

Budget Summary

Fund Structure

The District has one fund. This fund includes all District revenues, including restricted revenues. The fund also includes all District expenditures, including operating expenditures, debt service and capital expenditures. Under this structure, restricted revenues (including associated interest earnings) are still accounted for separately and discretely, as required by state law.

Basis of Accounting

The Basis of Accounting refers to the specific time and method at which revenues and expenses are recognized in the accounts and reported in the financial statements. The Basis of Accounting for the District in its financial statements is full accrual. However, the budget is adopted on a modified accrual basis of accounting consistent with Generally Accepted Accounting Principles (GAAP). Under the modified accrual basis, revenues are recognized when they are susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when the related liability is incurred. Capital expenditures and debt principal payments are included in the annual adopted budget and used as a limit on expenditures, but these expenses are removed when recorded in the financial statements to conform to GAAP.

Basis of Budgeting

The District’s budgetary procedures conform to state regulations and Generally Accepted Accounting Principles. While the District uses full accrual accounting in its annual financial statements, the District uses a modified accrual basis of accounting for budgeting and reporting on budgeted versus actual expenditures in its monthly and quarterly reports. The following are some of the differences between the way the District budgets and the way it accounts for revenues and expenses in its financial statements:

- Grant revenues are budgeted on a modified cash basis rather than an accrual basis;

- Fixed assets are depreciated for some financial reporting, but are fully expensed in the year acquired for budgetary purposes; and
- Capital expenditures and debt principal payments are budgeted as expenses for budget authority and compliance purposes but are removed in annual financial reporting.

The District budgets this way so that it is easier for rate payers and stakeholders to see and track different types of expenses within the budget.

Budget Appropriation

Budgets are adopted for all expenditures of the District. Total operating expenses and total capital expenses are adopted as separate appropriations. The General Manager is authorized to transfer an unlimited amount of appropriation between operating departments so long as the total operating expense appropriation does not increase. The General Manager is also authorized to transfer appropriation between capital projects as long as the total capital appropriation does not increase.

Only the Board of Directors can increase the total allowable operating and capital appropriations. The General Manager is authorized to hire regular employees up to the number approved by the Board of Directors, in accordance with the Position Control Roster.

Budget appropriations lapse at the end of the fiscal year. Unspent amounts on specific capital and operations projects may be carried forward to the following fiscal year only with the authorization of the Board of Directors.

Budget Development Process

The budget process begins each year with a review of current expenditures, to determine how well the budget plan is working. Unanticipated expenses are identified, and revenue and expenditure patterns are analyzed. This information is presented to the Finance Committee, a subcommittee of the full Board of Directors. With this information, the Finance Committee, the General Manager and the Chief Financial Officer develop recommendations on assumptions and policy direction for the next budget year. These recommendations are brought to the full Board of Directors for input and approval.

With this direction, department managers develop line item proposals. At the same time, the Capital Program Manager works with department managers

to update the Ten-Year Capital Improvement Plan (CIP). Proposals are made to the Chief Financial Officer and General Manager, who review the proposals and make changes, as appropriate.

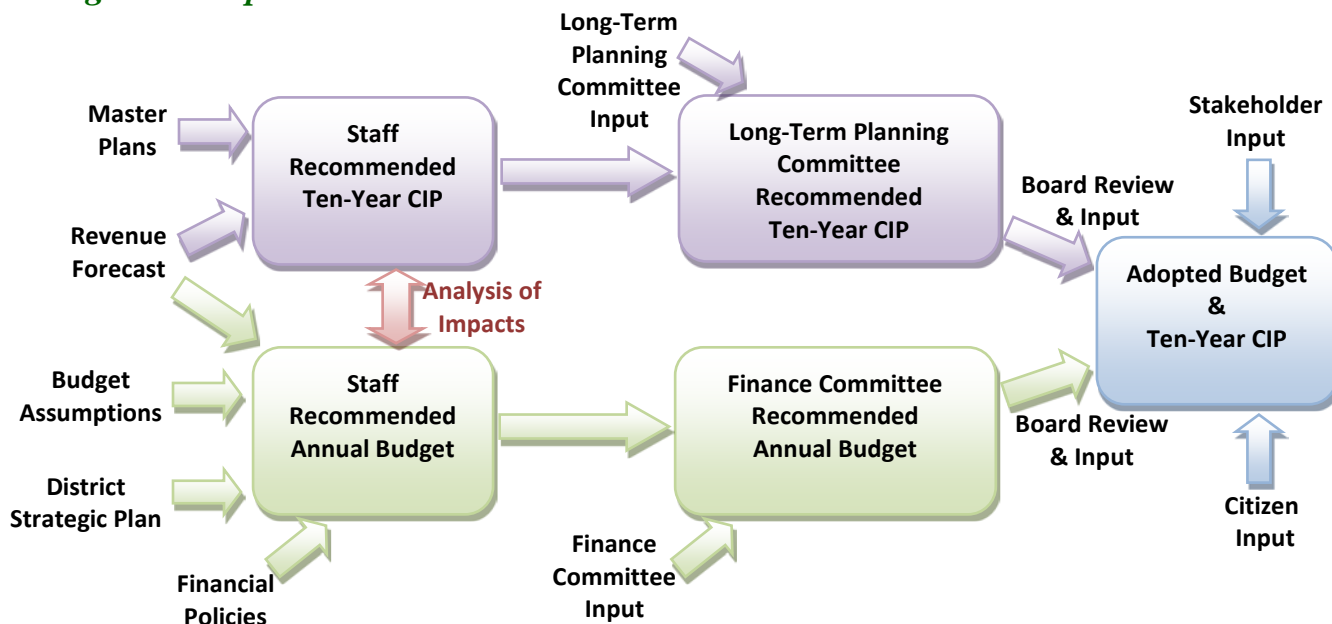
The proposed Operating Budget is provided to the Finance Committee, a subcommittee of the Board of Directors, who reviews the budget for consistency with the Board's budget direction and to ensure that there are adequate resources aligned to meet Board priorities. The proposed CIP is provided to the Long Term Planning Committee, a subcommittee of the Board of Directors, to review the CIP. Both committees make reports and recommendations to the full Board of Directors.

The proposed budget and CIP are presented to the Board of Directors, and meetings are held to seek input from interested stakeholders and the general public. The Board can direct staff to make changes to the proposed budget. All of the changes are then compiled and presented to the Board for final adoption of the budget and CIP.

Budget Amendment Process

During the year, the budget can be increased through a budget amendment resolution, voted on and approved by a majority of the Board of Directors during a regular board meeting. There is no legal restriction on the amount or frequency that the budget can be amended.

Budget Development Process



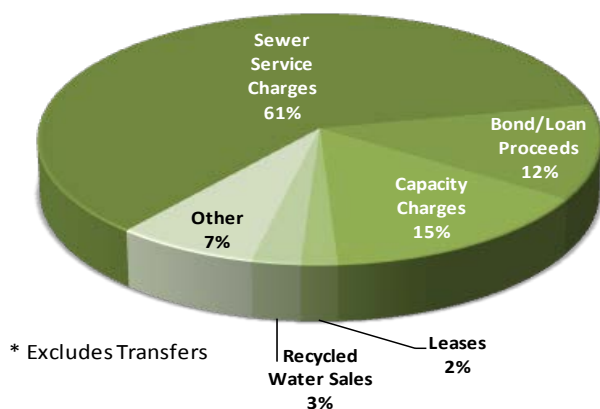
Budget Calendar for FY 2016/17

Jan. 11, 2016	Finance Committee meeting, to discuss budget development calendar, assumptions for next year, and policy direction.
Feb. 3, 2016	Budget direction and assumptions confirmed with Board of Directors.
Jan. to March	Staff develops proposed budget and Ten-Year CIP.
March 16, 2016	Proposition 218 Hearing for Sewer Service Charge increase.
April 11, 2016	Finance Committee makes recommendations.
April 12, 2016	Long Term Planning Committee reviews Ten-Year CIP and makes recommendations.
May 4, 2016	Board of Directors receives and discusses the Proposed Operating Budget for FY 2016/17.
May 18, 2016	Board of Directors receives and discusses the Ten-Year CIP for FY 2016/17 through FY 2025/26.
June 1, 2016	Board of Directors adopts the FY 2016/17 Operating and Capital Budget and Ten-Year CIP.

Sources of Funds/Revenues

The District has a stable revenue foundation, with 61% of the District's operating revenues coming from sewer service charges collected as assessments on property tax bills (excluding grants, intergovernmental revenue and loan proceeds, the number is closer to 75%). Other significant revenue sources include capacity charges, recycled water sales, waste hauler fees, land leases, and interest earnings.

Sources of Funds Total* = \$37,042,500



Sewer service charges (SSC's) are the fees charged to residences and businesses for sewer use. For most residences and businesses, these fees are paid annually as assessments on property tax bills. Some industrial and commercial customers are charged monthly, rather than annually, based either on water usage or actual sewer flows.

Sewer service charges are a highly distributed revenue source for the District. The top ten sewer service customers represent only 9.4% of revenue from this category. This lack of concentration equates to a more stable revenue stream and is less susceptible to fluctuations in the economy or local business climate.

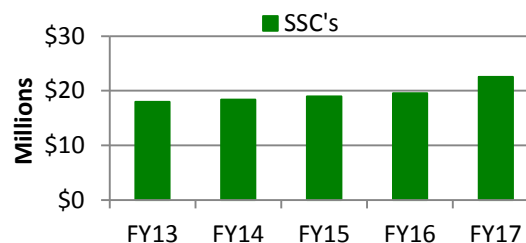
Sewer service charges are subject to California's Proposition 218, which requires that increases to the fee be noticed to all property owners, with the opportunity to protest the increase through letters and statements at a public hearing. If there is a majority of the property owners in protest of the fee increase, the increase cannot proceed.

The District followed the Proposition 218 process in 2016, providing the necessary notices and holding public hearings. At that time, the fee was set to increase annually. The fee is set to increase in FY 2016/17 from \$482.50 to \$554.88 per Equivalent Dwelling Unit (EDU). For the following years, the rate can increase up to the maximum amounts shown in the chart below, but the actual amounts will be set by the Board annually.

Sewer Service Charges History and Projection

	Charge per EDU	% Increase
FY 11/12	\$435.44	1.5%
FY 12/13	\$448.06	2.9%
FY 13/14	\$457.92	2.2%
FY 14/15	\$469.82	2.6%
FY 15/16	\$482.50	2.7%
FY 16/17	\$554.88	15.0%
FY 17/18	\$638.10	15.0%
FY 18/19	\$676.39	6.0%
FY 19/20	\$710.21	5.0%
FY 20/21	\$738.62	4.0%

Sewer service charges revenue is forecasted for FY 2016/17 based on the estimated number of EDUs and the sewer service charge fee of \$554.88 per EDU. The total budgeted revenue is adjusted by a small percentage to account for delinquencies and non-payments.

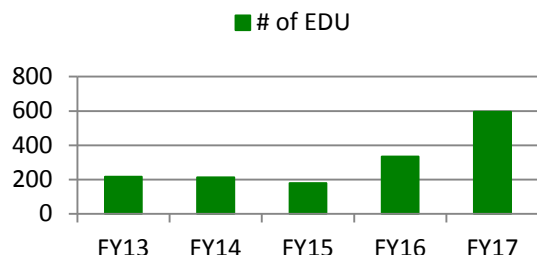


Grants and intergovernmental revenues are those revenues that are paid to the District by another government, specifically for performing some specific task. In FY 2016/17, the District will receive reimbursement from CalTRANS for construction of a new sewer line in conjunction with improvements on Sarco Bridge.

Capacity charges, sometimes referred to as "connection fees" or "impact fees," are fees paid by developers to pay for expanded capacity in the sewer collection and treatment systems to convey and treat wastewater. They are also paid by

commercial or industrial customers who expand the use of sewer services at their facilities.

Capacity charges are forecasted for the next year based on the cost per EDU and an assumed growth rate of 595 EDU being developed during the fiscal year. The growth was projected to be higher than the average of the last several years based on the significant hotel projects (395 EDU) that are in the planning phase and expected to pay fees in FY17.



In September 2010, the Board of Directors approved a phased-in increase to the capacity charges. Prior to that date, the fee had not increased since 1995. The capacity charge fee is scheduled to increase **x.x%** to **\$x.xxx** on July 1, 2016, based on the construction inflation index for the San Francisco area. **[Index not yet available for 7/1/16 update.]**

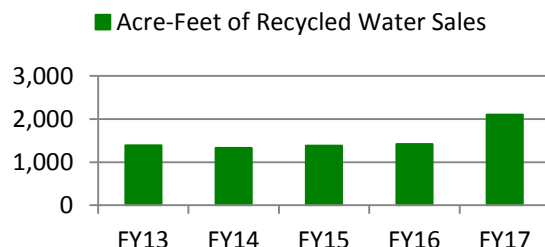
Capacity Charges Fee Schedule

1995 - 2011	\$5,660 per EDU
Jan. 1, 2012	Increase to \$6,000 per EDU
July 1, 2012	Increase to \$7,000 per EDU
July 1, 2013	Increase to \$8,300 per EDU
July 1, 2014	Increase to \$8,723 per EDU
July 1, 2015	Increase to \$8,950 per EDU
July 1, 2016	Increase to \$x.xxx per EDU

Recycled Water Sales are collected from customers who purchase recycled water from the District. Most recycled water is used for landscape irrigation or agriculture. The demand for recycled water is almost exclusively during the May to October period.

Recycled water sales are forecast to be about 2,100 acre-feet (684 million gallons), which includes an increase of recycled water usage compared to historical averages due to the completion of both the MST and Los Carneros Water District Recycled

Water Pipeline projects.

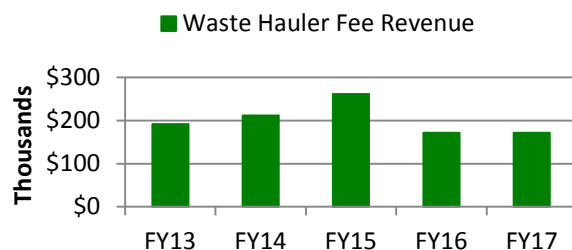


In 2016, the rates increased to \$1.57 per 1,000 gallons in the peak demand period, with lower rates for off-peak use and for those customers that enter long-term contracts for significant water use. In 2017, the rate is estimated to increase to \$1.61 per 1,000 gallons.

Recycled water sales are affected by the weather. Cooler, wetter spring and summer months result in less need to irrigate and therefore lower volumes of water are sold.

As a result of the drought, recycled water sales have increased in FY15 and FY16. However, FY17 assumes a “typical” year for weather.

Waste Hauler Fees are fees collected from private companies who have been permitted to collect septage from private residences and companies not connected to the District’s sewerage works and dispose of that waste at the wastewater treatment plant. In FY 2012/13, the District started accepting Fats, Oil and Grease (FOG) waste generated at food service establishments.



Revenues are forecasted based on trends experienced the prior year. Forecast fee revenues for FY 2016/17 are flat for septage and FOG haulers, based on monthly trends seen the past year.

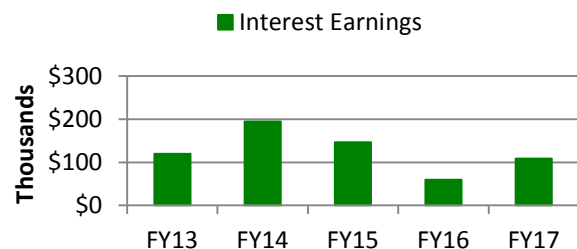
Land Leases generate revenue for the District. The District currently leases a couple of parcels of land. One lease has an inflation factor identified within it, while the other does not. The revenue forecast is set based on these lease contracts.

REVENUE - ALL SOURCES						
Account Description	Actual FY 13/14	Actual FY 14/15	Budget FY 15/16	Estimated FY 15/16	Proposed FY 16/17	Percent Change
<u>780 - Operations</u>						
Interest: Invested Funds	99,944	129,206	50,000	50,000	75,000	50.0%
Rent - Building/Land	728,825	712,553	716,000	716,000	719,000	0.4%
Construction/Bldg Permit Review Svcs	29,753	25,196	95,000	180,000	184,500	94.2%
Hauler Fees	212,042	261,593	236,000	172,000	172,000	(27.1%)
Sewer Usage Fees	18,665,200	19,190,534	19,534,000	19,734,000	22,514,000	15.3%
Penalties on Delinquent Sewer Fees	37,796	41,439	25,000	-	-	(100.0%)
Recycled Water Sales	396,802	415,797	507,000	507,000	958,000	89.0%
Forfeitures and Penalties	11,733	(5,334)	-	-	-	-
Miscellaneous	92,784	113,208	118,000	67,000	69,000	(41.5%)
Total - Operations	20,274,878	20,884,192	21,281,000	21,426,000	24,691,500	16.0%
<u>781 - Capital Improvement Projects</u>						
Interest: Invested Funds	146,358	17,635	27,000	10,000	34,000	25.9%
Federal Grants - USBR	2,245,400	3,586,966	4,838,700	4,838,700	300,000	(93.8%)
Other Government Agencies	505,406	7,794,763	17,132,400	17,132,400	1,950,000	(88.6%)
Miscellaneous	98,332	38,064	-	-	-	-
Bond/Loan Proceeds	-	-	15,200,000	-	4,550,000	(70.1%)
Sale of Capital Assets	2,848,164	21,518	-	-	-	-
Interfund Transfers In	-	-	-	-	-	-
Intrafund Transfers In	18,070,283	17,848,830	12,248,000	-	14,412,000	17.7%
Total - Capital Improvement Projects	23,913,943	29,307,776	49,446,100	21,981,100	21,246,000	(57.0%)
<u>782 - Expansion</u>						
Interest: Invested Funds	154	200	-	-	-	-
Capacity Charges	1,774,081	1,568,328	2,998,000	2,998,000	5,512,000	83.9%
Total - Expansion	1,774,235	1,568,528	2,998,000	2,998,000	5,512,000	83.9%
Total - All Departments	45,963,057	51,760,496	73,725,100	46,405,100	51,449,500	(30.2%)

In April 2016, the lease of the Somky Ranch to Napa LH 1, LLC for development of a golf course was transferred to Marriott International. All lease payments and property taxes are up to date.

Interest Earnings is the revenue the District receives on idle cash and reserves that it maintains in its accounts. Cash is invested by the County of Napa Treasurer on the District's behalf and in accordance with state law, and posted to the District's funds quarterly. For most of the past five years, the Federal Funds rate was between 0.07%-0.16%. This is the rate to which most allowable investments trend. These rates have equated to an investment rate for the

District of approximately 0.5%, depending on liquidity needs and the specific investments made. The Federal Reserve increase rates in fall 2015 by 0.25%, but are not expected to raise rates again for some time.

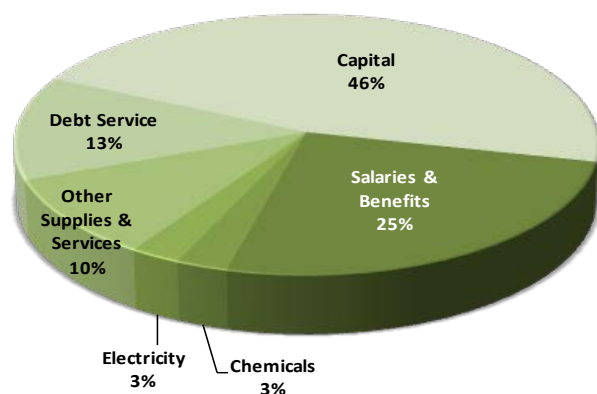


For FY 2016/17, the District has assumed an earnings rate of 0.75% for the entire year. The overall revenue this year is high because of the increased rate and additional cash balances at certain times of the year.

Uses of Funds/Expenditures

The District expenses can be described in four major categories: salaries and benefits, services and supplies, capital expenses and debt service.

Uses of Funds **Total* = \$37,042,500**



* Excludes Transfers

Salaries and benefits are those expenses related to payroll and staffing. They include salary and wages of employees, overtime, payroll taxes such as Medicare, health insurance benefits, and retirement benefits. This category also includes expenses for funding the District's OPEB ("Other Post Employment Benefits") liability.

New labor agreements went into effect on July 1, 2014, and will expire on June 30, 2020. Salaries will increase 2.5% for a cost of living adjustment per the new agreements. Individual salaries were also adjusted, with some employees moving up steps

within their current classification, and vacancies budgeted at the bottom step. There are also two new Collection System Worker positions included in the budget. Overall, salaries are budgeted to increase 3.8% over prior year.

Health benefits are known for the first two quarters in FY 2016/17. The budget assumes a 7% increase in employer costs for the last two quarters.

Retirement benefits are budgeted based on a percentage of budgeted salary. That percentage is determined by CalPERS based on actuarial assumptions regarding retirement rates and investment earnings. Prior to the new MOUs, the District paid both the employer and employee contribution for retirement benefits. In the new MOUs, the employees will pick up 3% of the employee contribution for FY 2016/17. The retirement cost budget is expected to increase by 2.0%.

Payments in lieu of health benefits are expected to increase by 4.0%. A decrease per person eligible is built into the projections, but in the prior year the District saw an increase in the number of employees who opted out of health insurance, thus increasing the in lieu payments overall. The net impact is a savings to the District.

Workers' compensation insurance costs are higher than prior year by 5.5%, due to an increase in the Experience Modification Rate from 0.84 to 0.89.

In total, salaries and benefits increase 3.6% over the prior fiscal year.

Services and supplies include the purchase of supplies and equipment to maintain and operate the various systems in the District. It also includes a number of service contracts and professional contracts. In the pie chart in this section, this category has been further broken down into chemicals and electricity, as these are the two largest supply expenses.

EXPENSES - OPERATING AND CAPITAL

Account Description	Actual FY 13/14	Actual FY 14/15	Adj. Budget FY 15/16	Estimated FY 15/16	Proposed FY 16/17	Percent Change
Salaries & Benefits	\$7,808,764	\$8,122,300	\$9,054,200	\$7,816,135	\$9,382,370	3.6%
Services & Supplies	4,956,172	4,676,433	5,724,050	5,417,036	5,568,307	(2.7%)
Capital Expenses	20,120,117	38,619,401	33,448,000	32,048,000	16,755,700	(49.9%)
Debt Service	4,769,367	4,550,460	4,779,200	4,779,200	4,773,050	(0.1%)
Taxes & Assessments	24,022	25,160	28,250	25,006	28,250	-
Transfers	1,657,000	6,887,500	7,900,000	7,900,000	8,900,000	12.7%
Total All Expenses	\$39,335,441	\$62,881,254	\$60,933,700	\$57,985,378	\$45,407,677	(25.5%)
Total w/o Transfers	\$37,678,441	\$55,993,754	\$53,033,700	\$50,085,378	\$36,507,677	(31.2%)

Total services and supplies for FY 2016/17 are budgeted to be 2.7% lower than the prior fiscal year. One-time only projects in the prior year were removed, lowering the overall budget. Electricity remained flat, even with expanded recycled water distribution expected in FY 2016/17, because of anticipated savings from the solar and stationary storage projects. The chemicals budget is anticipated to increase almost 25% to account for increases in both unit costs and usage.

Capital expenses include expenses to build or acquire any capital asset, or to rehabilitate and extend the useful life of existing assets. Details of these expenses can be found in the Ten-Year Capital Improvement Plan (CIP), later in this budget document. Significant projects in the FY 2016/17 capital plan include the Basin L – I&I Reduction Project 5, the ACP mains rehabilitation project, the Browns Valley Trunk Sewer Interceptor project and related improvements at West Napa Pump Station, a project to line the recycled water reservoirs, and replacement of the aeration basin diffusers and associated installation of instrumentation and controls. The plan also includes the replacement of the sewer across Sarco Bridge, and an extension of recycled water pipeline on Coombsville Road in the MST, both of which are paid by other agencies.

Debt service includes the principal and interest payments for all of the District's outstanding loans. Debt service is approximately \$4.8 million and is anticipated to remain at that level until FY 2018/19, when the debt service for the Browns Valley Road

Sewer Interceptor project begins. More details on this new debt issuance can be found in the Debt section of this budget document.

Transfers Out represent the following intrafund transfers:

- from Operations into the Capital Projects account (\$8,900,000)
- from Expansion into the Capital Projects account (\$5,512,000)

These intrafund transfers are between accounts that are segregated for accounting or legal purposes, and they have no positive or negative impact on the overall financial position of the District.

Fund Equity

Fund equity, for the basis of the District's budgeting and financial planning purposes, is defined as current assets including restricted assets, less current liabilities excluding capital-related liabilities. This number is meant to represent the amount of cash that the District has available to commit to operating or capital expenses now or in the future, and is comparable to Fund Balance in governmental-type funds. For FY 2016/17, the estimated Ending Fund Equity is \$104,820 higher than the Beginning Fund Equity for the fiscal year.

Financial Overview

	FY 13/14 Actuals	FY 14/15 Actuals	FY 15/16 Budget	FY 15/16 Estimate	FY 16/17 Budget
Beginning Fund Equity	\$46,516,757	\$37,082,086	\$18,820,600	\$18,820,600	\$14,510,300
Revenues					
Use of Money/Property	\$975,283	\$859,594	\$793,000	\$776,000	\$828,000
Charges for Services	21,127,447	21,497,554	23,370,000	23,591,000	29,340,500
Intergovernmental	2,769,935	11,453,896	21,971,100	21,971,100	2,250,000
Bond Proceeds	0	0	15,200,000	0	4,550,000
Sale of assets	2,848,164	21,518	0	0	0
Miscellaneous Revenues	170,110	79,103	143,000	67,000	69,000
Total Revenues	\$27,890,939	\$33,911,665	\$61,477,100	\$46,405,100	\$37,037,500
Operating Expenditures					
Salaries and Benefits	\$6,966,672	\$6,955,714	\$9,054,200	\$7,867,360	\$9,382,370
Services and Supplies	4,956,175	4,676,836	5,724,050	5,418,880	5,568,310
Taxes and Assessments	24,022	25,160	28,250	25,010	28,250
Debt Service	4,769,367	4,772,926	4,779,200	4,779,200	4,773,050
Total Operating Expenditures	\$16,716,236	\$16,430,636	\$19,585,700	\$18,090,450	\$19,751,980
Capital Expenditures	\$20,120,117	\$38,619,401	\$33,448,000	\$32,625,000	\$17,180,700
GAAP Adjustments	489,257	(2,876,886)	0	0	0
Total Expenditures	\$37,325,610	\$52,173,151	\$53,033,700	\$50,715,450	\$36,932,680
Ending Fund Equity	\$37,082,086	\$18,820,600	\$27,264,000	\$14,510,250	\$14,615,120
Operating Reserve	\$2,056,000	\$2,085,000	\$2,227,000	\$2,227,000	\$2,243,000
Debt Reserve	1,990,000	1,990,000	1,990,000	1,990,000	1,990,000
Operating Cash Flow Reserve	8,000,000	8,240,000	10,987,000	10,987,000	10,375,000
Total Reserves	\$12,046,000	\$12,315,000	\$15,204,000	\$15,204,000	\$14,608,000
Available for Use (Fund Equity minus Reserves)	\$25,036,086	\$6,505,600	\$12,060,000	(\$693,750)	\$7,120

The numbers above are net of transfers in and out.

Reserves

The District manages three distinct reserves. The first reserve is an **operating reserve** designed to assist the District during emergencies. This reserve is maintained at 15% of annual operating expenses, excluding debt service and transfers.

The second reserve is an **operating cash flow reserve**. This reserve is the amount of cash necessary for the District to have on hand on July 1 to cover its anticipated expenses through the summer and fall until the District receives the bulk of its operating revenues (sewer services charges collected as property assessments) in December.

The third reserve is a **debt reserve** held in trust by a third party. This reserve is a requirement of bond covenants and is used to ensure that debt service payments will be made in full and on time.

GFOA Budget Award

The Government Finance Officers Association of the United States and Canada (GFOA) presented the Distinguished Budget Presentation Award to Napa Sanitation District, California for its annual budget for the fiscal year beginning July 1, 2015. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. District staff believes that this current FY 2016/17 budget continues to conform to program requirements and will be submitting it to GFOA to determine its eligibility for another award.

