

Budget Summary

Fund Structure

NapaSan 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 NapaSan 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

NapaSan’s budgetary procedures conform to state regulations and Generally Accepted Accounting Principles. While NapaSan uses full accrual accounting in its annual financial statements, NapaSan 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 NapaSan 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.

NapaSan 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. 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.

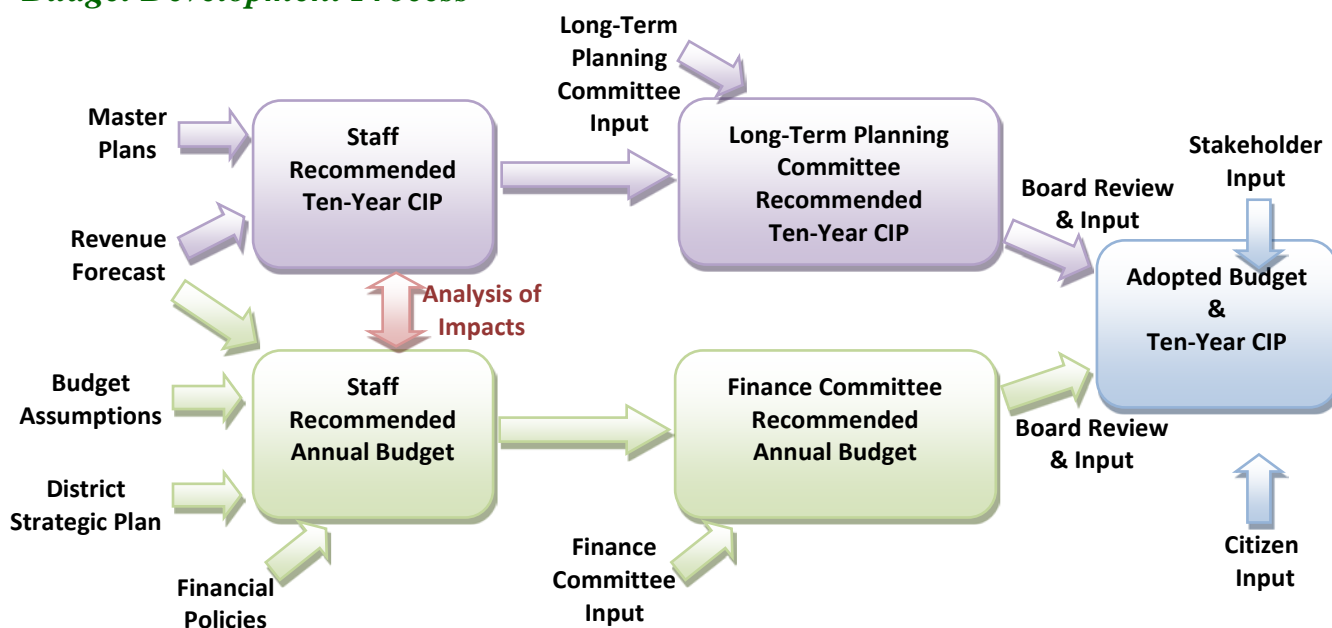
The proposed Operating Budget is provided to the Finance Committee, a subcommittee of the Board of Directors, who reviews the budget for consistency with the Board's budget direction and to ensure that there are adequate resources aligned to meet Board priorities. The proposed CIP is provided to the 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 2017/18

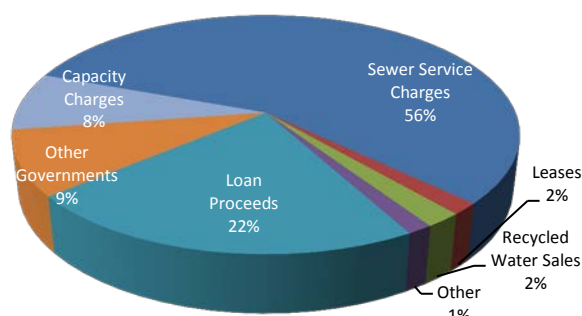
Jan. 9, 2017	Finance Committee meeting, to discuss budget development calendar, assumptions for next year, and policy direction.
Feb. 1, 2017	Budget direction and assumptions confirmed with Board of Directors.
Jan. to March	Staff develops proposed budget and Ten-Year CIP.
April 7, 2017	Finance Committee makes recommendations.
April 21, 2017	Long Term Planning Committee reviews Ten-Year CIP and makes recommendations.
May 3, 2017	Board of Directors receives and discusses the Proposed Operating Budget for FY 2017/18.
May 17, 2017	Board of Directors receives and discusses the Ten-Year CIP for FY 2017/18 through FY 2026/27.
June 7, 2017	Board of Directors adopts the FY 2017/18 Operating and Capital Budget and Ten-Year CIP.

Sources of Funds/Revenues

NapaSan has a stable revenue foundation, with 57% of NapaSan's FY 17/18 total 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 82%). Other significant revenue sources include capacity charges, recycled water sales, waste hauler fees, land leases, and interest earnings.

Source of Funds

Total* = \$46,269,100



* Excluding Transfers

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 NapaSan. The top ten sewer service customers represent only 9.9% 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.

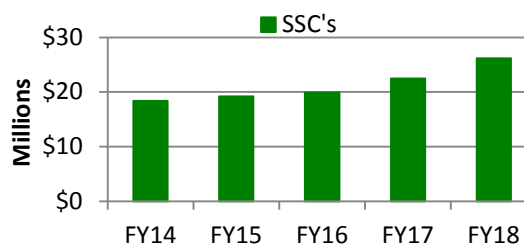
NapaSan followed the Proposition 218 process in 2016, providing the necessary notices and holding public hearings. At that time, the fee was set to increase annually. The fee is set to increase in FY

2017/18 from \$554.88 to \$638.10 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	\$676.38	6.0%
FY 19/20	\$710.20	5.0%
FY 20/21	\$738.62	4.0%

Sewer service charges revenue is forecasted for FY 2017/18 based on the estimated number of EDUs and the sewer service charge fee of \$638.10 per EDU. The total budgeted revenue is adjusted by a small percentage to account for delinquencies and non-payments.

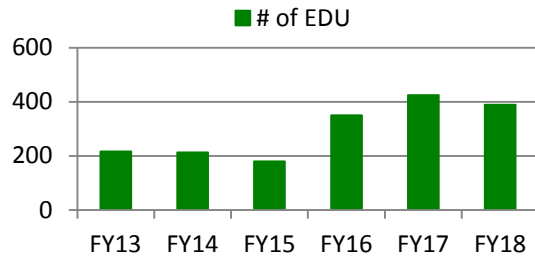


Grants and intergovernmental revenues are those revenues that are paid to NapaSan by another government, specifically for performing some specific task. In FY 2017/18, NapaSan will receive reimbursement from Napa County for construction of a new recycled water pipeline in the MST area.

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 390 EDU being developed during the fiscal year.



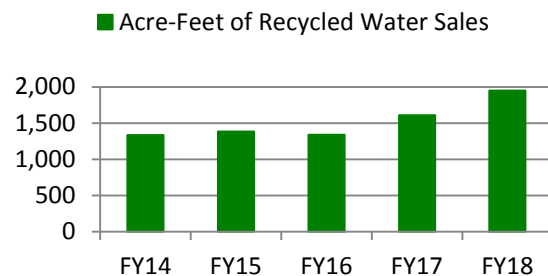
In September 2010, the Board of Directors approved a phased-in increase to the capacity charges. Prior to that date, the fee had not increased since 1995. The annual capacity charge fee increase is now based on the Engineering News Record Construction Cost Index for San Francisco (February-to-February). For February 2017, there was a 3.9% increase to the index compared to prior year.

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	No Change - \$8,950 per EDU
July 1, 2017	Increase to \$9,299 per EDU

Recycled Water Sales are collected from customers who purchase recycled water from NapaSan. 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 1,950 acre-feet (635 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.

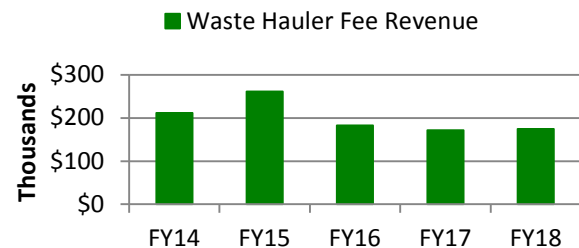


In 2017, the rates increased to \$1.62 per 1,000 gallons in the peak demand period, with lower rates for off-peak use and for those customers that enter long-term contracts for significant water use. In 2018, the rate is estimated to increase to \$1.66 per 1,000 gallons.

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 increased in FY15 and FY16. However, FY17 and FY18 assume "typical" years 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 NapaSan's sewerage works and dispose of that waste at the wastewater treatment plant. In FY 2012/13, NapaSan 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 2017/18 are flat for septage and FOG haulers, based on monthly trends seen the past year.

Land Leases generate revenue for the District. NapaSan 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.

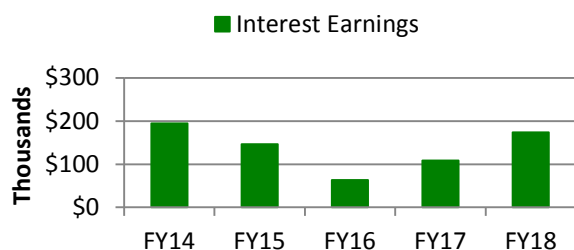
REVENUE - ALL SOURCES							
Account Description	Actual FY 14/15	Actual FY 15/16	Adjusted FY 16/17	YTD FY 16/17	Estimated FY 16/17	Proposed FY 17/18	Percent Change
780 - Operations							
Interest: Invested Funds	129,206	62,553	75,000	29,925	50,000	174,000	132.0%
Rent - Building/Land	712,553	715,254	719,000	359,125	716,000	722,000	0.4%
Construction/Bldg Permit Review Svcs	25,196	161,238	184,500	72,693	180,000	189,100	2.5%
Hauler Fees	261,593	182,808	172,000	68,889	172,000	175,000	1.7%
Sewer Usage Fees	19,190,534	19,887,172	22,514,000	13,070,876	22,500,000	26,152,000	16.2%
State - Other Funding	-	-	-	11,471	15,000	15,000	-
Penalties on Delinquent Sewer Fees	41,439	32,019	-	6,449	8,000	10,000	-
Recycled Water Sales	415,797	453,048	958,000	491,830	758,000	913,000	(4.7%)
Miscellaneous	107,874	89,989	69,000	18,308	30,000	51,000	(26.1%)
Total - Operations	20,884,192	21,584,081	24,691,500	14,129,567	24,429,000	28,401,100	15.0%
781 - Capital Improvement Projects							
Interest: Invested Funds	17,635	-	34,000	-	-	-	(100.0%)
Federal Grants - USBR & FEMA	3,586,966	1,861,364	300,000	2,094	295,000	1,001,000	233.7%
Other Government Agencies	7,794,763	17,354,109	1,950,000	1,359,013	1,950,000	3,075,000	57.7%
Miscellaneous	38,064	27,925	-	-	-	-	-
Bond/Loan Proceeds	-	-	4,550,000	-	4,550,000	10,137,000	122.8%
Sale of Capital Assets	21,518	14,147	-	18,700	25,000	25,000	-
Intrafund Transfers In	17,848,830	10,898,000	14,412,000	5,760,767	14,400,000	12,530,000	(13.1%)
Total - Capital Improvement Projects	29,307,776	30,155,545	21,246,000	7,140,574	21,220,000	26,768,000	26.0%
782 - Expansion							
Interest: Invested Funds	200	1,352	-	1,221	2,500	-	-
Capacity Charges	1,568,328	3,139,503	5,512,000	3,535,767	3,804,000	3,630,000	(34.1%)
Total - Expansion	1,568,528	3,140,855	5,512,000	3,536,988	3,806,500	3,630,000	(34.1%)
Total - All Departments	51,760,496	54,880,481	51,449,500	24,807,130	49,455,500	58,799,100	14.3%

Interest Earnings is the revenue NapaSan receives on idle cash and reserves that it maintains in its accounts. Cash is invested by the County of Napa Treasurer on NapaSan's behalf and in accordance with state law, and posted to NapaSan'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 NapaSan of approximately 0.5%, depending on liquidity needs and the specific investments made. The Federal Reserve increased rates in the last year, with a current target of 0.75% to 1.00%.

For FY 2017/18, NapaSan has assumed an earnings rate of 1.25% 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.

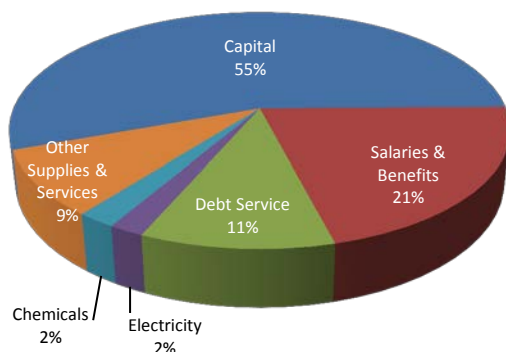


Uses of Funds/Expenditures

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

Use of Funds

Total* = \$45,220,050



* Excluding 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 NapaSan'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 2.75% in FY 2017/18 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 no new positions in the FY 2017/18 budget. Overall, salaries are budgeted to increase 3.8% over prior year.

Health benefits are known for the first two quarters in FY 2017/18. The budget assumes a 7% increase in employer costs for the last two quarters. Total health insurance budget is down 5.5% from prior year due to an overestimate in the prior year and changes in demographics of some employees.

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, NapaSan paid both the employer and employee

contribution for retirement benefits. In the new MOUs, the employees will pick up 4.25% of the employee contribution for FY 2017/18. The retirement cost budget is expected to increase by 2.0%.

Payments in lieu of health benefits are expected to increase by 4.9%. A decrease in the per person eligible is built into the projections, but in the prior year NapaSan saw an increase in the number of employees who opted out of health insurance (by being covered under a different plan), thus increasing the in lieu payments overall. The net impact is a savings to NapaSan.

Workers' compensation insurance costs are slightly higher than prior year by 0.7%, based on a slight increase in the Experience Modification Rate.

In total, salaries and benefits increase 2.1% over the prior fiscal year.

Services and supplies include the purchase of supplies and equipment to maintain and operate the various systems in NapaSan. 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.

Total services and supplies for FY 2017/18 are budgeted to be 3.0% lower than the prior fiscal year. One-time only projects in the prior year were removed, lowering the overall budget. Electricity is down, even with expanded recycled water distribution expected in FY 2017/18, because of anticipated savings from the solar and stationary storage projects. The chemicals budget is anticipated to decrease almost 1.1% to account for decreases 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 2017/18 capital plan include the Summer 2017 and Summer 2018 I&I Reduction Projects, the Browns Valley Trunk Sewer Interceptor project and related improvements at West Napa Pump Station, and a project to line the recycled water reservoirs. The plan also includes an extension of recycled water

EXPENSES - OPERATING AND CAPITAL

Account Description	Actual FY 14/15	Actual FY 15/16	Adj. Budget FY 16/17	Estimated FY 16/17	Proposed FY 17/18	Percent Change
Salaries & Benefits	\$8,122,300	\$7,680,196	\$9,382,370	\$8,886,930	\$9,581,300	2.1%
Services & Supplies	4,676,433	5,053,311	5,994,110	5,373,077	5,814,350	(3.0%)
Capital Expenses	38,619,401	22,651,756	19,283,950	19,283,950	25,018,300	29.7%
Debt Service	4,550,460	4,547,473	4,773,050	4,773,050	4,777,450	0.1%
Taxes & Assessments	25,160	24,995	28,250	28,247	28,650	1.4%
Total All Expenses	\$55,993,754	\$39,957,731	\$39,461,730	\$38,345,254	\$45,220,050	14.6%

(excluding intrafund transfers)

(presented on budgetary basis – does not conform to GAAP)

pipeline on Coombsville Road in the MST and the installation of a recycled water filling station, both of which are paid by other agencies.

Debt service includes the principal and interest payments for all of NapaSan's outstanding loans. Debt service is approximately \$4.8 million and is anticipated to increase slightly in FY 18/19 for the Recycled Water Reservoir Lining Project SRF loan, and in FY 2019/20 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.

Intrafund Transfers Out represent the following intrafund transfers:

- from Operations into the Capital Projects account (\$8,900,000)
- from Expansion into the Capital Projects account (\$3,630,000)

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 NapaSan.

Fund Equity

Fund equity, for the basis of NapaSan'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 NapaSan 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 2017/18, the estimated Ending Fund Equity is \$1,524,050 higher than the Beginning Fund Equity for the fiscal year, and is available to fund reserves and future capital projects.

Financial Overview

	FY 14/15 Actuals	FY 15/16 Actuals	FY 16/17 Budget	FY 16/17 Estimate	FY 17/18 Budget
Beginning Fund Equity	\$37,082,086	\$18,820,600	\$17,262,069	\$17,262,069	\$14,353,500
Revenues					
Use of Money/Property	\$859,594	\$779,159	\$828,000	\$768,500	\$896,000
Charges for Services	21,497,554	23,855,083	29,340,500	27,429,000	31,074,100
Intergovernmental	11,453,896	15,228,939	2,250,000	2,245,000	4,076,000
Bond Proceeds	0	0	4,550,000	4,550,000	10,137,000
Sale of assets	21,518	14,147	0	25,000	25,000
Miscellaneous Revenues	79,103	104,853	69,000	38,000	61,000
Total Revenues	\$33,911,665	\$39,982,181	\$37,037,500	\$35,055,500	\$46,269,100
Operating Expenditures					
Salaries and Benefits	\$6,955,714	\$5,872,455	\$9,382,370	\$8,886,930	\$9,581,300
Services and Supplies	4,676,836	5,053,312	5,994,110	5,373,077	5,814,350
Taxes and Assessments	25,160	24,995	28,250	28,247	28,650
Debt Service	4,772,926	4,776,996	4,773,050	4,773,050	4,777,450
Total Operating Expenditures	\$16,430,636	\$15,727,758	\$20,177,780	\$19,061,304	\$20,201,750
Capital Expenditures	\$38,619,401	\$24,250,109	\$19,283,950	\$19,283,950	\$25,018,300
GAAP Adjustments	(2,876,886)	1,562,845	0	(381,185)	(475,000)
Total Expenditures	\$52,173,151	\$41,540,712	\$39,461,730	\$37,964,069	\$44,745,050
Ending Fund Equity	\$18,820,600	\$17,262,069	\$14,837,839	\$14,353,500	\$15,877,550
Operating Reserve	\$2,085,000	\$2,227,000	\$2,243,000	\$2,243,000	\$2,314,000
Debt Reserve	1,990,000	1,990,000	1,990,000	1,990,000	1,990,000
Operating Cash Flow Reserve	8,240,000	10,987,000	10,375,000	10,375,000	10,750,000
Total Reserves	\$12,315,000	\$15,204,000	\$14,608,000	\$14,608,000	\$15,054,000
Available for Use (Fund Equity minus Reserves)	\$6,505,600	\$2,058,069	\$229,839	(\$254,500)	\$823,550

The numbers above are net of transfers in and out.

Reserves

NapaSan manages three distinct reserves. The first reserve is an **operating reserve** designed to assist NapaSan 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 NapaSan to have on hand on July 1 to cover its anticipated expenses through the summer and fall until NapaSan 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, 2016. 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 2017/18 budget continues to conform to program requirements and will be submitting it to GFOA to determine its eligibility for another award.

