pursue a general tax versus a special tax, in either instance the ordinance proposing the sales tax increase must be approved by a 2/3rd vote of the City Council to be placed on the November 8, 2016 ballot. (§§7285.9, 7285.91). For St. Helena's five person City Council, this 2/3rd vote requirement means four Council members must vote to approve the measure.

To place a measure on the November 2016 ballot, the City Council must adopt a resolution approving the proposed ballot language as it will appear on the ballot, and the underlying ordinance to be enacted if approved by the voters. Again, these actions would need to be approved by a 2/3rd vote of the City Council. (§§7285.9, 7285.91). The resolution must be adopted by the City Council and submitted to the County Registrar no later than 88 days before the November 8, 2016 election, or August 12, 2016[2]. The cost to place one measure on the ballot is estimated to range from $10,000 to $15,000. Therefore, time is limited for the City Council to discuss and decide upon this matter.

The Adams Street RFP

Coupled with the sales tax increase discussion is the need to decide on the issuance of the Request for Proposals (RFP) for Adams Street. On October 27, 2015, staff presented to the City Council a draft conceptual Request for Proposals for development

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[1] Unless otherwise noted, all statutory references are to the California Revenue and Taxation Code.

[2] The County Registrar will publish a schedule for submission of material for placement on the November 8, 2016 ballot, such as the City Attorney's impartial analysis, ballot arguments and rebuttal argument, if called for by the City Council.

of the Adams Street Property as well as the City Hall Property. Council directed staff to issue the RFPs. However, on March 22, 2016, a community group called "Rebuild St Helena" presented to the City Council another option for the Adams Street Property. The group requested that the City Council direct staff not to issue the RFP and instead pursue the direct sale of the Adams Street Property to a high-end hotel developer. At this Study Session, the Council made no decision regarding the property or RFP. On May 10, 2016 Council again considered the RFP for Adams Street but made no decision on issuance at this time based on Council's desire to further consider various sales tax options.

DISCUSSION

The Sales Tax

Based on the City Council's discussions at the various Council meetings, staff has identified four sales tax measure options for Council's further discussion and consideration. Attachment A provides the current sales tax rates for all counties and cities in California. Staff is seeking direction from the City Council to prepare an ordinance and ballot measure for Council's consideration.

At the June 14, 2016 meeting, the Council would be presented with the first reading of an ordinance imposing the transaction and use (sales) tax. Staff would also present the draft of the resolution that would place the ordinance on the ballot, which resolution would contain the actual ballot question that would be presented to the voters. Accordingly, the Council would have an opportunity to weigh in on the ballot question. At the June 28, 2016 meeting, the Council would be presented with the second reading of the transaction and use (sales) tax ordinance, along with the aforementioned resolution placing the measure on the ballot (assuming the ordinance is passed by a $4/5^{th}$ vote of the Council). The Council would also be presented with other resolutions related to the ballot measure; a resolution directing the City Attorney to prepare an impartial analysis, setting priorities for ballot arguments, and whether to allow for rebuttal arguments.

<u>.50 percentage point sales tax increase – general use</u>

A .50 percentage point sales tax increase would generate approximately $1.4 million annually (without calculating anticipated annual increases – currently ranging from 3% to 4.2% per year). A general use sales tax measure would only require a 50% plus one vote to pass. A general use tax, if passed by the voters would allow the City Council to determine through the annual budget process how the funds would be spent.

An additional option to a general use sales tax measure would be to include a second companion measure that would be a non-binding measure, if approved by the voters would be intended to guide the Council in its decision making process for the use of the funds.

<u>.50 percentage point sales tax increase - special use</u>
A .50 percentage point sales tax increase would generate approximately $1.4 million annually (without calculating anticipated annual increases – currently ranging from 3% to 4.2% per year). The ballot measure for a special use tax would specifically identify the uses for the sales tax revenue requiring that the funds be used for these uses in perpetuity. A special use sales tax measure requires a 2/3rds vote of the electorate to pass.

<u>.50 percentage point sales tax increase – special use for the Adams Street Property</u>
A .50 percentage point sales tax increase would generate approximately $1.4 million annually (without calculating anticipated annual increases – currently ranging from 3% to 4.2% per year). The ballot measure for a special use tax for Adams Street would specifically identify the uses for the sales tax revenue would be used solely for the purpose of maintaining the Adams Street property for the specific uses identified in the ballot language. A special use sales tax measure requires a 2/3rds vote of the electorate to pass.

<u>1.0 percentage point sales tax increase – special use for the Adams Street Property and other specific uses</u>
A 1.0 percentage point sales tax increase would generate approximately $2.8 million annually (without calculating anticipated annual increases – currently ranging from 3% to 4.2% per year). The ballot measure for a special use tax for Adams Street and other uses would specify that the sales tax revenue would be used solely for the purpose of maintaining the Adams Street property for the specific uses identified in the ballot language along with other specific uses citywide also as identified in the ballot measure. A special use sales tax measure requires a 2/3rds vote of the electorate to pass.

The Adams Street RFP

In addition, the Council may wish to decide on the issuance of the Adams Street Property RFP. The draft of this RFP, which staff previously presented to the City Council and public, offers prospective developers the options of leasing or purchasing the property as well as proposing a public/private partnership to assist in site development.

Staff also requested an updated appraisal on the Adams Street Property to incorporate the proposed zoning changes approved by the City Council for inclusion into the General Plan Update. The new appraisal values the property at $12.8 million (up from $8.9 million) and identifies a hotel as the highest and best use.

RECOMMENDED ACTION

1) Direct staff to prepare the necessary legislation to call an election to be held on November 8, 2016 submitting to the voters an ordinance imposing a transactions and use (sales) tax and identify the amount of the sales tax increase, whether the uses will be general or special and if a non-binding ballot measure should also be prepared for Council's consideration.
2) Direct staff to issue, postpone or cancel the RFP for the Adams Street property.

ATTACHMENTS

Attachment A - Board of Equalization Sales Taxes for California Counties and Cities

Attachment N

Report to the City Council
Council Meeting of June 14, 2016

Agenda Section: **New Business**

Subject: **Consideration and Proposed Approval of a Resolution Adopting Fiscal Year 2016/17 City of St. Helena Annual Budget**

CEQA Status: **Not a CEQA project**

Prepared By: **April Mitts, Finance Director**

Approved By: **Jennifer Phillips, City Manager**

BACKGROUND

On February 11, 2016, in a special public meeting, the City Council met to discuss and develop the Annual Strategic Goals and Objectives. The purpose of this meeting was for City staff provide the Council and community information regarding the current levels of services, department roles and responsibilities, staffing capacity, City organizational structure, City Manager's goals, and financial and organizational challenges. The overall goal of the meeting was for Council to set objectives directing and guiding staff in decision making, and prioritization of work for the upcoming year. Each Council member was able to share his or her personal views and approach to City business, biggest challenges and ideal outcomes for the meeting. Approximately 40-50 community members attended the planning session, and the majority stayed for the entire day. Public comment was made available at both the beginning and middle of the meeting. This special meeting was videotaped and is available at:

http://sthelena-ca.granicus.com/MediaPlayer.php?view_id=2&clip_id=610

Three goals were identified by the City Council:

1. Maintain our quality of life by sustaining and enhancing revenues
2. Maintain a functional and safe city by supporting and maintaining City staff
3. Manage workloads and dedicate adequate resources for proper project management

On March 8, 2016, City Council adopted the strategic objectives via Resolution No. 2016-35.

On May 4, 2016, a special public budget workshop was held at the City of St. Helena Fire Station. This special meeting was videotaped and is available at:

http://sthelena-ca.granicus.com/MediaPlayer.php?view_id=2&clip_id=624

During this day-long special budget workshop City Council gave consideration to recommend non-profit grant application requests for funding. City staff presented the draft proposed FY 2016-17 budget. Each department presented its proposed budgets for Council consideration. This draft budget was presented with an estimated $52,413 General Fund shortfall and an estimated $1,337,807 Water Fund shortfall.

DISCUSSION

During the May 4, 2016 special public budget workshop City Council provided the following direction to staff to balance the budget as required by State law:

1. Fund each non-profit 50% of its original request for a total of $35,050; and
2. Decrease City Attorney General Fund budget to offset the amount for non-profit funding; and
3. Decrease City Attorney General Fund budget to offset the estimated $52,413 General Fund shortfall;
4. Establish a $50,000 Capital Reserve Fund, from General Fund reserves, for the Comprehensive Flood Control Project as required by the State Revolving Fund Agreement; and
5. Use Water Fund reserves of $1,337,807 to offset the Water Fund shortfall.

From this direction, staff has finalized the Proposed Fiscal Year 2016/17 Budget which is balanced and being presented to Council for consideration and adoption.

There were only slight modifications to the FY 2016/17 proposed budget presented at the May 4, 2016 budget workshop. These changes are outlined below:

	May 4, 2016 Proposed Budget	June 14, 2016 Proposed Budget	Variance	Reason for Variance
City Council	$185,628	$220,678	$35,050	Non-Profit funding as directed by City Council
Finance	$804,828	$807,329	$2,501	Estimated increase in online transaction fees
City Attorney	$730,000	$642,037	($87,963)	Reduction as directed by City Council to offset the General Fund shortfall and fund non-profits at 50%
Library	$1,043,472	$1,044,907	$1,435	Correction to Friends & Foundation grant expenses
Non-Departmental	$4,657,647	$4,707,647	$50,000	Establishment of Flood Protection Project Fund from General Fund reserves as directed by City Council

Final Budget Summary (General Fund, Water Fund, and Wastewater Fund):

GENERAL FUND:

Estimated GF Reserves (total) @ 6/30/16		$2,363,170
Total Revenues	$10,591,030	
Transfers In	$0	
Total GF Revenues and Transfers In		$10,591,030
Total Expenditures	($10,641,030)	
Total GF Expenditures and Transfers Out		($10,641,030)
Deficit to General Fund Reserve	($50,000)	
Estimated Reserves @ 6/30/17		$2,313,170
Estimated Reserve percentage		22%

WATER FUND:

Estimated Water Unrestricted Net Position @ 6/30/16		$4,923,632
Total Revenues	$3,783,308	
Total Expenses	($5,122,115)	
Revenues less Expenses		($1,338,807)
Use of Water Cash	($1,338,807)	
Estimated Water Net Position @ 6/30/17		$3,584,825
Estimated Percentage of Expenses		70%

WATER FUND – WITH NET PENSION LIABILITY:

Estimated Water Unrestricted Net Position @ 6/30/16		$3,680,198
Total Revenues	$3,783,308	
Total Expenses	($5,122,115)	
Revenues less Expenses		($1,338,807)
Use of Water Cash	($1,338,807)	
Estimated Water Net Position @ 6/30/17		$2,341,391
Estimated Percentage of Expenses		46%

WASTEWATER FUND:

Estimated WW Unrestricted Net Position @ 6/30/16		($79,804)
Total Revenues	$2,110,647	
Total Expenses	($2,057,934)	
Revenues less Expenses		$52,713
Use of WW Cash	$0	
Estimated WW Unrestricted Net Position @ 6/30/17		($27,091)
Estimated Percentage of Expenses		(1%)

WASTEWATER FUND – WITH NET PENSION LIABILITY:

Estimated WW Unrestricted Net Position @ 6/30/16		($908,760)
Total Revenues	$2,110,647	
Total Expenses	($2,057,934)	
Revenues less Expenses		$52,713
Use of WW Cash	$0	
Estimated WW Unrestricted Net Position @ 6/30/17		($856,047)
Estimated Percentage of Expenses		(42%)

RECOMMENDED ACTION

Staff recommends adoption of Resolution No. 2016-____ approving Fiscal Year 2016-17 budget.

ATTACHMENTS

Attachment A – Resolution No. 2016-_______

Attachment O

City of St. Helena

"We will conduct city affairs on behalf of our citizens using an open and creative process."

1480 Main Street
St. Helena, CA 94574
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www.cityofsthelena.org

June 14, 2016

Mayor Galbraith, City Council Members and Residents of St. Helena,

I am submitting the proposed Fiscal Year (FY) 2016-17 Operations and Maintenance Budget for the City of St. Helena. Following the Council's policy direction and goals, services levels were maintained, good governance remains a focus, and staff continues to seek opportunities to streamline and modernize operations to achieve efficiencies and increase productivity.

The past few years have been filled with financial and operational challenges for the City and despite a very modest increase in General Fund revenues, the cost of delivering programs and service to our community continues to outpace revenues. This is a "status quo" budget, in which no additional discretionary services, staff or programming were added to the budget. To balance the General Fund budget, two positions were unfunded due to inadequate revenues. In addition, the Waste Water and Water Funds are both experiencing financial shortfalls which will be further addressed during the rate review currently underway. Nominal General Fund monies have been budgeted for asset recapitalization, resulting in further deterioration of the City's infrastructure including our parks, streets, sidewalks, buildings, vehicles and information technology.

The past year, the City focused on operational stabilization and on continuing to develop strategies for securing the City's financial future. In addition to maintaining service levels, the City is continually faced with implementation of and compliance with local, state, and federal mandates, most of which are unfunded. Staff has been working tirelessly to identify areas which need attention, taking proactive or corrective measures to ensure ongoing compliance. Staff has continued to focus on records management, improved transparency and community engagement to assist the public in accessing public records and feeling connected to the decision making and governance of the City.

In February 2016, the City Council conducted a goal setting session. During this session the Council agreed that revenue enhancement continues to be the main goal of the City for FY 2016-17 but at the same time the City needs to also maintain the quality of life in St. Helena. The Council's discussion related to goals and objectives focused on taking care of St. Helena including fixing the City's infrastructure, providing high level public safety and public administration, maintaining and supporting a diverse community, delivering efficient services, keeping current projects moving forward, and maintaining a family friendly environment.

Three goals were identified by the City Council and adopted on March 8, 2016:

1. Maintain our quality of life by sustaining and enhancing revenues

2. Maintain a functional and safe city by supporting and maintaining City staff

3. Manage workloads and dedicate adequate resources for proper project management

In addition, the City also conducted its second community budget survey which garnered over 300 responses and provided staff with another tool for understanding community priorities. The community's top priorities included maintaining the City's long-term financial stability, maintaining 9-1-1 emergency medical, police and fire response times, and repairing roads and streets.

The FY 2016-17 Budget Workshop was conducted on May 4, 2016. Each Department Head presented their department budget, accomplishments for FY 2015-16, goals for FY 2016-17 and highlighted critical unfunded needs. Despite staffing shortages, financial challenges and unexpected setbacks, staff was able to accomplish a great deal this past fiscal year. A few important highlights include adopting a balanced FY 2015-16 budget, initiating several revenue enhancing options, continuing work on the General Plan Update, conducting an Emergency Operations Drill, transitioning the paid-by-call Fire Department to a City operated part-time department, supporting several affordable housing initiatives, resolving the Pond 1A matter, completing a comprehensive assessment of the Flood Control Projects and hiring a forensic accountant to conduct further review, adopting a document retention schedule, starting the Human Resources Department upgrade and modernization, developing and implementing numerous finance policies and practices, updating the Short-Term Rental ordinance, issuing RFPs for the City Hall/Police Station and Adams Street properties, continuing to provide excellent Library and Recreation programs, and installing Napa Valley's first green bike lane.

FY 2016-17 Budget Overview

Revenues

Overall, as the economy slowly improves, General Fund revenues are showing modest increases but operating costs continue to outpace these revenue increases. The City's three main General Fund revenue sources are property, sales and transient occupancy taxes (TOT). These three funding sources account for 80% of General Fund revenues. Property taxes are projected to increase 3% and sales taxes are projected to increase by 3.8%; however due to a one-time true up payment received in FY 2015-16 for the final triple-flip payment, overall sales taxes are projected to decrease by 1% when compared to FY 2015-16. TOT revenues are projected to increase by 1% for FY 2016-17. The opening of the City's first new hotel was projected for Spring 2016; however, delays have occurred and it is estimated the hotel will open during FY

2016-17. Due to the uncertainty of the opening date, only a modest increase in TOT has been included in this budget.

Although there is a net increase in the three main revenue sources, total General Fund revenue projections are estimated to be flat due to the following; (1) number of short-term rental permits being renewed in FY 2016-17, (2) fire department strike team revenues not being included in revenue projections, (3) end of the triple-flip, and (4) one-time revenues received during FY 2015-16. The Proposed FY 2016-17 General Fund revenue totals $10,591,030. This is a 6% increase from the adopted FY 2015-16 budget projections of $10,007,800, but is flat when compared to FY 2015-16 adjusted revenue projections.

The Water and Waste Water funds are both financially stressed. The Water Fund has experienced a significant reduction in revenue due to conservation efforts, yet the cost of operating and maintaining the system is increasing. The net position for the Waste Water Fund is projected to be negative by the end of FY 2016-17 due to emergency repairs and the Pond 1A penalty. Significant capital improvements are required for both the water and waste water systems, along with the need for enhanced maintenance and operations. These systems must generate adequate revenue to fund all these necessary short and long term expenses. Additionally, in 2012, the City entered into an installment purchase agreement with the California Statewide Communities Development Authority to finance water and wastewater system improvements. This agreement includes provisions requiring that the City set rates, fees, and charges for each fiscal year to yield system net revenues during each fiscal year equal to at least 120% of the annual debt service. For FY 2014-15 the City's net revenues in the Water Fund were not sufficient to meet this requirement and it is anticipated the same will be true for FY 2015-16. To comply with Debt Covenants and to meet capital improvement, enhanced maintenance, and operation needs, the City is currently conducting a rate study. The results of the rate study will be presented to the community and City Council this Fall along with recommended rate increases.

Operational Initiatives for FY 2016-17

Operational initiatives for FY 2016-17 include:

1) Continuing to assess the organization and seek opportunities to achieve efficiencies and increase productivity, including review of each vacant position to ensure the level and assigned duties are appropriate and necessary;
2) Continuing to build a strong organization with a foundation in good governance;
3) Seeking opportunities for sharing services with neighboring communities;
4) Enhancing records management and transparency to offer our community more access to public records and involvement in the City's governance;
5) Assessing all fees and rates and presenting options to Council for consideration;
6) Begin identifying City infrastructure assets and potential funding strategies; and

7) Continue delivering high quality programs and services that meet the interests and needs of our diverse and active community.

FY 2016-17 is a pivotal year for the City of St. Helena. Without significant and sustained increases in revenue for the General Fund, Water Fund and Waste Water Funds, the City will be faced with even more serious financial challenges in the coming years. Many of the City's facilities are beyond their useful life and much of the infrastructure is deteriorating and even failing. Addressing these obligations, including establishing capital replacement accounts, must be included in the City's overall operational and financial strategies. If additional General Fund revenues are not secured, service reductions will be required in FY 2017-18. For the Water and Waste Water funds, service reductions are not an option. Both systems are heavily regulated by oversight agencies that prescribe detailed operational, maintenance and environmental requirements mandating the City's financial commitments. If these enterprise funds are inadequately funded through the established rates, General Fund monies must be used to finance these operations and capital improvements. Continued focus on developing strategies to achieve the Council's goal of securing the City's financial future is imperative.

The City staff remains deeply committed to delivering quality programs and services to our community and we are all proud to serve our residents, businesses and visitors. I want to thank Finance Director April Mitts for leading the organization through this budget process. Also, my appreciation to Kathy Robinson, Human Resource/IT Director, Mandy Kellogg, Administrative Services Manager, and Tracey Perkosky, Finance & Grant Manager for their excellent work on preparing the data necessary for the budget to come together, updating the Long Range Financial Forecast, and for verification of budget accuracy. Budget preparation is a true team effort and I appreciate the department heads due diligence in preparing their status quo budgets, identifying ambitious goals and passionately delivering services to our community.

Sincerely,

Jennifer Phillips
City Manager

Attachment P

Report to the City Council
Council Meeting of February 10, 2015

Agenda Section: **New Business**

Subject: Pavement Management Program Report

CEQA Status: **Not a CEQA Project**

Prepared By: **Steven Palmer, PE – Director of Public Works/City Engineer**

Approved By: **Jennifer Phillips, City Manager**

BACKGROUND

The City utilizes the StreetSaver Pavement Management Program (PMP) which is a computerized data management tool used in prioritizing pavement treatments. The PMP assists City staff in developing cost-effective and strategic recommendations on the maintenance program for the City streets.

The condition of pavements is quantified through the use of a Pavement Condition Index (PCI) which ranges from 0 to 100. The numerical ranges for PCI's correspond to: Good 100-70, Fair 69-50, Poor 49-25, and Very Poor 24-0. The PCI is calculated based on a field survey, then adjusted each year for deterioration and any maintenance treatments that were performed. The PMP calculates a PCI for each City street segment, and provides recommended treatment programs for various budget scenarios. The PMP utilizes a pro-active maintenance strategy where streets are maintained before there is major deterioration. Comparatively lower cost investments which prevent a street from falling into major disrepair is a proven strategy in raising the pavement quality of City streets in the most cost effective manner.

The City's PMP was recently updated by Nichols Consulting Engineers (NCE). This work was performed as part of the Metropolitan Transportation Commission's (MTC) Pavement Management Technical Assistance Program, Round 15 (PTAP-15) at no cost to the City. NCE's pavement management update report (PMP Report) presents the funding needs and various budget scenarios. Staff will use the recommendations from this pavement management update to identify and plan the most cost- effective strategies to preserve and to improve the street network.

DISCUSSION

The City's roadway network consists of approximately 26 centerline miles. This roadway network is made up of approximately one centerline mile of arterial streets, 11 centerline miles of collector streets, and 14 centerline miles of residential streets; with an estimated replacement value of $22.4 million.

Taken as a network, the average PCI in the City for 2014 is 58. As a comparison, the average PCI for local streets and roads in all of Napa County is 59, and the average for all of California is 66. Best management practices for pavement management recommend an average of low 80's. The PMP Report shows that approximately 44% of the City's roadway network is in "Good" condition, 16% is in "Fair" condition, and 40% is in "Poor" or "Very Poor" condition.

The PMP Report provides a budget needs analysis that shows an initial investment of $6.2M is needed to increase the PCI to 80, as recommended by best management practices for pavement practices. In order to maintain that treated PCI of 80, the City would need to spend approximately $700,000 per year over the following four years.

The PMP Report by NCE also analyzed four different scenarios:

1. Continue current budget level
2. Maintain PCI at current level
3. Improve PCI to 63
4. Improve PCI to 70

The following table presents the results of budget needs and the four alternate scenarios.

Scenario	PCI (2019)	Five Year Funding	Deferred Maintenance
Existing	58	--	$6.2M
Needs	80	$8.9M	--
1	51	$1.25M	$9.5M
2	58	$2.5M	$7.5M
3	63	$3.5M	$6.5M
4	70	$5.6M	$4.3M

The above table and the PMP Report illustrate that by deferring maintenance, the cost to repair the roadway network increases. Historical data further emphasizes this point, as it costs nearly 32 times as much to repair a road in "Poor or Very Poor" condition as it does to maintain a road that is in "Good" condition.

The financial reality is that the City does not have unlimited financial resources. The challenge for the City is to find a cost-effective strategy that maximizes every dollar invested in maintenance against other transportation needs.

Based on the PMP Report and recommendations, the following strategies are recommended:

1. Receive and file this report.
2. Update the PMP database annually, including: completed maintenance projects, new and changed streets, maintenance and rehabilitation decision trees and associated unit costs, and treatment strategies (new technologies).
3. Inspect the street network surveyed every 2 years for arterials/collectors and 4-5 years for residential streets. This requirement complies with State and Federal funding grants.
4. Update the PMP report every two years, as required by State and Federal funding.
5. Continue to look for new funding opportunities and funding sources as the current annual allocated amount is not sufficient.

FISCAL IMPACT

There is no fiscal impact associated with receiving and filing this report.

RECOMMENDED ACTION

Receive and file the report.

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