

Ten-Year Financial Plan



Visitors check out microorganisms in the Plant Laboratory during an Open House event.

Ten-Year Financial Plan

Plan Description

Also called a Financial Master Plan or a Ten-Year Financial Forecast, the Ten-Year Financial Plan is a projection of operating and capital expenditures, along with projections of rates and the revenues they are anticipated to generate over that time. The Ten-Year Financial Plan evaluates whether the revenues are adequate to cover the projected costs.

This Plan addresses the following questions. Over the next 10 years...

- What are the District's projected revenues, and what assumptions are used?
- What are the District's projected operating costs, and what assumptions are used?
- What are the projected capital costs for the District?
- Will the District use pay-as-you-go financing or debt financing for its capital projects?
- Are sewer service charge rates sufficient?

Link to Strategic Plan

The District's Strategic Plan (discussed in Budget Overview on [pages 19-23](#)) and included in the Appendix of this budget) includes numerous objectives and a timeframe for completion of those projects. This Ten-Year Financial Plan makes assumption that all of the objectives in that plan are completed on time, and that any one-time or ongoing financial impact resulting from implementing the Strategic Plan are included in the Ten-Year Financial Forecast.

Revenue Forecast

Sewer Service Charges

Since FY 2008/09, the District has increased the sewer service charge (SSC) annually by the local Consumer Price Index (CPI). In March 2016, the District went through the Proposition 218 process, thereby setting the maximum that the sewer service charge could increase through fiscal year 2020/21. The forecast assumes the maximum allowable SSC for that year, as follows:

Fiscal Year	Residential Annual Rate
FY 16/17	\$554.88 per EDU
FY 17/18	\$638.10 per EDU
FY 18/19	\$676.38 per EDU
FY 19/20	\$710.20 per EDU
FY 20/21	\$738.62 per EDU

Thereafter, the rate is assumed to increase 2.3% annually.

Recycled Water Fees

Recycled water fees are becoming a more significant source of revenue for the District. These are the fees charged to users of recycled water. Fees are set by the Board of Directors through ordinance. The rates are as follows:

Rate	Description
\$1.57/kgal	Peak demand usage (April - October)
\$1.25/kgal	Large contract users
\$1.20/kgal	Off peak usage (Nov. – Feb.)
\$1.05/kgal	March

Rates will increase with CPI starting in 2017.

The forecast assumes that the District will increase recycled water sales from 1,400 acre feet in FY 15/16 to 2,100 acre feet in FY 16/17. Future customers include land owners in the MST area, the Napa State Hospital, St. Regis Resort, Los Carneros Water District and Montelcino Resort. The forecast assumes that these new customers begin taking recycled water in the coming years.

Capacity Charges

In July 2016 and annually thereafter, the capacity charge rate will increase with the San Francisco Engineering News Record's Construction Cost Index (ENR-CCI) for San Francisco (February-to-February), an inflation measure for capital infrastructure costs. Capacity charges increase 2.6% to \$8,750 per Equivalent Dwelling Unit (EDU) in FY 2016/17. (note: this number is not yet known for FY 16/17).

Development, especially development of hotels and restaurants, is anticipated to increase starting in FY 2016/17. The capacity charge forecast assumes that non-hotel development will remain at FY 2015/16 levels of 200 EDU, with an additional 395 EDU for hotels in FY 2016/17, 100 EDU in FY 2018/19, 300 EDU in FY 2019/20, and 100 EDU in FY 2020/21. In FY 2018/19 and beyond the base EDU is expected to increase to 290 EDU per year.

Leases and Rents

Lease revenues include the existing lease with Eagle Vines Golf Club and the continuation of the Somky lease with new tenants. While there is still opportunity for the District to receive lease payments from other properties, the Ten-Year

Financial Plan only includes revenues for leases that have already been negotiated and executed.

Other Revenues

There are a number of other smaller revenues collected by the District. They have been forecasted based on historical collection and any anticipated increases in rates due to CPI or other factors.

Operating Cost Forecast

Operating expenses for the District includes salaries and benefits, maintenance and operations of the collection and treatment system, and the purchase of materials and supplies. The District must also fund its annual debt service.

Salaries are controlled by three Memoranda of Understanding (MOU) with employees. The MOUs were renegotiated in 2014 and are set to expire in June 2020. Salaries have been projected based on the contracted increases (2.5% annually through FY 16/17 and 2.75% through FY 19/20).

Some benefits, such as OPEB and retirement expenses, are calculated as a percentage of salary, while other benefits, such as health care, increase based on joint purchase agreements. Health care costs are assumed to increase at a 7% rate, and retirement expenses as a percentage of salary are expected to increase an additional 4-6% over the next five years, including increased employee retirement contributions over the same period. Medical in lieu payments are projected to continue per the MOU. Workers compensation insurance increased in FY 2016/17, are expected to increase again in FY 2017/18, and then expected to reduce or remain flat in future years. For the Ten-Year Financial Plan, salaries and benefits combined are projected to increase 2.8% to 3.8% annually.

Services and supplies are budgeted to increase 2.0% annually to account for increases in inflation. It is assumed that there is no change in current service levels, except those anticipated as part of capital project implementation (e.g., expanded recycled water delivery). The anticipated operating expenditure impact of planned capital projects has been included in the forecast.

Capital Costs

There are several master plans that influence the overall Ten-Year Capital Improvement Plan, including the Treatment Plant Master Plan, the Collection System Master Plan and the Recycled Water Strategic Plan. These plans serve to identify the capital improvements that should be made within each area over the next 20 years.

When all of the recommendations from the master plans are combined, there is sufficient projected revenue to pay for all of the projects within the next ten years. This assumes that the sewer service charges are implemented as projected during the Proposition 218 process, and that development occurs as projected for capacity charges.

The budget and Ten-Year Capital Improvement Plan, described in detail in the previous section of this budget document, represent the priority projects from these plans. The Ten-Year Financial Plan incorporates the Ten-Year Capital Improvement Plan.

Pay-Go vs. Debt Financing

Debt financing means that the District would either sell bonds or enter into a loan (such as a State Revolving Fund loan) to get money to pay for capital projects, then pay back that money over time with interest. **Pay-as-you-go financing**, also called “pay-go” means that the District needs to accumulate the money for the project and already have it prior to the work being completed.

District policy states that the District shall have a preference to finance capital improvements using pay-go financing and shall issue long-term debt only to finance capital improvements that cannot be readily financed from current revenues. Debt financed projects must be major, non-recurring improvements with a minimum of five years of useful life.

The Ten-Year Financial plan assumes that debt would be issued for specific projects, with all other projects in the CIP being financed as pay-go.

In FY 2016/17, the District intends to enter into a loan agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund loan of approximately \$20 million for the Browns Valley Road Sewer Interceptor and West Napa Pump Station Improvements project. The Ten-Year Forecast shows the proceeds from the loan in

10-Year Financial/Cash Flow Forecast

	2016/17	2017/18	2018/19	2019/20	2020/21
Beginning Fund Equity	\$14,510,300	\$14,615,100	\$15,050,200	\$16,495,100	\$20,280,600
Operating revenue					
Sewer service charges	22,514,000	26,271,000	27,982,000	29,612,000	31,185,000
Capacity Charges	5,512,000	1,917,000	3,225,000	5,392,000	3,455,000
Recycled Water Sales	958,000	1,126,000	1,218,000	1,337,000	1,391,000
Development Fees	184,500	189,100	193,800	198,600	203,600
Hauler Fees	172,000	177,000	182,000	187,000	193,000
<u>Miscellaneous Revenue</u>	<u>69,000</u>	<u>71,000</u>	<u>73,000</u>	<u>75,000</u>	<u>77,000</u>
Total Operating Revenue	29,409,500	29,751,100	32,873,800	36,801,600	36,504,600
Non-Operating Revenue					
Interest	109,000	146,000	188,000	247,000	355,000
Rents and leases	719,000	722,000	725,000	728,000	731,000
Fed & State Grants	1,350,000	175,000	0	0	0
From Other Jurisdictions	900,000	525,000	0	0	0
<u>Proceeds - Sale of Bonds</u>	<u>4,550,000</u>	<u>10,537,000</u>	<u>2,049,000</u>	<u>0</u>	<u>0</u>
Total - Non-Operating Revenue	7,628,000	12,105,000	2,962,000	975,000	1,086,000
Total Revenue	37,037,500	41,856,100	35,835,800	37,776,600	37,590,600
Operating Expense					
Salaries and benefits	9,382,370	9,680,200	10,015,900	9,865,500	10,200,600
Services and supplies	5,568,310	5,691,000	5,932,900	6,426,100	6,106,000
Taxes and Other	28,250	28,900	29,600	30,300	31,000
Debt Service - Existing	4,773,050	4,776,000	4,772,000	4,771,000	4,771,000
<u>Debt Service - New/Projected</u>	<u>0</u>	<u>0</u>	<u>900,000</u>	<u>1,100,000</u>	<u>1,100,000</u>
Total Operating Expense	19,751,980	20,176,100	21,650,400	22,192,900	22,208,600
Capital Projects	17,180,700	21,244,900	12,740,500	11,798,200	12,809,200
Total - All Expenses	36,932,680	41,421,000	34,390,900	33,991,100	35,017,800
Net revenue (deficit)	104,820	435,100	1,444,900	3,785,500	2,572,800
Ending combined fund equity	\$14,615,120	\$15,050,200	\$16,495,100	\$20,280,600	\$22,853,400
RW Repair & Replacement Reserve	\$0	\$0	\$0	\$134,000	\$273,000
Bond Reserve	\$1,990,000	\$1,990,000	\$3,090,000	\$3,090,000	\$3,090,000
Operating Reserve	\$2,243,000	\$2,310,000	\$2,400,000	\$5,000,000	\$6,000,000
Cash Flow Reserve	\$10,375,000	\$10,750,000	\$11,000,000	\$11,000,000	\$11,250,000
Fund Equity Available for Use	\$7,120	\$200	\$5,100	\$1,056,600	\$2,240,400

years corresponding to expenditures for this project, as this state program is a reimbursement program.

The plan also shows that in the FY 2021/22, it will be necessary to issue debt to pay for specific capital projects, namely the construction of the second digester and a third aeration basin and secondary clarifier. The plan also anticipates that in FY 2024/25, the District will seek a Federal loan for the implementation of recycled water expansion projects.

Ten-Year Cash Flow

The table here and on the next page shows the Ten-Year Financial/Cash Flow Forecast for the District. The table includes starting fund equity and ending fund equity on an annual basis, forecasts for operating and non-operating revenue and operating expenses. Because it is a cash flow model, the forecast includes expenses for capital outlay for the year it is expensed, as well as proceeds from issuing debt. Also, at the end of each year, there is an adjustment made to the ending fund equity numbers

10-Year Financial/Cash Flow Forecast

	2021/22	2022/23	2023/24	2024/25	2025/26
Beginning Fund Equity	\$22,853,400	\$39,146,500	\$24,715,300	\$27,805,300	\$26,603,800
Operating revenue					
Sewer service charges	32,147,000	33,061,000	33,999,000	34,963,000	35,954,000
Capacity Charges	2,475,000	2,562,000	2,652,000	2,744,000	2,840,000
Recycled Water Sales	1,454,000	1,516,000	1,578,000	1,648,000	1,718,000
Development Fees	208,700	213,900	219,200	224,700	230,300
Hauler Fees	199,000	205,000	211,000	217,000	224,000
<u>Miscellaneous Revenue</u>	<u>79,000</u>	<u>81,000</u>	<u>83,000</u>	<u>85,000</u>	<u>87,000</u>
Total Operating Revenue	36,562,700	37,638,900	38,742,200	39,881,700	41,053,300
Non-Operating Revenue					
Interest	457,000	783,000	494,000	556,000	532,000
Rents and leases	734,000	738,000	741,000	745,000	748,000
Fed & State Grants	0	134,400	672,000	5,913,600	0
From Other Jurisdictions	0	276,000	1,380,000	12,144,000	0
<u>Proceeds - Sale of Bonds</u>	<u>18,500,000</u>	<u>0</u>	<u>0</u>	<u>7,425,000</u>	<u>0</u>
Total - Non-Operating Revenue	19,691,000	1,931,400	3,287,000	26,783,600	1,280,000
Total Revenue	56,253,700	39,570,300	42,029,200	66,665,300	42,333,300
Operating Expense					
Salaries and benefits	10,549,800	10,913,900	11,293,700	11,690,000	12,103,700
Services and supplies	6,246,000	6,390,000	6,537,000	6,687,000	6,841,000
Taxes and Other	31,700	32,400	33,100	33,900	34,700
Debt Service - Existing	4,768,000	4,752,300	4,697,100	4,699,900	4,699,900
<u>Debt Service - New/Projected</u>	<u>3,250,000</u>	<u>3,250,000</u>	<u>3,250,000</u>	<u>4,300,000</u>	<u>4,300,000</u>
Total Operating Expense	24,845,500	25,338,600	25,810,900	27,410,800	27,979,300
Capital Projects	15,115,100	28,662,900	13,128,300	40,456,000	8,669,100
Total - All Expenses	39,960,600	54,001,500	38,939,200	67,866,800	36,648,400
Net revenue (deficit)	16,293,100	(14,431,200)	3,090,000	(1,201,500)	5,684,900
Ending combined fund equity	\$39,146,500	\$24,715,300	\$27,805,300	\$26,603,800	\$32,288,700
RW Repair & Replacement Reserve	\$418,000	\$570,000	\$728,000	\$893,000	\$1,065,000
Bond Reserve	\$5,240,000	\$5,240,000	\$5,240,000	\$6,290,000	\$6,290,000
Operating Reserve	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000
Cash Flow Reserve	\$11,600,000	\$12,900,000	\$13,100,000	\$13,400,000	\$13,700,000
Fund Equity Available for Use	\$15,888,500	\$5,300	\$2,737,300	\$20,799	\$5,233,699

to account for necessary reserves to come up with an amount of equity that is available for use.

This model assumes that all fund equity available at the end of one year is rolled over for use in the following year. The model also assumes that there is

no underspending of operating expenses, although traditionally there is a small percentage of operating budget that is not spent each year.