City of St. Helena
Special City Council Meeting
Wednesday, April 24, 2019 @ 6:00 PM
Fire Department Training Room, 1480 Main Street, St. Helena
Entrance on Railroad Avenue

PLEASE NOTE: Any person who wishes to speak regarding an item on the agenda or make a comment under the "public comment" portion of the agenda may do so, but please observe the time limit of four minutes.

Page

1. CALL TO ORDER

2. ROLL CALL
   Mayor: Geoff Ellsworth, Vice Mayor: Paul Dohring, City Council Members: Anna Chouteau, David Knudsen and Mary Koberstein

3. PUBLIC COMMENT:
   Under California law, public comments at special meetings are limited to subjects on the agenda only. Therefore public comment will take place during consideration of the item. Each person's comments shall be limited to 4 minutes.

4. NEW BUSINESS

   4.1. a. Discussion and Analysis of Conceptual Enhanced Infrastructure Financing District (EIFD) Financial Potential — 3 - 37

   b. Discussion of Conditions, Community Values, and Process Related to Possible Future Lease or Sale of Adams Street Property

   (Staff report forthcoming)

   Recommendation: Provide direction to the City Manager.

   Staff Report - Pdf
   Presentation
   Public Comment.Mark Smithers

5. ADJOURNMENT
   The next Regular City Council meeting is scheduled for May 14, 2019, at 6:00 p.m. in the Vintage Hall Board Room located at 465 Main Street.

   This agenda was posted at City Hall, 1480 Main Street, St. Helena, California on April 16, 2019.

   Cindy Tzafopoulos

   Cindy Tzafopoulos, City Clerk

   In Compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please call the City Clerk's Office (707) 967-2792. Notification 72 hours prior to the meeting as required by

Section 202 of the Americans with Disabilities Act will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

Report to the City Council
Council Meeting of April 24, 2019

Subject: **A) Discussion and Analysis of Conceptual Enhanced Infrastructure Financing District (EIFD) Financial Potential; B) Discussion of Conditions, Community Values, and Process Related to Possible Future Lease or Sale of Adams Street Property**

CEQA Determination: **Not a CEQA project**

Prepared By: Mark T. Prestwich, City Manager

Reviewed By: April Mitts, Finance Director

Approved By: Mark T. Prestwich, City Manager

BACKGROUND

Beginning in late 2015, the City embarked on a Request for Proposal Process for the possible development of the approximately 5.6-acre City owned Adams Street property (APN 009-150-006). In August 2016, three proposals were received in response to an eventual RFP. Review of the proposals was placed on hold after the November 2016 election and resumed in March 2017, ending in a decision in mid-2017 that acknowledged a need to pause and evaluate the condition of community infrastructure needs via a public engagement process that would also consider opportunities to meet critical needs without an over reliance on bonding or taxes. The formation of the citizen-based St. Helena Assets Planning Engagement (SHAPE) Committee emerged as a transparent participatory process to evaluate the condition of civic assets and identify alternatives on needs and opportunities. The Committee commenced its work in late 2017 and issued a final report on May 26, 2018.

The City Council's organizational goal setting process in fall 2017, culminated in five broad three-year goals to guide the City's policy work. "Ensuring long-term economic sustainability while safeguarding St. Helena's unique culture and quality of life" emerged as one of the Council's organizational goals, including reaffirmation of the City's commitment of a citizens committee to evaluate near and long-term alternatives for funding, construction, renovation, and/or disposition of civic assets.

A facility condition needs assessment (FCNA) performed for the SHAPE Committee by EMG revealed considerable deficiencies with City owned assets. A key conclusion of the study was the recommendation not to rehabilitate City Hall and instead plan for its replacement or relocation. Excluding the costs associated with the reconstruction of City Hall, the EMG study identified approximately $6 million of needed repairs over the next 10 years and approximately $9.2 million over the next 20 years. A new City Hall was estimated to cost a minimum of $8 million. A replacement Police Facility will also be required and those costs are not included in the City Hall estimate. On September 17, 2018, the City Council prioritized improvements to the Library, replacement of City Hall, and visioning associated with a conceptual Recreation facility, and directed staff to begin work advancing these initiatives.

Long Range Financial Forecast and Forthcoming Infrastructure Needs

The Long Range Financial Forecast (LRFF) prepared for FY 2019-20 to FY 2028-29 forecasts a mild recession that includes a slow-down in FY 2019-20, a mild recession FY 2020-21, with a full recovery in FY 2021-22. Based on this scenario, absent other offsetting expenditure reductions, the General Fund would experience an operating deficit of approximately $420,000 in FY 2020-21 (revenues less expenses) leaving the unreserved fund balance at 42% (City Council adopted policy is 30%). An annual surplus is forecast for FY 2021-22 through FY 2028-29. The mild recession scenario includes between $380,000 and $614,937 dedicated annually to repairs and maintenance of current City buildings. Under this scenario, the City's financial health looks good; however, it is important to note it does not include emergency repairs, funding for a new City Hall facility, dedicated funds for repairs to the library or new recreation facility, downtown streetscape improvements, and other un-planned one-time expenses. Costs associated with needed replacement of City 70+ year old storm drain infrastructure also does not have a dedicated revenue source. The City's Integrated Utilities Master Planning effort (currently underway) will provide a cost estimate for critical storm drain infrastructure needs in approximately 12 months.

Utilizing the mild recession scenario, the City would be able to issue debt in FY 2022-23 of approximately $8 million – assuming a 25-year bond at 4%. Under the deeper recession model the same amount of debt could be issued in FY 2023-24. As recommended by Kosmont Companies, the City should develop, as an additional safeguard, a financing plan that is solvent through a recession which could include any of the following: (1) sale of a current asset to provide an additional cash cushion for the City, (2) voter approved General Obligation Bond, or (3) a temporary sales tax measure. These three options would provide the City with greater borrowing capacity and additional cash on hand for necessary repairs to current City facilities and unanticipated expenses.

An additional revenue scenario presented in the LRFF includes a new hotel in FY 2022-23. The hotel is estimated to increase revenues by $600,000 each year. This additional revenue would allow greater borrowing capacity as well.

Kosmont Real Estate Advisory Services

The City hired Kosmont Companies in late 2017 to assist the City with financial and real estate advisory services. Kosmont has prepared an Economic and Demographic Profile of the City as well as a Downtown Retail Market Analysis to evaluate the downtown's retail viability. This analysis was shared and discussed with the City Council on July 24, 2018, along with numerous recommendations to improve the downtown's vitality. One of their recommended actions included consideration of a downtown hotel development because of its proximity to and potential to uplift the financial viability of Main Street merchants.

On February 6, 2019, Kosmont Companies presented a Hotel Market Analysis report to assist the City in evaluating the potential for new hotel development on both the City owned Railroad Avenue parcel and Adams Street parcel (the SHAPE Committee discussed the possibility of a hotel on Railroad Avenue as well as affordable housing). The Kosmont report also included reference to how an Enhanced Infrastructure Financing District (EIFD) may have an impact on funding the City's broad civic infrastructure requirements as well as affordable housing projects.

Direction was subsequently provided to prepare a contract amendment with Kosmont to further analyze the potential funding capacity from an EIFD, identification of potential projects that such a district might fund, preparing a request for qualifications (RFQ) / request for proposals (RFP) process for a possible hotel developer, and continued City Hall site analysis. Amendment No 1 to Agreement 2019-0026 was approved on March 26, 2019.

The work associated with the Kosmont agreement is consistent with Goal 4G of the 2019 Council Workplan ("Investigate feasibility and potential of EIFD and recommended steps") and Goal 4K ("Evaluate options for Adams Street property"). The City Council has assigned Vice Mayor Dohring and Council Member Koberstein to assist the City Manager and Kosmont Companies with advancing this policy matter.

ANALYSIS

While passage of the Measure D sales tax and addition of the Las Alcobas Hotel transient occupancy (hotel) tax revenues have greatly improved the City's ability to meet current operational challenges and rebuild its General Fund Reserve to approximately 40% (approximately $6 million), the City is confronting a considerable array of deteriorating civic assets in need of recapitalization or replacement. These include:

- Replacement of nearly 70-year-old City Hall and Police facility

- Aging storm drain infrastructure throughout the City (Oak Avenue storm drain failures in the past two years alone have cost the City approximately $550,000 – when completed, the City's Integrated Utilities Master Plan, will prioritize and identify critical storm drain assets in need of replacement)

The fact that no substantial funds have been set aside to replace or adequately maintain this infrastructure in recent decades compounds this challenge and the City's ability to consider investment in other community enhancements.

Other projects contemplated to improve community infrastructure will also require dedicated funding to complete. These include:

- Recommended update to the City's 40-year-old library
- Conceptual community recreation facility
- Downtown streetscape improvements beyond grant funded sidewalks on Main Street
- Update to Signorelli Barn

Conditions, Community Values, and Process Related to Possible Future Lease or Sale of Adams Street Property.

The Kosmont hotel analysis evaluated a balanced approach to site development with an assumption that a portion of the parcel would remain community serving and/or open space. The City has been advised that utilizing only a portion of the parcel still represents one of the best opportunities for attracting a luxury hotel project, which also would support downtown economic vitality and offset the cost of civic improvements.

Because there are community sensitivities to discussions associated with the City's Adams Street property, identifying the conditions, community values, and a suitable process by which to evaluate development, lease, or sales options will be necessary.

Staff is seeking City Council direction regarding the parameters of a development program for the Adams Street property (e.g. concept, scale of development, quality, open space, public amenities, etc.) and any additional desired public engagement. This feedback will be necessary to prepare an RFQ/RFP for potential investors.

FINANCIAL CONSIDERATIONS

Described throughout report.

RECOMMENDATION

Provide direction to the City Manager.

City of St. Helena
Enhanced Infrastructure Financing District Preliminary Feasibility Analysis and Hotel Market Analysis Summary

April 24, 2019

Prepared by:
Kosmont Companies

Disclaimer

The analyses, projections, assumptions, rates of return, and any examples presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Project pro forma and tax analyses are projections only. Actual results may differ from those expressed in this analysis.

Discussions or descriptions of potential financial tools that may be available to the City are included for informational purposes only and are not intended to be to be "advice" within the context of this Analysis.

Municipal Advisory activities are conducted through Kosmont Companies' affiliate, Kosmont Transaction Services, which is Registered as a Municipal Advisor with the SEC and MSRB.

Content

1. Enhanced Infrastructure Financing District Preliminary Feasibility Analysis

2. Hotel Market Analysis Summary

3. Request for Qualification/Proposals Next Steps

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Introduction

- Related to potential infrastructure needs of the City of St. Helena, this section summarizes an overview of relevant legislation and a preliminary analysis of feasibility of an Enhanced Infrastructure Financing District (EIFD)

- In reviewing projects, Kosmont Companies and the City used the following criteria to determine potential EIFD eligibility:
  1. Projects and district have potential for development/redevelopment within 10-15 years
  2. Infrastructure provides communitywide and regional benefit
  3. High level of potential funding capacity from property tax increment and complementary sources

- Various targeted areas within City meet these criteria and can help achieve goals for assets and the community

Continued Legislation Improves Sustainability and Housing Tools

Date	**Legislation**
9/29/2014	SB 628 signed by Governor, authorizing Enhanced Infrastructure Financing Districts (**EIFDs**)
9/22/2015	AB 313 signed by Governor, revising EIFD legislation AB 2 signed by Governor, introducing **CRIAs**
9/23/2016	AB 2492 signed by Governor, amending CRIA
9/29/2017	Governor signs housing bill package: SB 540 (**WHOZ**), AB 73 (**HSD**), SB 35, SB 2, SB 3, AB 167, AB 678, AB 1515, AB 1505, AB 1521, AB 1397, SB 166, AB 72, AB 879, AB 571
10/7/2017	AB 1568 signed by Governor, introducing **NIFTI** as part of EIFDs
10/13/2017	AB 1598 signed by Governor, introducing Affordable Housing Authorities (**AHAs**)
9/19/18	SB 1145 signed by Governor, enables EIFD spending for maintenance SB 961 signed by Governor, **NIFTI 2** additionally available under EIFD
9/28/18	AB 2035 signed by Governor, clarifies AHA provisions, expands to include homeless / transitional housing
April 2019	Several bills in process (**SB 128, SB 5, AB 11**) to improve funding toolkit

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EIFD at a Glance

- Based on existing Infrastructure Financing District (IFD) law
- Enables tax increment financing for local/regional projects (purchase, construction, expansion, improvement, seismic retrofit, rehabilitation) – now including maintenance
- District lifespan is 45 years to collect and spend property tax increment
- Any property with useful life of 15+ years & of communitywide significance
- Managed by newly created Public Financing Authority (led by city or county) – board of 5+ members, includes at least 2 public members
- Activities directed by PFA adopted Infrastructure Financing Plan (IFP)
- No public vote required to create District
- 55% landowner or registered voter election needed for tax increment bonds (legislation in process to eliminate this requirement – SB 128)
- No school district increment allowed
- Does not increase property taxes

Types of Projects EIFDs Can Fund

Wastewater/Groundwater

Aff. Housing / Mixed Use

Transportation Projects

Parks & Open Space

Childcare Facilities

Civic Infrastructure

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Why are Agencies Authorizing Districts?

1. Implement housing and climate action goals (local / regional infrastructure)
2. Long-term, committed revenues support investor confidence
3. Return on Investment: Private sector investment induced by district commitment accelerates growth of net fiscal revenues, job creation, housing production, essential infrastructure improvements
4. Districts are evolving economic development tools: State is moving to a greener economy, has added 5+ new districts and approved over 2 dozen statutes for sustainability and housing in the past 4 years; District flexibility, effectiveness, and revenue sources expand with each legislative session
5. Ability to bundle other revenues – sales tax, property tax in lieu of VLF, ground lease, development impact fees, developer contributions
6. Ability to attract additional funds – tax increment from other entities (County), federal / state grants / loans (e.g. for TOD, water, housing, parks)
7. No new taxes
8. No voter approval (majority protest opportunity at formation)

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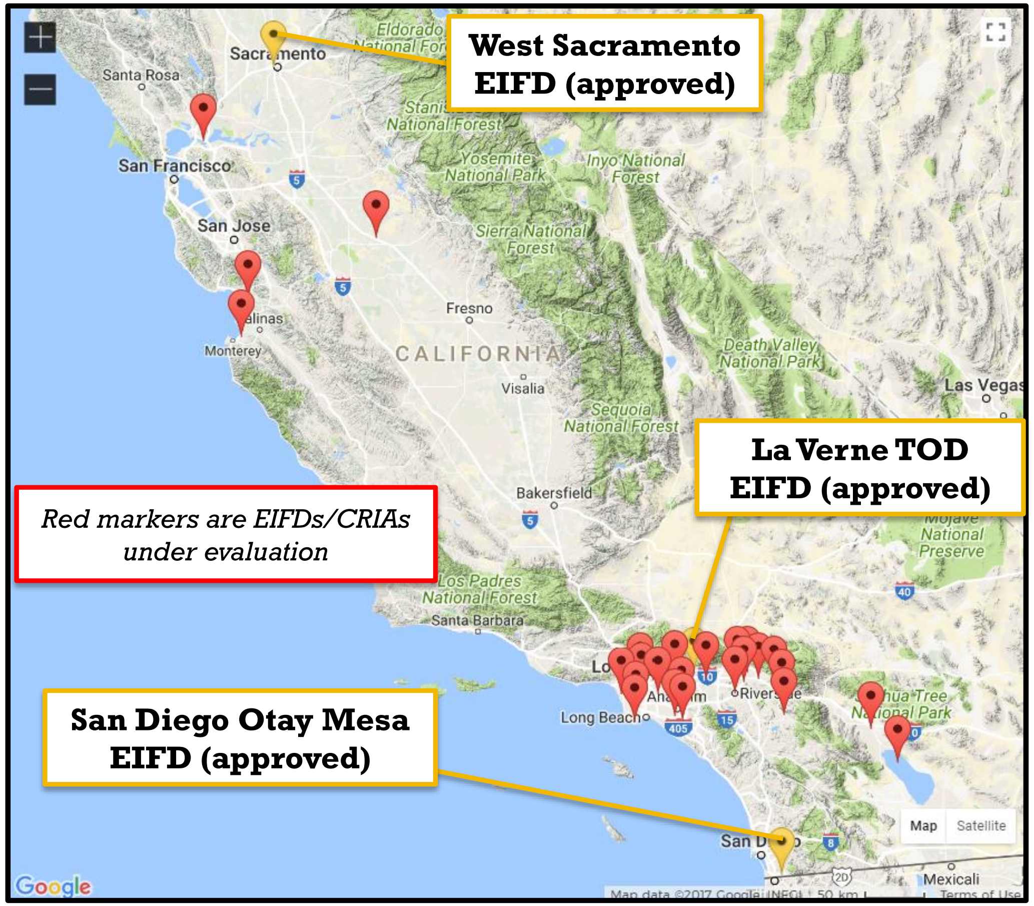
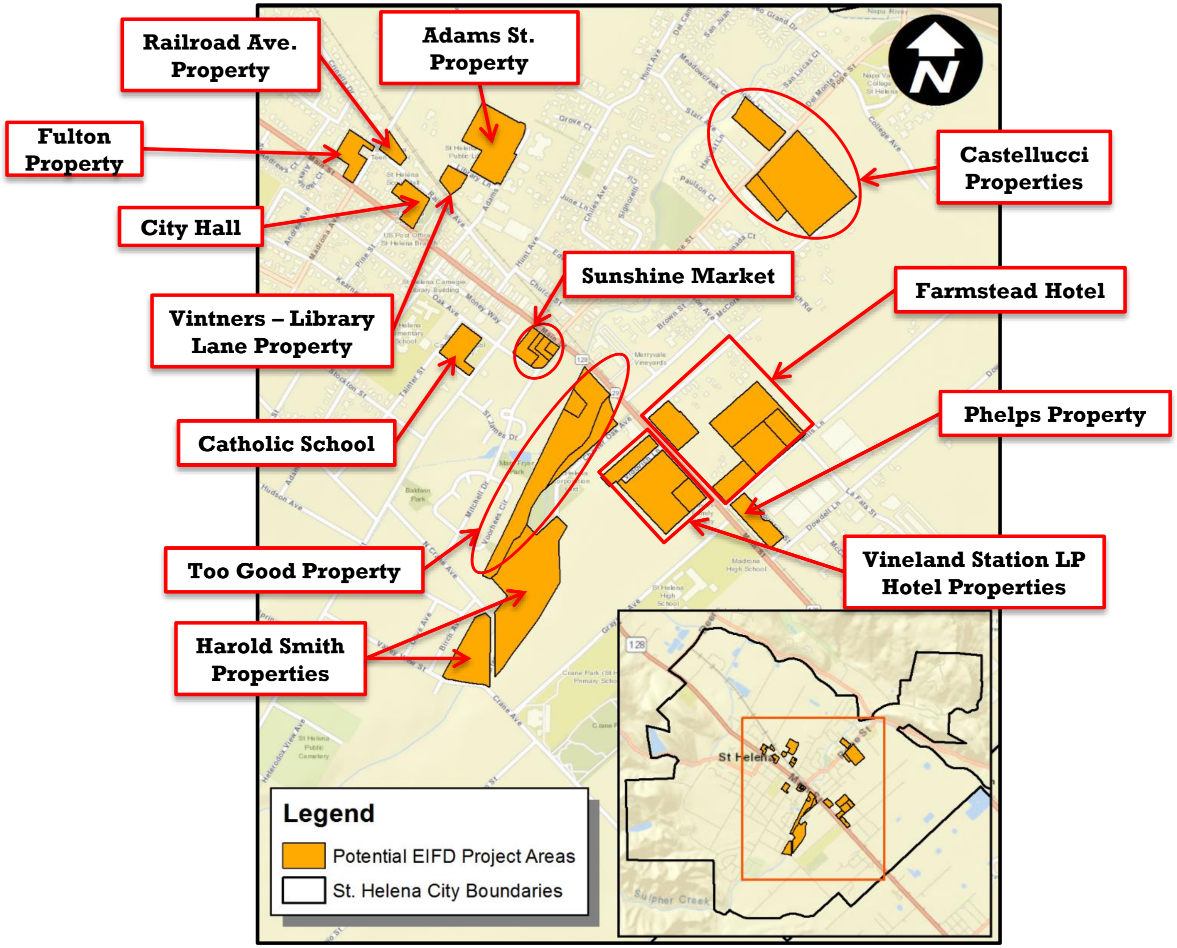
Districts in Progress
(Partial List)

1. Atwater
2. Beaumont
3. Benicia
4. Carson
5. Duarte
6. Escondido
7. Grand Terrace
8. High Desert Corridor (Palmdale, Lancaster, Adelanto, Victorville, Apple Valley)
9. Huntington Park
10. I-5 Corridor (Commerce, Downey, La Mirada, Norwalk, Santa Fe Springs)
11. Inglewood
12. Imperial County
13. La Verne
14. Long Beach
15. Los Angeles (San Pedro, Wilmington, Vermont Corridor, LA River)
16. Los Angeles County (Unincorporated West Carson)
17. Ontario
18. Pittsburg
19. Placentia
20. Redlands / San Bernardino
21. Redondo Beach
22. Rialto
23. Richmond
24. Riverside
25. Riverside County
26. Sacramento County
27. San Jacinto
28. San Jose
29. Santa Fe Springs
30. Seaside
31. South Gate
32. Vallejo
33. Vernon
34. Watsonville
35. West Santa Ana Branch Transit Corridor (Los Angeles City and County, Vernon, Huntington Park, Bell, Cudahy, South Gate, Downey, Paramount, Bellflower, Cerritos, Artesia)



Source: Kosmont EIFD/CRIA website (https://www.kosmont.com/services/eifd-cria/)

St. Helena EIFD Study Area



- ✓ Approx. 72 acres (total)
- ✓ **$300M - $530M** in new project value potential over next 10 to 15 years

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Summary of Strategic Considerations

Parcel Details / Potential Projects

- Approx. 72 acres (total)
- $300 million + in new project value potential over next 10 plus years

Desired Uses

- Residential (single-family / apartments / condos / affordable units)
- Blended-use (office / commercial / event center)
- Hotel / hospitality
- Supporting public amenities
- Other

Infrastructure Needs

- Roadway/water/sewer
- Utility improvements
- Pedestrian connectivity
- Parking / other civic facilities
- Priority Infrastructure list to be determined

Potential Partners

Public Agencies:

- City of Saint Helena

Private Sector:

- Major landowners / developers

Development Assumptions
Conservative Scenario

✓ Kosmont ran a baseline tax increment analysis to determine district revenue based on a conservative estimate of citywide future development potential:

Development Type	Estimated SF / Units	Estimated Assessed Value (AV) Factor	Estimated AV at Buildout
Residential (single-family/apts.)	160 Units	$200,000 - $1,500,000 + per unit	$130 million
Office / Commercial / Event Space	25,000 SF	$500-600 PSF	$15 million
Hotels (Farmstead / Adams St. / Vineland Station LP)	180 Units	$800,000 per unit	$164 million
Estimated Total	With 2% inflation		**$309 million ***

** Note: Buildout AV reflects construction cost inflation at 2% from 2019$*

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Estimated Buildout Value Per Unit
Conservative Scenario

Hypothetical Project	Est. Units / Square Feet (SF)	Est. Value / Unit / Square Feet (SF)	Est. Project Value
Catholic School	25 units	$200,000 / unit	$5,630,812
Phelps Hwy. 29 Property	40 units	$200,000 / unit	$8,746,052
Farmstead Hotel	50 units	$800,000 / unit	$46,866,375
Adams St. Hotel	70 units	$800,000 / unit	$60,616,201
Vinters – Library Ln. Property	15,000 SF	$500 / SF	$8,280,606
Railroad Ave. Property	20 units	$200,000 / unit	$4,686,638
Too Good Property	20 units	$1,500,000 / unit	$34,636,251
Fulton Property	20 units	$400,000 / unit	$9,560,741
Castellucci Properties	5 units (luxury units)	$5,000,000 / unit	$30,486,812
	30 units (condos)	$1,000,000 / unit	$36,230,241
City Hall	10,000 SF	$600 / SF	$7,029,956
Vineland Station LP Hotel Properties	60 units	$800,000 / unit	$56,831,750
TOTAL			**$309,602,435**

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Note: Preliminary estimates for illustration only

Tax Increment Projections
Conservative Scenario

✓ Funding Scenario: 100% of City increment – Conservative Development:

- City of St. Helena contributes all **~15.7 cents** of its property tax increment
- City also contributes all of its equivalent of **~2.9 cents** in incremental property tax in lieu of MVLF
- Total contributions **~18.6 cents** for every incremental $1 of property tax

	Annual City Base Prop. Tax	**Annual City VLF Prop. Tax**	**Total Annual Revenue**	**Cumulative Revenue**	**Bonding Capacity (Net Proceeds)**
Year 5	$163,000	$30,000	$193,000	$461,000	$1,265,000
Year 10	$503,000	$93,000	$596,000	$2,760,000	$5,292,000
Year 15	$577,000	$107,000	$684,000	$6,046,000	$6,169,000
Year 20	$637,000	$118,000	$755,000	$9,676,000	$6,882,000
Year 50	**$1,156,000**	**$213,000**	**$1,369,000**	**$40,941,000**	

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$2019. Bonding estimates prepared by Kosmont Transactions Services (registered Municipal Advisor). Bondable revenue assuming $25,000 admin charge; 125% debt service coverage. 6.0% interest rate; 30 year term / amortization. Proceeds net of 2% underwriter's discount, estimated reserve fund (minimum annual debt service), incidental costs estimated at $350,000.

Development Assumptions
Aggressive Scenario

✓ Kosmont also ran a baseline tax increment analysis to determine district revenue based on more aggressive future development potential:

Development Type	Estimated SF / Units	Estimated Assessed Value (AV) Factor	Estimated AV at Buildout
Residential (single-family/apts.)	245 Units	$500,000 - $1,000,000 + per unit	$261 million
Office / Commercial / Event Space	50,000 SF	$600 PSF	$34 million
Hotels (Farmstead / Adams St. / Vineland Station LP)	200 Units	$1,000,000 per unit	$237 million
Estimated Total	With 2% inflation		**$532 million ***

* *Note: Buildout AV reflects construction cost inflation at 2% from 2019$*

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Estimated Buildout Value Per Unit
Aggressive Scenario

Hypothetical Project	Est. Units / Square Feet (SF)	Est. Value / Unit / Square Feet (SF)	Est. Project Value
Catholic School	20 units	$500,000 / unit	$11,261,624
	10,000 SF	$600 / SF	$6,756,975
Phelps Hwy. 29 Property	30 units	$500,000 / unit	$16,398,847
Farmstead Hotel	50 units	$1,000,000 / unit	$58,582,969
Adams St. Hotel	90 units	$1,000,000 / unit	$97,418,894
Vinters – Library Ln. Property	25,000 SF	$600 / SF	$16,561,212
Railroad Ave. Property	15 units	$500,000 / unit	$8,787,445
Too Good Property	50 units	$1,000,000 / unit	$64,441,803
Harold Smith Properties	30 units	$500,000 / unit	$18,287,306
Sunshine Market	20 units	$500,000 / unit	$13,194,788
Fulton Property	30 units	$500,000 / unit	$17,926,389
Castellucci Properties	10 units (luxury units)	$5,000,000 / unit	$60,973,625
	40 units (condos)	$1,000,000 / unit	$49,754,478
City Hall	15,000 SF	$600 / SF	$10,544,934
Vineland Station LP Hotel Properties	60 units	$1,000,000 / unit	$80,752,100
TOTAL			**$531,643,389**

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Note: Preliminary estimates for illustration only

Tax Increment Projections
Aggressive Scenario

✓ Funding Scenario: 100% of City increment – Aggressive Development:

- City of St. Helena contributes all **~15.7 cents** of its property tax increment
- City also contributes all of its equivalent of **~2.9 cents** in incremental property tax in lieu of MVLF
- Total contributions **~18.6 cents** for every incremental $1 of property tax

	Annual City Base Prop. Tax	Annual City VLF Prop. Tax	Total Annual Revenue	Cumulative Revenue	Bonding Capacity (Net Proceeds)
Year 5	$241,000	$44,000	$285,000	$728,000	$2,186,000
Year 10	$599,000	$111,000	$709,000	$3,369,000	$6,424,000
Year 15	$954,000	$176,000	$1,131,000	$8,186,000	$10,634,000
Year 20	$1,054,000	$195,000	$1,248,000	$14,187,000	$11,811,000
Year 50	**$1,910,000**	**$353,000**	**$2,263,000**	**$65,866,000**	

$2019. Bonding estimates prepared by Kosmont Transactions Services (registered Municipal Advisor). Bondable revenue assuming $25,000 admin charge; 125% debt service coverage. 6.0% interest rate; 30 year term / amortization. Proceeds net of 2% underwriter's discount, estimated reserve fund (minimum annual debt service), incidental costs estimated at $350,000.

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Complementary Funding Sources

- ✓ At formation, EIFDs have zero revenues and tax increment is minimal
- ✓ City may consider the following potential complementary funding sources to provide initial capital for needed infrastructure in District:
    1. CFD / other special district taxes, fees and/or assessments
    2. Developer loan or pledge repaid through credit and reimbursement agreement
    3. Development impact fees
    4. Grant funding
    5. California Infrastructure Economic Development Bank (I-Bank) financing
    6. City / county / special district loans
    7. SB 1 Road Maintenance / Rehabilitation local return funds

EIFD Documentation & Approvals

1. Conduct outreach/discussion with potential Public FA member agencies and landowners / developers
2. Final determination of PFA composition, tax increment contributions and EIFD boundaries
3. Participating taxing agencies adopt resolution(s) of intent to form EIFD and establish PFA
4. PFA drafts Infrastructure Financing Plan (IFP)
5. Distribute IFP to property owners with corresponding CEQA documentation **(at least 60 days in advance of PFA public hearing to approve IFP)**
6. City / affected taxing entities contributing increment adopt resolution(s) approving IFP
7. PFA conducts public hearing to approve IFP and form EIFD **(at least 60 days after IFP is distributed – target completion before August to establish previous year A/V baseline)**
8. Filings with BOE per guidelines from Board for Change of Jurisdictional Boundaries **(by December 1)**

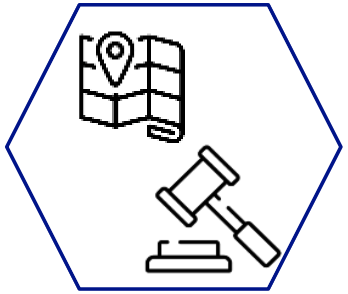
- IFP takes effect upon adoption of approval resolution (#9 above)
- EIFD tax increment allocation begins following fiscal year

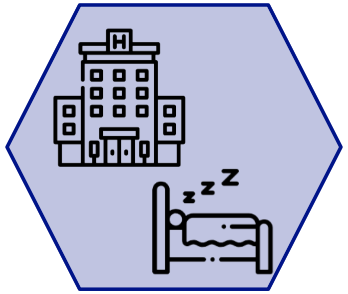
Content

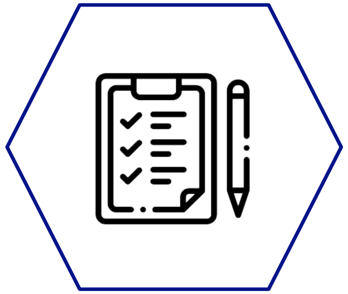
1. Enhanced Infrastructure Financing District Preliminary Feasibility Analysis

2. **Hotel Market Analysis Summary**

3. Request for Qualification/Proposals Next Steps







Hotel Market Analysis Overview (Feb 2019)

- In 2016, the City received several proposals for a luxury hotel on the City owned Adams Street property. The developers were willing to pay $4 million per acre for the land and expected to generate $2 million per year in new hotel TOT revenue.
- Following receipt of the proposals, the community expressed a strong desire for public outreach to identify alternative uses for Adams Street
- In 2017, Council formed SHAPE committee to look at pros and cons of development options for all City owned assets
- Recognizing the significant financial contribution hotel guests bring to City businesses and to the City General Fund, City hired Kosmont to assess hotel demand for two City owned properties: Railroad Ave site and a balanced use on Adams St. site as well as determine potential for expanding room count at existing hotel facilities.
- With demand historically growing at a 3.5% annual rate, Kosmont conservatively estimates support for 50 new rooms within five years and approximately 120 new rooms by 2029

St. Helena Hotels

Major hotel properties in St. Helena trade area surveyed by STR include:

- Wine Country Inn (29 rooms) – outside City limits
- Harvest Inn (78)
- Auberge du Soleil (50) - outside City limits
- Meadowood Resort (99) – outside City limits
- Las Alcobas Luxury Collection - opened March 2017 (68)

Avg. Daily Rates (ADR) range from $475 per night in Jan. to $900 in Sept/Oct. Meadowood rates for Oct. were posted at $1,100.

Avg. occupancy of 58% is well below similar hotels in Yountville and Calistoga market areas.

Note: St Helena also has more moderately priced hotel facilities, which are not included in the STR data set:

- Wydown Hotel
- Southbridge Napa Valley

Source: STR

Harvest Inn (top); Auberge du Soleil (middle); Meadowood Resort (bottom)

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Summary Findings

- Adams St. site is well located for a special project amidst vineyards and has excellent mountain views.
- Using a balanced planning approach, the City could utilize a little more than one half of the site to accommodate up to a 70-room luxury hotel and supporting facilities, leaving room for community facilities and open space.
- There is hotel competition throughout Napa Valley with new Four Seasons under construction in Calistoga and other hotels planned in the Calistoga and Napa area.

There are two other hotel projects proposed in St. Helena.

- Vineland Station was approved in Nov. 2011 for 60-room fractional ownership hotel. 50-seat restaurant and wine tasting rooms.
- Farmstead at Long Ranch (PL17-006 submitted Jan. 2017) proposed for 65 rooms and a spa.

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Content

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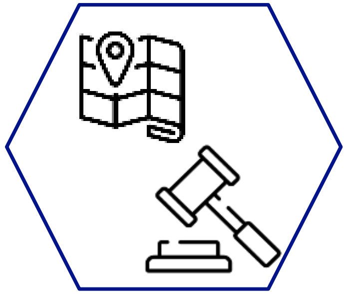

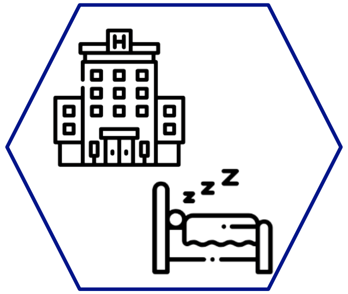

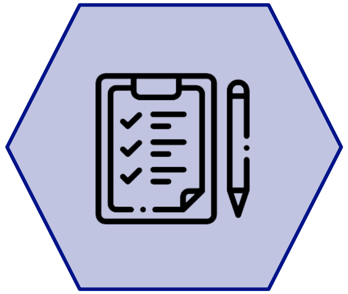

Recommended Next Steps

- City could consider a Request for Qualifications (RFQ)/Proposal (RFP) process to explore potential for attracting high quality developer partners to meet City financial and social needs. Does City want to use broad outreach or targeted approach to soliciting development proposals?
- Adams St. site is a prime asset for the City and utilizing half of the site still represents the best opportunity for attracting a luxury resort. The City can evaluate a balanced approach to site development and consider commencing rezoning and master planning efforts accordingly given community needs/input and City's long term future benefit.
- City Council should give direction on the development program desired for Adams Street (e.g. land use types, quality, open space, public amenities, sale/ground lease).
- Kosmont is available to assist in RFQ/RFP outreach and response evaluation.
- Economic Development tools such as special district financings (EIFD) can help fund major infrastructure.

THANK YOU

Questions?

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Cindy Tzafopoulos

From: Mark Smithers <msmithers@tfewines.com>
Sent: Wednesday, April 24, 2019 8:19 AM
To: Cindy Tzafopoulos
Cc: Mary Koberstein; Paul Dohring; achouteau@gmail.com; geoffellsworth@yahoo.com; David Knudsen; Mark Prestwich
Subject: Today's special meeting- public comment

Cindy,

Please note these public comments for today's meeting.

I'm out of town so can't attend.

It appears we are moving quickly towards selling off part of Adams Street for hotel development and creating a financing district because of an underlying assumption we can't finance our needs otherwise. This assumption is very wrong.

The associated financing district is extremely complicated, creates another entity and governing body, restricts the use of revenue generated (property tax, sales tax, TOT) from the district, and general only benefits the properties in the district. The creation of the financing district isn't voted on by the citizens of St Helena.

As to the Long Range Financial Forecast that was only first talked about at City Council last night, it had millions of dollars of errors that I communicated to the City. Beyond the errors, the LRFF was woefully short of a reasonable projection of our future financial health which is incredibly fantastic with reasonable revenue growth assumptions. I communicated those to Geoff, Dave, Mark P on Sunday.

Below I'm including some of what I sent them. It's a bit of a read but we need sound financial forecasts.

My LRFF comments:

> Typically the baseline forecast should be without any specific events. It is more or less a status quo forecast that blends in standard growth assumptions. The current LRFF doesn't have a clean baseline which effectively is the, what if we don't have a recession or a downturn. It is as it implies, it is the base from which all other scenarios are driven and doesn't include any specific significant events such as a recession, a new major development, additional annexations, etc. Last year's LRFF did start with a clean baseline and the current report notes the baseline revenue growth assumptions on page 8, but doesn't include baseline calculations with this information. A clean baseline forecast is also helpful as the timing and the impact of a future recession is debatable especially given current varying national economic opinions, the tendency

for the greater bay area to be somewhat less effected due to high bay area incomes and attraction of more proximate visitors, the number of second homes owned by wealthy individuals with significant disposable income, and that consumers are not nearly as leveraged (actually in quite good shape) as in past recessions generally initiated because consumers had been making up for stagnate incomes through home equity loans, second mortgages, and credit cards. The national economy is approximately 70% consumer based. It is noteworthy that Australia hasn't had a recession in 28 years and we could find ourselves in a similar long, slow growth economy. Additionally, I think the inclusion of two scenarios with the assumption of a hotel in the future really just confuses the presentation of the important LRFF financial information. The impacts of the hotel are easy to understand as a general potential future revenue source which doesn't require four additional schedules. This suggests the LRFF, when finalized, should include a clean baseline, baseline with mild recession, and baseline with a deeper recession.

I generally focus on revenue assumptions and forecasts as they are less controllable than spending and are more subjective. Additionally, much of spending is wages and benefits which are very much predetermined. As such, I have a few points regarding growth assumptions for revenue categories:

> Historical data is most helpful for forecasting revenue growth assumptions. I think it is incredibly difficult for City Council (or citizens) to become comfortable with the forecast growth assumptions without any historical context. At a minimum we need average change data for the last 10 years, 5 years, and each of the last two years. A growth chart for each major category and these averages would be most helpful to intelligently analyze the forecast.
>
> Property taxes – these seem overly conservative in all scenarios. Unless we experience a most severe recession, the property tax base will not drop. The property tax growth assumption has a few components. At a minimum there is 1% growth, then there is property turnover impacts whereby the assessed values can increase dramatically upon sale, additionally there are increases related to new construction and business expansion or modernization. Turnover data is available through the real estate association; new construction, business expansion, and modernization is available through the city's building department. Given the last two years' property tax revenue growth of 10% and 9%, and previous near term property tax growth, housing sales, bay area and California economy, an annual baseline revenue growth assumption of 6% seems quite reasonable. As to a mild recession scenario assumption it should be noted that property tax revenue grew 7% from 2008 to 2009, 4% from 2009 to 2010 and was mostly not effected by the 2001-02 recession. A longer historical review provides that property tax revenue increases averaged around 6% the period dating back to 2003. Therefore, a mild recession forecast during the 2 year period the LRFF is showing would be 4% for 2020, 3% for 2021, returning to the 6% baseline in 2022. A deep recession scenario would cut the mild recession numbers in half and return to the baseline in 2022.
>
> Sales tax – this is a bit more difficult to construct. First you need to cleanse historical data for one-off events of major sales tax providers and changes do to measure D increases. The LRFF hasn't provided this information, analysis, or discussed it. What reasonably clean data we have is that 2019 will increase 6%, years 2013 through 2016 increased between 4.6% and 12% while averaging 9%. A baseline of 3% seems far too conservative given this historical data all while we experienced negative impacts due to fires and a few business closures. I'm not privy to the A&J Vineyard supply impact and it is not addressed in the LRFF as a change from 2018 to 2019. The baseline growth should

be somewhere around 5-6% based on the information we do have. As too a mild recession scenario, again it should be noted that the 2001-02 recession had a negligible impact on sales tax. 2007 through 2009 was more or less flat lined. There was a significant decrease from 2009 to 2011; however this is where cleansing and understanding the data needs to be employed. During this period EPPS Chevrolet began to fail, Burgstahler was going through a business transition, Miramonte restaurant sold, and there was a law change effecting sales tax collections from Harold Smith. As such, these issues need to be considered as they mostly will not repeat and shouldn't have a big impact on the forecasted growth rate assumption. Given the above information, the deceleration in growth for 2020 seems to severe, 2021 should probably be closer to zero not a 3% drop and in order to forecast a return to normal in 2022 the increase needs to be more substantial than the base line scenario; otherwise you are not recognizing that activities have return to pre mild recession days. Look at a slowdown and return to normal levels of activity within the concept of an index. If you start at 100 and have a 50% decrease to 50, you need a 100% increase to get back to 100. So in effect your year in which you return to normal levels of economic activity related to sales tax in St Helena needs to be two times the cumulative decreases you forecasted in the previous years. The deep recession scenario is similarly forecasted to severe and doesn't make the same correction as noted in the index scenario above.

TOT **-** This is another area where the historical data needs to be cleansed so one can complete a more intelligent analysis and shift through noise in the data. Clean data we do have for the fiscal years ending 2012 through 2016 provides that annual increases in TOT revenue were between 5% and 9.5% averaging around 7% for the five years. The baseline of 3% seems very low; 5% seems more realist and supportable. As to the mild recession and deep recession scenarios, these seem too drastic and suffer the same indexing issue noted above. The past recession TOT was effected by a severe pull back in wealthy individuals not wanting to "flaunt" their wealth when so many were so effected. This didn't happen in previous more mild recessions. TOT is clearly supported by the income of bay area earners and St Helena attracts them. A more modest scenario for a mild recession would drop the growth in 2020 to 3% from the 5% suggested above and to zero in 2021. However, as we saw in past recessions and the most recent, there is a full recovery in the year after so the growth in 2022 should be at least 7% and maybe higher (see the indexing discussion in sales tax). The most recent great recession showed a decrease of 14% and 9% in 2009 and 2010 and then 22% growth in 2011. The deep recession should similarly be adjusted to be less severe.

All other revenue areas – The base line of 5% growth is likely fine especially give the smaller impact of these items on the overall results. However, the 2020 forecasts under the mild and deep recession scenarios make no sense to me. I don't quite understand how you could have such significant decreases in this one year and then more or less normalize it in the second year. These deep decreases in 2020 actually have very pronounced impacts on revenue forecasts for 2020 and all the subsequent years whereby annually the forecasts appear to understate revenue by at least $500,000 and cumulatively $5,000,000 over the 10 years. This has significant impacts on annual surpluses and the general fund balance. I can't find any discussion supporting or analyzing these forecasts.

A couple other points:

On page 3 where the LRFF notes a volatile economy, this narrative says all three big revenue components "very tied to broad economic trends." This real is not supported by the historical information. In the last great recession, property tax incurred a minor dip in 2008 and grew thereafter through the remainder of the recession; sales tax actually grew in 2008, incurred a minor decrease in 2009, but the decreases experienced in 2010 and 2011 were not related to the great recession. TOT was the only major revenue source that was “very tied” to the economic results.

The state is in far different financial condition from 2008-10. It is extremely unlikely the state would “shift, borrow, or take away” money from cities if we incurred a recession. This potential seems to be overblown in the LRFF.

As to the economic comments in the LRFF, they tend to imply to be very careful of a slowdown and its implication. That said, I refer to my comments noted earlier. California is not the nation, and the northbay is not California. I suggest we should look more closely at St Helena’s past results during periods of economic disturbance and not discount our general resilience versus what happens to the greater national economy. A local look is very important for our forecasts and we should be particularly aware of the comments from Sonoma State’s Center for Economic Analysis as they have a better sense of our region: “looks healthy economically for the next 12 to 24 months.” UCLA provides “Another promising area is intellectual property which is forecast to increase at an annual rate of 9%. This category includes computer software, research and development, and filmed entertainment. While growth in this sector is expected to eventually taper off, it is projected to consistently grow faster than the economy as a whole.” These are the biggest drives of the regional economy and supports who visits us the most. The timing and severity of a slowdown and a recession are debatable especially given that only 25% of economist are forecasting a national recession in the next 12-24 months.

In the end, if assumptions are made less conservative the sales tax and TOT errors will fix their overstatements as currently presented, property taxes forecasts will increase, and other revenue areas will increase. The result is that the cumulative revenue and general fund balance under a mild recession scenario are likely understated by about $9,000,000-$15,000,000.

Best to all of you.

Mark

Typed with fat fingers from a very small iPhone keyboard. Please excuse misspellings.

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