

On the Precipice

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In the 14 years since its formation by the voters of Napa County in 2006, the Napa Open Space District has methodically expanded its offering of open space parks and trails and public usage has steadily increased. By March 2020, NOSD owned just over 5,000 acres of open space, managed another 8,000 acres of parks and open space owned by other public agencies, and oversaw more than 90 miles of multi-use recreational trails. The District, through cautious and careful management, had also built up a rainy day fund equal to nearly a year's worth of routine operating expenses.

However, since March of 2020 the District along with virtually everyone else has experienced a bit more than a few rainy days. The COVID-19 pandemic has thrown everyone's lives into turmoil, disrupting jobs, schools, and families. One significant and mostly positive side effect has been people reconnecting with nature. **Public use of our parks and trails has more than doubled, and in some places tripled, since March 2020.** That's a great affirmation of the value of what we do at the Napa Open Space District, in promoting the physical, mental, and spiritual health of Napa County. It's been a real challenge for District staff and dedicated volunteers to accommodate this surging demand, but one we have willingly taken on.

Skyrocketing demand for public outdoor spaces is showing no signs of diminishing.

Unfortunately, District finances have at the same time been ravaged, due in part to the costs of keeping new park users safe, but much more significantly because of the impacts of coronavirus on the hospitality sector, the devastating LNU and Glass fires, and the choking and pervasive smoke that blanketed the Bay Area from summer deep into the fall.

The Financial Picture

The District has three sources of operating revenues: program income, an annual grant from the County of Napa, and grants and donations from other agencies and the community at large.

Program income currently accounts for more than 40% of overall District operating revenues; which is much more than is typical for other regional park agencies. We're proud to have achieved this level of self-sufficiency even while keeping nearly all of our parks and trails free to the public. However, most of our program income comes from fees at the State Parks we manage, for camping, for picnicking, and for tours of the historic Bale Grist Mill...and those fee revenues went to zero between March and June due to the pandemic forcing the closure of the campground and the Mill. While revenues briefly recovered from late spring into early summer,

they slipped again in August when smoke from the LNU fires made outdoor activities unpleasant and unhealthy and then collapsed completely when the Glass Fire first closed and then ultimately burned much of Bothe-Napa Valley and Robert Louis Stevenson State Parks. We weren't able to reopen the State Parks until Friday November 13, and even then only partially.

Since its formation the District has relied on an annual grant from the County of Napa. The District has had tremendous success leveraging the County grant, turning every \$1 of County funds into approximately \$3 worth of total cash and in-kind contributions that support the District's work. The County grant is based on a percentage of Transient Occupancy Tax revenues collected in unincorporated Napa County. Thanks to Napa's strong tourist economy, it's been an incredibly reliable funding source...until 2020. **Hotel tax revenues have been down 90 percent since March** because of the pandemic followed by the smoke from the LNU fires. **Even more significant, the two hotel/resort complexes that accounted for roughly half of County Transient Occupancy Tax revenues suffered major damage in the Glass Fire.** Whether and how soon those lodging facilities rebuild is impossible to predict at this time, but even in the best of circumstances it is likely to take a few years.

Up to now, the County's grant to the Napa Open Space District each fiscal year (July 1 to June 30) has been based on actual hotel revenues generated from Oct 1 two years prior to Sept 30 one year prior. Because of this lag between when hotel taxes are generated and when the County disburses grant funds to the District, the financial impact of the pandemic and the fires on the District's grant from the County won't start to hit until fiscal year 2021-22, with the full impact actually being delayed to fiscal year 2022-23. **Under the current grant formula, the County grant to the District is expected to decline some 40% in FY 2021-22 (compared to the grant received by the District in FY 2020-21), and by 85% in FY 2022-23.** In the best of circumstances, COVID 19 could be under control by the summer of 2021, and the hotels damaged by the Glass Fire mostly repaired and in operation sometime in 2022. This assumes no more disasters for the next few years. In those best-case circumstances, under the current grant formula the County grant to the District could potentially recover to 55% of normal in FY 2023-24, and 80% to 90% of normal the following year.

These projected cuts are way more than the District's otherwise ample rainy day funds can handle. Without significant changes, the District is facing a slow-moving financial train wreck that can only end in insolvency.

So what is to be done?

Actions Already Taken

The District Board of Directors this last June adopted the District's current-year (FY 2020-21) budget. Anticipating a pandemic-generated future reduction in transient occupancy tax revenues, the Board approved eliminating all capital investments not funded by dedicated

grants, not funding any new staff positions, cutting outside professional services to the bare minimum, and cancelling most of our environmental education program. Then in September the Board of Directors slashed benefit costs by cancelling a previously-approved but not yet implemented defined contribution retirement program for District employees not covered by the County's CalPERS contract.

These actions would have been enough to absorb the impact of the pandemic, but at the end of September the Glass Fire severely damaged Meadowood Napa Valley and Calistoga Ranch- major generators of Transient Occupancy Tax in the unincorporated county. Now that the extent of devastation is known, it is crystal clear the District's fund balance will go negative in fiscal year 2022-23 (see attached chart) unless more major changes are made.

Further Recommended Actions

Since the Board of Director's September decision, District staff has developed additional recommended actions for Board of Directors consideration to keep the District from the public sector version of bankruptcy:

- (1) Explore increasing net revenues from EcoCamp Berryessa by allowing family camping and a wider array of groups in addition to youth groups and community organizations. This would, however, require some investment to repair fire damage to the camp host site and the need for additional staffing to support the increased use could offset much of the extra revenue.
- (2) Actively solicit voluntary user donations at Moore Creek Park and Oat Hill Mine Trail (does not need further Board approval, and implementation is already in process).
- (3) Implement an aggressive community-based fundraising program including supporting memberships, business sponsorships, and planned giving (program approved by Board of Directors in November, and now starting to roll out).
- (4) Reduce administrative, planning and acquisitions staff costs. At the present time, the District operates with 2.5 FTEs (full time equivalent employees) focused on administration, planning, and acquisitions. That level of staffing, while still lean, was required to implement the consistent growth experienced by NOSD since its founding. In the current fiscal environment anything like the past level of growth is not going to be possible for the foreseeable future. When the employee currently filling the County's Parks and Open Space Program Manager position (who is contracted by the District to serve as General Manager) retires at the end of the fiscal year, the District should consider no longer contracting with the County for that position. This would result in a net savings of between \$120,000 and \$180,000 per year or 15% to 21% of non-State Park operating expenses, with the exact amount depending on whether the District will need to backfill some of the lost expertise. With this action, the District Board of

Directors will separately need to designate a new General Manager from among the people who already work for or are contracted to the District.

- (5) Increase camping fees at Bothe-Napa Valley State Park from \$35 to \$40 per night (this requires concurrence by California State Parks).

Recommendations #4 and #5 have tangible and predictable benefits for the bottom line (though #5 only directly benefits the District's State Park operations, and not the operations supported by the County grant. The other three recommendations should also benefit the bottom line over time, but the District would be wise to not count on these potential new revenue streams until they have been proven.

Even with the above actions, as Scenario 2 on the attached chart shows, the District will have depleted its non-State Park reserves by the end of fiscal year 2022-23, and will go negative shortly thereafter unless Transient Occupancy Tax revenues somehow recover considerably faster than seems likely.

Additional Potential Actions

Additional actions that could be taken include the following:

- (1) Close parks and trails. This is actually not easy to do, has significant unintended consequences, and is not recommended.
 - a. The District could stop maintaining the Oat Hill Mine Trail, but there is no practical way to prevent the public from using this old mining road, so the situation would revert to what it was before the District assumed responsibility for the right-of-way in 2008, with extensive trespassing, unsanctioned trail cutting, and illegal camping.
 - b. The District could stop maintaining the Napa River Ecological Reserve and turn it back over to the California Department of Fish and Wildlife, but CDFW has no budget or staff to manage the Reserve, and there is physically no way to exclude the public from using what is the only public access to the Napa River between the cities of Napa and Calistoga. As a result, the Reserve would likely rapidly return to being a trash and graffiti-filled mess.
 - c. Ecocamp Berryessa was built with grant funds that require it be operated as a campground for at least another decade. If it were closed, the District or its successors could be legally obligated to pay back some or all of that grant.
 - d. Moore Creek Park and Soscol Headwaters Park were also grant funded acquisitions, and if closed the District or its successors could be legally obligated to repay all or part of those grants.
 - e. The Cove is still being repaired from when it burned in the 2017 wildfires; the expense of operating it as a public park is not in the baseline budget projections, so not finishing repairs and not reopening it to the public would not improve our budget outlook; this would simply keep it from getting worse.

- f. Other District holdings are not currently open to the public, so keeping them closed would not reduce District expenses.
 - g. The State Parks are a separate budget unit, supported entirely by revenues generated at those parks. Per County policy, no County grant revenues may be used to support State park operations, and per State policy no revenues generated at the State Parks can be used outside of the State Parks. Cancelling the District's agreement to operate the State Parks would thus not benefit the District's bottom line. Further, if operation of these parks reverted to California State Parks, their condition would most likely also revert to what it was when the District assumed operations in 2012—extensive deferred maintenance with numerous boarded-up buildings, leaky roofs and water pipes, poorly cleaned and unsanitary restrooms and showers, and neglected trails.
- (2) Impose new user fees. This has both policy implications and practical constraints, and is not recommended at this time, except to conduct further research into the feasibility for charging for trail use at Moore Creek Park.

The District has up to now avoided charging day use fees, other than the fees already in effect at the State Parks when the District assumed management of those parks. This has partly been because of a belief that parks are a public good, and there is a public benefit when everyone, regardless of income, can enjoy the outdoors. In addition to this policy preference, however, is the simple fact that monitoring and enforcing user fees at remote locations can chew up most of the revenues generated by those fees. User fees can also have significant unintended side effects. For example, charging a fee for use of the Oat Hill Mine Trail may result in many people avoiding the main trailhead and instead trespassing on private property to access the trail further up the mountain. Similarly, charging a fee at the main entrance to Moore Creek Park would encourage people to park on Chiles/Pope Valley Road, a hazardous outcome, or could cause them to shift to the Conn Valley entrance, which already has more usage than the limited off street parking there can reasonably accommodate. Charging a fee for parking at the end of Conn Valley Road would result in more people attempting to park in the substandard shoulders and turnouts before the end of the road, as well as potentially requiring the County to consider turning the last stretch of this public road into what would essentially be a toll road.

- (3) Eliminate additional staff positions. This would significantly impact the capacity of the District to meet its responsibilities, and is not recommended at this time.

Outside of the District's State Parks operations (which are separately funded), the District has a very lean operation, with a total of only just over 4.5 full-time equivalent positions. Recommendation #4 above would eliminate the most expensive of those full

time positions. With this recommended cut the District will have little to no staff capacity left to plan and develop new projects, but existing commitments and park operations could continue. Further cuts to staff would only be possible if parks and trails were closed and performance standards were dramatically lowered.

- (4) Dissolve the District. This would not be easy to do, would involve substantial work and cost in the short run, and would result in the elimination of many if not all services provided by the District. It is a last resort and not recommended at this time.

Because the District was created by the voters of Napa County, any attempt to dissolve the District may need to go back to those same voters, with unknown outcome. In addition, the District's extensive property holdings would need to be taken over by other public agencies or non-profit organizations. If no other agency or organization with sufficient financial capacity were willing to step forward, the properties would likely devolve to the County or the State and, barring significant new expenditures at either of those levels of government, they would cease to be maintained and public access would be curtailed. Under any such scenario the County would likely end up with the knotty and potentially costly challenge of picking up the pieces, similar to what it has had to do in the past with other special districts that for various reasons became insolvent or dysfunctional.

- (5) Sell District Assets. The District owns just under \$15 million in property assets. However, all of the properties have deed restrictions or clouds on the title that either prevent their sale, remove most or all of their market value, or could require the District or its successors to repay the grants used to acquire the properties should they stop being public parks and/or open spaces.
- (6) Restructure the County Grant. The District could request the County of Napa revise the current method for determining the amount of the County's annual grant to the District. Exploring this option is recommended.

The current County grant to the District is based on a five-year agreement that runs through fiscal year 2022-23. The agreement has an option to extend for another five years. However, as the attached projections show, even with the reductions already incorporated into the current-year budget, as well as the additional five Recommendation Actions presented above, District reserves will likely be depleted by the end of the current five-year agreement, and will go negative thereafter unless the terms of the agreement are modified.

Changing the way the County grant formula is structured, such as to base the grant on multiple years' worth of revenues rather than a single year, could reduce abrupt year-

to-year changes in the grant amount, but it would not solve the underlying short to mid-term problem of dramatically reduced transient occupancy tax revenues. Transient Occupancy Tax revenues from the unincorporated county won't recover until the pandemic is over, Napa Valley's tourism sector recovers, and the hotels that were damaged and/or destroyed in the Glass Fire are rebuilt and once again successful.

Assuming Napa Open Space District implements the five Recommended Actions above, District revenues and expenses would be in approximate balance if the County grant approximated \$750,000 per year over the next five years. This would represent a 30 percent reduction from the current-year County grant of \$1,081,800, and it would not be enough to fund further acquisitions or new capital improvements of any scale. However, it would provide desperately-needed stability and predictability, and enable the District to maintain and operate all existing parks and trails, and also allow us to not miss out on other grant or donor-funded opportunities to gradually complete those park and trail improvements already in the works.

Final Thoughts

Up until 2006, Napa County was the only county in the San Francisco Bay Area to have neither a county park and recreation department nor a park and open space district. Since then, with the strong support of the County of Napa Board of Supervisors, the Napa Open Space District has made considerable progress in providing the kind of regional parks and trails that the rest of the region has enjoyed for decades.

Demand for and use of these new parks and trails, already high before the arrival of coronavirus, has only exploded since then. Unfortunately, the combination of a pandemic and unprecedented wildfires is now challenging the financial structure that underpins the District. With no further adjustments, the disaster won't happen until early in 2023, but the longer we wait to right the ship the more limited and painful the choices will become.