



Staff Report

Agenda Item #: {{section.number}}A

Yountville Town Council Staff Report

DATE: February 6, 2024

TO: Mayor and Town Council

FROM: Celia King, Administrative Services Director

PREPARED BY: Celia King, Administrative Services Director; Brad Raulston, Town Manager

RECOMMENDATION:

Town Council discussion and direction to staff regarding the Proposed Biennial Budget Parameters & Key Assumptions for Fiscal Years 2024/2025 and 2025/2026 and establishing budget workshop dates to be April 16, 2024 at 10:00 a.m. and May 7, 2024 at 10:00 a.m.

DISCUSSION/BACKGROUND

The purpose of this staff report is to provide an overview of major revenue projections and budget assumptions that will be used to develop the Biennial Budget for Fiscal Years 2024/2025 and 2025/2026 and receive feedback and direction from the Town Council.

This is the first meeting that sets the stage for the next two fiscal year budgets and is considered the budget kickoff. There are two subsequent meetings that will help to publicly cover the Town budget proposals. The suggested dates for those meetings are April 16, 2024 at 10:00 a.m. (Budget Workshop #1) and May 7, 2024 at 10:00 a.m. (Budget Workshop #2).

Preliminary estimates of major revenue and expenditures are outlined in the Proposed Biennial Budget Parameters and Key Assumptions for Fiscal Years 2024/2025 and 2025/2026 that accompanies this staff report. This is used as an initial guideline and projections will change as the preliminary budget is developed and more information is gained about revenues and expenditures.

ENVIRONMENTAL REVIEW

Exempt per California Environmental Act (CEQA) Guideline, Section 15061(b)(3)

FISCAL IMPACT

Is there a Fiscal Impact? No

Is it Currently Budgeted? N/A

Where is it Budgeted? N/A

Is it Mandatory or Discretionary? Mandatory

Is there a Staff Resource Impact? Yes

STRATEGIC PLAN GOAL

Is item Identified in Strategic Plan? Yes

If yes, Identify Strategic Goal and Objective. **Responsible Fiscal Policy:** The Town maintains its fiscal health through policies designed to maximize economic opportunities, manage expenses, and ensure prudent reserves.

Briefly Explain Relationship to Strategic Plan Goal and Objective. Timely and transparent financial discussions can help shape the budget process and control costs by guiding policy and spending decisions.

Town Council Meeting February 6, 2024 – Budget Kickoff

Biennial Budget Parameters and Key Assumptions for Fiscal Years 2024/2025 and 2025/2026

Budget Discussion Objective – Develop and adopt a balanced budget for Fiscal Year (FY) 2024/2025 and 2025/2026, while continuing to maintain established basic service levels to the extent possible, maintaining reserves at or above policy approved targets, funding employer PERS costs and the annual unfunded actuarially accrued liability (UAAL), providing funding for the Town’s capital projects, and re-instating contributions to the Other Post-Employment Benefit (OPEB) and Pension Rate Stabilization Plan (PRSP) trusts as a percentage of estimated salaries.

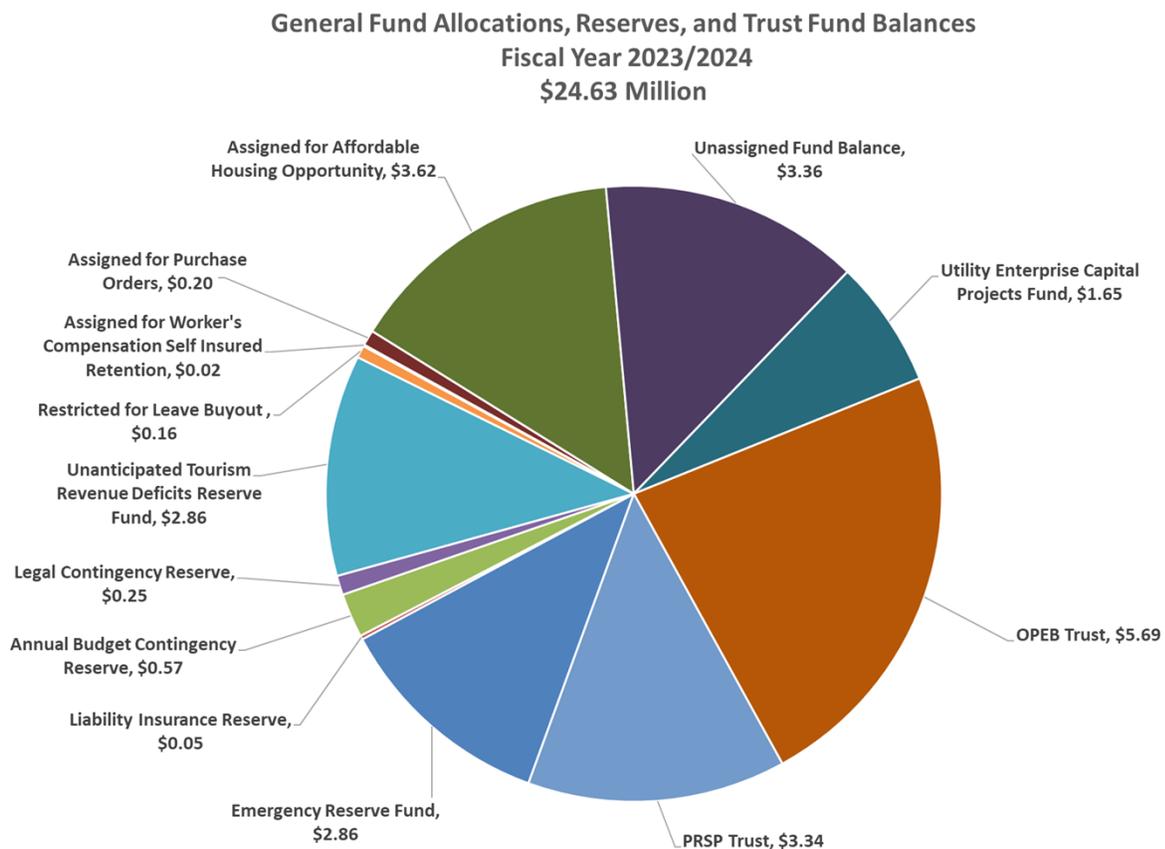
Staff are developing estimates for the Town’s major revenue sources. According to the most recent adopted budget, transient occupancy tax (TOT), sales tax, and property tax are approximately 89% of the Town’s General Fund revenue. TOT tax revenue is nearly 58% of the Town’s General Fund revenue.

Town Council current Fund Balance Policy outlines minimum reserve targets. The current policies state:

- General Fund Emergency Reserve - 20% of General Fund expenditures
- Unanticipated Tourism Revenue Deficit Reserve – a minimum of 25% of estimated annual TOT revenue
- Budget Contingency Reserve – a minimum of 5% of General Fund expenditures
- Leave Buy Out Reserve - \$160,000
- Legal Contingency Reserve - \$200,000

An updated Fund Balance Policy will be presented to the Town Council at a future budget workshop.

The following pie chart shows General Fund allocations along with reserve funds and trust fund balances as of July 1, 2023:



Key Revenue Projections:

Transient Occupancy Tax (TOT)

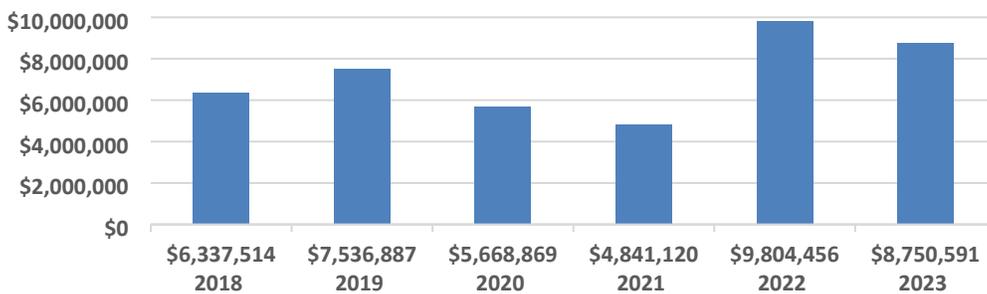
FY 2024/2025 **\$8,785,600**

FY 2025/2026 **\$9,049,200**

These preliminary projections are based on the expectation that hotels will continue on the course to more predictable occupancy and room rates. Current fiscal year TOT collections are trending higher than original budget projections, and more information will be available further into the budget season as collections for the spring tourism season commences.

- TOT collections in FY 2021/2022 were a historic high of \$9.8 million.
- TOT collections in FY 2022/2023 were \$8.7 million as a result of low occupancy rates, but high room rates.
- Current fiscal year TOT collections have been similar to the prior fiscal year.
- FY 2025/2026 assumes a 3% revenue increase over FY 2024/2025.

**Transient Occupancy Tax Revenue History
Fiscal Years 2018-2023**

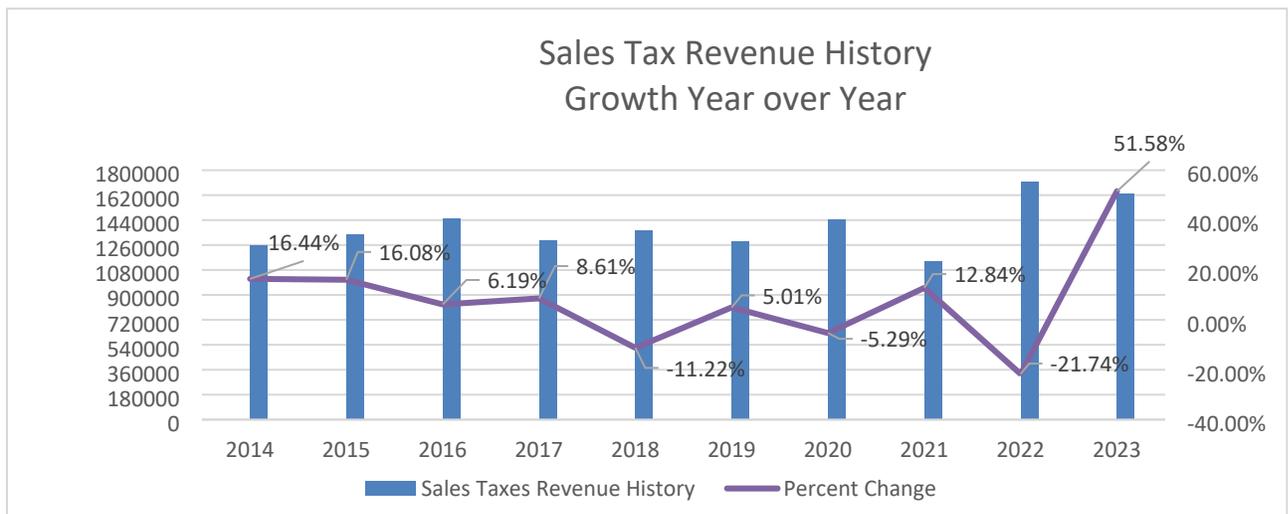


Sales Tax

FY 2024/2025 **\$1,745,000**

FY 2025/2026 **\$1,795,000**

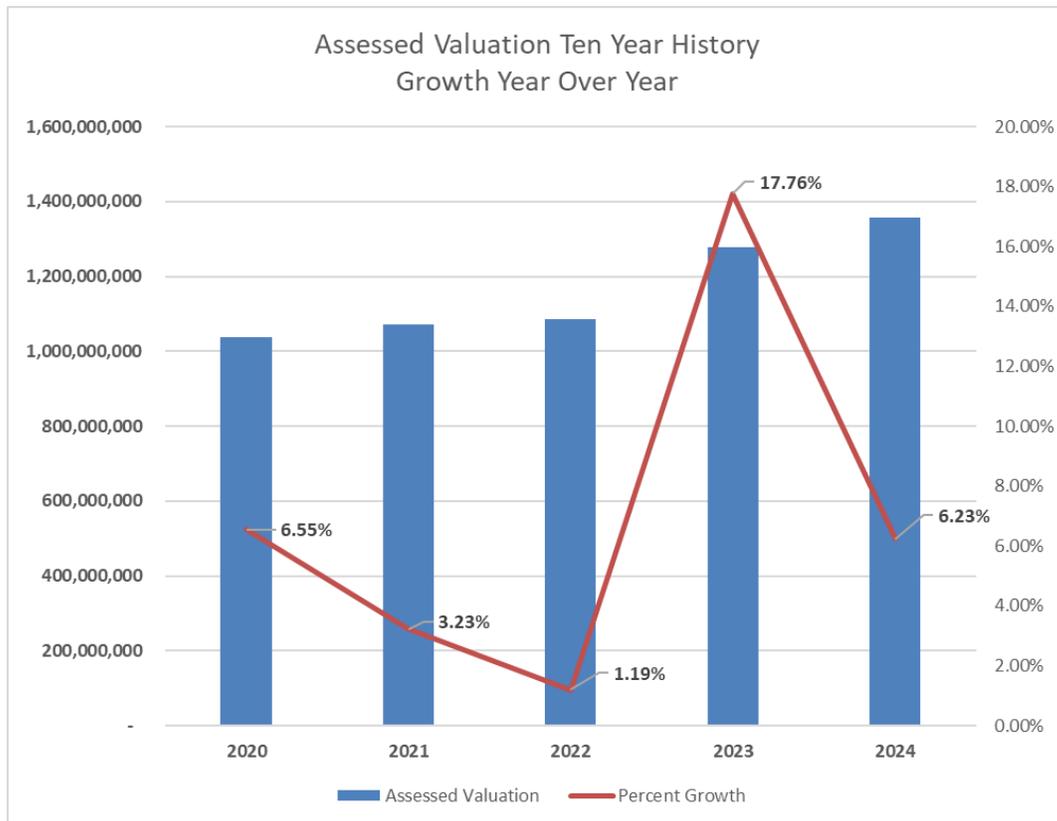
This amount is based on the Sales Tax Allocation Projections received from HdL Companies, the Town's sales tax auditing firm in January 2024.



The Town contracts with HdL Companies who tracks and audits sales tax collections for Yountville. HdL presents sales tax data to town staff every quarter and provides forecast data.

Assessed Valuation (AV) increased by 6.23% from 2022/2023 to 2023/2024. The latest assessed valuation report gave the Town a valuation of \$1,356,491,192 which is an increase of \$79,604,594 over the prior year.

Assessed Valuation changes when there is a change in ownership or significant improvements to a property triggering reassessment. The actual reassessment process for commercial properties takes longer to complete than residential and can take longer than one year to materialize as property tax income.



Property Tax

FY 2024/2025 **\$2,691,300**

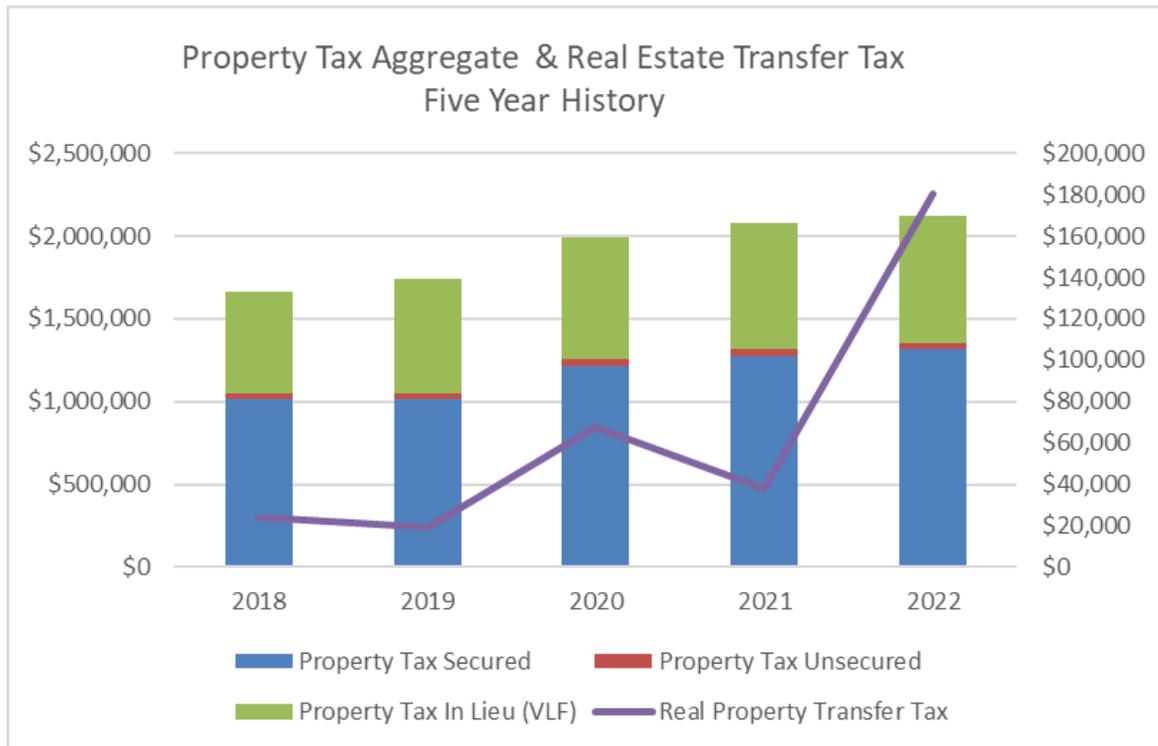
FY 2025/2026 **\$2,745,100**

These estimates are based on an inflation factor of 2% per guidance from the State Board of Equalization Property Tax Division. This has been applied to Property Tax Secured, Unsecured, and Vehicle License Fees (VLF).

- FY 2022/2023 actual revenues were \$2,638,575 comprised of secured and unsecured net of tax collection fee, and tax in lieu (VLF). Real property transfer tax was \$29,757.
- Unlike Property Tax, Real Property Transfer Tax revenue is realized faster as it is collected at the close of every real estate transaction. It is based on actual real estate sales occurring, making this revenue

source dependent on real estate market conditions. As this revenue stream is less predictable, it is estimated at approximately \$30,000 for both FY 2024/2025 and 2025/2026.

- The table below shows that Property Tax has experienced stable growth.



State COPS Grant

FY 2024/2025 **\$169,000**

FY 2025/2026 **\$172,000**

These proposed estimates are based on a 2% increase over FY 2022/2023 actuals, and an assumed 2% increase for year two. The Town utilizes its annual Citizens’ Option for Public Safety (COPS) allocation to offset the County of Napa Sheriff Department contract for law enforcement services. These funds are issued by the State Controller’s Office and staff will monitor this revenue source as the budget process unfolds.

Measure S - Affordable and Workforce Housing Fund 71

FY 2024/2025 **\$732,133**

FY 2025/2026 **\$754,100**

Measure S revenue is derived from the 1% increase to TOT which was approved by voters in 2018.

- Budget estimates for this revenue represent 1% of projected hotel gross receipts.
- As of December 31, 2023 this fund has a balance of \$3,166,557.

Key Expenditure Projections

The Town has entered into longer term contractual agreements for certain services which have cost escalation factors based on the contract terms or changes in service levels, including the following:

Contract cost of Fire and Emergency Medical Services

FY 2024/2025 **\$1,795,233**; estimated County Fire Property Tax Credit of \$ 277,000 (*net cost \$1,518,233*)

FY 2025/2026 **\$1,884,995**; estimated County Fire Property Tax Credit of \$ 282,000 (*net cost \$1,602,995*)

- The Fire Service contract with Napa County/Cal Fire was last reviewed in March 2023, and automatically renews each July. This contract will be reviewed again in March 2025.
- FY 2025/2026 assumes a 5% increase in costs over FY 2024/2025.
- Estimated County Fire Property Tax Credit is based on a 2% increase each year.

Contract cost for Law Enforcement Services

FY 2024/2025 **\$1,374,552**

FY 2025/2026 **\$1,491,389**

- The Town’s current agreement with the Napa County Sheriff Department for law enforcement services is in place through June 30, 2024.
- A new four-year agreement will be presented to the Town Council in May 2024.
- Costs reflect an 8.14% increase in year one of the contract, and 8.51% in year two.

Town share of County of Napa Animal Control Shelter

FY 2024/2025 **\$45,320**

FY 2025/2026 **\$46,680**

- This agreement was renewed in July 2022 and expires June 30, 2025.
- These estimates assume a 3% increase in costs each year.
- The Town of Yountville does not have a local veterinarian and animal control services are provided under contract with the County of Napa Sheriff’s Department. Currently the county agreement is the most cost-effective alternative to shelter animals.

CalPERS Retirement Program - Employer Rate cost projections

CalPERS costs include the employer normal cost (NC) rate (as a percentage of salary, contributions paid to CalPERS after each payroll) plus the employer payment of unfunded actuarially accrued liability (UAAL), a flat dollar amount paid to CalPERS every July.

The Town has three pension plans: 1) classic employees (hired by the Town prior to July 1, 2010); 2) tier 2 for employees who have prior CalPERS membership at the time they are hired by the Town; 3) Public Employee Pension Reform Act (PEPRA) rate for new CalPERS members.

The contributions below for FY 2024/2025 and FY 2025/2026 are based on the CalPERS Annual Valuation Reports as of June 30, 2022 that were received in July 2023.

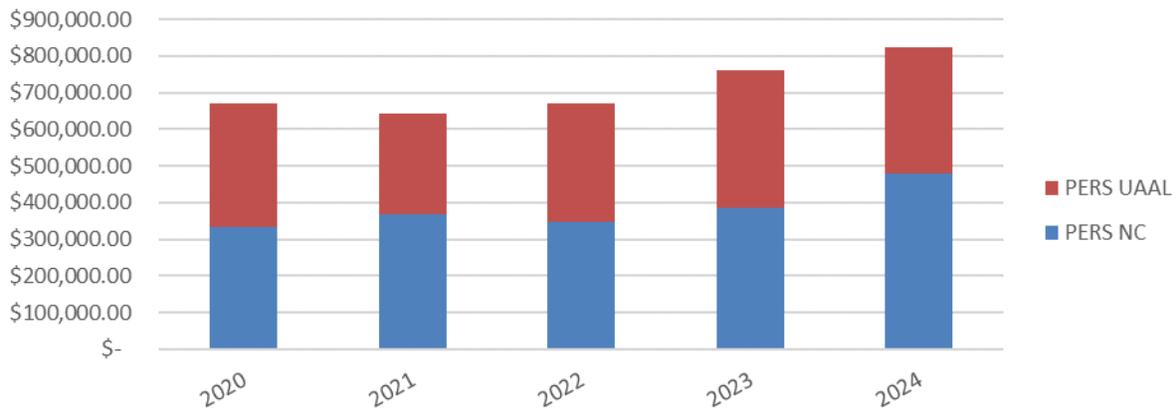
Normal Costs	FY 2024/2025	FY 2025/2026
Tier 1	16.02%	16.0%
Tier 2	12.52%	12.5%
PEPRA	7.87%	7.9%
UAAL	\$ 430,036	\$ 488,200

Variables that affect PERS costs are the change in discount rate and the amortization of actuarial gains and losses of invested funds over a 20-year period.

The table below shows the number of employees in each pension tier, the percentage of Employer Normal Cost each tier represents, and the UAAL cost pertaining to that tier for FY 2024/2025 and FY 2025/2026. Cost distributions periodically change due to Town staff turnover. As seen below, 65% of full-time Town employees are on the lowest cost pension plan, which helps to reduce long-term liability.

Plan	Definition	Number of Active Employees	Employer Normal Costs	Employer UAAL FY 24/25	Employer UAAL FY 25/26
Tier 1	Classic members	7	20%	\$418,641	\$469,000
Tier 2	Pre-existing CalPERS members hired by Town	5	15%	\$5,384	\$9,200
Tier 3	New CalPERS members	22	65%	\$6,011	\$10,000

PERS Normal Cost & Unfunded Actuarially Accrued Liability
Five Year History



In December 2017, the Town Council approved the establishment of a Section 115 Trust as a Pension Rate Stabilization Plan (PRSP). The balance of the PRSP trust as of December 2023 is \$3,808,915.

According to the CalPERS Annual Valuation reports for June 30, 2022 that were received in July 2023, the Town's funded status of the three plans combined is 73.9%. When the current balance of the trust is included in this calculation, the effective funded rate is 91%.

Staff recommends that the Town Council continue utilizing Trust funds to pay for the \$430,036 CalPERS UAAL for FY 2024/2025, and \$488,200 for FY 2025/2026. Doing so will provide relief to the General Fund and Enterprise Funds, and still leave a healthy balance in the Trust.

Employee & Retiree Health Insurance Rates

The Town contracts with CalPERS for health insurance benefits. Rates are published in August for an effective date of January 1. Health rates can be volatile and difficult to project. We are currently estimating a 10% increase in health rates for both FY 2024/2025 and FY 2025/2026. As point of reference, the average increase of the health insurance plans offered by the Town for January 2024 was 12.5%.

Salaries and Negotiated COLA for employee bargaining units

The current Memorandum of Understanding (MOU) with the two Town bargaining units is effective through June 2027. This MOU stipulates a Cost-of-Living Adjustment (COLA) effective July 1, 2024 and July 1, 2025.

The increase for FY 2024/2025 will be the actual Consumer Price Index (CPI) increase for the month of January, with a minimum of 2% and maximum of 5%. The CPI for January 2024 will be issued by the U.S. Bureau of Labor Statistics on or about February 15, 2024.

Salary projections for FY 2025/2026 assume the CPI will be the maximum of 5% as stated in the MOU.

Risk Management Program Expenses

The current market for Liability, Worker's Compensation, and Property insurance is volatile. The Town is expecting an increase of about 10% in insurance premiums for FY 2024/2025. The Administrative Services Director will participate in the annual budget planning and rate-setting meeting later this spring, and staff will advise when more detailed projections are available.

Budget Objectives

- **Balance the budget.** Town staff will present a balanced budget that reflects expenditures within available revenues. When balancing the budget, available revenues can include funds previously set aside as reserves.
- **Increase existing service levels.**
- **Right-size cost recovery targets:** Town staff will continue to review and evaluate programs, establish cost recovery targets, and will present the annual update of the Master Fee Schedule as an informational update in April 2024.
- **Include an annual budget contingency reserve at 5% of General Fund expenditures** to cover unforeseen expenses and unanticipated cost increases (estimated to be \$625,000).
- **Contribute to the OPEB Trust at the level necessary to fund the Town's Actuarially Determined Contribution (ADC) and continue to utilize trust funds to pay retiree medical premiums.** The proposed rate for both FY 2024/2025 and FY 2025/2026 is 2% of projected salaries. As of December 2023, the balance in the OPEB Irrevocable Trust is \$6,002,457. The funded status of the Town's Total OPEB Liability as of June 2023 is 98%.
- **Contribute to the PRSP Trust and continue to utilize trust funds to pay the annual PERS UAAL costs.** The proposal for both FY 2024/2025 and FY 2025/2026 is to continue to treat this trust similarly to the OPEB trust and base contribution amounts on a percentage of payroll, at an amount of 5% of projected salaries. The balance of the PRSP Trust as of December 2023 is \$3,808,915.
- **Continue to maintain funding for NVTA-operated Yountville Bee Line service at 7 days per week.** This is an important program that benefits many of our residents, visitors, and business community who appreciate the Town providing free service. The Town is the only Napa County city/town which provides this level of funding in support of free service. The annual cost is about \$50,000.
- **Continue maintenance of effort approach to Street Maintenance Projects** using a mix of Gas Tax and General Fund revenue. Continue the planning and implementation of SB 1 and Measure T restricted

revenues into our planning and capital projects budgets for streets projects. Staff will work to Track Maintenance of Effort (MOE) to ensure compliance.

- **Invest in technology through annual software and licensing costs.** Technology drives automation, efficiency, remote communication capabilities, website capacity, and transparency. The Town continues to identify ways of improving the internal and external customer experience by offering convenient and effective ways of conducting business, especially in the current work environment.

Capital Improvement Program Budget

The Five-Year Capital Improvement Program (CIP) provides the Town with a long-range program for capital projects and advanced financial planning. The first 5-year program was initially implemented in 1996 and has been updated annually thereafter.

The Public Works Director will be presenting a review of the proposed Five-Year Capital Improvements Program (CIP) during the budget workshop in May.

We will continue to emphasize budgeting in the Facilities Repair and Replacement Fund and Fleet, Tools, and Equipment Repair and Replacement Fund.

Water and Wastewater Enterprise Funds

The second utility rate increase per the new Five-Year Utility Rate Schedule that was adopted in November 2022 went into effect on January 1, 2024.

Staff is currently working on projecting water and wastewater revenues for FY 2024/2025 and FY 2025/2026.

The proposed Five-Year CIP will include Water and Wastewater Utility Enterprise capital improvement projects.

Fiscal Year 2022/2023 Unassigned Fund Balance

The total General Fund Unassigned Fund Balance at the close of Fiscal Year 2022/2023 was \$3,364,182. Staff's suggestion is for this amount to remain in Unassigned Fund Balance for the time being, to be reallocated according to Town Council direction later in the current fiscal year.