



**NAPA COUNTY GRAND JURY
2018-2019**

**FINAL REPORT
June 25, 2019**

**ST. HELENA:
A SMALL TOWN WITH
BIG CITY PROBLEMS**

St. Helena: A Small Town With Big City Problems

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SUMMARY

The City of St. Helena—incorporated in 1876—lies in the center of Napa Valley, one of the premier wine regions in the world. St. Helena is the quintessential American small town, with a population of approximately 6,000 individuals, in approximately 2,400 households.¹

As many as three million visitors from California and around the world visit the Napa Valley annually^{2,3}. The City's aging infrastructure, intended to support its much smaller fulltime populations, also must support its share of this population surge. St. Helena is the only municipality in Napa County whose actual Main Street is a part of the primary Napa Valley State Highway. This is estimated⁴ to increase daily traffic flow during peak periods by over 1,200 people daily using its roads: 20% or more of its population. This combination of traffic and aging infrastructure leaves the City a small town with “big city” problems.

The impetus for this investigation by the 2018-2019 Napa County Grand Jury stemmed from visible issues in what is presumed to be a wealthy, thriving small town: a blue tarp covering the roof and other parts of City Hall, various articles in local papers about the Upper York Creek Dam (UYCD) removal project that has been stalled since 2005, repeated water main ruptures that have caused street closings for emergency repairs, and the increasing number of empty storefronts on Main Street.

Outgoing multi-term Mayor Alan Galbraith listed eleven items of extreme concern to the City's future in his post-election defeat “Farewell” article.⁵ When combined with the Jury's investigation, these items present a worrisome future picture for the City, unless the present Council, Mayor, and City Staff successfully resolve these issues.

The City provides a usual range of municipal services, including, but not limited to:

- Fire protection, including the need to support surrounding areas of unincorporated Napa County and, in extreme emergency situations, other areas⁶

¹ "U.S. Census Bureau QuickFacts: St. Helena City, California." Census Bureau QuickFacts. Accessed May 18, 2019. <https://www.census.gov/quickfacts/sthelenacitycalifornia>.

² City of St. Helena, California. (2018). Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018. St. Helena, CA: City of St. Helena.

³ "Travel Research & Statistics." Visit Napa Valley. Accessed May 18, 2019. <https://www.visitnapavalley.com/about-us/research/>.

⁴ City of St. Helena CAFR 2018, *supra* note 2, at 2.

⁵ Galbraith, Alan. “Your Turn: St Helena's outgoing Mayor says Farewell,” The Napa Valley Register, November 29, 2018.

⁶ The City encompasses approximately 5 square miles within its incorporated limits; the surrounding St. Helena American Agricultural Area is slightly greater than 10 square miles in area.

- Police protection
- Maintenance of aging City streets, City buildings, storm drains, bridges, dams and reservoirs
- Drinking water production and wastewater purification for the City and for some commercial entities and others located outside City limits

The City has constraints of limited personnel, time, and finances, due to its population size. Presently, the City faces many issues, including:

1. Inaccurate financial forecasting of the Unallocated General Fund
2. Payment of currently unfunded CalPERS employee pension liabilities (approximately \$12-\$15 million, depending upon what investment rate the City uses)
3. Funding and operation of City dam, reservoir and wastewater projects
4. Operation of City water and wastewater systems as “break even” commercial enterprises,⁷ as required by bond covenants. This would include annual payments on currently outstanding City bond debt of approximately \$19 million for prior projects and an additional approximately \$32 million to complete State-mandated projects.
5. Maintenance and/or replacement of City physical assets, including City Hall
6. Payment of apparently larger-than-average amounts for City related legal services
7. Presenting these and other similar issues to its citizens in a regular, comprehensive, and easily comprehensible manner

These issues are not new: they have been noted consistently in the City’s annual Capital Improvement Plans (CIP), some as far back as 2005,⁸ private actuarial reports back to 2016 and the City’s Comprehensive Annual Financial Reports (CAFR) dating back to 2013.⁹ Despite longstanding public knowledge of these issues, the City has failed to take action and, in some cases, its actions – or inactions - have exacerbated the present and future impacts of these issues.

After interviews with multiple members of City Staff, the Jury came to believe that these individuals are working at “maximum capacity” and therefore their organization will require additional personnel and other assets to address the issues described in this report.

GLOSSARY

BCR: The Bell Canyon Reservoir that is owned and maintained by the City of St. Helena as a water resource.

CalPERS: California Public Employees’ Retirement System

⁷ City of St. Helena, California. (2013). *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013*. St. Helena, CA: City of St. Helena.

⁸ see, eg, <https://tinyurl.com/y5s8gpf8>

⁹ see "Comprehensive Annual Financial Report (CAFR) | City of St. Helena." Accessed May 18, 2019. <https://www.cityofstheleena.org/finance/page/comprehensive-annual-financial-report-cafr>. for 2018 and prior years.

CAFR: Comprehensive Annual Financial Report, *see*
<https://www.cityofsthelena.org/finance/page/comprehensive-annual-financial-report-cafr>

CIP: Capital Improvement Plan

The City: Refers to, at various times in this Report and in context, either the area of the City, the City government, or the elected officials of the City.

The Jury: The 2018-2019 Napa County Grand Jury

LRFF: The annual St. Helena Long Range Financial Forecast: *see*
<https://www.cityofsthelena.org/finance/page/long-range-financial-forecast>

SHAPE: St. Helena Asset Planning Engagement Committee

TOT: Transient Occupancy Tax

UYCD: Upper York Creek Dam

WWE: Water and Wastewater Enterprise

METHODOLOGY

The interviews conducted by the Jury covered periods through and including February 1, 2019. In the course of subsequent interviews, the Jury learned that City Council and City Staff have been working to address some of the issues outlined in this report.

Accordingly, the Jury expects that some of the City's responses to the Findings and Recommendations will contain additional, updated information, reflecting their efforts during this interim period.

The Jury conducted the following research during its investigation:

Interviews:

- Thirteen interviews with former and present members of the City Council and current senior City Staff

Reviewed and Analyzed:

- 2013-2018 St. Helena CAFRs
- Current Chart of Accounts
- Description of Budgeting Process
- 2014-2018 CIP reports
- Napa County 2017 report on St. Helena compliance with Measure A Funding

- Napa County Finalization of Measure A Funding Disbursements to City of St. Helena
- Nigro and Nigro Forensic Audit Report, provided to Jury by City
- Current City Council Processes, provided to Jury by City
- St. Helena's 10-Year Long-Range Financial Forecasts (LRFFs), 2015-2018
- Planning Commission By-Laws¹⁰
- 10-year Transient Occupancy Tax (TOT) statistics¹¹
- Four Year Grant Funding and Allocations
- 2017 SHAPE Committee Report¹²
- EMG 2018 Facility Condition Assessment
- California Municipal Health Diagnostic St. Helena 2018
- 2005, 2006, 2012 Water and Wastewater Bond Covenants
- Commercial Out of City Water Usage Report

DISCUSSION

The 10-year Long Range Financial Forecast (LRFF)

Many of the issues facing the City have their foundations in errors in the City's prior financial planning.

The City engages in a 10-year LRFF. "The primary objective is to provide the City Council and the community with a financial forecast and identify any significant issues that may need to be addressed in the annual budget development process."¹³ Although the City Council states that the LRFF is "not a budget," it is, in brief, a multi-year financial plan for the operation of the City. The current version is the 2018-2028 LRFF.¹⁴

This LRFF is used for several purposes including, but not limited to, the following:

- To identify amounts due for unfunded pension liabilities
- To plan for payment of payroll and non-pension benefits for City workers
- To fund needed repairs to City physical assets

¹⁰ City of St. Helena. (2018). *Resolution No. 2018-116 Resolution of the Council of the City of St Helena adopting revisions to the City of St Helena Planning Commission By-Laws*. St. Helena, CA: City of St. Helena.

¹¹ "Transient Occupancy Tax (TOT) & Tourism Assessment (TID) | City of St. Helena." City of St. Helena. Accessed May 18, 2019. <https://www.cityofstheleena.org/finance/page/transient-occupancy-tax-tot-tourism-assessment-tid>

¹² SHAPE Committee. (2018). *St Helena Assets Planning Engagement Committee Final Report*. St. Helena, CA: SHAPE Committee.

¹³ "Long Range Financial Forecast | City of St. Helena." City of St. Helena. <https://www.cityofstheleena.org/finance/page/long-range-financial-forecast>

¹⁴ City of St. Helena. (2018). *General Fund Long Range Financial Forecast City of St. Helena 2018-2018*. St. Helena, CA: St. Helena.

- To pay for emergency funding of unexpected costs, such as litigation, wildfires, earthquakes, etc.
- To support various civic projects
- To determine what new projects might be undertaken by the City

It is important to understand that the City's General Fund is divided into two parts: allocated funds and unallocated funds. The allocated portion is set aside for existing liabilities that the City is committed to pay, including, but not limited to, payroll, benefits, and rents. The unallocated portion must support all the remaining, previously mentioned items. Historically, the City's ratio of allocated to unallocated funds has been 2:1.

The 2018-2028 LRFF uses a methodology to predict future revenues and expenses that raises concerns to the Jury. In predicting annual revenue increases for each year during the 10-year period 2018-2028, the City assumes a 15%-25% annual increase of revenues each year. However, there is no basis in St Helena's prior financial history to support these assumed rates of increases. In fact, prior years' LRFFs show that the City's revenues have not increased at these rates at any time in the past five years. The assumptions in the 2018-2028 LRFF are based only on the historically 'good years;' more recent 'bad years' that featured significant declines in City revenues were specifically excluded by the City from the most recent LRFF¹⁵. This model might have been supportable if the years used in the analysis covered a longer (e.g. 30-year) period, but the 2018-2028 LRFF used only 10 years of history and took out the three unfavorable years: 2008-09, 2009-10, and 2010-11.

By not including these 'recession years' in the LRFF, the reader would be led to believe that the City's revenues would grow at an exponential rate, instead of experiencing the usual "ups and downs" of most economic cycles.

The 2018-2028 LRFF applied even more aggressive assumptions about revenues from the Transient Occupancy Tax (TOT). First, the 2018-2028 LRFF not only assumes continued growth in the TOT from existing hotels despite current high occupancy rates, but it also incorporates unreasonable growth factors in the calculation of those amounts. Secondly, it was recently reported that plans for developing a new hotel on a City-owned parcel were recently delayed.¹⁶ Finally, the planned TOT revenue assumptions do not take into consideration a possible decline in TOT revenues in the next few years as new hotels, currently under construction and in various stages of opening in Calistoga, Yountville, and Napa, compete for clientele.

In addition, the 2018-2028 LRFF does not discuss or analyze the constraints on City growth imposed by the Agricultural Preserve bounding the City, the political impact of an anti-hotel/anti-growth faction of City voters, or the impact of the current high vacancy

¹⁵ "Long Range Financial Forecast | City of St. Helena." City of St. Helena. <https://www.cityofstheleena.org/finance/page/long-range-financial-forecast>, pg. 3

¹⁶ Duarte, Jesse. "St. Helena Council Hits Brakes on Hotel Plans for City-owned Adams Street Property", The Napa Valley Register, May 29, 2019.

rates in the downtown commercial district. Each of these factors could also adversely affect City revenues from TOT and sales tax, which represent two of the three foundations of the City's revenues.

Lastly, the LRFF does not present any "percent of probability," a must-have in any financial forecast. A "percent of probability" gives the users of the forecast a better understanding of the numbers they are relying upon. As an example, a user would have more confidence in the numbers if there is a 90% reliability on the forecasted numbers, than a lesser 50% probability. Professional forecasts always give a percent of probability to the plan numbers. The St. Helena LRFF gives no such assessment or probability of accuracy.

The importance of the LRFF cannot be understated. Virtually every decision made by the City Council and City employees should find its background and support in the LRFF. Although it is not a 'budget,' if the assumptions and conclusions in the LRFF are incorrect or misleading, then decision-making errors are inevitable.

Unfunded Pension Liabilities

In 2014, the State of California changed its accounting rules and required every city to report unfunded pension liabilities for its employees' state retirement funds on its own books. It is estimated that the City has between \$12-15 million¹⁷ in unfunded pension liabilities, depending on which investment rate is used.

The City provides pensions for City employees through the California Public Employees' Retirement System (CalPERS). At the present time, only 68% of the City's CalPERS retirement fund obligation has been funded; the remaining 32% is an unfunded liability for the City.¹⁸ CalPERS' pension costs continue to rise and are projected to double, ultimately reaching an average of 15.8% of the City's General Fund budget by FY 2024-25.¹⁹

In June 2016, the City retained Bartel and Associates, an actuarial firm specializing in the public sector, to assess the City's liabilities to CalPERS and to suggest methods to pay down this increasing debt.

In 2018, Bartel & Associates presented to the City Council²⁰ four different plans for payment of these liabilities over time. However, the City Council did not, at that time, adopt any of these proposals. Instead, the City Council said that, in the future, it would put aside one-third of the unallocated General Fund to address these liabilities. In the past however, the City has always used the majority of unallocated funds for other City projects.

¹⁷ See Van Hort & Frankhanel Auditors Notes to 2014 CAFR, page iv.

¹⁸ City of St. Helena CAFR 2018, supra note 2, at 2.

¹⁹ See 2017-2027 CAFR, page 6.

²⁰ Bartel & Associates Report, cited in St Helena Star, August 21, 2018, reporting on City Council Meeting of June 12, 2018. | Galbraith, Alan. "As the City of St. Helena Celebrates, We Need to Exercise Caution," The St. Helena Star. August 22, 2018.

In February 2018, the State of California and CalPERS voted to collect from cities and other public entities their respective unfunded liabilities over 20 years. This move was instituted because CalPERS was facing financing issues where cash outflows for payments were outstripping the revenues coming into the CalPERS system. These unfunded liabilities are due and payable from the City unless the City declares bankruptcy.

Without budgeting a set amount for paying down pension liabilities, this issue could arise again, or the funds might be put aside as other pressures for use of the unallocated General Fund emerge.

Another pressure on the overall General Fund will be the plan to convert, over time, the City's volunteer fire department to full time employees, with pensions and benefits.²¹ This will increase the allocated General Fund and possibly decrease the unallocated portion of the General Fund.

Flood, Dam and Wastewater Projects

In this arena, the City faces three major challenges:

1. Upper York Creek Dam decommissioning and removal
2. Bell Canyon Reservoir (BCR) Intake Tower stabilization
3. Retrofit of the St. Helena Wastewater plant

In 1998,²² Napa County enacted Measure A, providing a ½-cent sales tax to facilitate and support funding for flood and water projects in the greater Napa Valley. Amounts spent on approved and completed projects would be reimbursable until June 30, 2018. Since 2005, the UYCD and BCR projects have appeared as “open projects” in the City's CIP. The Jury learned that these projects could have been paid for by Measure A funding but were not completed within the 20-year window of Measure A.

Upper York Creek Dam Project

The UYCD project is a dam reconstruction project related to watershed improvements which had been planned since 2005. Since October 2012, the Federal Government has ordered the completion of this project.²³ The continuing failure to complete this project has resulted in the imposition of a \$70 a day fine (approx. \$25,000 per year). Since 2016, this project also has been mandated by the State of California.²⁴

²¹ See, eg, Duarte, Jesse. "St. Helena City Council Supports Having More On-duty Firefighters," The St. Helena Star. March 19, 2019.

²² Napa County Flood Protection and Watershed Improvement Authority. Ordinance No. 1 (NCFPWIA); <https://www.countyofnapa.org/1422/Measure-A-Organizational-Documents>

²³ City of St Helena Resolution No.2010-61 <https://tinyurl.com/yydq9eph>

²⁴ California Regional Water Quality Control Board San Francisco Bay Region, Cease and Desist Order No. R2-2016-0004 (2016).

In November 2018, the City Council directed \$1.6 million from the City’s General Fund to the UYCD project, despite the bond covenants that the dam project, like the BCR project and City’s Water and Wastewater Enterprises (WWE) operations, be operated on a “not-for-profit” basis,²⁵ without the use of General Fund monies.

An Independent Commercial Enterprise is required by St Helena bond covenants to operate on a breakeven basis: its expenses must not exceed its revenue, and conversely, its revenues must pay all its expenses. The use of General Fund monies is prohibited by the bond covenants: all differences must be passed through to customers in the form of lower or higher rates.

The UYCD project was eligible for Measure A funding but the City did not submit this project for Measure A support. The reason for not submitting this project is unknown to the Jury. In 2005 the project would have qualified but work did not begin within the 20-year limit for Measure A reimbursement (between 1998 and 2018) and was therefore ineligible for funding.

The current CIP still lists the cost of this project at \$6.5 million. However, a redesign of the project, providing for completion within two years (2018-2019), has been reported.²⁶ If this redesign is implemented, then it is presumed that the bond covenants will require at least \$1.6 million be reimbursed to the General Fund.

Bell Canyon Reservoir

BCR is one of the City’s water sources and its stabilization and enhancement was one of the original projects proposed to Napa County for reimbursement from Measure A. The project has appeared on the City’s CIPs as an ongoing project since 2005, but to date no work has begun. The projected reimbursement would have been \$5.1 million. However, since the 2018 deadline for Measure A reimbursement has passed, this project will have to be funded by WWE rates.

Financing the St. Helena Water and Wastewater Enterprise

In addition to the UYCD and BCR projects, the WWE must complete and finance the wastewater treatment facility. The retrofit of this facility—estimated to cost \$19 million—is necessary because it no longer meets State of California standards.

²⁵ Based upon California Proposition 218, amending the California Constitution to require that “... all taxes and most charges on property owners are subject to voter approval.”... See O’Malley, Marianne. Understanding Proposition 218. Accessed May 28, 2019.

https://lao.ca.gov/1996/120196_prop_218/understanding_prop218_1296.html.

²⁶ “Duarte, Jesse. "Removal of St. Helena's York Creek Dam Becomes a Two-year Project." Napa Valley Register. April 12, 2018.

Other WWE Issues

St. Helena presently has the highest water and wastewater rates in Napa County. These are double the cost of American Canyon or Napa for the same water usage per annum. Due to the need for more capital to complete the UYCD, BCR, and Wastewater projects, the City has commissioned multiple water rate studies²⁷ to determine the necessary WWE rates to support the cost of the projects.

Based on the results of these studies, the City established a single rate system in 2017, which seemingly pushed more of the costs to residential users. After these new rates were established, some citizens demanded a review of the studies and significant flaws were found.²⁸

The Jury was informed by City officials and City Staff that the City is currently studying a multi-tiered rate system, similar to those used by the City of Napa and the City of Calistoga. City officials and Staff believe that a multi-tiered rate system might better serve the City's needs. A multi-rate system would:

- Distribute the fixed costs of the enterprise across all WWE users
- Adjust rates for users outside of the City limits
- Distinguish rates between residential and commercial users

However, the time for completion of this study is unknown.

The Jury also learned from City officials and Staff that there are presently at least 30 water users located outside the City limits. However, only 10 of these users have water contracts and most of those contracts have not been reviewed or renegotiated in over 20 years. In fact, some of these contract documents could not be located by City Staff when requested by the Jury. As these users are outside of the city limits, they pay no fees or taxes to support the City's WWE. The water and wastewater rates applicable to these users, as well as other contract provisions, are unknown.

In the course of its investigation, the Jury learned that City Staff is aggressively looking to refinance and/or issue additional bonds to finance these three projects. At this time, it is unknown whether WWE rates will pay for all of these projects or if another increase in water and wastewater rates might be at hand. As of this writing the new bond funding was not completed and unavailable for analysis.

The 2018-2019 Napa County Grand Jury issued a report on Water Quality on June 14, 2019. In this report, the Jury referenced a Municipal Service Review regarding countywide water and wastewater currently being conducted by the Napa County

²⁷ See, generally, <https://www.cityofstheleena.org/publicworks/page/water-and-wastewater-rate-studies> .

²⁸ The ensuing dispute with the water rate consultant, focused on the consultant's computational error that caused a shortfall in wastewater rate revenues, was settled recently, See Star Staff. "City of St. Helena Reaches \$1.15 Million Settlement with Former Utility Rate Consultant." *St. Helena Star*. May 29, 2019.

LAFCO (Local Area Formation Commission). This report may eventually result in better countywide utilization of water capacity and water processing operations. Consolidation could also facilitate a more equitable rate structure and assist with coordination of a countywide watershed policy. The Jury recommends that St. Helena officials pay particular attention to the results of this Review, which will be completed in early 2020.

Aging and Deteriorating Physical Assets

Each year the City issues a CIP, listing capital improvement projects to be completed over a five-year period. The CIP outlines each project, its expected costs, estimated dates of completion, and source(s) of funding. There are several basic funding principles noted in the CIP that should help to prioritize projects, including:

- Address legal or regulatory mandated improvements
- Protect life, safety and security of citizens
- Ensure asset preservation

In fact, the CIP calls for a “buildings, facilities and infrastructure replacement reserve to provide timely replacement of City owned fixed assets.”²⁹

In March, 2018, the City commissioned one of several Facility Condition Assessments that were performed by EMG Corporation, an engineering firm specializing in facility assessments.³⁰ The EMG reports stated that the deferment of maintenance of the City properties left them in such a poor condition that many of the buildings either needed extensive repairs or should be torn down and rebuilt.

The EMG report stated that City Hall required immediate repairs, at an estimated cost of \$1 million. The City Hall shows obvious signs of deterioration.³¹ It presently sports a blue tarp on its south side and its roof to keep out water. This is just one example of the lack of funding of a maintenance and replacement reserve for City assets, causing significant deterioration to those assets.

Even though asset preservation is one of the CIP’s guiding principles, the Jury learned through interviews and budget reviews that there has been no money allocated from the General Fund for this purpose in the last 10 years. In addition, the Jury noted that the legally required projects of the Wastewater Plant retrofit and the UYCD project have not been completed in the last five years.

The 2018 CIP also does not include funding for the reconstruction of the City Hall (as of June 1, 2019, the Jury has not seen the 2019 CIP). Although the CIP is supposed to be a comprehensive list of all major projects, the 2018 CIP shows the City Hall project as

²⁹ See St Helena 2018 City Administrative Policy and Capital Improvements Plan <https://www.cityofstheleena.org/publicworks/page/capital-improvement-plan-cip>.

³⁰ See, generally, <https://www.cityofstheleena.org/sites/default/files/> for various reports on a long list of City buildings and the substantial costs estimated for current maintenance.

³¹ See discussion at https://napavalleyregister.com/community/star/news/local/tour-shows-condition-of-st-helena-facilities-warts-and-all/article_61560887-cacb-5b94-b241-07e60c992f78.html

‘deferred,’ despite it being on the City Council’s docket as a current project.³² The \$40 million plus funding listed in the current five-year CIP does not include the \$8-15 million City Hall project.

In 2018, the City Council established the St. Helena Asset Planning Engagement (SHAPE) Committee,³³ to prioritize and identify strategies to address City needs and opportunities vis-a-vis City-owned assets. The SHAPE Committee was also tasked to identify alternatives to address deficiencies and opportunities in the LRFF. These included identifying financial strategies for City Council consideration and utilization of community assets. Unfortunately, the SHAPE Committee was relying on the 2018 LRFF for the unallocated General Fund, based upon its erroneous assumptions and long-range forecasts. The Jury believes this depicts a financial future that is unlikely to exist for the City.

All of the SHAPE Committee alternatives required substantial net additional funding from the City. The SHAPE Committee used the 2017-2018 LRFF forecast of the General Fund, which was fundamentally flawed, as discussed earlier. Of the 15 identified methods of funding for most of these projects, none are adequately addressed and seem to be the most unlikely vehicles for St. Helena’s LRFF. These suggested methods include parcel taxes, additional sales taxes, left-over unallocated funds from the General Fund, increases of business license fees, TOT increases, or a move to a new system of metered parking.

The SHAPE Committee concluded its recommendations with several options for City Hall relocation. Some had the City building a new City Hall, some had the City Hall co-locating with the City Library, and one had the City renting above-street space in some of the vacant downtown commercial spaces. However, in the opinion of the SHAPE Committee, the least expensive option, co-locating in the library, does not seem reasonable without gross reductions in the size of the library.

While the SHAPE committee’s full report contained seven options for City Hall, the Committee only presented two options to the City Council. Three very realistic and cost-effective options for a newly re-envisioned City Hall were not presented to or considered by the City Council:

1. Repurpose existing City-owned buildings to house City workers and sell current City Hall (valued at approximately \$1 Million), or
2. Buy/swap an existing City building and sell the existing City Hall (costing approximately \$2.5 Million), or
3. Execute a IRC §1031 Exchange(s) of existing City real property assets for other empty or partially-occupied commercial properties

³² See LRFF 2017-2027 and LRFF 2018-2028.

³³ <https://www.cityofsthenela.org/bc-shape>

The City should explore one or more of these options, or variations, as it attempts to resolve the issues listed above.

Above-average City Legal Fees

Over the last seven years, according to data provided to the Jury by City officials, the City has paid its City Attorney four times as much per capita as Calistoga, and ten times as much per capita as Sebastopol. These towns are of comparable size and in adjacent areas of Northern California. In the last fiscal year, the City's costs for legal services have exceeded the City's budget by \$600,000. The City pays almost the same for its City Attorney legal services as does the City of Napa, with a population 13 times larger than St. Helena.

For a small town with a relatively small budget, the Jury finds that St. Helena has a recurring history of spending a disproportionate share of that budget on legal fees. While a complete investigation of St. Helena's legal activities and costs are beyond the scope of this investigation, the Jury strongly recommends the City conduct an analysis of its legal expenditures and associated results. Such a study may help the City Council and Staff to better manage its legal services budget.

City Financial Reporting

The financial issues facing the City are complex. It is critical in a small town to advise the citizens of important issues that can impact them financially. Unlike a larger town or city, St. Helena is comprised of approximately 2,400 property owners and 6,000 citizens, who bear the financial impact of all the issues identified above.

Presently there is no single document or source of communication to City taxpayers or property owners that identifies the City's accrued amount of debt or other obligations. Notably, it was only after the water rates rose that residents started to learn about the WWE debt that St. Helena would need to incur to fix its failing wastewater infrastructure. Until that time, many City taxpayers and residents were likely unaware of the failing infrastructure, the maintenance on buildings that was needed, or the aging pipeline infrastructure.

Public forums, held by the City to disseminate information, reach only a small percentage of City residents. The City is to be commended for beginning to have small town meetings and an open forum for comment at council meetings, but these activities can be expected to reach only a fraction of the City's population.

In today's age of constant and frequent communication, the City's communications do not regularly update its citizens on the details of the City's financial obligations. There is no easily digestible and readily available information disseminated to City residents and taxpayers that explains the financial impact of the City's decisions on taxpayers and residents.

FINDINGS

The 2018-2019 Napa County Grand Jury finds that:

- F1. The City's financial forecasting is not performed by an actuary, thereby leaving the results suspect. It is not reasonably possible to do five-year financial planning without accurate revenue and expense data and forecasts.
- F2. The City's Capital Improvement Plan does not list amounts to be expended for the Water and Wastewater Enterprise projects mandated by federal, state, and local authorities. The Upper York Creek Dam, Bell Canyon Reservoir, and Wastewater projects have been on the CIP docket for many years, without beginning construction or making other material forward progress toward their completion.
- F3. The various projects facing the City place tremendous time and expertise burdens on City Staff. City Staff lacks specific expertise to manage some of these complicated dam and reservoir projects.
- F4. The City has not adhered to its own Capital Improvement Plans for the previous 10 years. This is especially notable concerning how few of the major projects—listed repeatedly in the CIPs over these years—have been completed.
- F5. The City's Water and Wastewater Enterprise rates are suspect, due to an inaccurate water and wastewater rate report.³⁴
- F6. The SHAPE Committee recommendations to the City did not include the less-expensive options in the SHAPE Committee Report.
- F7. On a regular basis, the City's Comprehensive Annual Financial Report has not funded the cost of deferred asset maintenance, which has left its physical assets in disrepair.
- F8. The cost of the City's 'City Attorney' is remarkably higher than comparable small cities in Northern California.
- F9. There is no budgeted or written method for dealing with the City's unfunded pension liabilities, as reported to the City in the Bartel & Associates Report.
- F10. The City's residents are not adequately informed of the financial impact of decisions made by the City Council and City Staff.

³⁴ As reported in the St. Helena Star on May 29, 2019, a dispute with the consultant for part of this report recently has been settled for ~\$1 Million. <https://tinyurl.com/y638xapl> .

RECOMMENDATIONS

The 2018-2019 Napa County Grand Jury recommends that:

- R1. Prior to the issuance of the 2020-2030 CIP, the City should engage an experienced outside actuarial firm, or assign a qualified member of City Staff, to generate a professionally appropriate Long-Range Financial Forecast, for the fiscal years beginning July 1, 2020 and thereafter.
- R2. The City should adopt a system that prioritizes payments for projects mandated by federal, state, or local authorities, to go into effect no later than the fiscal year beginning July 1, 2020. This mandate should provide that lesser projects cannot subvert any prioritized projects. Projects that are mandated by law (i.e. Upper York Creek Dam and Wastewater Plant retrofit) should be assigned to a City Council member for oversight and project management to completion. This Council member should be required to provide regular periodic status reports to all St. Helena citizens.
- R3. No later than the Fiscal Year beginning July 1, 2020, the City should adhere to its Capital Improvement Plans.
- R4. For the larger and more complex projects such as Bell Canyon Reservoir, Upper York Creek Dam, and the Wastewater Plant retrofit, the City should consider hiring or otherwise engaging the services of an outside project manager to oversee the project, in order to lessen the burden on City Staff and assure a timely and appropriate outcome for the project completion. These assignments should take place commensurate with the start of the July 1, 2020 budget year.
- R5. The City should review and implement the findings in the new Water Rate study, on or before June 30, 2020, and thereafter review then-current and relevant engineering and rate studies to determine appropriate multi-tiered Water and Wastewater rates.
- R6. In accordance with the new Water Rates, and no later than June 30, 2020, the City should identify, review, and renegotiate all water contracts with commercial and residential users located inside and outside the City limits. All such rates and contracts should be identified publicly to all City taxpayers and residents.
- R7: The City should follow and seriously consider the findings in the current LAFCO municipal services review, cited in the Water Quality Report by this 2018-2019 Grand Jury published June 14, 2019.
- R8. The City should reconsider the proposed City Hall project, on or before June 30, 2020. The estimated costs and sources for funding the proposed City Hall project should be included on the most current Capital Improvement Plan docket and

Long-Range Financial Forecast. Emphasis should be placed on possible use of the City's existing real property assets as "City Hall" offices.

- R9. Beginning in the 2020-2021 Fiscal Year beginning July 1, 2020, and continuing thereafter, the City should allocate a designated percentage of the General Fund each year for additional payments toward its unfunded liabilities to CalPERS as well as deferred maintenance costs for City real property assets.
- R10. Beginning with the fiscal year commencing on July 1, 2020, as the City hires additional full-time personnel, such as new full-time firefighters, the City should recalculate the effect of such hires on unfunded pension liabilities to CalPERS and include those new liabilities in the allocated budget.
- R11. No later than December 31, 2019, the City should conduct an analysis of its legal expenditures and associated results in order to determine whether any changes need to be made to the City's current legal support and strategy. The results of this analysis and any accompanying recommendations should be shared with the public.
- R12. The City should develop and enhance its system of community-based communications to highlight important financial issues affecting City residents. These communications could be published in the weekly St. Helena Star or by e-mail or both. Re-advertise the city e-mail communications system and how city residents can access these communications on a regular basis.

REQUIRED RESPONSES

Pursuant to Penal Code sections 933 and 933.05, the 2018-2019 Napa County Grand Jury requests responses as follows:

From the following within 90 days:

- St. Helena City Council (F1-F10 and R1-R12)

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| Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury. |
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