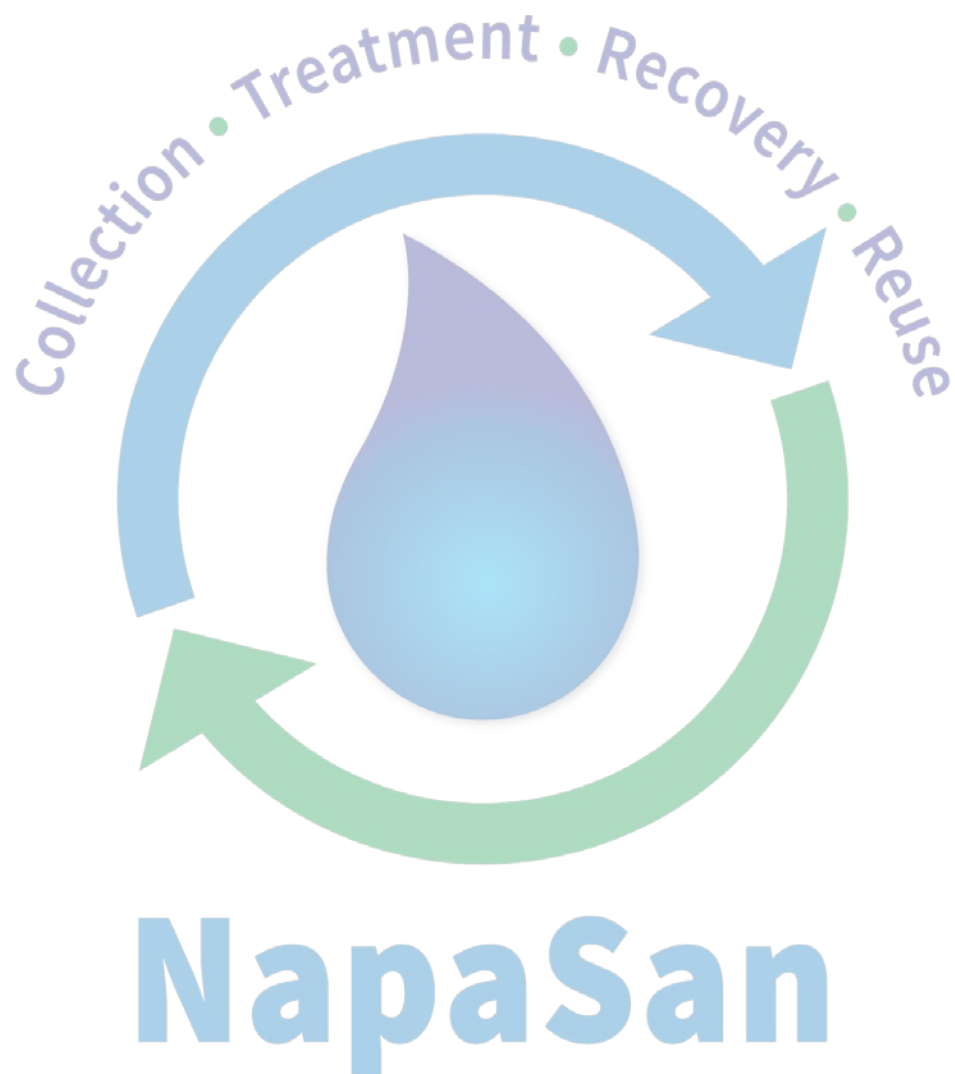


Ten-Year Financial Plan



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

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

Link to Strategic Plan

NapaSan's Strategic Plan (discussed in Budget Overview on [pages 19-24](#) 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

In March 2016, NapaSan 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 the year, through FY 2020/21. Thereafter, the rate is assumed to increase 3.0% annually.

Fiscal Year	Residential SSC Rate
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
FY 21/22	\$760.48 per EDU
FY 22/23	\$783.30 per EDU

Recycled Water Fees

Recycled water fees are becoming a more significant source of revenue for NapaSan. Fees are set by the Board of Directors through ordinance. The rates have been set for calendar year 2018.

The forecast assumes that NapaSan will increase recycled water sales from 1,888 acre feet in FY 2017/18 to 2,123 acre feet in FY 2018/19, with increasing sales in subsequent years until a total of 2,500 acre feet is sold annually. 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 a rate increase of 3.0% in 2019, and 4.3% annually starting in 2020, which includes a 2.3% increases for operating expenses and a 2.0% increase for funding the recycled water renewal and replacement reserve.

Calendar Year	Peak RW Rate
2018	\$1.67 per 1,000 gallons
2019	\$1.72 per 1,000 gallons
2020	\$1.79 per 1,000 gallons
2021	\$1.84 per 1,000 gallons
2022	\$1.92 per 1,000 gallons
2023	\$2.00 per 1,000 gallons

Capacity Charges

Annually, the capacity charge rate increases with the Engineering News Record's Construction Cost Index (ENR-CCI) for San Francisco (February-to-February), an inflation measure for capital infrastructure costs. Capacity charges increased 3.5% for FY 2018/19 to \$9,624 per Equivalent Dwelling Unit (EDU). Future year rates are estimated to increase 3.5% annually.

Capacity charges are forecasted based on known and planned development projects. NapaSan staff tracks planning referrals and other information to forecast hotels, other commercial developments and housing projects that are anticipated to begin construction in the next four years. A baseline number is then assumes for the remaining ten-year forecast.

Fiscal Year	Forecasted EDU
FY 18/19	479 EDU
FY 19/20	855 EDU
FY 20/21	545 EDU
FY 21/22	250 EDU
FY 22/23	250 EDU

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 NapaSan 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 NapaSan. 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 systems, and the purchase of materials and supplies. NapaSan 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 (2.75% through FY 2019/20), then at 2.5% annually thereafter.

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, and continue unchanged after FY 19/20. Workers compensation insurance is projected to remain flat for future years. For the Ten-Year Financial Plan, salaries and benefits combined are projected to increase 2.5% to 3.5% annually.

In an effort to address the unfunded actuarial liability (UAL) of pension benefits, the forecast includes the payment of an additional \$135,000 toward this liability annually. It also assumes that while there is an expected \$500,000 decrease in annual payments in FY 20/21 and FY 21/22 due to the expiration of a side fund amortization basis, NapaSan will continue to make these payments to CalPERS. It is not assumed, however, that these additional payments will reduce the annually determined contributions to CalPERS for the UAL, as the impact from these payments will not be realized until the time period beyond the current forecast.

Services and supplies are forecasted 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 and expanded recycled water delivery. The anticipated operating expenditure impact of planned capital projects has been included in the forecast.

Capital Costs

There are several plans that influence the overall Ten-Year Capital Improvement Plan, including the NapaSan Strategic Plan, 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 from the Proposition 218 process in March 2016, that in future years the SSC increase at 3% annually, and that development occurs as projected for capacity charges.

The budget and Ten-Year Capital Improvement Plan, described in detail in the previous sections 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 NapaSan 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 NapaSan needs to accumulate the money for the project and already have it prior to the work being completed.

NapaSan Financial Policy states that NapaSan 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 2018/19, NapaSan intends to enter into a loan agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund loan of approximately \$29 million for the Browns Valley Trunk and West Napa Pump Station Improvements project. The Ten-Year Forecast shows the proceeds from the loans in years corresponding to expenditures for this project, as this state program is a reimbursement program. Debt service for this loan is schedule to begin in FY 2021/22, at the end of the construction for the project, in accordance with current program rules.

The plan shows that in FY 2021/22, it will be necessary to issue debt to pay for the construction of the second digester and a third aeration basin and secondary clarifier for treatment plant expansion. Also in this same year, NapaSan plans to begin a significant 4-year replacement project of the main sewer truck, currently estimated at \$45 million, that will be debt financed either from a Clean Water State Revolving Fund loan or from the issuance of Certificates of Participation.

The plan also anticipates that in FY 2022/23, NapaSan will seek a Federal loan for the implementation of recycled water expansion projects.

Ten-Year Cash Flow

The table that follows shows the Ten-Year Financial/Cash Flow Forecast. 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 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.

10-Year Financial/Cash Flow Forecast

	Projected 2018/19	Projected 2019/20	Projected 2020/21	Projected 2021/22	Projected 2022/23
Beginning Fund Equity	\$21,116,600	\$18,908,900	\$19,314,400	\$21,493,200	\$23,951,100
Operating revenue					
Sewer service charges	28,156,000	29,989,000	31,820,000	33,190,000	34,381,000
Capacity Charges	4,614,600	8,525,200	5,624,400	2,670,200	2,764,000
Recycled Water Sales	1,042,000	1,123,000	1,215,000	1,367,000	1,425,000
Hauler Fees	180,000	185,000	191,000	197,000	203,000
Development Fees	193,800	198,600	203,600	208,700	213,900
Miscellaneous Revenue	93,000	95,000	97,000	99,000	101,000
Total Operating Revenue	34,279,400	40,115,800	39,151,000	37,731,900	39,087,900
Non-Operating Revenue					
Interest	311,000	331,000	386,000	430,000	479,000
Rents and leases	725,000	728,000	731,000	734,000	738,000
From Other Governments	375,000	0	0	0	25,500
Loan / Bond Proceeds	9,075,000	12,050,000	3,875,000	2,982,200	13,415,400
Total - Non-Operating Revenue	10,486,000	13,109,000	4,992,000	4,146,200	14,657,900
Total Revenue	44,765,400	53,224,800	44,143,000	41,878,100	53,745,800
Operating Expense					
Salaries and benefits	9,961,350	10,280,200	10,532,600	10,894,800	11,267,100
Services and supplies	6,003,100	6,341,000	6,495,000	6,370,000	6,547,000
Taxes and Other	29,150	29,700	30,300	30,900	31,500
Debt Service - Existing	4,593,800	4,589,550	4,588,050	4,591,750	4,580,650
Debt Service - New/Projected	0	0	0	850,000	5,940,000
Total Operating Expense	20,587,400	21,240,450	21,645,950	22,737,450	28,366,250
Capital Projects	26,385,700	31,578,900	20,318,300	16,682,800	25,197,600
Total - All Expenses	46,973,100	52,819,350	41,964,250	39,420,250	53,563,850
Net revenue (deficit)	(2,207,700)	405,450	2,178,750	2,457,850	181,950
Ending combined fund equity	\$18,908,900	\$19,314,350	\$21,493,150	\$23,951,050	\$24,133,050
RW Repair & Replacement Reserv	0	112,000	234,000	371,000	514,000
Bond Reserve	0	0	0	850,000	2,740,000
Operating Reserve	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Cash Flow Reserve	12,500,000	12,500,000	13,000,000	14,000,000	14,800,000
Fund Equity Available for Use	\$408,900	\$702,350	\$2,259,150	\$2,730,050	\$79,050

10-Year Financial/Cash Flow Forecast

	Projected 2023/24	Projected 2024/25	Projected 2025/26	Projected 2026/27	Projected 2027/28
Beginning Fund Equity	\$24,133,100	\$25,409,800	\$27,799,300	\$27,426,600	\$29,462,500
Operating revenue					
Sewer service charges	35,615,000	36,891,000	38,211,000	39,578,000	40,993,000
Capacity Charges	2,861,000	2,961,000	3,065,000	3,172,000	3,283,000
Recycled Water Sales	1,483,000	1,548,000	1,613,000	1,685,000	1,758,000
Hauler Fees	209,000	215,000	221,000	228,000	235,000
Development Fees	219,200	224,700	230,300	236,100	242,000
Miscellaneous Revenue	<u>104,000</u>	<u>107,000</u>	<u>110,000</u>	<u>113,000</u>	<u>116,000</u>
Total Operating Revenue	40,491,200	41,946,700	43,450,300	45,012,100	46,627,000
Non-Operating Revenue					
Interest	483,000	508,000	556,000	549,000	589,000
Rents and leases	741,000	745,000	748,000	752,000	756,000
From Other Governments	127,500	1,122,000	0	0	0
Loan / Bond Proceeds	<u>41,538,400</u>	<u>14,498,400</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total - Non-Operating Revenue	42,889,900	16,873,400	1,304,000	1,301,000	1,345,000
Total Revenue	83,381,100	58,820,100	44,754,300	46,313,100	47,972,000
Operating Expense					
Salaries and benefits	11,650,200	12,019,400	12,402,700	12,800,600	13,213,900
Services and supplies	7,008,700	6,760,000	6,895,000	7,033,000	7,174,000
Taxes and Other	32,100	32,700	33,400	34,100	34,800
Debt Service - Existing	4,524,350	4,527,750	4,517,750	4,518,450	4,513,150
Debt Service - New/Projected	<u>5,940,000</u>	<u>6,290,000</u>	<u>6,290,000</u>	<u>6,290,000</u>	<u>6,290,000</u>
Total Operating Expense	29,155,350	29,629,850	30,138,850	30,676,150	31,225,850
Capital Projects	52,949,100	26,800,800	14,988,200	13,601,100	15,285,500
Total - All Expenses	82,104,450	56,430,650	45,127,050	44,277,250	46,511,350
Net revenue (deficit)	1,276,650	2,389,450	(372,750)	2,035,850	1,460,650
Ending combined fund equity	\$25,409,750	\$27,799,250	\$27,426,550	\$29,462,450	\$30,923,150
RW Repair & Replacement Reserv	662,000	817,000	978,000	1,147,000	1,323,000
Bond Reserve	2,740,000	3,090,000	3,090,000	3,090,000	3,090,000
Operating Reserve	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Cash Flow Reserve	15,700,000	16,000,000	16,500,000	17,000,000	17,500,000
Fund Equity Available for Use	\$307,750	\$1,892,250	\$858,550	\$2,225,450	\$3,010,150