Report to Leadership Napa Valley Class 36 on the economic future of Napa County, April 26, 2024

Introduction

This is my fourth and final report on the economic future of the Napa Valley. I want to offer my gratitude to classmates Chuck Meibeyer, Domingo Rodriguez, and Ginni Hill for their support, collaboration, and coaching. They made this project a whole lot easier and more enjoyable.

Writing these has been a labor of love and respect for the Napa Valley and all the people that live here. I came to this valley the first time in 1985 and fell in love. I think my experience was probably much like so many others before me, going all the way back to George Yount and other early settlors. After living in Los Angeles, Minneapolis, and Chicago I was seeking peace, quiet, and a quality of life that wasn't available in those cities. I was seeking a connection to where I lived that would allow me to thrive for the rest of my life. To borrow a phrase from Alexia Viola, *"it would literally become the landscape of my story"*. (Source, Why I love the Napa Valley, June 24, 2019) https://www.alexiaviola.com/blogs/news/why-i-love-napa-valley

Today, more people than ever come to enjoy this place. It's packed most of the time. The amount of wealth that has moved here is humungulous! The number of wineries has increased exponentially. In 1973 there were 30 wineries. By 1988 the number had increased to 250. California Wine Advisor reported in January 2024 that there are 500 physical wineries with tasting rooms, and 1850 registered wineries. The City of Napa has evolved from a blue collar town that tourists ignored into a world class destination. The roads are packed. Resources are stretched, including labor. Everything seems more extreme.

To see an example of how much things have changed, just compare the Napa County Agricultural Crop Report from 1985 with the one from 2022. In 1985 there were only 12,714 acres planted in red grapes (called black varieties in this report). Their average price per ton was $747.67!

25 YEARS
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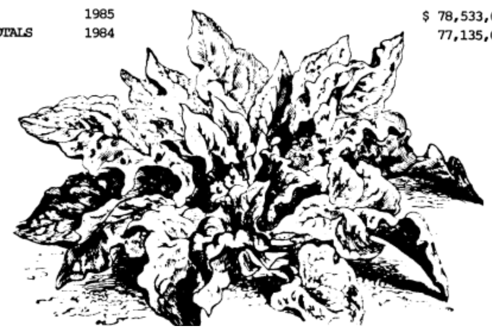
BLACK VARIETIES --- 1985

VARIETY	BEARING ACRES	NON-BEARING	TOTAL ACRES	TONS	PRICE PER TON
Cabernet franc	150	112	262	763.8	1,024.88
Cabernet Sauvignon	5,221	1,023	6,244	21,239.9	860.46
Carignane	108	0	108	243.3	178.20
Charbono	71	0	71	142.9	519.76
Early Burgundy	47	0	47	68.4	175.50
Gamay (Napa)	817	0	817	2,631.0	326.87
Gamay Beaujolais	377	0	377	684.0	515.06
Merlot	706	134	840	3,237.7	951.01
Petite Sirah	687	21	708	1,833.5	458.75
Pinot Meunier	25	31	56	39.4	....
Pinot noir	2,368	33	2,401	8,481.9	789.37
Pinot St. George	63	3	66	88.2	....
Zinfandel	1,924	83	2,007	7,378.7	410.14
Other Blacks	150	3	153	327.5	....
TOTAL BLACKS	12,714	1,443	14,157	47,160.2	747.67

The following varieties are included in Other Blacks: Alicante Bouschet, Barbera, Carmine, Grand Noir, Grenache, Gringnolino, Malbec, Mataro, Petite Verdot, Refosco / Mondeuse, Ruby Cabernet, St. Macaire, and Syrah/French Syrah/Shiraz.

FRUIT AND NUT CROPS --- 1984 -1985

CROP	YEAR	ACRES	YIELD/ ACRE	TOTAL	UNIT	PRICE PER UNIT	TOTAL VALUE
GRAPES, WINE	1985	12,714	3.71	47,160.2	TON		
BLACK	1984	12,716	3.47	44,086.7	"		
	1985	12,790	4,24	54,246.3	"		
WHITE	1984	12,115	4.61	55,909.6	"		
TOTAL	1985	25,690	3.98	101,406.5	"		$ 78,332,000
WINE GRAPES	1984	24,831	4.03	99,996.0	"		76,836,000
	1985	729	.19	140.9	"	$ 598.34	84,000
WALNUTS	1984	731	.29	208.7	"	900.00	188,000
MISC. FRUITS	1985	(Apples, Citrus, Bushberries,					117,000
& NUTS	1984	Black Walnuts, Kiwi, Prunes,...)					111,000
	1985						$ 78,533,000
TOTALS	1984						77,135,000



The total value of all crops grown in the Napa Valley in 1985 was $85,130,000. That includes fruits (including grapes), nuts, vegetables, field crops, floral and nursery, livestock and poultry.

Here is an excerpt from the 2022 Napa County Agricultural Report. It focuses exclusively on grapes. There were 36,809 acres of red grapes planted, approximately triple the amount back in 1985. Price per ton averaged $7706.38, up from $747.67. No wonder people like to grow red grapes in this valley!!

(SEE NEXT PAGE)

CROP	YEAR	PRODUCING ACRES	TONS PER ACRE	TOTAL TONNAGE*	DOLLAR VALUE
Red Winegrapes	**2022**	**36,809**	**2.82**	**103,829**	**$800,145,700**
	2021	36,636	2.58	94,657	$663,369,300
White Winegrapes	**2022**	**9,319**	**2.93**	**27,315**	**$90,765,700**
	2021	9,383	2.76	25,870	$78,362,700
Winegrapes Subtotal	***2022***	***46,128***	***2.84***	***131,144***	***$890,911,400***
	2021	*46,019*	*2.62*	*120,527*	*$741,732,000*
Olives	**2022**	**109**	**1.53**	**166**	**$283,100**
	2021	57	1.88	107	$226,400
Other Fruits & Nuts**	**2022**				**$154,400**
	2021				$109,000
TOTAL FRUITS & NUTS	**2022**				**$891,348,900**
	2021				$742,067,400

*All values are rounded after final calculation and based on actual values.

**Other fruits and nuts include apples, apricots, Asian pears, blackberries, blueberries, cantaloupes, cherries, citrus, figs, guava, jujubes, loquats, melons, nectarines, peaches, pears, persimmons, plums, pluots, pomegranates, prunes and other stone fruits, quince, raspberries and strawberries.

We must acknowledge that Napa Valley has evolved dramatically since 1985. It's evolved from primarily an agrarian culture and economy to a "luxury oriented economic model". (Source: Tim Carl, author of Napa Valley Features) The most fundamental question we face today is whether that model can survive given the growing pressures on the wine industry, the limitations on physical resources including roads, water, fire prevention, and land.

Background and preparation

My research began shortly after Leadership Napa Valley Agriculture Day, Friday, October 6, 2023. Since then I have conducted over 30 interviews with winery owners, winery executives, vineyard owners, wine industry consultants, mayors, city council members, city planners, county planners, county supervisors, chamber of commerce representatives, Visit Napa Valley, and real estate developers. I have read multiple long term plan documents for the cities in Napa County and for the county itself. In this report I will be referring to information I received during some of the interviews, but I will not always identify the person interviewed. Some of the insights and comments were offered trusting that I would not be "quoting" anyone.

When I started this project seven months ago the prevailing attitude seemed to be acknowledgement that the wine industry was in a downturn, but that it would likely be short lived. It was nothing for anyone local to worry about. I remember asking questions in one of the early interviews that apparently sounded too negative to the person I was interviewing. I was admonished "*let's not go down that pessimistic rabbit hole*." Today there is general consensus that this downturn is not short term and that it is widely impacting the Napa Valley. As I am starting the drafting of this report on Saturday. April 13, 2024 there is a feature article in the Napa Valley Register entitled "Challenges Facing the Wine Industry".

Conclusions

I'm going to cut to the chase and tell you my conclusions first. Then if you want to skip reading the rest, you can! If you want to keep reading, I'll be filling in the details.

1) The downturn in the wine industry will take several years to work through. *Page 5-6.*
2) The wine industry will shrink, worldwide, including in the Napa Valley. *Page 6-8.*
3) Shrinking is not a bad thing, especially after 50 years of growth. *Page 8.*
4) Napa Valley vineyard prices are holding up. Consider selling before they decline. *Page 9.*
5) The "luxury oriented economic model" can survive, and thrive, but it needs serious, modification. *Page 9-11.*
6) The economy of the Napa Valley needs to diversify, but not to the detriment of the wine industry. *Page 12-13.*
7) The climate is changing whether we want to accept it or not. We must deal with wildfires and a warming climate. *Page 13-14.*
8) The Agricultural Preserve can't be violated or compromised in any way. *Page 14*
9) The Land Trust of Napa County is one of our most valuable assets. *Page 15.*
10) The "800 lb." gorilla in the room is that we need to build thousands of housing units for workers who contribute to our economy every day. People need the option to live where they work. We also need to get 30,000+ commuters off our roads each and every day! *Page 15-17.*
11) Final Thoughts. *Page 18.*

The downturn in the wine industry will take several years to work through

This is the unanimous conclusion of everyone I spoke with in the wine industry. Primary reasons include younger consumers not drinking wine at the same time baby boomers are aging out of drinking. “The primary driver of the downturn appears to be a reduction of alcohol consumption generally.” (Source: Wine Market Council, March 21, 2024)

Other considerations include climate (heat, fire, smoke), labor shortages, geopolitical tensions (China’s embargo on Australian wines), rising costs, tariff fluctuations and rules changes internationally. (Source: Sommelier Business, March 2024)

Then there is wine itself! *“Other alcoholic beverages have changed significantly and have left the wine industry behind with new and interesting spins on their brands and beverages. The wine industry is slowly getting there, but it feels like it’s taking a long time to actually kick things up a gear. It seems like there are still a lot of wines with any number of hills, rivers, stones, or rocks on the label. And an endless number of labels that are named after a bay, valley, or mountain range or that have a picture of a chateau on them. **Wine feels like it’s writing a new edition of the same book, whereas other alcoholic beverages keep releasing new books.** And for sure, that’s part of the romance of the wine industry and how wine works as an annual product, but I feel we need to be more diverse.”* (Source: Brad Frederickson, Winemaker & Creator at Outside the Box Wines, New Zealand)

A number of these considerations seem to be verified by the results of a local poll published by Napa Valley Feature on January 4, 2024.

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POLL

Which factor represents the greatest threat to Napa Valley's wine-driven economy?

Economic downturns	15%
Aging consumer base	25%
Slowing population growth	1%
Shifting consumer preferences	41%
Other (Please specify)	17%

The wine industry will shrink, worldwide, including in the Napa Valley

"Millions of vines are being destroyed in Australia and tens of millions more must be pulled up to rein in overproduction that has crushed grape prices and threatens the livelihoods of growers and wine makers. Falling consumption of wine worldwide has hit Australia particularly hard as demand shrinks fastest for the cheaper reds that are its biggest product, and in China, the market it has relied on for growth until recent years. "If half the vines in Australia were ripped out, it still might not solve the oversupply," said a wine maker in Western Australia."

"Still, many growers unwilling to pull up vines are losing money while hoping for the market to turn around. It's chewing up wealth," said KPMG wine analyst Tim Mapleson, who estimates that 20,000 hectares (49,000 acres) of vines need to be taken out nationwide. (Source: Reuters, March 10, 2024)

"More than 100,000 hectares of vineyards need to be cleared in France," claims Gérard Bancillon, President of the Association of Wines with a Protected Geographical Indication (IGP). (100,000 hectares=247,105 acres) He expects an overcapacity of 5 million

hectoliters (132,086,026 gallons) of red wine, which would have to be removed from the market through distillation and other interventions.

In California, the president of the Allied Grape Growers Association, Jeff Bitter, also caused a stir when he said that around 12,000 hectares of vines would have to be uprooted here to meet the drop in demand. (12,000 hectares=29,653 acres) *"In three of the past five years - 2019, 2020 and 2023 - we have left grapes hanging on the vines. We have had a structural oversupply for five years, which indicates that we need to reduce our acreage in order to balance supply and demand."*

I have yet to interview anyone in the Napa Valley that believes grapes will be taken out of production here. I find that quite contradictory to the unanimous sentiment that business is suffering. As noted in my January 15th report: *"Demand is still shrinking, so capacity must do the same. My prediction is that the number of brands (labels) will shrink significantly in the next several years. Even the biggest producers will participate in this trend. Strong brands (labels) should get stronger. Weaker ones will disappear. Smaller wineries that don't have unique value propositions will disappear."*

There are obviously unique small wineries that are doing everything right to preserve their business. As things get tougher for the entire industry these will continue to separate themselves from the pack. At the other end of the spectrum the top seven wine companies have the greatest opportunities to thrive, because of their reach, diversification, and access to capital. But some might not survive. I recently interviewed the CEO of one of those seven companies. He said, "*Don't be surprised if the top seven become the top two to four before all of this is over."*

Top Seven Wine Companies Based on Case Depletions

Sales Depletions for the Largest Seven U.S. Wineries										
		9-Liter Case Depletions (millions)					Change	Change	Change	Change
Rank	Company	2018	2019	2020	2021	2022	2018-2019	2019-2020	2020-2021	2021-2022
1	E. & J. Gallo Winery *2	98.5	94.5	95.3	93.4	90.3	-4.1%	0.9%	-2.0%	-3.3%
2	The Wine Group *3	41.5	40.3	42.0	40.5	41.7	-2.8%	4.2%	-3.6%	3.0%
3	Constellation Brands *4	21.7	21.5	21.6	20.7	23.5	-1.0%	0.5%	-4.0%	13.5%
4	Trinchero Family Estates	18.5	18.4	18.0	17.6	17.4	-0.5%	-2.0%	-2.0%	-1.2%
5	Delicato Family Wines *5	11.2	12.0	15.4	15.7	15.0	7.0%	28.5%	2.0%	-4.5%
6	Deutsch Family Wine & Spirits	11.2	10.9	12.4	11.8	12.0	-2.3%	13.7%	-5.3%	2.1%
7	Ste. Michelle Wine Estates	8.2	8.6	7.8	7.6	7.0	4.3%	-9.3%	-2.6%	-7.9%
Average Sales Growth for the largest 7 wineries							-2.2%	3.0%	-2.8%	-0.2%
Average Market Share for the largest 7 wineries		64.8%	63.3%	63.1%	61.8%	62.9%				

*2 Includes brands acquired from Constellation in 2020 & 2021.

*3 Excludes brands licensed from Treasury Wine Estates in 2021 and wines acquired from Constellation Brands in 2022

*4 Excludes brands sold to Gallo in 2020 & 2021.

*5 Includes brands acquired from Francis Ford Coppola Winery in 2021.

(Source: Silicon Valley Bank 2024 Wine Industry Report)

Shrinking is not a bad thing, especially after 50 years of growth

The wine industry in the Napa Valley has grown, almost uninterrupted, for the past half century. It is saturated. It's just that simple. In the January 15th report I wrote: *"If 25% to 35% of the wineries in this Valley went out of business very few would even notice it…except the owners of the wineries that folded."* That may seem like a heartless statement, but it is true. Just stand in the isles of any wine store and look around until you go numb looking at all the brands. Have you ever heard of 70 to 80% of them? If you have you know a heck of a lot more and care a lot more about wine than most consumers.

Several winery owners told me that their tasting room sales are way off from years past. They attribute this to the fact that there are now way too many tasting rooms. They'd love to see many of them close so that visitors have fewer choices and could return to the days of spending more time at those that remain.

Napa Valley vineyard prices are holding up. Consider selling before they decline

Prices are holding up. I've verified this through several sources including realtors, vineyard owners, and winery owners. It seems to be a testament to just how well the Napa Valley has done in positioning itself as the best wine country in the USA. They may not decline, but it shouldn't surprise anyone if some weakness develops.

I recently interviewed a relatively new client of 5T Wealth. His family has owned a few hundred acres of vineyard land in the Yountville area for over 60 years. I asked him about how vineyard prices were holding up. This was his answer, *"Paul, one guy builds a 30,000 sq. ft. house on that hill. Another guy builds a 30,000 sq. ft house on that hill. (pointing at two houses on hills). What the hell do they care what they paid for the land?"* That is another testament to just how special people consider the Napa Valley to be. It's also a comment on the extreme wealth that has migrated to Napa Valley.

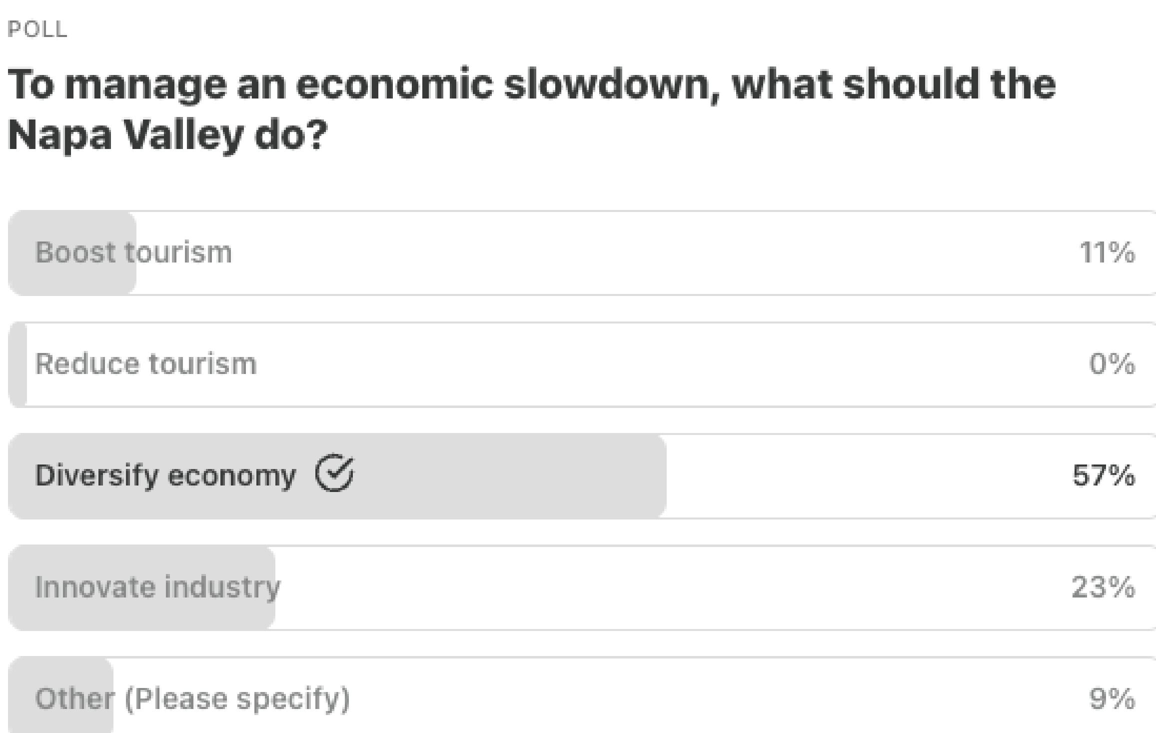
The larger wine companies are candidates to support vineyard prices. Some are currently buying from families who want to retire and from those that have to get out. Our advice to smaller winery owners who are struggling is to sell. Sell while you can. It's not going to get any easier for a winery that's been stuck at 10,000 cases or less for the past 10, 20, 30 years. That includes 70% of Napa's wineries. It's understood that some of these wineries stayed small intentionally, for good reasons. Those who wanted to build a bigger business in a booming market are not going to do it in a declining market. My suggestion is sell to a larger wine company or a person who still wants the "self-actualization" of owning a vineyard and maybe a wine brand. Take the money and run!

The "luxury oriented economic model" can survive, and thrive, but it needs serious modification

In his November 30, 2023 article called "Napa Valley's Rising Vulnerability, Tim Carl discusses the Napa Valley's shift from an agriculture-based economy to one "characterized by a luxury-oriented economic model, heavily focused on tourism, extreme grape/wine prices, upscale second-home real estate and a customized wine-label industry. (See: https://napavalleyfocus.substack.com/p/napa-valleys-rising-vulnerability)

My take is that the deed is done. In my January 15, 2024 report I wrote, *“We’ve chosen to position ourselves as “the best of the best” when it comes to wine, grapes, vineyards and our valley. It’s been the marketing message, and its worked. It’s worked so well that there is no going back at this point.”* Besides, all current planning for the future of the Napa County, and the five cities in it, is based on supplementing and expanding this model. Even reluctant little ole’ St. Helena may be poised to approve a new hotel at Charles Krug, by initiative rather than by a City Council that has shied away from development decisions whenever there is public controversy. The city needs the TOT. It will be very difficult to turn back the clock on “the luxury oriented economic model”.

Most people that I interviewed think the answer to sustaining the economy is through diversification. Local polls support that conclusion too. There is a lot less consensus on how to diversify.



(Source: Napa Valley Features)

People talk about food, art and music as diversification. I see them as part of "luxury oriented economic model". They are all about attracting a steadier stream and potentially larger amount of tourists. They don't help fix other problems that we are facing including a declining and aging local population, declining enrollment in schools, roads that need major repair and constant maintenance, 30,000+ workers driving into and out of Napa Valley each and every day, wages that are too low for workers to afford living here, real estate prices being driven up by 2nd home buyers, and challenges to water supplies.

True diversification could include manufacturing, storage and distribution. Primary target areas are American Canyon, Napa Airport, south Napa business parks. It's already been a long slog to attract non-wine industry companies to these areas, going back to the 1980's. The effort just took a big step backwards with the announcement that IKEA is closing their distribution center in February 2025 and laying off 147 workers. When this 646,000 sq. ft. facility closes there will be over 1 million sq.ft. available in the Napa Logistics Park. I expressed skepticism in the January 15th report that serious diversification could take place by attracting industry to this area, *"Napa should diversify its economy. The obvious question is how? Manufacturing is not going to come back. It all left. Tech is always mentioned in such discussions. The obvious question is why would "tech" come here? In today's world it goes where it is treated best economically. Companies that are already well established in their traditional locations tend to expand into less expensive locations. Texas is going to attract more tech than Napa. If you want a major plant built in your community, then offer a big tax break to do so. That's not likely to happen here. It happens all the time in Texas."*

Despite my pessimism I'd be coaching city officials in American Canyon and Napa to continue trying. It may take some rethinking about what companies want, and what these cities are willing to offer. If smart deals can be made they have a high probability of paying off over the long haul and contributing to true economic diversification.

The "City of Napa Future Vision 2040" report also focuses on diversifying into an "agricultural hub", by focusing on other agribusiness, food manufacturing, and research. Partnerships could be created with UC Davis for research and product development. The report does not mention Napa Valley College, but it occurs to me that they could be involved in such partnerships, particularly in creating an agriculture research center, *"where researchers would work with industry partners to accelerate smart* *agricultural technologies. Research programs, will develop the next generation of agricultural innovators and label Napa as not only a county of finest wine, but also the finest agricultural research hub."*

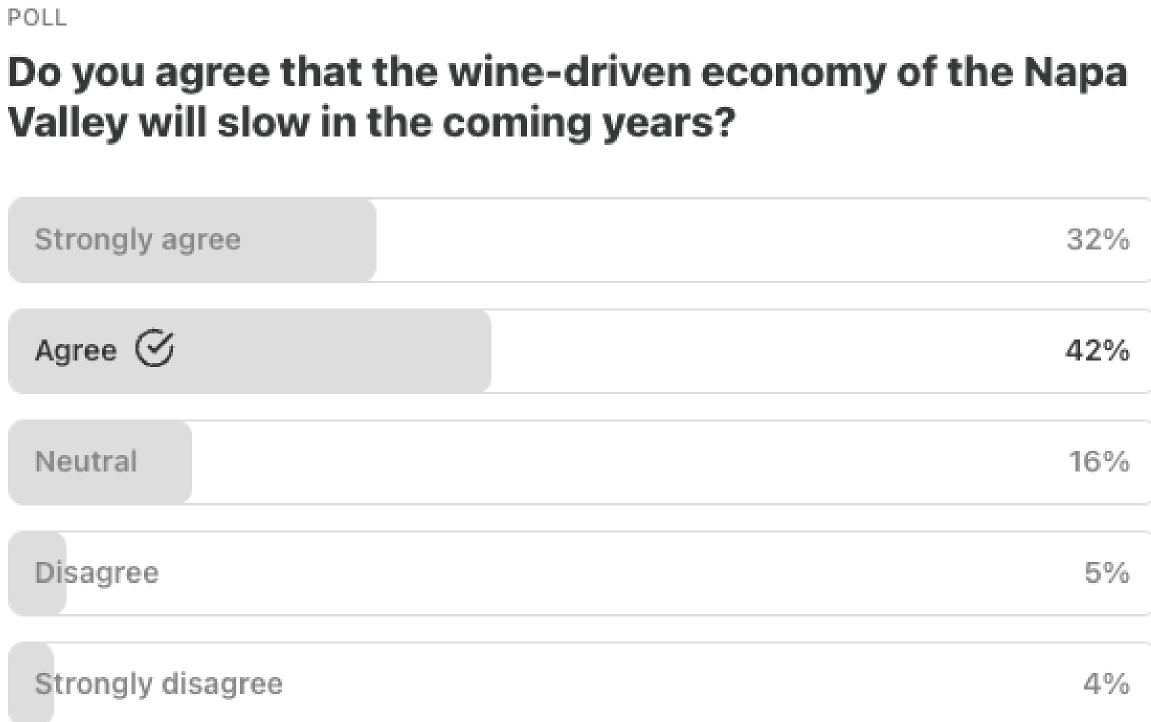
The economy of the Napa Valley needs to diversify, but not to the detriment of the wine industry

I've heard from several sources within the wine industry that there is concern that the Board of Supervisors will be less friendly to the wine industry than previous boards. The 3-2 vote against the proposed Le Colline vineyard in Angwin, in August 2023, is pointed to as evidence.

What seems to make that decision troublesome is that it changed existing rules that were imbedded in the General Plan. There is now some concern that the newly elected Board of Supervisors may preemptively amend the General Plan to reduce the number of wineries and vineyard acres allowed within the current plan that expires in 2030.

I am not an expert on the Le Colline decision. I have read as much as I can about it. Given the broad acknowledgement that the wine industry is oversupplied and that there are too many vineyards, it's convenient for me to think that they made a luckily good decision. If that was done by changing rules in the middle of the game it's no wonder that some wine industry representatives are apprehensive.

The wine industry has been Napa Valley's golden goose and it's got plenty of problems right now. Sensitivity to the industries problems is going to be essential for Napa County Board of Supervisors. There will be plenty of other issues to tackle and it will be important for supervisors not to increase pressure on the industry that could exacerbate its problems.



(Source: Napa Valley Features)

The climate is changing whether we want to accept it or not. We must deal with wildfires, a warming climate, and potentially lack of water

OK, if you want to argue about whether or not "global warming" or "climate change" are real, buy me a drink at The Fink and you're on. In the meantime our Valley was devastated by fires in 2017, 2018, and 2020. We all fear the next fire. The cost of fighting fires is rising, like everything else. Napa County needs new equipment to fight fires in remote, "off-road" areas. We don't currently have a long-term financial solution for funding fire prevention and protection.

Measure L was voted down in 2022. We need a long-term financial solution for funding fire prevention and protection. This fact is not debatable. If that wasn't enough, have you checked the cost of your homeowners insurance lately? Can you still get insurance for fire damage? These costs are skyrocketing and availability of policies for homeowners may all but disappear in 2025.

Most residents of Napa County live in one of our five cities. They all rely on city water. I live in the county and rely on a well. In the 20 years Meghan and I have lived in our house the water table has dropped 80 feet. It was at 8 feet when we bought the house. It's at 88 ft. now. Because the water table is dropping we sunk a second well and installed a water storage tank on our property. A few of my neighbors have done the same. The natural aquafer under the Napa Valley is being depleted.

While preparing to write this report I interviewed a number of people in the wine industry that are genuinely concerned that the Napa Valley could lose its preeminence in the wine industry because future generations may not be able to grow the same grape varietals. Fires, drought and a warming climate are big issues that could change the character of our Valley. We can't ignore them. We must fund a long term solution for fire prevention and protection. That is our #1 priority.

The Agricultural Preserve can't be violated or compromised in any way

In 1968, Napa Valley vintners and others in the community had the foresight to preserve open space and prevent future development by enacting the nation's first Agriculture Preserve. **This action made the Napa Valley what it is today.** The Napa Valley Grapegrowers website says the following:

- *This landmark set of zoning laws, which encompasses Ag Preserve and Ag Watershed lands, established agriculture as the highest and best use of the land in Napa County*
- *The Ag Preserve was established as AP and AW zoning in 1968 to protect agriculture for future generations; this was the first zoning ordinance of its kind in the country*
- *Planted vineyard land makes up 9 percent of Napa County land totaling around 45,000 acres*
- *37,100 acres of land (7.3% of the County) are protected in perpetuity through Conservation Agreements between landowners and the Land Trust of Napa County*
- ***Nationally, we lose nearly 40 acres of farmland every hour due to urban sprawl; however, not one acre of Ag Preserve zoned land has been lost to urban use since its adoption.***

The Ag Preserve remains the cornerstone of Napa Valley's identity

The Land Trust of Napa County is one of our most valuable assets, hopefully it will continue to add acreage

Currently the total acreage in the Land Trust is 94,000 acres, or 17.5% of Napa County's land area. The Ag Preserve and the Land Trust give me confidence that the valley's rural, agricultural heritage can be preserved, and that we will all have open spaces to enjoy for as far into the future as we can see. This is the first place I have ever lived that offered that promise. It's one of the main reasons I came here, as have so many others.

The "800 lb." gorilla in the room is that we need to build thousands of housing units for workers who contribute to our economy every day. People need the option to live where they work

The luxury oriented economic model's most serious flaw is that it has left out almost everyone that supports it. That is true whether we are considering wages, affordable housing, commute distances and times, cost of transportation, traffic congestion, and even quality of life.

Supervisor Ramos told me that in 2017 there were approximately 17,000 people commuting into and out of Napa Valley every day, going back and forth to work. By 2024 that number had expanded to over 30,000 per day. I later spoke with newly elected Supervisor Liz Alessio. She said the number is approaching 36,000 per day.

That is simply not sustainable, and it certainly can't keep growing. The traffic congestion at Jamison Canyon Road and Highway 29 in the early morning hours is horrendous. It goes on for at least a couple of hours. It all repeats in the late afternoon, going the other way. This is not just 30,000+ people on the road. It's thousands of cars and trucks which pollute. It's tens of thousands of hours wasted, just driving. It's incalculable amounts of gasoline used every day. These people should get off the roads! The only way to do that is for them to live where they work.

It doesn't get better on other roads that provide access to Napa County. The rest of them are twisty-windy two lane roads that really can't be expanded, nor should they be if we want to preserve the character of this Valley.

Highways 128/121 meander in from Winters and Interstate 505. Highway 29 can be a hair raising drive from Middletown or Hidden Valley. Petrified Forest Road/Potter Creek Road connects Santa Rosa and Calistoga. All three defy quick, easy and safe commutes.

I'm not alone in believing that the best solution for preserving both the economic model and the character of the Valley is for people to live where they work. The Chairman of the Board of one of the largest wine companies completely supports this idea. He also shakes his head with skepticism that it can ever happen. At least some of the Supervisors support the concept. Making it happen is another issue. We aren't talking about building 100 or 200 "low income housing units" per year. We're talking about creating thousands of residences, within the five cities in Napa County. Remember, the goal is for people to live where they work. Is this possible? Frankly it is very hard to imagine. It would take enormous resources and cooperation from the five cities, all the school districts, the county, and probably the state. There are some things that can be done that would get us closer to the goal.

John Salmon was one of the first people I interviewed. He told me that approximately half the land within the city limits of Napa is owned either by the city or the county of Napa. Calistoga, St. Helena, and American Canyon also own significant amounts of land within their city limits. Land could be donated by each city, or sold at dirt cheap prices, to provide the real estate on which homes could be built. John also told me that the high cost of land is the biggest problem for developers trying to build less expensive housing.

I mentioned this to one of our county supervisors. She said, "We can't give the land away, that would be favoritism to whoever is building the houses." I disagree. Land has been given away by governments in this country almost since the beginning. Between 1862 and 1934 our federal government granted 1.6 million homesteads and gave away 270 million acres of land (420,000 sq. miles) for "homesteading". Even today free land is available in seven states and at least ten cities within the United States.

If we solve the land cost problem we still have the problem of paying for construction costs for apartments, condos, single family homes and even ADU's (Accessory Dwelling Unit) at prices that farm workers, tasting room staff, wait staff, cooks, retail clerks, construction workers, bartenders, firemen, police, schoolteachers, and social workers can afford.

In November 2024 there may be a Bay Area Housing Bond on the election ballot. Bay Area Housing Finance Authority (BAHFA) is working on this solution. Napa County Supervisor Belia Ramos, who is also President of Association of Bay Area Governments (ABAG), is a driving force behind the bond. It is currently targeted to be up to $20 billion to fund the construction of 80,000 homes in the nine bay area counties, including Napa County, and four cities, including the City of Napa.

If passed, the bond will be funded through property taxes. The amount a homeowner could expect to pay will vary depending on the assessed value of their property. A $20 billion bond would require an estimated tax of $24 per $100,000 in assessed value — or about $480 per year for a $2,000,000 home. Let me interpret that for you. It means that people who currently own homes will pay higher property taxes to pay for this bond, so that new homes can be built that farm workers, tasting room staff, wait staff, cooks, retail clerks, construction workers, bartenders, firemen, police, schoolteachers, and health care workers can afford. For more details see: https://abag.ca.gov/sites/default/files/documents/2023-12/BAHFA_Explainer-Regional_Funding_for_Housing_Solutions_0.pdf

$179 million of these funds would flow into Napa County to fund construction of housing that by most current government guidelines would be referred to as “low income” or “affordable. Those are terms that we should rethink. I’m talking about housing for people that work here and want to live here. I’m talking about housing for people that work as hard as you or I do. They don’t come with labels on their backs because they make less money than you or me. When I moved to this Valley there was a lot more economic diversity in the population than there is now. Housing for people with fewer resources than I had wasn’t labeled. We didn’t have a regulatorily defined “caste system” in housing. If we truly want to diversify our economy, we need to find a way for those daily commuters to live here with their families if they want to! This bond could go a long way to kick start that process. Finding ways to house as many as we can is Priority #2, right after a long term solution for fire prevention and protection.

Final Thoughts

The evolution of Napa Valley presents both opportunities and challenges. By facing facts, addressing challenges head-on and embracing diversification, Napa Valley can continue to thrive as a premier destination while preserving its unique character. The biggest threat to the Valley is “too much of a good thing”. The luxury oriented economic model is alive and well. It will not likely be replaced, but it could overwhelm the Valley. We have to remember that the Napa Valley is a small land mass. You can only build so much before it is full.

Every other community I’ve lived in failed to control growth. They just built more homes, commercial space, factories, and roads to connect them all. Imagine the Napa Valley with a four lane Highway 29 and a four lane Silverado Trail, from American Canyon to Calistoga. That would destroy the Valley as we know it. We’ve already spent hundreds of millions of dollars to widen Jameson Canyon Road, and all the roads near the Napa Airport. All we seem to be doing is “paving paradise and putting up a parking lot”. Growth can’t equate to overbuilding. Future development should be focused on “in-fill” within the five cities. It should be focused on housing more of the people who work every day to support the luxury oriented economic model. They should have the option to live where they work. Their children should have the option to grow up here and go to school here. Having these families as residents and a real part of the life of the valley would also diversify the luxury oriented economic model.

Respectfully Submitted,

Paul Krsek
LNV Class 36
April 26, 2024

Disclosure and Disclaimer: Opinions expressed in this report are those of Paul Krsek. They do not represent the opinions of Leadership Napa Valley in any way.

Afterthought

The first report was prepared primarily for my classmates in Leadership Napa Valley Class (LNV) 36. It was released on January 15, 2024 and was well received by classmates and the small number of wine industry owners and executives that read it. The second one was released on January 22, 2024 focusing on **Silicon Valley Bank State of the US Wine Industry 2024.** Their 2024 report made it clear that the wine industry downturn was stretching out longer than maybe originally expected. The third report was released on March 4, 2024. It focused exclusively on publicly traded wine companies, and just how disastrous all those stock investments have turned out.

There is only one conclusion that can be drawn from that report. The wine industry makes no sense for public companies! It never has, and it never will. These reports are available on request.