



Town of Yountville

6550 Yount Street
Yountville, CA 94599

Staff Report

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

Yountville Town Council Staff Report

DATE: October 18, 2022

TO: Mayor and Town Council

FROM: Celia King, Finance Director

PREPARED BY: Celia King, Finance Director

SUBJECT:

Consider adoption of Resolution Number 22-4155 Approving the creation of a new Water and Wastewater Utility Enterprise Capital Projects Restricted Fund and corresponding policy regarding purpose and use of the new fund, and approving budget adjustments assigning the available General Fund Unassigned Fund Balance in the Fiscal Year 2022/2023 Budget.

DISCUSSION/BACKGROUND

The Finance Department has recorded all transactions and activities for Fiscal Year (FY) 2021/2022 and staff is in the process of finalizing the annual audit with external auditors Chavan & Associates. The following report is for review, analysis, and decision of the Town Council regarding potential allocation of the unassigned fund balance in the General Fund as of June 30, 2022.

The Town Council typically addresses the question of how it may choose to allocate any General Fund Unassigned Fund Balance after the completion of the annual audit process, which has historically been done at the December or a January council meeting. Recognizing that this year is atypical with a larger than usual Unassigned Fund Balance and the current ongoing five (5) year Proposition 218 utility rate review process, staff is bringing this item to the Council for consideration earlier than normal.

As the audit work has not yet been completed, the amounts in this report are still considered estimates. However, at this point, there is minimal chance that additional audit adjustments will occur. The Annual Comprehensive Financial Report (ACFR) will be presented to the Town Council during the December 6, 2022 Town Council meeting.

Due to strong overall management of revenues and controlling expenditures, the Town's fiscal condition has improved significantly since 2011. The Town Council has been disciplined with its financial fund management, and principally using the year-end Unassigned Fund Balance reallocation process the Town has been able to:

- Incrementally increase funding for its Emergency Reserve Fund, Revenue Stabilization Fund and Capital Projects Fund 50,
- Establish irrevocable Other Post-Employment Benefits (OPEB) and Pension Rate Stabilization Plan (PRSP) reserve funds,
- Establish and fund Fleet & Equipment Replacement reserve funds and
- Set aside funding to support affordable housing efforts.

Given the well-funded status of many reserve funds, it may be appropriate for the Town Council to consider creating a restricted Water and Wastewater Utility Enterprise Capital Project Fund which could be funded by a General Fund contribution during the Unassigned Fund Balance reallocation process. If a fund were established and funded by the Town Council prior to the November 15, 2022 Town Council public hearing on proposed utility rates the Town Council would have the option to include this funding in the planned five (5) year rate review cycle, which would result in lower proposed rate increases.

The balance of the Town's General Fund grew substantially in Fiscal Year 2021/2022 as Transient Occupancy Tax (TOT), sales tax and property tax revenue collections ended well. Town staff managed operating expenditures and remained under budget which created savings that helped contribute to a healthy fund balance at the end of the fiscal year.

The Town will continue to exercise fiscal discipline, and has focused on the following guiding principles:

- Developing zero-based, status quo budgets that support the Town Council Strategic Plan.
- Continued funding for and the prioritization of project funding when developing the Five-Year Capital Improvement Program.
- Updating Town Fees through the annual Master Fee Schedule process.
- Continued debt service payments and funding allocations for emergency reserves, contingency reserves, revenue stabilization reserves, repair, and replacement funds, and leave payout reserve.
- Preparing for pension and retirement costs by funding the annual determined contribution (ADC) for Other Post-Employment Benefits (OPEB) as calculated by the Town's actuary and pursuing prudent investment options to help mitigate the CalPERS Unfunded Actuarial Accrued Liability and allocating for the Pension Rate Stabilization Plan (PRSP) Trust to prepare to cover fluctuations in PERS costs.

This report focuses on the details and status of the Town's General Fund. Year-end financial information on the Town's other major funds; Capital Projects Fund, Water Utility Enterprise Funds & Wastewater Utility Enterprise Funds, will be presented in the final Fiscal Year End Financial Report at the December 6, 2022 Town Council meeting.

The General Fund revenues received for FY 2021/2022 totaled \$15,404,530 which was \$5,198,963 more than the estimated budget. Below is a brief overview of the major revenues and their performance.

- Property Taxes – The budget for Property Tax revenue was \$2,100,000. Actual revenue collections slightly exceeded this budget amount by \$13,894. Property tax revenue includes excess ERAF (Educational Revenue Augmentation Fund). Napa County is one of three counties in the state for which ERAF (the property tax shift from counties, cities, and special districts to the schools) is “over funded,” according to state funding formulas. This results in a “refund” of the excess revenue back to the Town. The excess ERAF funds are subject to state approval and not included in the Town's budget projections due to its variability. Property tax revenue also includes Property Tax in-lieu (VLF). As properties were rebuilt after the October 2017 fires, they were also reassessed which resulted in higher property tax revenue.
- Sales Tax – The original budget for Sales tax revenue was \$1,270,000. Actual revenue collections exceeded this estimate by \$447,674, or 35%, due to increased tourism and restaurant activity.
- Other Taxes - Other Taxes include cable franchise tax and real property transfer tax. Revenues received in Fiscal Year 2021/2022 totaled \$324,057. This was a 79% increase from the originally budgeted amount. Franchise tax is a declining revenue source as users slowly move away from traditional cable service. Property transfer tax revenue is transaction based. The number of real property sales and the

amount of each sale determines the amount of the transfer tax assessed. In Fiscal Year 2021/2022 the Town saw the sale of a large hotel complex property cause an influx in real property transfer tax of over \$140,000 which accounts for the increased level of collections for this revenue type.

- Transient Occupancy Tax (TOT) - The Town, with 455 revenue generating hotel rooms, received a total of \$9,804,456 in TOT which far surpassed the originally budgeted amount of \$5,250,000. Total collections exceeded the budget estimate by \$4,554,456 or about 86%. The average occupancy rate for the year was 57%, up from 44% in the prior fiscal year. Average room rates were \$840, up from \$505 in 2020/2021. This upward trend in occupancy, but more importantly room rates, supports the record-breaking TOT collections. This significant increase is not likely to continue, and we have conservatively estimated \$7,500,000 in TOT revenue for Fiscal Year 2022/2023.
- Other Revenues - Licenses & Permits, Fines & Forfeitures, Rents and Concessions and Parks and Recreation Fees all came in higher than anticipated, whereas Charges for Services related to Planning Department functions were less than original estimates. Investment Earnings is reflecting a negative revenue because of a required Governmental Accounting Standards Board (GASB) audit entry to report investments at Fair Market Value.

Fiscal Year 2021/2022 expenditures (before transfers) totaled \$8,088,028. The Town staff managed expenditures, which were lower than estimated budget by \$946,344 or 10.5%. Transfers out of the General Fund totaled \$2,850,296.

Below are the effects of Fiscal Year 2021/2022 revenue and expenditure activity on the General Fund Balance:

Beginning Balance on July 1, 2021	5,827,060
Plus revenues and transfers in	15,420,871
Less expenditures and transfers out	10,938,324
Ending Balance on June 30, 2022	\$10,309,607

On June 30, 2022, the total General Fund Balance was \$10,309,607. This amount is used to fulfill all the adopted reserve allocations as outlined below, for the following fiscal year (2022/2023):

Committed for Insurance and Claims Retention	50,000
Assigned for Budget Contingencies	521,120
Assigned for Legal Contingencies	200,000
Assigned for Leave Buy Out	250,000
Assigned for Purchase Orders	200,000
Assigned for Workers Compensation	20,000
Assigned for Purchase of Y.E.S. Property	2,866,075
Total Allocations:	\$4,107,195

Applying the above adopted allocations leaves \$6,202,412 as Unassigned Fund Balance. This is the result of revenues being higher than expected, lower than anticipated expenditures, and the changes in approved fund balance allocations from one fiscal year to the next.

As these amounts are still subject to audit finalization, staff is recommending that the Town Council consider \$5,700,000 of the Unassigned Fund Balance as available to reallocate in the current fiscal year. Below, staff is providing suggestions for discussion and direction. A resolution approving specific allocations is provided for consideration and includes the items below. This will result in budget adjustments for Fiscal Year 2022/2023:

1. Approve the creation of a new Water and Wastewater Utility Enterprise Capital Projects Restricted Fund and transfer \$1,650,000 from the General Fund to establish an initial balance. The use of this fund will be restricted to funding utility capital projects and repayment of utility capital project related debt service. A draft policy to establish this restricted fund is included at the end of this staff report.

2. Transfer \$888,668 to Water Capital Improvements Fund 60 to utilize towards paying off the balance of the interfund loan to Drought Water Reserve Fund 57. If approved, the total amount of this action and the one suggested above will result in \$2,538,688 of available General Fund contribution to pay for enterprise fund capital projects and existing debt.
3. Transfer \$500,000 into Emergency Reserve Fund 04 to increase reserves. This recommendation increases the reserve to 27% of an estimated General Fund expenditure amount of \$10,422,407 in FY 2022/2023, which is 7% more than the policy minimum.
4. Transfer \$500,000 into Revenue Stabilization Reserve Fund 05 to increase reserves. This recommendation increases the reserve to 37% of an estimated TOT revenue amount of \$7,500,000 in FY 2022/2023, which is 12% more than the policy minimum.
5. Contribute \$100,000 to the Other Post-Employment Benefits (OPEB) Trust to ensure the Town meets the Actuarially Determined Contribution (ADC) amount for Fiscal Year 2022/2023.
6. Contribute \$750,000 to the Pension Rate Stabilization Plan (PRSP) Trust to increase reserves that can be used towards the Town's future annual unfunded actuarially accrued liability payments.
7. Assign \$500,000 to further support affordable housing efforts. This can be a new General Fund balance allocation or combined with the \$2,866,075 Assigned for Purchase of Y.E.S. Property and re-named to include affordable housing.
8. Transfer \$600,000 to 2020 Direct Placement Financing Debt Service Fund 55 to essentially prepay about two years of debt service payments for the Town Hall & Madison/Yount project. The Town is unable to pay off this debt early, however, setting aside funding for annual payments will alleviate the General Fund of this transfer obligation for the next two fiscal years.
9. Transfer \$150,000 Capital Projects Fund 50 to be used towards additional installation of electric vehicle charging stations and/or Town fleet replacement with electric vehicles.
10. Transfer \$50,000 into Capital Projects Fund 50 to be used for the replacement of grass in appropriate Town public space with high quality artificial turf to promote water conservation.

Staff seeks approval of the suggested reallocation of General Fund Unassigned Fund Balance as outlined above, or direction as to how the Town Council would like to revise the suggested reallocations.

ENVIRONMENTAL REVIEW

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

FISCAL IMPACT

Is there a Fiscal Impact? Yes

Is it Currently Budgeted? N/A

Where is it Budgeted? N/A

Is it Mandatory or Discretionary? Discretionary

Is there a Staff Resource Impact? Nominal

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. Informing the Town Council and the community of the Town's fiscal status at the end of each fiscal year promotes financial transparency. The results of this report may provide the Town Council an opportunity to allocate unassigned fund balance in the current fiscal year, which allows for funding for currently relevant initiatives that were not previously included in the annual budget.

RECOMMENDATION

Receive staff report and direct questions to staff.

Receive public comment.

Conduct Council discussion.

Adopt Resolution Number 22-4155 Approving the creation of a new Water and Wastewater Utility Enterprise Capital Projects Restricted Fund and corresponding policy regarding purpose and use of the new fund, and approving budget adjustments assigning the available General Fund Unassigned Fund Balance in the Fiscal Year 2022/2023 Budget.

TOWN OF YOUNTVILLE
PRELIMINARY YEAR END FINANCIAL REPORT
Fiscal Year 2021/2022

General Fund Revenues

The following is a summary of General Fund revenue by major category as of June 30, 2022:

Revenues:	Budget	Actual	Variance	% of Budget	Note
Property Taxes	2,100,000	2,113,894	13,894	100.7%	Note 2
Sales Taxes	1,270,000	1,717,674	447,674	135.2%	Note 1
Other Taxes	181,000	324,057	143,057	179.0%	
Transient Occupancy Tax	5,250,000	9,804,456	4,554,456	186.8%	Note 3
Investment Earnings	25,000	(178,047)	(203,047)	-712.2%	
Licenses & Permits	138,900	190,278	51,378	137.0%	
Fines & Forfeitures	3,500	29,627	26,127	846.5%	
Rents & Concessions	261,825	323,752	61,927	123.7%	
Intergovernmental	504,642	533,135	28,493	105.6%	
Parks & Recreation Fees	166,200	242,260	76,060	145.8%	
Charges for Services	150,000	74,002	(75,998)	49.3%	
Miscellaneous	154,500	229,442	74,942	148.5%	
Total	10,205,567	15,404,530	5,198,963	150.9%	

Transfers:	Budget	Actual	Variance	% of Budget	Note
Tourist Business Imp. Dist.	8,750	16,341	7,591	186.8%	
Total	8,750	16,341	7,591	186.8%	

Note 1 - Sales tax receipts lag 2 ½ - 3 months behind the actual collection period.

Note 2 - Property taxes are generally not received until December, after the first installment has been collected by Napa County.

Note 3 - TOT is due one month after the collection period and received 45 days after the collection period.

TOWN OF YOUNTVILLE
PRELIMINARY YEAR END FINANCIAL REPORT
Fiscal Year 2021/2022

General Fund Expenditures

The following is a summary of General Fund Expenditures by major category as of June 30, 2022:

Expenditures		Budget*	Actual	Variance	% of Budget
Town Council/Mayor	1001	145,812	95,311	(50,501)	65.4%
Non-Departmental	1010	202,066	158,335	(43,731)	78.4%
Town Manager	1101	459,043	443,080	(15,963)	96.5%
Information Technology	1011	-	-	-	0.0% Note 1
Community Promotion	1015	407,633	330,789	(76,844)	81.1%
Finance	1102	571,977	509,887	(62,091)	89.1%
Risk Management	1103	78,350	21,780	(56,570)	27.8%
Town Attorney	1105	196,500	173,429	(23,071)	88.3%
Town Clerk	1110	453,086	393,824	(59,263)	86.9%
Planning & Building	2115	1,125,424	927,680	(197,744)	82.4%
Law Enforcement Services	3200	1,195,299	1,194,799	(500)	100.0%
Fire & Emergency Services	3201	605,050	457,579	(147,471)	75.6%
PW Admin. & Engineering	4301	705,350	609,338	(96,012)	86.4%
PW Street Maintenance	4305	383,225	346,842	(36,383)	90.5%
PW Park Maintenance	4320	589,279	558,387	(30,893)	94.8%
PW Government Bldgs.	4325	501,898	469,514	(32,384)	93.5%
Parks & Rec Admin & Services	5405	443,759	411,499	(32,260)	92.7%
Parks & Rec Camp Programs	5406	134,451	131,035	(3,416)	97.5%
Community Center	5408	295,580	288,008	(7,572)	97.4%
Parks & Rec After School Prog.	5409	26,042	21,168	(4,874)	81.3%
Parks & Rec Leisure Prog.	5410	261,236	256,216	(5,019)	98.1%
Parks & Rec Sports Prog.	5412	44,928	44,623	(304)	99.3%
Parks & Rec Community Events	5413	147,238	134,561	(12,677)	91.4%
Yountville Arts	5415	61,145	110,344	49,199	180.5%
Total Expenditures		9,034,372	8,088,028	(946,344)	89.5%
Transfers Out:					
OPEB-Employee Retiree Ben.		225,000	225,000	-	100.0%
PERS UAL		325,000	325,000	-	100.0%
Emergency Reserve Fund		350,000	350,000	-	100.0%
Revenue Stabilization Fund		250,000	250,000	-	100.0%
Capital Projects Fund		500,000	500,000	-	100.0%
Facility Replacement Fund		200,000	200,000	-	100.0%
Fleet/Equip Replacement Fund		-	-	-	0.0%
Housing Opportunity Fund		70,400	63,000	7,400	89.5%
T.O.Y. Community Foundation		-	33,335	(33,335)	0.0% Note 2
Water Subsidy		5,625	5,375	250	95.6%
Wastewater Subsidy		1,500	1,250	250	83.3%
2017 Lease Rev. Debt Service		540,000	540,000	-	100.0%
2020 Lease Fin. Debt Service		357,335	357,335	-	100.0%
Total Transfers Out:		2,824,860	2,850,296	(25,435)	100.9%

* Budget includes amounts for prior year purchase order rollovers and Town Council approved budget adjustments.

Note 1: Allocations of information technology are made to each department so no expenses are shown for program

Note 2: Transfer to TOYCF represents excess revenue collected from art sales.

Town of Yountville Use of Water and Wastewater Utility Enterprise Capital Projects Restricted Fund Policy

Historical Background

The Town of Yountville operates both water and wastewater utility enterprise fund operations which serve the residents and business community of the Town, and, in the case of the water enterprise fund, an additional 32 accounts located along Yountville Cross Road. Enterprise Fund operations are designed by nature to operate more like a private sector business model as compared to general government services which are funded by the General Fund.

On February 10, 2011, the Town Council adopted a five (5) year phased rate schedule that was designed to end the General Fund subsidization of these enterprise funds. The Town Council issued a policy statement that the enterprise funds should no longer be subsidized and requested a formal policy be brought back to the Council. For the prior decade the Town had operated its water and wastewater utility enterprise funds in a manner which included a significant General Fund subsidy averaging more than \$300,000 per year to cover water operating expenses and capital project expenses for both the water and wastewater utility enterprise funds.

Due to strong overall management of revenues and controlling expenditures, the Town's fiscal condition has improved significantly since 2011. The Town Council has been disciplined with its financial fund management and principally through use of the year end Unassigned Fund Balance allocation process the Town has been able to incrementally increase funding for its Emergency Reserve Fund, Revenue Stabilization Fund, and Capital Projects Fund 50, and to establish irrevocable OPEB and Pension UAL Reserve Funds, establish and fund Fleet & Equipment Reserve Funds, and set aside funding to support for affordable housing. On October 18, 2022, the Town Council created the Water and Wastewater Utility Enterprise Capital Projects Restricted Fund which could be funded by allocations from the General Fund Unassigned Fund Balance allocation process.

Purpose

The Town will establish a Water and Wastewater Utility Enterprise Capital Projects Restricted Fund. Funds may only be used for the purpose of paying down utility enterprise fund capital debt expenses or to fund the costs of projected utility enterprise fund capital costs only and may not be used to pay for annual operating costs. This restricted fund is funded through a potential allocation from the annual General Fund Unassigned Fund Balance allocation process upon completion of the annual audit process.

General Policy Practices

- Enterprise Funds will be established for Town-operated utility services such as the water and wastewater operations.
- Enterprise Capital Fund expenditures will be established at a level sufficient to properly maintain infrastructure and provide for necessary capital improvements.
- The Town Council will review and adopt utility rates as needed to appropriately cover the costs of all operations, including maintenance, depreciation, capital and debt service requirements, reserves as established by Town Council policy, and provide for an adequate level of working capital.
- As a part of its periodic five (5) year phased utility rate review process, the Town Council may allocate and transfer funds from the General Fund Water and Wastewater Utility Enterprise Capital Projects Restricted Fund for the purposes of paying off debt or to pay for planned enterprise fund capital projects identified in the next five (5) year of planned capital projects thereby reducing impact to ratepayers.

- Enterprise Fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.
- Revenue bonds shall be issued only when projected operating revenues and reserves are insufficient for the timely completion of enterprise capital projects.
- General Fund revenues are not to be used for annual operating expenses for the Water and Wastewater Utility Enterprise Funds.