City of St. Helena
Finance Committee
Regular Meeting
1088 College Avenue, St. Helena, CA 94574
Thursday, April 10, 2025 @ 6:00 PM

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 please observe the time limit of four minutes. Members of the public and other parties are welcome to email their comments to the Staff Liaison Mandy Kellogg at mkellogg@cityofsthelena.gov

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1. CALL TO ORDER

2. ROLL CALL
Chair: Mark Smithers, Vice Chair: Garry Rose, Members: Arlene Corsetti, Christopher Warner, Richard Garber, Gregg Dawley, George Schisler
City Council Member Liaison: Aaron Barak
Staff Liaison: Mandy Kellogg, Administrative Services Director

3. PUBLIC FORUM:
An opportunity for the public to directly address the Committee on items of interest to the public that are not listed on the agenda. Any person addressing the Committee should provide his or her name and address, and limit comments to four minutes. **Because of restrictions imposed by the Brown Act, the Committee may not engage in substantive discussion, nor take action on matters not described on the agenda.**

4. REPORTS BY STAFF AND COMMITTEE:
Reports by staff and/or committee on items of general interest. ***Brief questions for clarification may be posed and answered, and Committee may request that items be placed on a future agenda. Except under certain circumstances, the Brown Act prohibits any other discussion or action by the Finance Committee.***

5. CONSENT CALENDAR:
Members of the Finance Committee or the public may ask that any items be considered individually for purposes of considering alternative action, for extended discussion, or for public comment. Unless that is done, on motion may be used to adopt all recommendation actions.

   5.1. Finance Committee Meeting Minutes of March 3, 2025 — 3 - 4
   DRAFT Finance Committee - 3 April 2025 - Minutes

6. SCHEDULED MATTERS:

   6.1. Review budget calendar provided by Administrative Services Director, Mandy Kellogg — 5
   FY 25-27 Budget Preparation Schedule

   6.2. Review and discuss draft revenue memo/report — 7 - 11
   City Revenue ideas

   6.3. Review and discuss draft "structural deficit staff report" memo/report — 13 - 17

Structural Deficit Staff Report response

6.4. Review outstanding items requests 19

Outstanding Items List from Chair Smithers

6.5. Review budgets for each department and discuss any observations or potential changes

6.6. Subcommittee updates

6.7. Explore future areas for committee consideration

7. ADJOURNMENT

The next regular Finance Committee meeting is scheduled for April 17, 2025 at 6:00 pm, City Hall,1088 College Avenue, St. Helena.

This agenda was posted at City Hall, 1088 College Avenue, St. Helena on April 7, 2025.

Mandy Kellogg, Administrative Services Director

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in the meeting, please contact City Hall at (707) 967-2792. 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.

MINUTES
City of St. Helena
Finance Committee Meeting
Thursday, April 3, 2025 @ 3:00 PM
City Hall, 1088 College Avenue, St. Helena

A complete video recording of this meeting, except for closed session, can be found at https://sthelena.civicweb.net/Portal/ or by calling the City Clerk at (707) 967-2792. The City Council video is the official record of the Council meeting.

Present: Chair Mark Smithers, Committee Members Arlene Corsetti, Richard Garber, Gregg Dawley, Christopher Warner, Council Member Liaison Aaron Barak (Remote – Left at 5:34 pm), and Staff Liaison Mandy Kellogg, Administrative Services Director

Absent: Vice Chair Garry Rose and Committee Member George Schisler

1 CALL TO ORDER

2 ROLL CALL

3 PUBLIC FORUM:

No public comment was received.

4 REPORTS BY STAFF AND COMMITTEE:

Public Works Director Leach reported on intent for CIP presentation to the Finance Committee scheduled for April 17, 2025.

Administrative Services Director reported on a Save the Date that will be sent out for April 21, 2025 for a Cities Facilities Tour.

5 Consent Calendar:

5.1 Finance Committee – 27 Feb 2025 – Minutes
Finance Committee – 13 Mar 2025 – Minutes

A motion was made to adopt the consent calendar and the motion was seconded. All voted in favor of adopting the consent calendar.

6 SCHEDULED MATTERS

6.1 Presentation of Updated Cost Allocation Plan.

Terry Madsen from Clear Source presented the Draft Cost Allocation Plan. The committee engaged in a discussion regarding the Cost Allocation Plan methodology and underlying data.

Public comments were received by Kelly Wheaton and Tom Belt.

Committee recommended moving forward with the methodology and interfund transfers, but did not endorse the plan. Committee agreed additional analysis of the plan is required and will further evaluate at a late date.

6.2 Review and discuss draft revenue memo/report.

Chair Smithers reviewed revenue options. The committee engaged in a discussion regarding the potential revenue options to be provided to the City Council for further evaluation in a Memo to Council.

Public comments were received by Deanna Griffin and Tom Belt.

6.3 Review and discuss draft “structural deficit staff report” memo/report.

The committee engaged in a discussion regarding the deficit and what near term and long-term liabilities that need to funded to include in a Memo to Council.

Public comment was received by Kelly Wheaton.

6.4 Review outstanding items requests.

Committee briefly discussed outstanding information requests.

6.5 Review budgets for each department and discuss any observations or potential changes.

Committee engaged in a discussion regarding the department budgets that were provided prior to the meeting.

6.6 Subcommittee updates.

Chair Smithers Warner provided and update on the Organizational Chart Subcommittee.

6.7 Explore future areas for committee consideration.

There was no discussion on this item.

7 ADJOURNMENT

Chair Smithers adjourned the meeting at 5:58 p.m.

APPROVED: **ATTEST:**

Mark Smithers, Chair

Mandy Kellogg, Staff Liaison

OPERATION & MAINTENANCE BUDGET BUDGET CALENDAR FISCAL YEAR 2025-26 and 2026-27				
Date	**Day**	**Duration**	**Item**	**Completed**
January 6, 2025	Tuesday		Non-Profit grant application posted and available to applicants	✓
February 28, 2025	Friday	1 day	Non-Profit grant applications due	✓
February 28, 2025	Friday	1 Day	Department Heads submit budget requests to Finance Division	✓
March 3 - March 7, 2025		5 working days	Finance Division compiles budget requests for review	✓
March 3 - 14, 2025		10 working days	Finance Division reviews Non-Profit grant applications for eligibility	✓
March 10 - 21, 2025		10 working days	City Manager, Administrative Services Director, and Department Heads meet to review budgets and verify budget requests align with City Council Goals	✓
March 24, 2025	Friday	1 Day	Non-Profit grant applications presented to City Council working group (Mayor and Vice-Mayor) for review	✓
March 28, 2025	Friday	1 Day	Administrative Services Director submits Draft Budget to Finance Committee	
April 3, 2025	Thursday	Finance Committee Meeting	Cost Allocation Presentation to Finance Committee	
April 10, 2025	Thursday	Finance Committee Meeting	Finance Committee discussion on Draft Budget	
April 17, 2025	Thursday	Finance Committee Meeting	Finance Committee discussion on Draft Budget	
April 21 - May 2, 2025		10 working days	Finance Division prepares Budget Presentation for City Council	
April 22, 2025	Tuesday	City Council Meeting	Department Head presentations to City Council	
May 8, 2025		Finance Committee Meeting	Finance Committee Meeting	
May 12, 2025	Monday	Community Meeting	Community Budget Presentation at the Cameo	
May 13, 2025	Tuesday	City Council Meeting	Non-Profit summaries presented to City Council for consideration and award Presentation of Draft FY 2025-26 and 2026-27 Budget to City Council	
June 3, 2025	Tuesday	Planning Commission Meeting	5-year CIP Project list presented to Planning Commission for consistency with the City's General Plan.	
June 10, 2025	Tuesday	City Council Meeting	Presentation and Adoption of Two-Year Budget Presentation and Proposed Adoption of 5-year CIP Project list	
July 1, 2025			Finance Division prepares final Operation & Maintenance Budget for distribution	

T:\Budgets\25-26 Budget\FY 25-27 Budget Preparation Schedule

St. Helena Finance Committee
April 2025

Revenue Opportunities

Summary. City Council requested the Finance Committee accelerate its advisory review of potential revenue opportunities to coincide with the timing of the City potentially declaring a fiscal emergency and the City's consideration of its FY 2026 and FY 2027 budgets.

The Committee does not endorse declaring a fiscal emergency at this time. The FY 2026 and FY 2027 budgets are currently being developed, labor negotiations are in process, and spending and revenue forecasts are being reviewed. City Council has not reviewed complete draft budgets or the revenue, expenditure and reserve assumptions supporting the budgets.

Although forecasts of the annual deficits for FY 2026 and FY 2027 and assumptions regarding uncertain and volatile economic conditions affecting the deficits have yet to be determined, initial information provided by City staff suggests the deficit is likely to be approximately $2.5 million for each budget year. Based on information also provided by City staff, reserves are estimated to end FY 2025 at approximately $10 million or 50%, although recent macroeconomic events make these estimates uncertain, particularly for sales and hotel tax revenues. The City has two excess properties with likely significant combined market values which may provide short-term, one-time revenues to the City sooner rather than later.

Although the Committee does not express an opinion on the legal hurdles that may or may not apply to declaring a fiscal emergency, the financial condition of the City based on information provided the Committee by City staff does not appear to support an emergency declaration at this time. The Committee also cautions that such an emergency declaration could have unintended impacts on the City's financial status and could affect recruiting, employee retention and ability to solicit vendors and service providers.

Endowments and Philanthropy. St Helena is full of many generous citizens. We currently have non-profits supporting certain services such as the Library. Under the right circumstance and in the correct manner, the City could consider reaching out to the community to strengthen the non-profit Library support and develop similar support for our parks and recreation programs. Committee members are aware of endowments in other cities. Those endowments can be program and facility specific with naming rights. A stronger partnership with Friends of the Library is developable and could be pursued.

Committee Listing of Revenue Options. The following is a brief outline of revenue opportunities City Council could consider. The Committee does not take a position on whether the City Council should adopt or implement any of these revenue options, but includes them as options for raising General Fund revenues if raising such revenues is determined necessary. Separately, any such revenue options should be evaluated and compared according to standard objective criteria for taxes in general, such as (1) tax efficiency; (2) tax equity; and (3) tax predictability and sustainability.

Parcel tax: A parcel tax can be levied in a variety of ways but not on the value of the property or its improvements. The basis of the tax can be acreage, square footage of improvements, or a flat rate no matter what the parcel size. We believe any parcel tax should be based on acreages. We have a couple of industries that contribute very little to our revenue needs. Using acres as the base would bring these other industries into our much need revenue stream.

Parcel tax to fund the SHFD. Recently we changed the SHFD from an on call quasi volunteer group to a full-time paid department. As such we added significant costs without a revenue stream to pay for these additional department expenses. Many citizens called for full-time paid staff to improve response time and public safety given the devastating fires of 2017 and 2020. A parcel tax requiring voter approval will allow the public to demonstrate their support while getting assurance funds cannot be used for any other purpose, fire department only. The department's annual expense is approximately $2,800,000. The annual tax per acre could be approximately $890 based on 3,148 acres in the city limits. The average residential lot size is ¼ acre, so the average resident would pay $223 a year. Many would pay less, some with larger lots and larger homes would pay more. Vineyard owners may cry foul; however, vineyards provide nearly no revenues to the city due to their low assessed values and no sales tax charged on their production. Hypothetically, a 15-acre vineyard would pay an annual tax of $13,350 (cashflow after tax deduction is closer to $7,000) while their annual grape revenue is approximately $720,000 or more. We think it may be a reasonable option to consider for the vineyard industry to support our city with a tax that is less than 1% of their revenue.

Parcel tax to fund the Library. Total annual costs of our Library are approximately $1,200,000. The Library is a great asset to the community and others around St Helena. The concern is when the City's financial position is not stable and running deficits, how do we fund this vital resource? Options to reduce its financial impact have been rejected. Our community wants it to remain independent and not moved into the county system, nor do they want to reduce hours, or programs. It's a difficult situation. Putting the funding of the Library (just as suggested above for the SHFD) to a vote of the public through a parcel tax initiative could, if successful, guarantee our Library remains independent of the county system and a vibrant resource for the community as it is today. A parcel tax based on acres would be approximately $381 per acre and $95 per average residential lot.

Annex a portion of Meadowood: This subject has been brought up many times in the past, but apparently without the political will to have a deep and sustained discussion with the county. Now really is the time to have this discussion. Meadowood is working through plans to expand the resort with a $500 million investment. This expanded resort will need more police and fire support. It seems if we reasonably request a portion of the county revenue stream beginning a few years from now they can accept that knowing they will have much greater revenues in the future even with revenue sharing.

Sales tax: There is a 1% additional sales tax that can be delivered to the City if we act before the County acts and obtain voter approval. Although this is regressive and affects lower wage earners more, a great deal of sales tax is borne by tourists. A .5% sales tax addition (same as Measure D passed in 2016) would generate approximately $2,100,000 annual revenue.

TOT tax: It is our understanding there is no limit to the TOT tax rate we can charge. The current 15% rate includes 12% to the city, 1% to affordable housing, and 2% to the NVTID. It is likely that visitors do not consider the TOT tax as a significant deterrence when researching or choosing a hotel. This could be more likely to pass as it doesn't much affect those living in St Helena and does not significantly reduce hotel stays. Each 1% of additional tax could generate approximately $300,000.

Property Sales: This has been discussed since the days of the SHAPE committee. We have two attractive City properties that could be sold sooner rather than later. Hosts of reasons have been voiced to slow the process although it is our understanding we do have offers. That said, if short-term revenues are a priority, they could be sold for cash without contingencies of planning approval, loan acceptance, etc. Other City initiatives, such as the Downtown Specific Plan, need not delay receiving offers and successfully selling these properties. Our city is not in the business of managing a portfolio of properties as a developer would. We should sell them for the best price we can today without attempting to time the market. This is not a long-term financial solution, but it can buy us time.

Real Estate Transfer Tax: This failed last November. The voters viewed the measure as ill conceived, and the amount requested / estimated was perceived as greedy. A more modest proposal has a better chance of passing. Without prejudging the design of a revised transfer tax proposal, a revised transfer tax could tax all real estate transfers at some level; the rate could gradually increase as the sales price increases. If we want a community-wide real estate transfer tax, we all must participate. The graduated rate could be similar to income taxation such that as a property sells for more the tax rates of the lower portion hold and are not replaced by the higher rates. A transfer tax that could generate approximately $2-2.5 million of revenue may be more acceptable to the community.

Meter Downtown Parking: With new technology this could be more efficient than going around and collecting the coins from the meters. This is not a big revenue generator. A few years ago, it was estimated to generate $350,000 of annual revenue if the downtown district were metered.

Payroll Tax: It's been said that a payroll tax is difficult and confusing for businesses. Nothing could be easier. All businesses report payroll to our state and federal government. If they have multiple facilities or location, it's not a problem because businesses track costs by location. Developing the tax rate is a matter of estimating the base (payroll within the city limits) and determining how much revenue you want to develop. Whether it is a viable option acceptable to the St. Helena business community would need to be evaluated.

Business Activities Tax: This one is a bit more complicated. However, it is fair and may bring down fees for small businesses. We have two very large industries providing little revenue to our city: large production wineries and vineyard grape production. The efficiency of the business activities tax is that it places all business on more equal footing recognizing the production or sales of each business and having their activity taxed. Production would be measured as the value of shipments from the facilities or business location. For retail establishments this would be sales of products whether charged a sales tax or not. For vineyards this would be the value of the grapes harvested. For wineries this would be the value of products shipped from their facility whether sold to a customer or transferred to another facility.

This also could replace business license fees. The base, which is the value of total business activity within St Helena, would need to be estimated to develop an applicable activity tax rate that would generate the desired tax revenue. Businesses would receive credit for shipments or transfers for which sales tax were already applied. Certain businesses would likely be exempt such as grocery stores and maybe restaurants. Although catering and similar activities that move activity outside St Helena's city limits could be problematic as we don't receive sales tax for items sold from within the city but received by the purchaser outside the city.

Large production wineries (and many other wineries within the city limits) generate little to no sales tax revenue related to their production or sales. They don't sell it to the public here in St Helena, so we don't receive sales tax. They ship production out through wine clubs, they ship it out to their bottling facilities or their centralized distribution facility. There is a lot of activity. Similarly, vineyards generate almost no revenue for our city. Grapes are not taxed, and their assessed values are quite low producing little property tax revenue.

User Fees for General Fund Discretionary Services: The City applies user fees for certain services that are associated with discrete services that are discretionary and not essential, e.g. building and zoning permits. User fees could also be considered to fund all or discrete components for additional General Fund discretionary services, such as the library and parks and recreation. The fees could be income-based or age-based, and limited to certain services or programs that are subset of such overall discretionary services, such as internet service at the Library or certain parks and recreation programs, similar to how the school district charges for summer pool access.

Carpenter Water Contract: This contract needs to be resolved so the water enterprise can have clarity on the associated potential revenue. The contract expired in 2013, and the current water customer has paid nothing for water in the past 12 years. Water enterprise revenue was below budget last year and it may continue to be so the water enterprise can use all the revenues that are due.

St Helena Finance Committee

April 2025

Structural Deficit Staff Report - response

At the March 11th City Council meeting, and in response to a structural deficit staff report, the newly formed Finance Committee was tasked by the City Council to review and respond to four specific topics, including,

1) Assess City staff's projection of long-term liabilities and needs.
2) Propose revenue sources for each tranche of liability/capital needs.
3) Assess cost allocation approach of personnel costs between funds.
4) Provide input on compensation philosophy to be competitive, including geographic considerations.

The Finance Committee has taken up each topic, focusing particularly on the impact each has on the recurring deficit. The following provides our comments and assessment.

How did the deficit develop?

We think a bit of history is helpful. Generally speaking the city finds itself in recurring deficits as a result of recent spending decisions without providing additional revenue to balance the budget. Following the fires of 2017 and 2020 the community encouraged the city council to change the form of employment for our fire department from an on-call, part-time lightly paid team to a fully paid and benefited team. This increased spending approximately $2.3 million in 2022. Also, during 2022 with the departure of our city manager and the hiring of a new city manager we created three new positions; one assistant city manager, and two assistants to the city manager (these later two titles have changed over time). This increased spending approximately $850,000. In 2023 we moved into our current city hall location from temporary quarters on Railroad Avenue after shuttering City Hall on Main Street. After spending approximately $2 million on leasehold improvements we are incurring annual rent and related expenses of approximately $500,000. We stress that future spending decisions need to be addressed in the context of funding from additional revenue or a clear understanding of the impact on financial reserves.

Long Term Liabilities and Needs

The Finance Committee has examined the City's 20-year forecast covering both large single event investments, prefunding of future building repair and maintenance, prefunding vehicle and equipment replacement, and long-term obligations.

The Finance Committee views the large single event investments as positive aspirational goals, but not projects that require a funding source at this time or prefunding with funds put aside each year to build up a source of future funding. We endorse these projects to be financed through general obligation bonds requiring community support and approval or developer fees and grants. We recommend these items should be placed in a separate category and discontinue showing these as long-term liabilities or needs.

Prefunding of future building repair and maintenance and prefunding of vehicle and equipment replacement requires city council to decide a policy. There are two approaches: prefund and place monies annually into future use non-restricted accounts or budget for the needs as they arise. Either approach is acceptable, and the latter approach is preferred with the existence of healthy reserves and continuing balanced budgets or annual surpluses. Budgeting for significant major building maintenance and vehicle / equipment replacement as they arise will encourage a more robust review and discussion of the need. We note that the information included in the 20-year plan for building repair and maintenance is eight years old and little of what was suggested performed. We endorse updating the needs assessment internally.

The unfunded PERS liability of $16 million, and likely growing, needs to be addressed. City Council reviewed and selected a firm to help manage through annual deposits into investment accounts. It is important to note that the unfunded PERS liability is fully discretionary and will depend on an assessment of the appropriate timeline to fund the liability and the amount of the liability to fund. The consultant suggested that you never want to fully fund your PERS liability and provided that an 80% funding level was a good goal. Our council liaison suggests we should fund at a higher level, maybe even 100%. The matter is debatable, and city council will need to decide. We support funding at 80% resulting in annual funding of $357,000. This amount is subject to change depending on investment returns and city council policy.

Propose Revenue Sources for Each Tranche of Liability/Capital Needs

Please see the committee's separate memo regarding revenue opportunities. The matching of spending needs (long term or project specific) with revenue opportunities is one city council will need to address. This decision is dependent on reserve levels, future projected reserves, monetization of surplus assets, spending reductions, etc. All revenues are fungible unless the funding source has been restricted.

Cost Allocation Approach

Clear Source presented their draft cost allocation study at the April 3rd Finance Committee meeting. The one shared view is that we should immediately transition from a direct allocation approach for certain departments to a cost allocation plan (CAP).

There was no general agreement with Clear Source as to the methodology used for allocating costs. We are skeptical that the allocations across departments was based mostly on industry norms and not to the specifics of St Helena. We are also concerned with the depth of the interview process with key staff members, and the conclusion on allocations may be missing a key input. The Finance Committee intends to review and analyze in greater depth once through the budget process.

The Committee accepted the draft on an interim basis noting there was insufficient time for the committee to further study many aspects of the CAP. At this point, we recommend shifting $218,000 of cost from the Water and Wastewater funds to the general fund but strictly for purposes of advancing the 2-year budget process.

Further adjustment and transfer of cost between funds may be warranted once the Finance Committee has more time to analyze and assess. It may cause us to reassess the recurring annual deficit at that time.

Compensation Philosophy/Geographic Considerations

The Finance Committee shares a common goal; we want to see a compensation structure, including benefits, which is competitive and fair. At the same time, compensation and staffing levels need to reflect the current fiscal position of the city.

Public employee compensation is complicated and difficult with significant negotiations. The resulting wage scales or parameters developed using cities far larger or far from our recruiting location may not reflect the reality of competitive wages in our geographic area. Additional negotiated items include wage scale steps, car allowances, health insurance, deferred compensation, membership and publication allowances, educational reimbursement, etc. When considering the competitiveness and wage philosophy, "total" compensation and how that compares with all employers (public and private) in our geographic area is of the utmost importance.

The structural deficit staff report leaned heavily on a general lack of employee longevity and vacancies along with negotiated wage scale comparisons firmly suggesting our staff are significantly under paid. There was no review of the what may be the root cause of staff turnover besides wages. It did not provide a "total" compensation comparison to other municipalities in Napa County or to wage information for the county that includes private sector employment. Napa county wide wage information suggests we are competitive at current wage levels. As such we do not endorse a policy suggesting we need to reach towards a 50^{th} or 75^{th} percentile based on negotiated wage scales.

City Council has discussed undertaking an efficiency study of the organizational structure. We suggest that this project be broad based, completely transparent, and investigate all aspects of our organizational structure including salary and benefits, staffing levels, manager to staff ratios, morale, training, supervision, career development, and affordability. It is vitally important that the firm conducting the study has no perceived “client” and that there is general buy-in to the outcome before (and after). We look forward to participating in the study.

As a result of the discussion above, the impact of compensation and staffing on the recurring deficit is unknow, but potentially significant.

Conclusion

We see two items that need to be added to the operating budget deficit at this time:

1. Unfunded PERS liability $357,000
2. Cost allocation study adjustments $218,000

All of the above is subject to change as we gather more information.

Outstanding Items List from Chair Smithers

1. Provide the staffing by classification levels by department
2. We need the positions that are currently filled by consultants that would otherwise be filled by hired staff (i.e. not the attorney). Can you include where they are placed on the organizational chart.
3. Landing page updates:
    1. Revenue assumptions presentation should be attached to the February 27 agenda
4. Listing of equipment and vehicles by acquisition date and to include original cost
5. A roll up of all budget line items for all departments into one big total cost center of all cost center departments. This is so we can see at a glace what any one type of expense is before allocations to water and wastewater.
6. List of each type of expense that is a negotiated item.
7. A comparison of our employee benefits (health, training, conferences, pers, deferred compensation, car allowances, etc.) to Calistoga, Yountville, American Canyon, Napa, and Napa County.
8. Narrative summary of assumptions made for each revenue and expense items where increases of a certain percentage were assumed and was not built up from zero.