City of St. Helena
Measure H Oversight Committee
Regular Meeting
City Hall Main Conference Room, 1088 College Avenue, St. Helena
Wednesday, September 25, 2024 @ 10:00 AM

PLEASE NOTE: Any person who wishes to speak regarding an item on the agenda or make a comment under the "Oral Communication" portion of the agenda may do so, but <u>please observe the time limit of four minutes.</u> Members of the public and other parties are welcome to email their comments to the Staff Liaison Yosselyn Valencia at yvalencia@cityofsthelena.org

Conference Room, 1088 College Avenue, St. Helena.

This agenda was posted at City Hall, 1088 College Avenue, St. Helena on September 23, 2024.

/s/ Yosselyn Valencia

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Yosselyn Valencia, Finance Manager

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in the meeting, please contact City Hall at (707) 968-2742. Notification 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting (28 CFR35.102-35.104 ADA Title II). However, City staff will attempt to assist at any time with accessibility.

S&P Global
Ratings

RatingsDirect®

Summary:
Saint Helena, California; General Obligation

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Summary:

Saint Helena, California; General Obligation

Credit Profile		
St Helena GO bnds ser 2022 dtd 11/30/2022 due 09/01/2052		
Long Term Rating	AA+/Negative	Outlook Revised

Credit Highlights

- S&P Global Ratings revised its outlook to negative from stable on Saint Helena, Calif.'s 2022 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the city's GO debt.
- The outlook revision reflects a one-in-three chance that we could lower the rating if the city's forecasted deficits through fiscal year 2028 materialize, leading to a material drawdown of fund balance, or general fund support for enterprise capital needs that result in financial pressures and limited capacity to respond to and recover from event risks, including climate hazards or cyber disruptions.

Security

Unlimited ad valorem taxes levied on taxable property within the city secure the GO bonds.

The 2022 bonds were issued to finance local water quality and supply and to improve drought resilience by repairing and replacing the city's water system, including drinking water, stormwater, and sewage infrastructure.

Credit overview

We view a combination of elements as potentially pressuring the city's general fund over the near-to-medium term–including the city's expected forecasted deficits through fiscal year 2028 due to growing cost pressures for staffing and capital projects coupled with the potential softening of primary and economically-sensitive revenue sources, sales tax, and transient occupancy tax (TOT) revenue, as cooling of the economy continues. If the city is unable to course-correct by cutting costs or increasing revenues, it could reduce its fund balance materially, and, in our view, would no longer be comparable with current peers (for more information, please see "U.S. Local Governments Credit Brief: California Counties and Municipalities Means and Medians," published Oct. 12, 2023). However, the city has identified one-time and ongoing revenue sources that might mitigate structural imbalance should such remedies be approved and successfully implemented. We view St. Helena's extraordinary economic metrics as a primary credit strength supporting the credit quality, in combination with the city's expectation to maintain fund balance levels at or above its target of 30% of general fund expenditures.

The city anticipates issuing between $5 million to $10 million in near-term GO debt as a second tranche of its 2022 voter approved a $19.150 million bond measure to finance repairs to its drinking water system; we do not anticipate this issuance will alter our view of the city's debt profile. In addition, the city expects to issue a total of $18 million in enterprise debt over the next four years to address critical deficiencies, which would double its current revenue debt (please see our "California Statewide Communities Development Authority St. Helena; Water/Sewer," report published June 13, 2024). Should the city's enterprise funds require general fund assistance due to strained enterprise fund capacity, it may impact our view of the city's debt or financial profile.

The rating also reflects our view of the city's:

- Pressured general fund due to negative operating performance for audited fiscal year 2023 and estimated for fiscal 2024, and forecasted deficits through 2028, including a heavy reliance on tourism-related revenue. Our view of the city's financial profile is somewhat offset by possible structural measures that, if implemented, may mitigate future general fund budget gaps and allow for maintenance of available reserves at no less than 30% of expenditures;
- Weakened financial management policies and practices to strong from very strong due to the city's actual and forecasted deficits. However, the city engages in multi-year planning and maintains various formalized policies, in addition to our view of a strong institutional framework for California cities with federal single audits;
- Mature, albeit small, taxing base with steady assessed value (AV) growth and very strong wealth and income levels; and
- Rising pension costs that are partially offset by manageable debt service carrying charges.

Environmental, social, and governance

We view the city as having elevated exposure to acute physical risks related to wildfire, flooding, and drought, as well as to natural disaster risk related to seismic activity. Several wildfires in the area over the last several years have forced evacuations and caused damage to properties within city limits, including the 2020 Glass Fire, which damaged various properties, curbed tourism, and affected wine production due to smoke taint. Although AV was not affected, the fires, compounded by the effects of the pandemic, contributed to a decline in sales and hotel tax revenues. The city works with local agencies through a county-wide FireWise joint powers authority program for mitigation planning and has worked with FEMA for grant funding.

Our credit rating action, in part, is underscored by what we view as limitations in the city's risk management, culture, and oversight practices that may impede its financial stability should they persist. While the city's financial policies and practices have facilitated a favorable financial position, we believe the management team could implement additional risk management efforts and preparedness of climate hazards given Napa County's exposure to wildfires is greater than most counties in the U.S. (for more information on our views of wildfire risk affecting government credit ratings, please see, "North American Wildfire Risks Could Spark Rating Pressure For Governments And Power Utilities, Absent Planning And Preparation commentary published Nov. 29, 2023). Additionally, the city expects to receive a FEMA hazard mitigation grant to initiate a fire abatement program, however we think integration of adaptation and resiliency efforts into the capital plan could help protect assets and the city's tax base from fires similar to the Glass fire. Furthermore, following a ransomware attack in May 2024, the city reviewed its cyber hygiene practices and implemented improvements to address vulnerabilities.

We consider the city's social factor to be neutral in our credit analysis.

Outlook

The negative outlook reflects our view that we could lower the rating should the city's general fund experience continued pressure, with no actionable and sustainable plan to maintain structural balance.

Downside scenario

We could lower the rating if the city experiences financial pressure, either through structural imbalance or subsidizing enterprise funds, resulting in a material reduction in available reserves.

Upside scenario

While we view an upgrade unlikely over the outlook period, we could revise the outlook to stable should the city make progress on its capital improvement plan without a material effect on its governmental financial position.

Credit Opinion

Small, primarily residential community in Napa Valley, with a large agriculture/viticulture component that also drives tourism

St. Helena encompasses approximately four square miles in Napa County, about 65 miles north of San Francisco. The city consists primarily of single-family homes (which account for 52% of AV) as well as agriculture/vineyards (18%) and industrial/wineries (12%). The 10 largest taxpayers are mostly wineries, hotels, and vineyards. As such, tourism makes up a fairly large component of the local economy. Management indicated that there is ongoing hotel and residential development within the city, which is expected to contribute to steady AV growth in the near-to-medium term.

Projected operational deficits through fiscal 2028 with planned reserve drawdowns, however the city has some plans to remediate

The city's primary general fund revenue sources are property tax (35%), sales tax (33%), and TOT (21%). TOT and sales tax revenues dipped sharply in fiscal years 2020 and 2021 resulting from pandemic-related closures, but strongly rebounded in fiscal 2022.

The city is forecasting annual deficits through fiscal year 2028, primarily stemming from expenditure growth (increases in staffing and capital costs) outpacing estimated revenues. Consistent with this forecast, the city's audited fiscal 2023 financials reflect a deficit in part due to use of fund balance for capital outlay. Its estimated results for year-end fiscal 2024 are also negative, partially driven by a softening of its sales tax revenues compared with estimates, as well as a fund balance draw of $2.8 million for various streets capital projects and one-time expenditures. The city estimates its available fund balance for year-end fiscal 2024 to be about $10 million, or 50% of general fund expenditures, and plans to reduce fund balance to about 30% by the end of fiscal 2025 primarily by appropriating fund balance for capital projects.

The city does have several plans in place to increase revenues and mitigate future deficits, including selling two of its surplus properties and implementing a 1.5% real estate property transfer tax to all sales between $1 million and $5 million, and 3% to all sales over $5 million. If the latter is approved by voters in November 2024, the city estimates it could yield about $5 million in additional annual revenue. Furthermore, the city expects additional revenue from the completion of a new hotel to generate about $1 million in annual revenue beginning January 2026.

Established financial management policies that have historically supported strong financial profile

We revised our view of management to strong from very strong, reflecting the city's actual and expected budget deficits resulting from what we view as structural imbalance. The city engages in comprehensive and formal planning including, contracting a consultant, as well as state and local resources to aid development of its budgetary assumptions. The city maintains a long-term financial plan as well as a five-year capital plan, both updated annually. The city also has board-approved investment and debt management policies, as well as a fund balance policy targeting 30% of general fund expenditures.

Low debt levels with no additional governmental debt plans

As of fiscal year-end 2024, the city will have approximately $6.2 million in net direct debt outstanding. The city has one privately placed obligation for its enterprise funds, a $5.8 million installment agreement with JPMorgan Chase Bank, which we do not include in our calculation of net direct debt. The agreement allows for acceleration of principal as a remedy of default. The city recently issued $12.8 million in wastewater revenue debt and $10.685 million in water revenue bonds to finance various capital improvements, which doubled its revenue-secured debt.

The city's long-term capital improvement plan totals about $40 million between fiscal years 2025-2028, including about $10 million in general obligation debt and about $18 million in additional water revenue debt. Given the expected amortization of current debt, we do not anticipate the city's expected general obligation debt to impact our view of its debt profile. Furthermore, we currently expect the city's revenue-backed debt to be fully supported by enterprise net revenues given recent rate increases. However, our view of the city's debt may change should the city's capital enterprise needs require additional governmental fund support.

Manageable pension liabilities, though costs are expected to continue to rise

Given the moderate carrying charges, we do not consider the city's pension liabilities to be a near-term credit pressure, although we do expect costs to rise in the medium term, particularly as the plan continues to reduce its discount rate.

In an effort to pay down its unfunded liability, the city council has adopted a pension funding plan to make excess contributions toward its liability over a 15-year period, compared with the standard 30-year amortization for the plan.

The city does not offer other post-employment benefits.

As of a June 30, 2022, measurement date, the city participates in the cost-sharing multiple-employer plan administered by California Public Employees Retirement System (CalPERS), which was 76.7% funded with a net pension liability of $13.9 million based on a 6.9% discount rate. For more information on our view of California pensions, see our report "Pension Spotlight: California", published Oct. 17, 2023, on RatingsDirect.

Saint Helena, California--key credit metrics				
	Most recent	**Historical information**		
		2023	**2022**	**2021**
Very strong economy				
Projected per capita EBI % of U.S.	202			

Saint Helena, California--key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Market value per capita ($)	587,366			
Population		5,301	5,637	5,697
County unemployment rate(%)			3.2	
Market value ($000)	3,113,627	3,108,899	2,911,139	
Ten largest taxpayers % of taxable value	16.7			
Adequate budgetary performance				
Operating fund result % of expenditures		-13.5	38.0	14.5
Total governmental fund result % of expenditures		3.2	51.1	13.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		74.6	105.7	72.8
Total available reserves ($000)		14,254	15,251	10,465
Very strong liquidity				
Total government cash % of governmental fund expenditures		175	231	207
Total government cash % of governmental fund debt service		28,570	61,559	26,880
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		0.6	0.4	0.8
Net direct debt % of governmental fund revenue	29			
Overall net debt % of market value	0.8			
Direct debt 10-year amortization (%)	54			
Required pension contribution % of governmental fund expenditures		7.9		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

GO BOND CIP UPDATE

Measure H Committee Meeting

09/25/2024

PROJECT FUNDING STATUS

GO Bond Funding			1st Tranche		2nd Tranche				3rd Tranche	
Tranche Issuance			5,255,000		5,000,000				8,895,000	
Project Number	Description	Prior	FY 23-24	Rollover	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	Total
Street Projects										
R24-02	Oak Avenue Rehabilitation	-	-	20,000	-	-	-	-	-	20,000
Water Projects										
W-108	Lower York Creek Dam Rehab	-	-	-	50,000	-	-	-	-	50,000
W-85	Bell House Valve Replacement	-	-	-	-	470,000	-	-	-	470,000
W18-118	Replace Mains <6" in Diameter	-	-	-	315,706	327,702	338,189	349,011	-	1,330,608
W18-120	Bell Canyon Phreatic Surface Monitoring & Assessment	-	67,661	32,339	-	-	-	-	-	100,000
W24-01	Water Distribution Fire Flow Improvements	-	1,399	310,601	-	-	156,000	-	-	468,000
Wastewater Projects										
S18-70	Replace 1% of Sewer Mains Annually	-	-	-	-	-	620,000	620,000	-	1,240,000
S18-71	Crinella Pump Station Upgrades	-	42,712	1,097,288	327,026	-	-	-	-	1,467,026
S21-01	WWTP Recycled Pipeline & Pump Station	-	22,847	1,680,307	-	-	-	-	-	1,703,154
S24-01	Closed-Circuit Television (CCTV) Inspection Program - Phase I	-	264,698	101,807	-	-	-	-	-	366,505
S24-05	Del Campo Court Gravity Main Improvements	-	2,200	605,800	-	-	-	-	-	608,000
Stormwater Projects										
D24-03	Oak Avenue Storm Drain Rehab	-	-	115,000	1,039,000	-	-	-	-	1,154,000
TOTAL		-	***401,517***	***3,963,142***	***1,731,732***	***797,702***	***1,114,189***	***969,011***	-	***8,977,293***
Estimated GO Bond Fund Balance at June 30			4,853,483	890,341	4,158,609	3,360,907	2,246,718	1,277,707	10,172,707	

R24-02 & D24-01 OAK AVENUE REHABILITATION

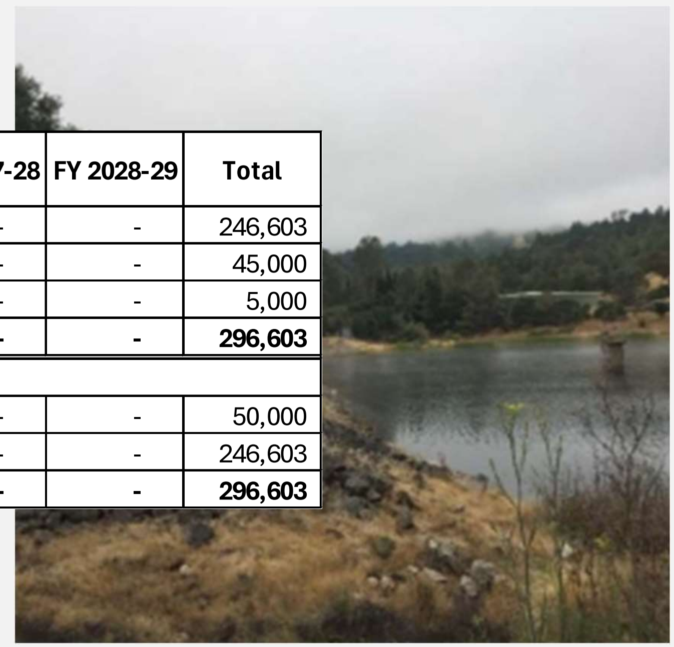
GO Bond Funded in Tranche 1
4% Complete

Expenditures	Expended as of 06/30/2024	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Design	94,019	190,981	-	-	-	-	285,000
Construction Management	-	185,525	-	-	-	-	185,525
Construction Contract	-	1,659,000	-	-	-	-	1,659,000
Contingency	-	195,000	-	-	-	-	195,000
Expenditure Totals	**94,019**	**2,230,506**	**-**	**-**	**-**	**-**	**2,324,525**
Funding Sources							
General Fund MOE	-	379,189	-	-	-	-	379,189
Gas Taxes	-	382,729	-	-	-	-	382,729
RMRA	-	238,607	-	-	-	-	238,607
Measure T	94,019	45,981	-	-	-	-	140,000
GO Bonds	-	1,174,000	-	-	-	-	1,174,000
Water Capital Improvement	-	10,000	-	-	-	-	10,000
Funding Totals	**94,019**	**2,230,506**	**-**	**-**	**-**	**-**	**2,324,525**

W-108 LOWER RESERVOIR REHAB

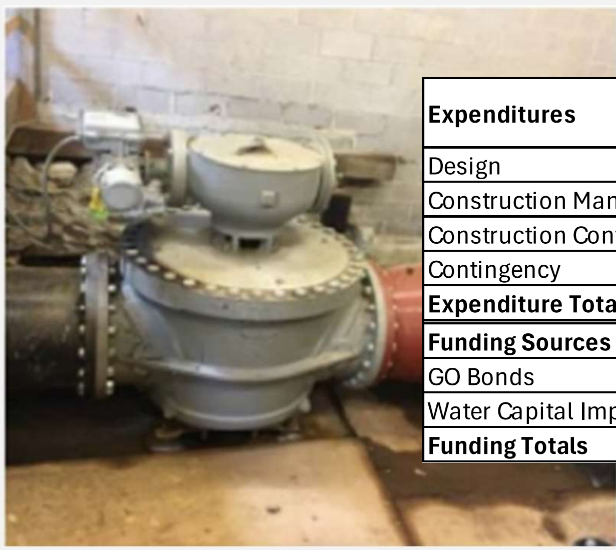
GO Bond Funding Scheduled for Tranche 2
0% Complete

Expenditures	Expended as of 06/30/2024	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Design	221,603	25,000	-	-	-	-	246,603
Construction Contract	-	-	-	45,000	-	-	45,000
Contingency	-	-	-	5,000	-	-	5,000
Expenditure Totals	**221,603**	**25,000**	**-**	**50,000**	**-**	**-**	**296,603**
Funding Sources							
GO Bonds	-	-	-	50,000	-	-	50,000
Water Capital Improvement	221,603	25,000	-	-	-	-	246,603
Funding Totals	**221,603**	**25,000**	**-**	**50,000**	**-**	**-**	**296,603**



W-85 BELL HOUSE VALVE REPLACEMENT

GO Bond Funding Scheduled for Tranche 2
0% Complete

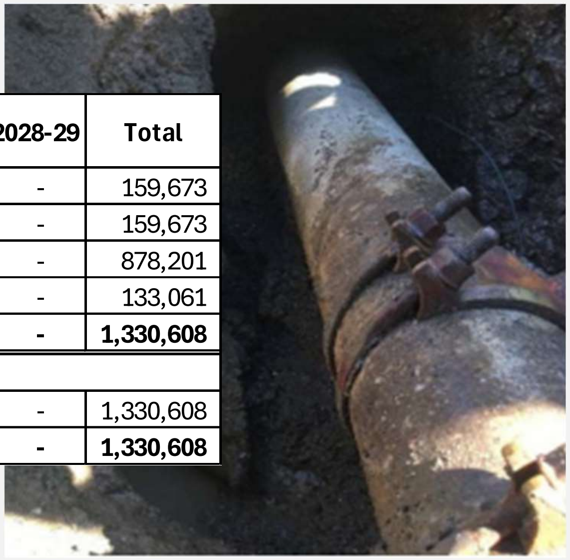


Expenditures	Expended as of 06/30/2024	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Design	-	-	125,610	-	-	-	125,610
Construction Management	-	-	30,000	-		-	30,000
Construction Contract	-	-	390,000	-	-	-	390,000
Contingency	-	-	30,000	-	-	-	30,000
Expenditure Totals	**-**	**-**	**575,610**	**-**	**-**	**-**	**575,610**
Funding Sources							
GO Bonds	-	-	470,000	-	-	-	470,000
Water Capital Improvement	-	-	105,610	-	-	-	105,610
Funding Totals	**-**	**-**	**575,610**	**-**	**-**	**-**	**575,610**

W18-118 REPLACE MAINS <6" IN DIAMETER

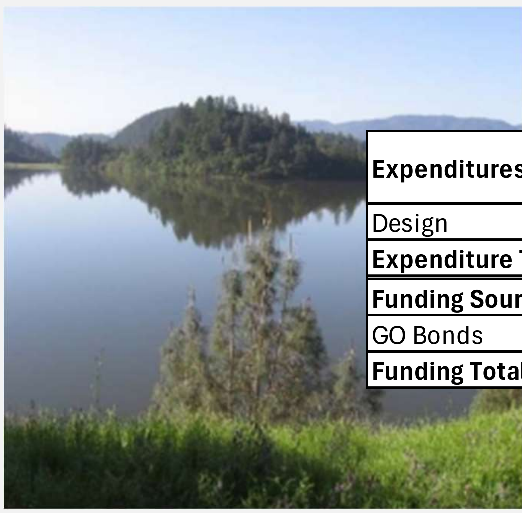
GO Bond Funding Scheduled for Tranche 2 and Tranche 3
0% Complete

Expenditures	Expended as of 06/30/2024	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Design	-	37,885	39,324	40,583	41,881	-	159,673
Construction Management	-	37,885	39,324	40,583	41,881	-	159,673
Construction Contract	-	208,365	216,284	223,204	230,348	-	878,201
Contingency	-	31,571	32,770	33,819	34,901	-	133,061
Expenditure Totals	**-**	**315,706**	**327,702**	**338,189**	**349,011**	**-**	**1,330,608**
Funding Sources							
GO Bonds	-	315,706	327,702	338,189	349,011	-	1,330,608
Funding Totals	**-**	**315,706**	**327,702**	**338,189**	**349,011**	**-**	**1,330,608**



W18-120 BELL CANYON PHREATIC SURFACE MONITORING

GO Bond Funded in Tranche 1
68% Complete

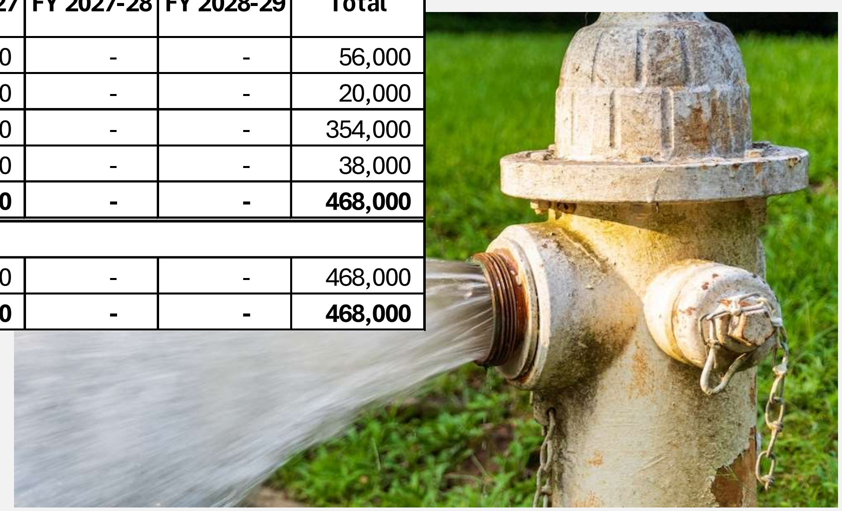


Expenditures	Expended as of 06/30/2024	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Design	67,661	32,339	-	-	-	-	100,000
Expenditure Totals	**67,661**	**32,339**	**-**	**-**	**-**	**-**	**100,000**
Funding Sources							
GO Bonds	67,661	32,339	-	-	-	-	100,000
Funding Totals	**67,661**	**32,339**	**-**	**-**	**-**	**-**	**100,000**

W24-01 WATER DISTRIBUTION FIRE FLOW IMPROVEMENTS

GO Bond Funded in Tranche 1
0% Complete

Expenditures	Expended as of 06/30/2024	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Design	1,399	52,601	-	2,000	-	-	56,000
Construction Management	-	15,000	-	5,000	-	-	20,000
Construction Contract	-	213,000	-	141,000	-	-	354,000
Contingency	-	30,000	-	8,000	-	-	38,000
Expenditure Totals	**1,399**	**310,601**	**-**	**156,000**	**-**	**-**	**468,000**
Funding Sources							
GO Bonds	1,399	310,601	-	156,000	-	-	468,000
Funding Totals	**1,399**	**310,601**	**-**	**156,000**	**-**	**-**	**468,000**



S18-70 REPLACE 1% OF SEWER MAINS ANNUALLY

GO Bond Funded in Tranche 2
0% Complete

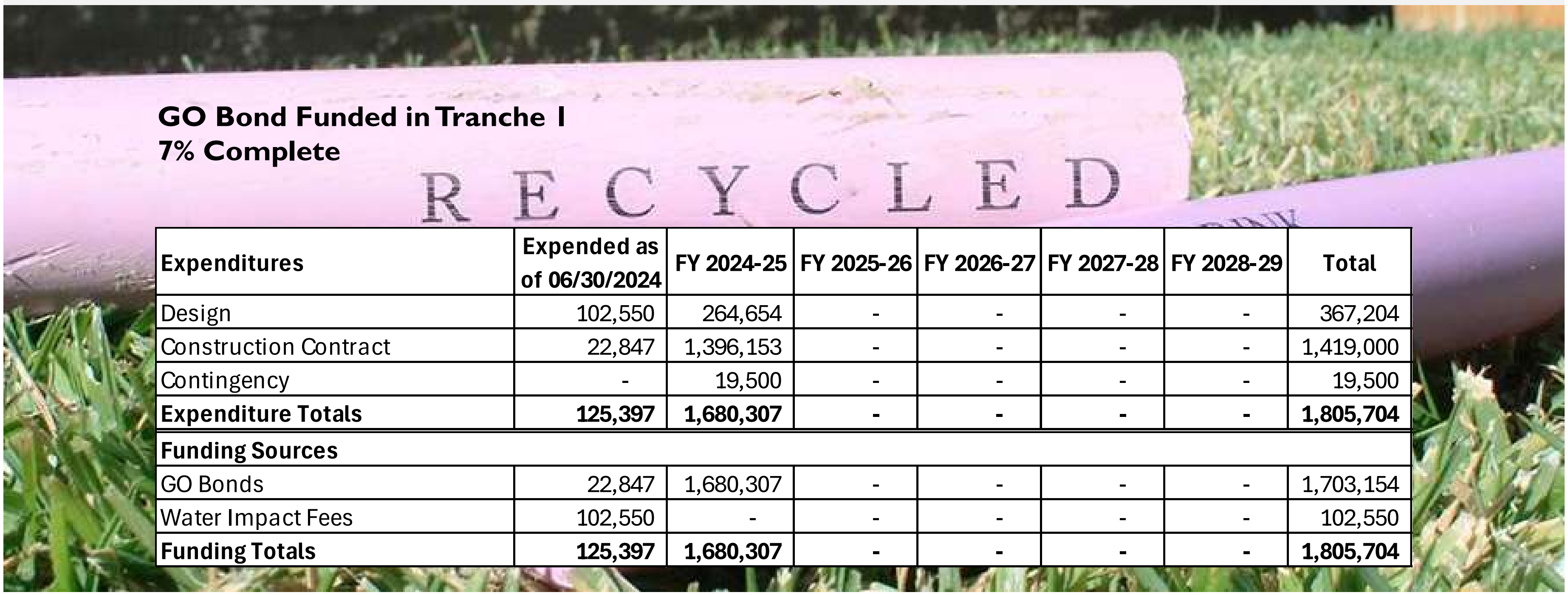
Expenditures	Expended as of 06/30/2024	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Design	1,445	-	-	50,000	50,000	-	101,445
Construction Management	21,082	-	-	50,000	50,000	-	121,082
Construction Contract	-	-	-	470,000	470,000	-	940,000
Contingency	-	-	-	50,000	50,000	-	100,000
Expenditure Totals	**22,527**	**-**	**-**	**620,000**	**620,000**	**-**	**1,262,527**
Funding Sources							
GO Bonds	-	-	-	620,000	620,000	-	1,240,000
Wastewater Capital Improvement	22,527	-	-	-	-	-	22,527
Funding Totals	**22,527**	**-**	**-**	**620,000**	**620,000**	**-**	**1,262,527**

S18-71 CRINELLA PUMP STATION UPGRADES

GO Bond Funded in Tranche 1
9% Complete

Expenditures	**Expended as of 06/30/2024**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**FY 2028-29**	**Total**
Design	141,742	19,288	-	-	-	-	161,030
Construction Management	-	25,000	-	-	-	-	25,000
Construction Contract	-	1,200,022	-	-	-	-	1,200,022
Contingency	-	180,004	-	-	-	-	180,004
Expenditure Totals	**141,742**	**1,424,314**	**-**	**-**	**-**	**-**	**1,566,056**
Funding Sources							
GO Bonds	42,712	1,424,314	-	-	-	-	1,467,026
Wastewater Capital Improvement	99,030	-	-	-	-	-	99,030
Funding Totals	**141,742**	**1,424,314**	**-**	**-**	**-**	**-**	**1,566,056**

S21-01 WWTP RECYCLED PIPELINE AND PUMP STATION



GO Bond Funded in Tranche 1
7% Complete

Expenditures	**Expended as of 06/30/2024**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**FY 2028-29**	**Total**
Design	102,550	264,654	-	-	-	-	367,204
Construction Contract	22,847	1,396,153	-	-	-	-	1,419,000
Contingency	-	19,500	-	-	-	-	19,500
Expenditure Totals	**125,397**	**1,680,307**	**-**	**-**	**-**	**-**	**1,805,704**
Funding Sources							
GO Bonds	22,847	1,680,307	-	-	-	-	1,703,154
Water Impact Fees	102,550	-	-	-	-	-	102,550
Funding Totals	**125,397**	**1,680,307**	**-**	**-**	**-**	**-**	**1,805,704**

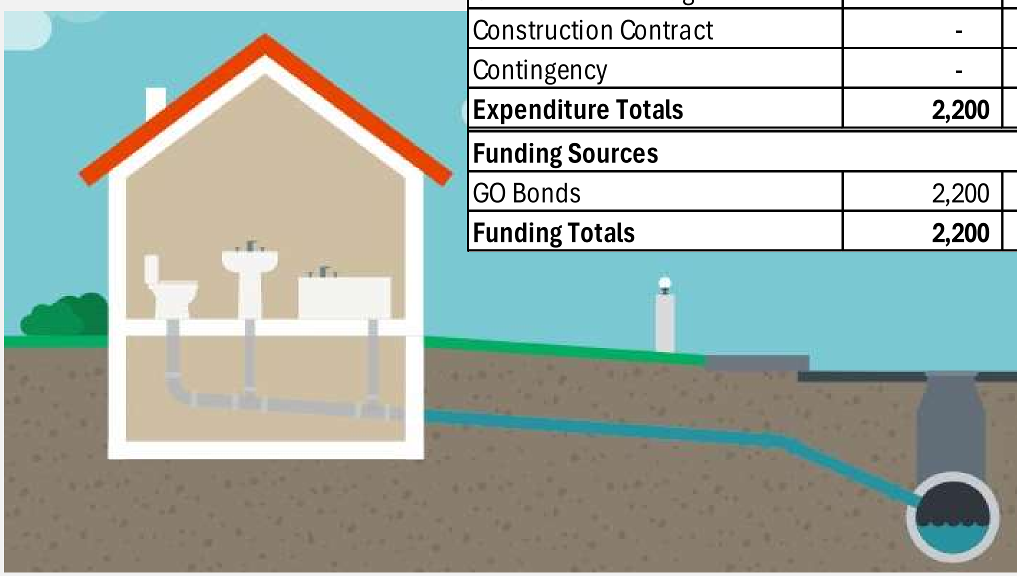
S24-01 CLOSED-CIRCUIT TELEVISION INSPECTION PROGRAM

Expenditures	Expended as of 06/30/2024	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Design	264,698	54,002	-	-	-	-	318,700
Contingency	-	47,805	-	-	-	-	47,805
Expenditure Totals	**264,698**	**101,807**	**-**	**-**	**-**	**-**	**366,505**
Funding Sources							
GO Bonds	264,698	101,807	-	-	-	-	366,505
Funding Totals	**264,698**	**101,807**	**-**	**-**	**-**	**-**	**366,505**

GO Bond Funded in Tranche 1
72% Complete

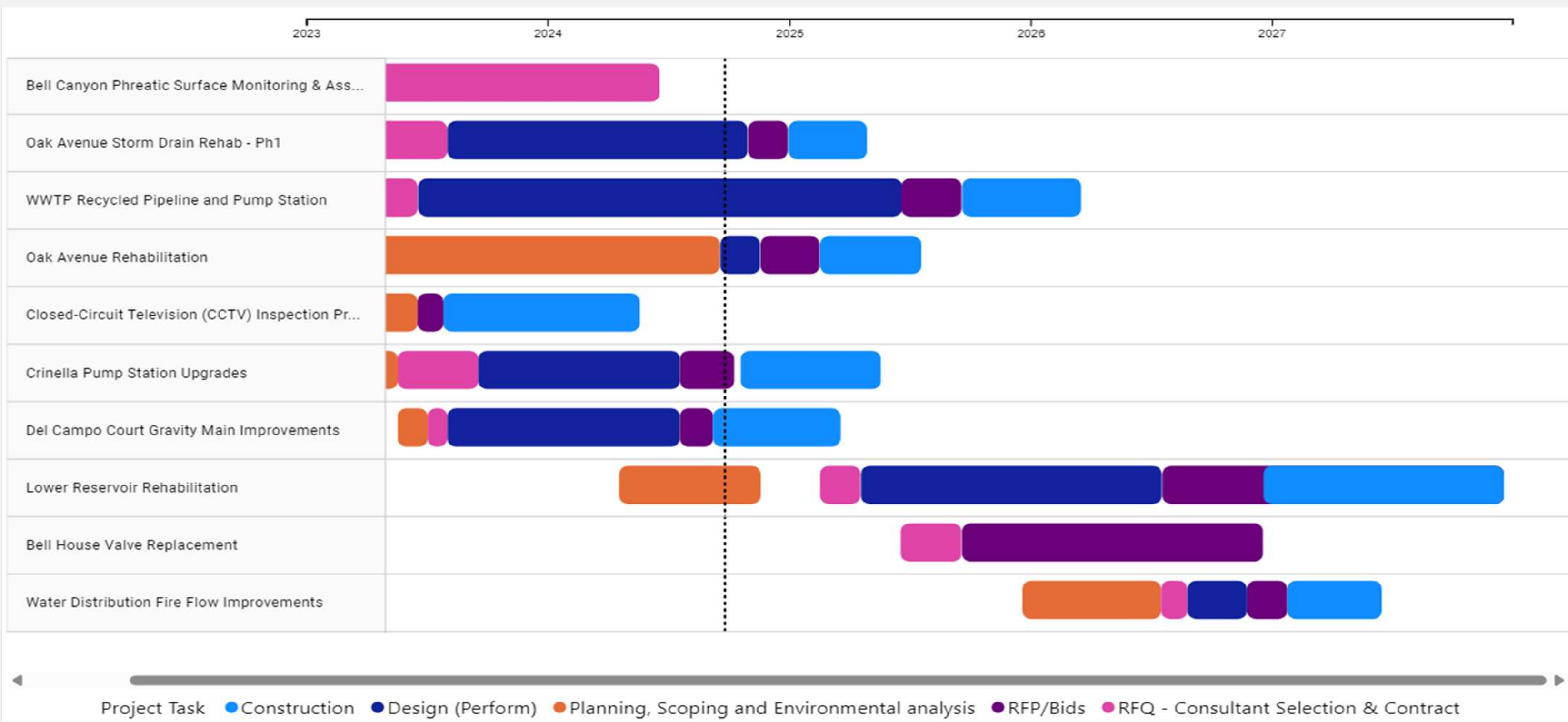
S24-05 DEL CAMPO COURT GRAVITY MAIN IMPROVEMENTS

Expenditures	Expended as of 06/30/2024	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Design	2,200	182,896	-	-	-	-	185,096
Construction Management	-	54,000					54,000
Construction Contract	-	318,904					318,904
Contingency	-	50,000	-	-	-	-	50,000
Expenditure Totals	**2,200**	**605,800**	**-**	**-**	**-**	**-**	**608,000**
Funding Sources							
GO Bonds	2,200	605,800	-	-	-	-	608,000
Funding Totals	**2,200**	**605,800**	**-**	**-**	**-**	**-**	**608,000**



GO Bond Funded in Tranche 1
0% Complete

TENTATIVE PROJECT SCHEDULE



QUESTIONS