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 expenditures 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.

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.

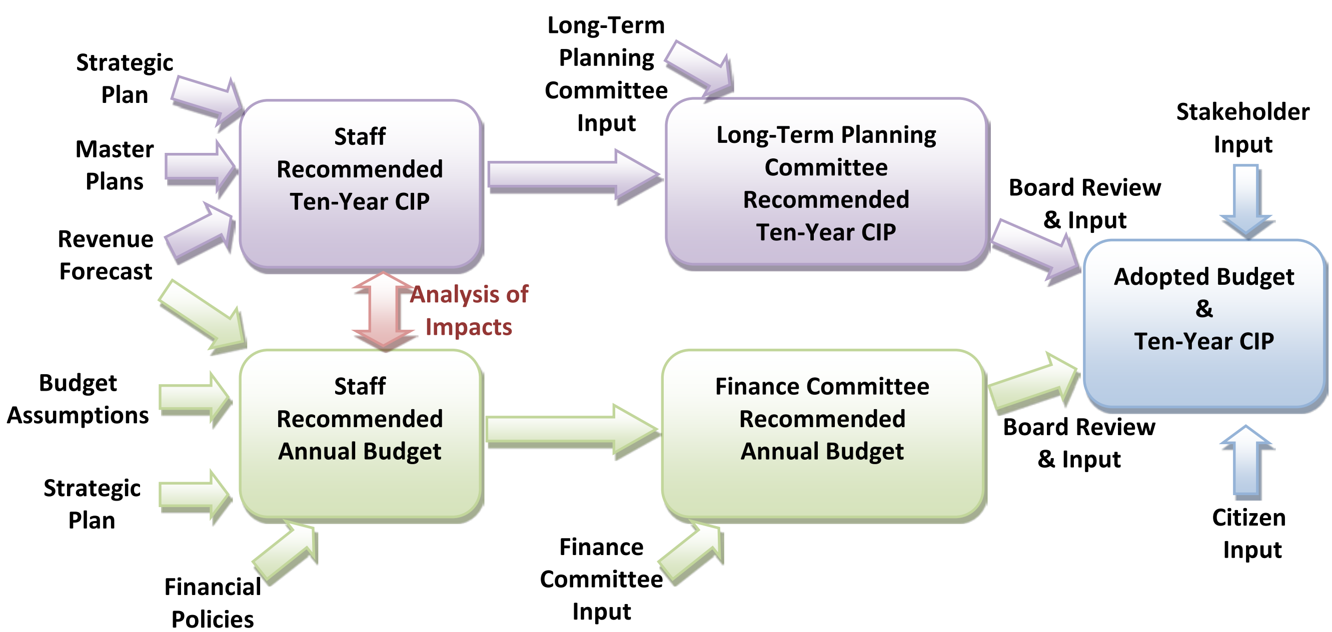
Budget Development Process

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 Calendar for FY 2021/22

Jan. 21, 2021 Finance Committee meeting, to discuss budget development calendar, assumptions for next year, and policy direction.

Feb. 17, 2021 Budget direction and assumptions confirmed with Board of Directors.

Jan. to April Staff develops proposed budget and Ten-Year CIP.

April 15, 2021 Finance Committee makes recommendations.

April 22, 2021 Long Term Planning Committee reviews Ten-Year CIP and makes recommendations.

May 5, 2021 Board of Directors receives and discusses the Proposed Operating Budget for FY 2021/22.

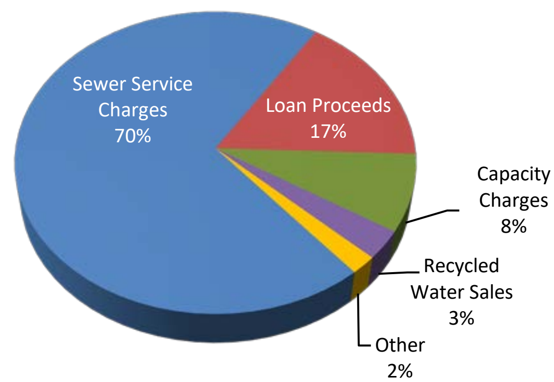
May 19, 2021 Board of Directors receives and discusses the Ten-Year CIP for FY 2021/22 through FY 2030/31.

June 2, 2021 Board of Directors adopts the FY 2021/22 Operating and Capital Budget and Ten-Year CIP.

Sources of Funds/Revenues

NapaSan has a stable revenue foundation, with 70% of NapaSan's FY 21/22 total revenues coming from sewer service charges collected as assessments on property tax bills (excluding loan proceeds, the number is about 84%). Other significant revenue sources include capacity charges, recycled water sales, wastehauler fees, land leases, and interest earnings.

Source of Funds
Total = $43,390,800
(excluding intrafund 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.

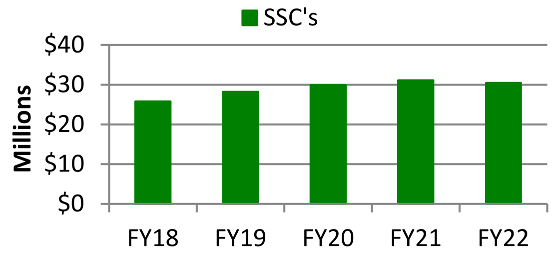
Sewer service charges are a highly distributed revenue source for NapaSan. The top ten sewer service customers represent only 8.9% of revenue from this category. This lack of concentration equates to a more stable revenue stream and is less susceptible to fluctuations in the economy or local business climate.

Sewer Service Charges
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	$738.60	4.0%
FY 21/22	**$738.60**	**0.0%**

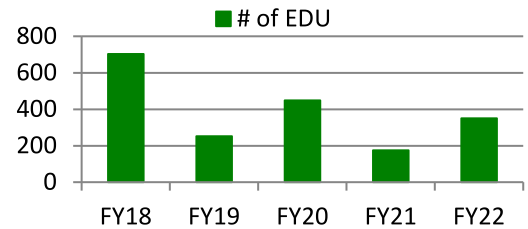
Sewer service charges are subject to California's Proposition 218, which requires that increases to the fee be noticed to all property owners, with the opportunity to protest the increase through letters and statements at a public hearing. If there is a majority of the property owners in protest of the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

NapaSan followed the Proposition 218 process in March 2021, providing the necessary notices and holding a public hearing. A cost of service study was conducted and recommended a modification to the calculation of sewer service charges. The fee was set to remain the same for the next five (5) years but the new fee calculation would distribute the cost of providing sewer service equitably among the different customer classes. FY 2021/22 is the first year and is set to remain at $738.60 per Equivalent Dwelling Unit (EDU).



Sewer service charges revenue is forecasted for FY 2021/22 based on the estimated number of EDUs and the sewer service charge fee of $738.60 per EDU. The total budgeted revenue is adjusted by a small percentage to account for delinquencies and non-payments.

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.

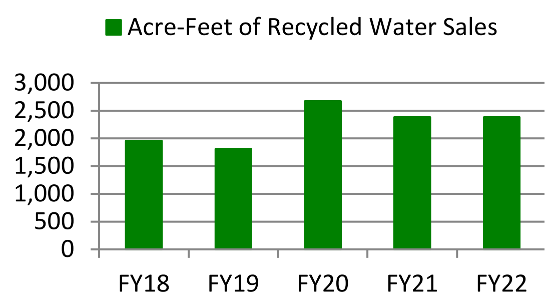


Capacity charges are forecasted for the next year based on the cost per EDU and an assumed growth rate of 200 EDUs being developed during the fiscal year.   The annual capacity charge fee increase is based on the Engineering News Record Construction Cost Index for the United States 20-City Average (February-to-February). For February 2021, there was a 2.7% increase to the index compared to prior year. (Note, in October 2018, the capacity charge was decreased from $9,624 to $9,520.)

Capacity Charges Fee Schedule

	Charge per EDU	% Change
FY 18	$9,299	3.8%
FY 19	$9,624	3.4%
FY 19	$9,520	(1.1%)
FY 20	$9,803	3.0%
FY 21	$9,959	1.6%
FY 22	$10,228	2.7%

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 2,300 acre-feet (772 million gallons). Recycled water usage has increased significantly due to dry weather conditions over the last year. Connections to the recycled water system has been slow but steady as more customers in the MST and Los Carneros Water District areas begin to connect.

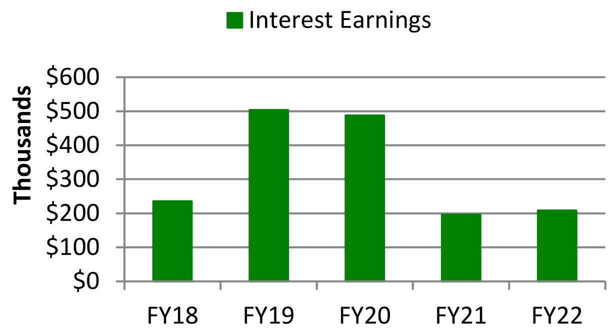
Recycled water rates are set on a calendar year basis. In January 2021, the rates increased to $1.93 per 1,000 gallons in the peak demand period, with lower rates for off-peak use and for those customers that enter long-term contracts for significant water use. This rate includes an additional 2% increase to begin funding the recycled water renewal and replacement reserve.

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.

Land Leases generate revenue for the District. NapaSan currently has one property lease agreement. It has an inflation factor identified within it. The revenue forecast is set based on the lease agreement. At the end of 2020, the largest lease (Somky Ranch) was terminated. Management is evaluating options for leasing that or other parcels to reestablish lease revenues.

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 accounts quarterly.

The Federal Funds rate still remains low in an effort to counter the negative financial impacts due to COVID-19. The forecast assumes interest earnings will remain low and is projected to be 1.0% in FY 21/22.



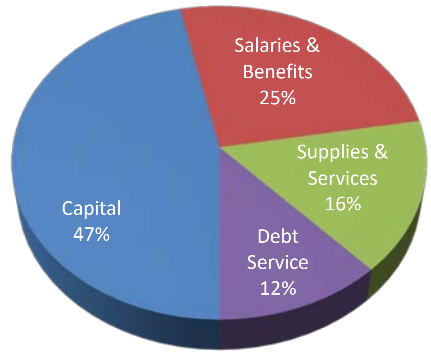
REVENUE - ALL SOURCES

Account Description	Actual FY 18/19	Actual FY 19/20	Adjusted FY 20/21	YTD FY 20/21	Estimated FY 20/21	Proposed FY 21/22	Percent Change
780 - Operations							
Interest: Invested Funds	503,127	483,439	196,000	90,828	196,000	208,000	6.1%
Rent - Building/Land	415,668	131,631	129,000	166,546	234,000	137,000	6.2%
Construction/Bldg Permit Review Svcs	113,530	136,931	123,000	66,854	123,000	125,500	2.0%
Hauler Fees	196,916	184,272	197,000	87,419	160,000	283,000	43.7%
Sewer Usage Fees	28,018,017	29,576,130	31,112,000	17,499,093	30,034,000	30,487,000	(2.0%)
State - Other Funding	-	-	-	-	-	-	-
Penalties on Delinquent Sewer Fees	21,296	27,134	10,000	17,027	20,000	10,000	-
Recycled Water Sales	858,343	1,298,071	1,001,000	904,170	1,200,000	1,343,000	34.2%
Miscellaneous	63,726	35,882	52,000	34,312	41,000	54,000	3.8%
Total - Operations	**30,190,621**	**31,873,490**	**32,820,000**	**18,866,248**	**32,008,000**	**32,647,500**	**(0.5%)**
781 - Capital Improvement Projects							
Interest: Invested Funds	-	-	-	-	-	-	-
Federal Grants - USBR & FEMA	(15,303)	-	-	-	-	-	-
Other Government Agencies	693,659	340,776	-	-	-	-	-
Miscellaneous	-	-	5,000	-	5,000	5,000	-
Bond/Loan Proceeds	-	2,215,178	27,249,900	-	32,651,422	7,133,300	(73.8%)
Sale of Capital Assets	(9,516)	(59,331)	25,000	-	25,000	25,000	-
Intrafund Transfers In	11,835,558	4,266,561	10,992,000	1,263,291	1,742,800	12,580,000	14.4%
Total - Capital Improvement Projects	**12,504,398**	**6,763,184**	**38,271,900**	**1,263,291**	**34,424,222**	**19,743,300**	**(48.4%)**
782 - Expansion							
Interest: Invested Funds	900	3,961	-	605	1,000	-	-
Capacity Charges	2,396,746	4,403,474	1,992,000	847,565	1,742,800	3,580,000	79.7%
Total - Expansion	**2,397,646**	**4,407,435**	**1,992,000**	**848,170**	**1,743,800**	**3,580,000**	**79.7%**
Total - All Departments	**45,092,665**	**43,044,109**	**73,083,900**	**20,977,709**	**68,176,022**	**55,970,800**	**(23.4%)**

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 = $43,131,300
(excluding intrafund transfers)

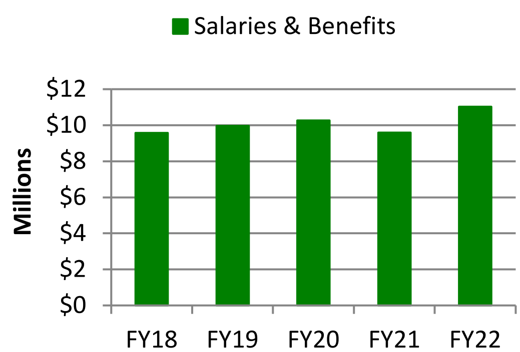


Salaries and benefits are those expenses related to payroll and staffing. They include salary and wages of employees, overtime, payroll taxes such as Medicare, health insurance benefits, and retirement benefits. This category also includes expenses for funding NapaSan's OPEB ("Other Post-Employment Benefits")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

Labor agreements went into effect on July 1, 2020, and will expire on June 30, 2024. Salary increases for cost of living adjustments were set for FY 2020/21 and FY 2021/22. The labor agreement will reopen to negotiate an appropriate salary increase for FY 2022/23 and FY 2023/24. Market adjustments to salaries for certain positions were negotiated and will be phased in over the four-year term of the agreement. Individual salaries were also adjusted, with some employees moving up steps within their current classification and vacancies budgeted at the mid-range step. In FY 2020/21, due to the uncertainty of the financial impact of COVID-19, the budget for many operating expense items were reduced or eliminated, including freezing two vacant positions. These two vacancies have been added back in for FY 2021/22. Salaries are budgeted to increase 11.5% over prior year due to the adjustments and a reduced budget in FY 2020/21.

Health benefits are known for the first two quarters in FY 2021/22. The budget assumes a 7% increase in employer costs for the last two quarters. The overall budget for insurance premiums increases by 13.2% compared to last fiscal year as a result of adding back in the two vacant positions that were not filled in FY 2020/21.

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. In the past, NapaSan paid both the employer and employee contribution for retirement benefits. Under the last MOUs, the employees picked up 6.75% of the employee contribution for FY 2019/20. The employees will pick up the entire 8% of the employee contribution in the new MOUs starting in FY 2021/22. The minimum retirement cost contribution to CalPERS increased by 12.8%. The budgeted amount is 43.6% higher than prior year and includes an additional $505,000 payment toward this liability. The additional contribution payment was not included in FY 2020/21 budget as a way to reduce operating expenses. NapaSan had a "side fund" for increased benefits provided to its employees twenty years ago. The final payment was made in FY 2019/20, which caused a decrease in the minimum contribution. NapaSan's financial policy encourages the use of freed up budgetary capacity to use towards additional CalPERS payments.

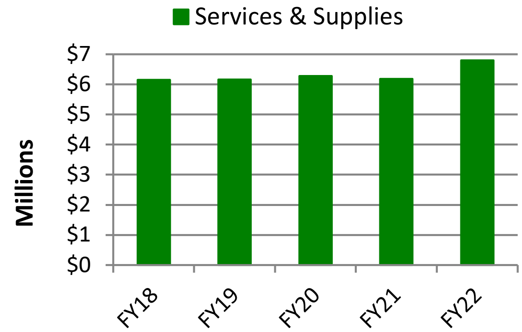


Payments in lieu of health benefits are expected to decrease by 6.6%. The eligibility of this benefit was changed in the last MOUs. As long-time employees separate from NapaSan and new employees come on board, less employees are eligible and the cost of this benefit decreases.

Workers' compensation insurance costs are lower than prior year by 2.0% based on a decrease in the Experience Modification ("X-Mod") Rate.

In total, the salaries and benefits budget increases 14.9% 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.



EXPENSES - OPERATING AND CAPITAL

Account Description	Actual FY 18/19	Actual FY 19/20	Adj. Budget FY 20/21	Estimated FY 20/21	Proposed FY 21/22	Percent Change
Salaries & Benefits	$11,514,082	$10,196,229	$9,590,300	$9,465,181	$11,021,800	14.9%
Services & Supplies	5,078,785	5,186,754	6,410,700	5,904,198	6,796,650	6.0%
Capital Expenses	15,770,574	13,319,646	65,903,450	57,137,587	20,128,300	(69.5%)
Debt Service	4,597,161	4,594,202	4,588,000	4,588,000	5,149,550	12.2%
Taxes & Assesments	40,691	42,025	42,400	34,220	35,000	(17.5%)
Total All Expenses	**$37,001,293**	**$33,338,857**	**$86,534,850**	**$77,129,186**	**$43,131,300**	**(50.2%)**

(excluding intrafund transfers)

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

Total services and supplies for FY 2021/22 are budgeted to be 6.0% higher than the prior fiscal year's adjusted budget. Adjustments that were made to reduce the FY 2020/21 budget to accommodate the reduction in revenues forecasted for the following two years were added back into the budget. The marsh dredging project that was postponed last year is included for this year. The internship positions have been added back in for FY 2021/22. In addition, the training and conference budget was brought back to its normal funding level after being reduced by 50% last year. Some increased expenses were unanticipated. Property liability insurance will see a 50.0% increase. The risk pool authority states that the increase is due to the wildfires in California and other catastrophic events around the world. Electricity is up 24.1% due to an increase in recycled water production. However, the chemicals budget decreases 9.7% due to changes made to reduce chemical 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 2021/22 capital plan include the completion of the Summer 2021 and the start of construction of the Summer 2022 collection system rehabilitation projects, the completion of the Browns Valley trunk project and replacement of the West Napa Pump Station, the completion of the rehabilitation of the 66-inch Trunk Main, the completion of the Wastewater Treatment Plant Master Plan and completion of the 2021 Treatment Plant Improvements Project.

Debt service includes the principal and interest payments for all of NapaSan's outstanding loans. Debt service is approximately $5.1 million, which includes the new debt service for the 66" Trunk (Kaiser Road to IPS) Rehabilitation project and a portion of the 2022 Collection System Rehabilitation project. Financing begins in FY 2022/23 for the Browns Valley Road Trunk and West Napa Pump Station Rehabilitation projects (SRF loan). 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 ($9,000,000)
- from Expansion into the Capital Projects account ($3,580,000)

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 2021/22, the estimated Ending Fund Equity is $259,500 lower than the Beginning Fund Equity for the fiscal year, with the ending equity available to fund future capital projects. The change in Fund Equity (1.2% reduction) is due to the implementation of planned capital projects.

Reserves

NapaSan manages three distinct reserves. The first reserve is an **operating reserve** designed to assist NapaSan during emergencies. This reserve is maintained at least 15% of annual operating expenses, including debt service but excluding transfers. This reserve has increased in FY 21/22 as recommended in the 2016 rate study.

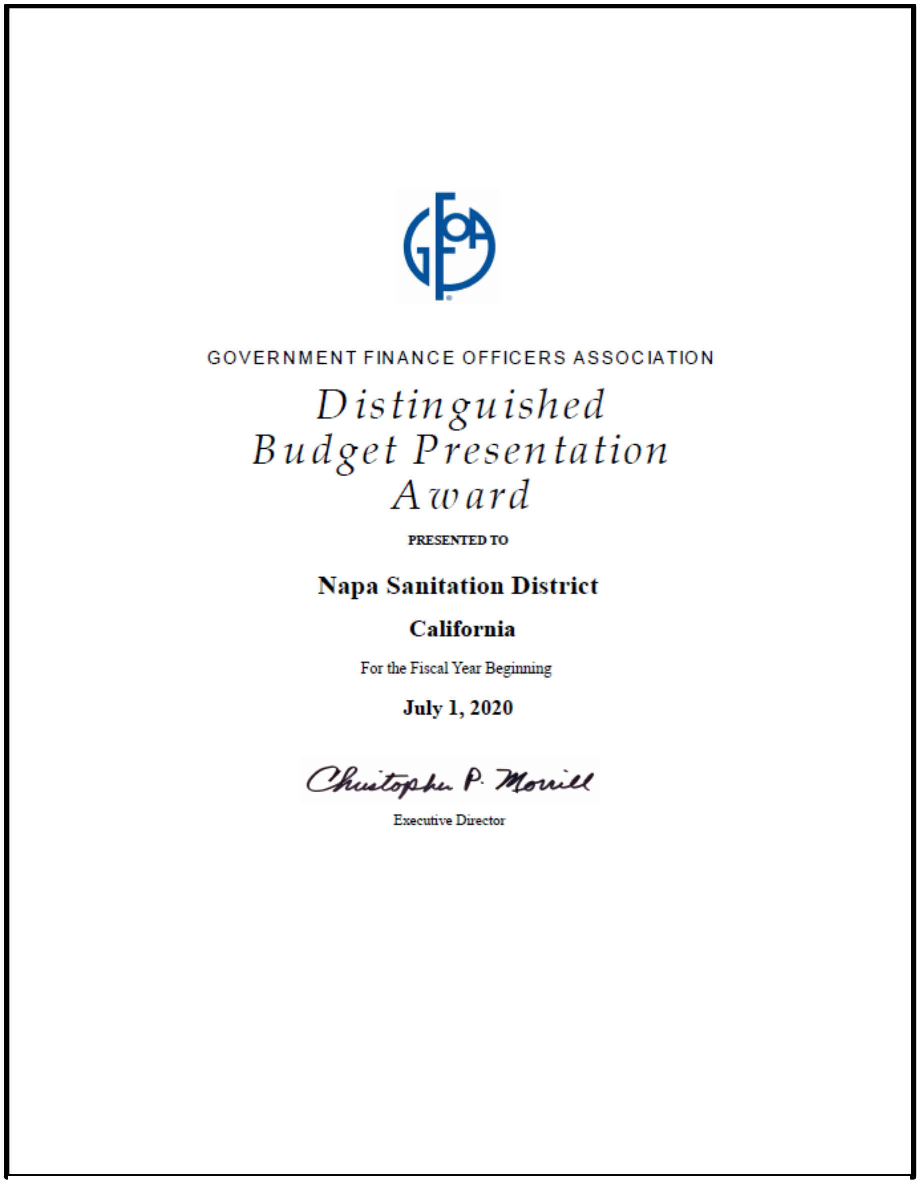
The second reserve is an **operating cash flow reserve**. This reserve is the amount of cash necessary for NapaSan to have on hand on July 1 to cover its anticipated expenses through the summer and fall until NapaSan receives the bulk of its operating revenues (sewer services charges collected as property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

The third reserve is a **debt service reserve**. The SRF loan for the Browns Valley Trunk and West Napa Pump Station Rehabilitation project requires a debt service reserve equal to one debt service payment.

Financial Overview

	FY 18/19 Actuals	FY 19/20 Actuals	FY 20/21 Adj Budget	FY 20/21 Estimate	FY 21/22 Proposed
Beginning Fund Equity	**$25,609,380**	**$24,527,787**	**$31,472,186**	**$31,472,186**	**$20,776,200**
Revenues					
Use of Money/Property	$919,694	$619,031	$325,000	$431,000	$345,000
Charges for Services	31,604,848	35,626,012	34,425,000	33,259,800	35,818,500
Intergovernmental	559,745	2,555,955	0	0	0
Bond Proceeds	0	0	27,249,900	32,651,422	7,133,300
Sale of assets	(9,516)	(59,331)	25,000	25,000	25,000
Miscellaneous Revenues	63,726	35,882	67,000	66,000	69,000
Total Revenues	**$33,138,497**	**$38,777,549**	**$62,091,900**	**$66,433,222**	**$43,390,800**
Operating Expenditures					
Salaries and Benefits	$10,661,127	$9,396,098	$9,590,300	$9,465,181	$11,021,800
Services and Supplies	5,078,787	5,196,375	6,410,700	5,904,198	6,796,650
Taxes and Assessments	40,691	42,025	42,400	34,220	35,000
Debt Service	4,594,467	4,594,202	4,588,000	4,588,000	5,149,550
Total Operating Expenditures	**$20,375,072**	**$19,228,700**	**$20,631,400**	**$19,991,599**	**$23,003,000**
Capital Expenditures	$15,770,574	$13,319,646	$65,903,450	$57,137,587	$20,128,300
GAAP Adjustments	(1,925,556)	(715,196)	0	0	0
Total Expenditures	**$34,220,090**	**$31,833,150**	**$86,534,850**	**$77,129,186**	**$43,131,300**
Ending Fund Equity	**$24,527,787**	**$31,472,186**	**$7,029,236**	**$20,776,222**	**$21,035,700**
RW Repair & Replacement Reserve	$0	$106,000	$206,000	$206,000	$340,000
Debt Reserve	0	0	1,100,000	1,100,000	1,100,000
Operating Reserve	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Operating Cash Flow Reserve	12,500,000	9,614,000	10,204,000	10,204,000	10,351,000
Total Reseves	$18,500,000	$15,720,000	$17,510,000	$17,510,000	$17,791,000
Available for Use (Fund Equity minus Reserves)	**$6,027,787**	**$15,752,186**	**($10,480,764)**	**$3,266,222**	**$3,244,700**

The numbers above are net of transfers in and out.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished
Budget Presentation
Award

PRESENTED TO

Napa Sanitation District

California

For the Fiscal Year Beginning

July 1, 2020

Christopher P. Morrill

Executive Director

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, 2020. 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 2021/22 budget continues to conform to program requirements and will be submitting it to GFOA to determine its eligibility for another award.