



Staff Reports Details (With Text)

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8/4/2020	1	CITY COUNCIL OF THE CITY OF NAPA		
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To: Honorable Mayor and Members of City Council

From: Bret Prebula, Finance Director

Prepared By: Jessie Gooch, Finance Analyst

TITLE:
Settlement Revenue from 2017 North Bay Wildfire Damage

RECOMMENDED ACTION:

Adopt a resolution approving the FY 2019/20 transfer of revenue received from PG&E in settlement of litigation arising from damage to the City from the 2017 North Bay Wildfire, with the transfer of \$2,342,462.51 into the General Fund Emergency Reserve and the transfer of \$4,000,000 into the Water Capital Improvement Reserve.

DISCUSSION:

In October 2017, as a result of a series of wildfires that have been referred to as the North Bay Wildfires, the City of Napa incurred significant damage, most of which was damage to water facilities and the watershed at and around the Milliken Reservoir. Due to evidence of actions or inaction by PG&E as a contributing factor in the North Bay Wildfires, the City was one of nine public agencies to file a lawsuit against PG&E to recover damages from those fires. In 2019, PG&E filed for bankruptcy protection due to overwhelming claims and litigation from public and private parties resulting from not only the 2017 North Bay Wildfires, but also the 2018 Paradise Fire.

In June 2019, the City issued a press release to report that a settlement agreement had been reached between PG&E and the public agency plaintiffs (including the City of Napa); however, that settlement was subject to confirmation by the Bankruptcy Court. In June 2020, PG&E announced that the Bankruptcy Court had confirmed the settlement with the nine public agencies as well as separate

settlement agreements with private parties and insurance companies that had also incurred fire damages. The City received the settlement payment of \$6,342,462.51 from PG&E in late June.

As noted above, since the majority of fire damage to the City was to water facilities and watershed, \$4.0 million of the settlement proceeds were deposited to the Water Fund, and the balance of \$2.342 million was deposited to the General Fund. The fire damage at Milliken Reservoir included watershed damage, potential sedimentation from increased erosion, and the inability to use water from the reservoir due to damages to the raw water line. The Water Fund has also incurred costs related to delayed capital projects, cost share towards FEMA funded projects to restore pump stations destroyed in the fire, and staff time in responding to these fire-related issues. The \$4.0 million will be transferred to the Water Capital Improvement Reserve through this action to be used for future project funding. The remaining \$2.342 million is being transferred to the General Fund Emergency Reserve to assist in replenishing the use of these funds in FY 2020/21, and this allocation to the General Fund reflects the proportionate impacts to the General Fund including the staff time responding to the fires.

This PG&E related revenue was unanticipated in the end-of-year planning for FY 2019/20. While the City continues to expect a deficit of \$7 to \$10 million in FY 2019/20, staff believes the deficit can be fully offset by the current planned usage of the \$4.6 million transfer from the CIP Fund (Civic Center Project suspension and Dwight Murray Project cancelling) approved in April 2020, coupled with Non-Recurring General Fund available fund balance. The expected deficit in FY 2020/21 will require usage of approximately \$3.645 million in General Fund Emergency Reserve. To bolster the balance of the General Fund Emergency Reserve ahead of the usage, a transfer of the \$2.342 million of PG&E General Fund settlement to the General Fund Emergency Reserve is proposed. This transfer will allow for additional reserve funding which could be used if the impact of COVID-19 is beyond the original \$20 million revenue reduction projected for FY 2020/21, and assist in addressing the many unfunded, delayed or suspended projects such as:

- Cancelled Park related capital projects
- Ongoing capital needs of approximately \$2 to \$2.5 million per year, for the current City buildings (as identified in the Facility Condition Assessment), due to the suspension of the Civic Center Project
- Cancelling of the City's ICMA Fellow program
- Reductions in funding for fire apparatus
- Increases in unemployment insurance costs (quarterly billings went from \$5,000 per quarter to \$115,000 per quarter)
- Other important unfunded citywide capital projects.

It is important to note, the above partial list of the unfunded, cancelled, or suspended projects will need to be addressed in future (FY 2021/22 and FY 2022/23) fiscal years, along with other substantial increases that are projected to occur in CALPERS (retirement) costs, general liability insurance, and unemployment insurance. These potential increases coupled with the lack of clarity in most of the City's major revenue sources emphasizes the need for the City's reserves to remain healthy and is an imperative piece of the City's overall financial health.

FINANCIAL IMPACTS:

The current balance of the General Fund Emergency Reserve is \$13.054 million, with no current transfers in or usages of planned for FY 2019/20. The transfer in of \$2.342 million would increase the

balance to \$15.396 million. The Emergency Reserve would then be reduced by approximately \$3.645 million due to the anticipated deficit in FY 2020/21, resulting in a final estimated balance of \$11.751 at the end of FY 2020/21.

The transfer of \$4.0 million into the Water Capital Improvement Reserve will increase the reserve balance to approximately \$5.3 million as of the end of FY 2019/20.

CEQA:

The City Manager has determined that the Recommended Action described in this Agenda Report is not subject to CEQA, pursuant to CEQA Guidelines Section 15060(c).

DOCUMENTS ATTACHED:

ATCH 1 - Resolution

NOTIFICATION:

None