

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 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 19-23](#) 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, NapaSan has increased the sewer service charge (SSC) annually by the local Consumer Price Index (CPI). 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 that year, as follows:

Fiscal Year	Residential Annual 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

Thereafter, the rate is assumed to increase 3.0% annually.

Recycled Water Fees

Recycled water fees are becoming a more significant source of revenue for NapaSan. These are the fees charged to users of recycled water. Fees are set by the Board of Directors through ordinance. The rates have been adjusted by CPI in 2017 and are as follows:

Rate	Description
\$1.62/kgal	Peak demand usage (April - October)
\$1.30/kgal	Large contract users
\$1.22/kgal	Off peak usage (Nov. – Feb.)
\$1.09/kgal	March

The forecast assumes that NapaSan will increase recycled water sales from 1,686 acre feet in FY 16/17 to 1,948 acre feet in FY 17/18. 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

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 3.9% for FY 2017/18 to \$9,299 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 assumed for the remaining ten-year forecast.

Fiscal Year	Forecasted EDU
FY 17/18	390 EDU
FY 18/19	436 EDU
FY 19/20	514 EDU
FY 20/21	175 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 (2.5% 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 is projected to remain flat for FY 2017/18, and then expected to reduce slightly in future years. For the Ten-Year Financial Plan, salaries and benefits combined are projected to increase 3.3% to 3.5% annually.

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 (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 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 during the Proposition 218 process in March 2016, 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 2017/18, NapaSan intends to enter into two loan agreements with the State Water Resources Control Board, one for a Clean Water State Revolving Fund loan of approximately \$20 million for the Browns Valley Trunk and West Napa Pump Station Improvements project, and the other for a

10-Year Financial/Cash Flow Forecast

	Projected 2017/18	Projected 2018/19	Projected 2019/20	Projected 2020/21	Projected 2021/22
Beginning Fund Equity	\$14,353,500	\$15,877,600	\$16,742,000	\$19,198,500	\$19,653,800
Operating revenue					
Sewer service charges	26,162,000	27,995,000	29,705,000	31,273,000	32,345,000
Capacity Charges	3,630,000	4,200,000	5,125,000	1,806,000	2,670,000
Recycled Water Sales	913,000	1,044,000	1,156,000	1,273,000	1,329,000
Hauler Fees	175,000	180,000	185,000	191,000	197,000
Development Fees	189,100	193,800	198,600	203,600	208,700
Miscellaneous Revenue	<u>91,000</u>	<u>93,000</u>	<u>95,000</u>	<u>97,000</u>	<u>99,000</u>
Total Operating Revenue	31,160,100	33,705,800	36,464,600	34,843,600	36,848,700
Non-Operating Revenue					
Interest	174,000	238,000	293,000	384,000	393,000
Rents and leases	722,000	725,000	728,000	731,000	734,000
From Other Governments	4,076,000	0	0	0	0
Loan / Bond Proceeds	<u>10,137,000</u>	<u>2,049,000</u>	<u>0</u>	<u>0</u>	<u>982,200</u>
Total - Non-Operating Revenue	15,109,000	3,012,000	1,021,000	1,115,000	2,109,200
Total Revenue	46,269,100	36,717,800	37,485,600	35,958,600	38,957,900
Operating Expense					
Salaries and benefits	9,581,300	9,906,900	10,245,700	10,584,000	10,936,100
Services and supplies	5,814,350	5,931,000	6,268,000	6,421,000	6,294,000
Taxes and Other	28,650	29,200	29,800	30,400	31,000
Debt Service - Existing	4,777,450	4,772,000	4,771,000	4,771,000	4,768,000
Debt Service - New/Projected	<u>0</u>	<u>60,000</u>	<u>1,160,000</u>	<u>1,160,000</u>	<u>1,160,000</u>
Total Operating Expense	20,201,750	20,699,100	22,474,500	22,966,400	23,189,100
Capital Projects	25,018,300	15,154,300	12,554,600	12,536,900	10,834,800
Total - All Expenses	45,220,050	35,853,400	35,029,100	35,503,300	34,023,900
Net revenue (deficit)	1,049,050	864,400	2,456,500	455,300	4,934,000
GAAP Adjustment	\$475,000	\$0	\$0	\$0	\$0
Ending combined fund equity	\$15,877,550	\$16,742,000	\$19,198,500	\$19,653,800	\$24,587,800
RW Repair & Replacement Reserv	0	0	116,000	243,000	376,000
Bond Reserve	1,990,000	2,050,000	3,150,000	3,150,000	3,150,000
Operating Reserve	2,314,000	2,400,000	4,000,000	5,000,000	6,000,000
Cash Flow Reserve	10,750,000	11,000,000	11,000,000	11,250,000	11,600,000
Fund Equity Available for Use	\$823,550	\$1,292,000	\$932,500	\$10,800	\$3,461,800

“green projects reserve” loan for the Recycled Water Reservoir Lining project, with a 50% loan forgiveness component. 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.

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

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

10-Year Financial/Cash Flow Forecast

	Projected 2022/23	Projected 2023/24	Projected 2024/25	Projected 2025/26	Projected 2026/27
Beginning Fund Equity	\$24,587,800	\$25,222,100	\$25,129,300	\$25,534,200	\$26,859,300
Operating revenue					
Sewer service charges	33,511,000	34,718,000	35,967,000	37,260,000	38,599,000
Capacity Charges	2,764,000	2,861,000	2,961,000	3,064,000	3,171,000
Recycled Water Sales	1,386,000	1,442,000	1,506,000	1,570,000	1,640,000
Hauler Fees	203,000	209,000	215,000	221,000	228,000
Development Fees	213,900	219,200	224,700	230,300	236,100
Miscellaneous Revenue	<u>101,000</u>	<u>104,000</u>	<u>107,000</u>	<u>110,000</u>	<u>113,000</u>
Total Operating Revenue	38,178,900	39,553,200	40,980,700	42,455,300	43,987,100
Non-Operating Revenue					
Interest	492,000	504,000	503,000	511,000	537,000
Rents and leases	738,000	741,000	745,000	748,000	752,000
From Other Governments	25,500	127,500	1,122,000	0	0
Loan / Bond Proceeds	<u>3,023,100</u>	<u>20,026,400</u>	<u>1,866,000</u>	<u>0</u>	<u>0</u>
Total - Non-Operating Revenue	4,278,600	21,398,900	4,236,000	1,259,000	1,289,000
Total Revenue	42,457,500	60,952,100	45,216,700	43,714,300	45,276,100
Operating Expense					
Salaries and benefits	11,302,600	11,684,300	12,082,000	12,496,400	12,928,500
Services and supplies	6,470,000	6,929,700	6,679,000	6,813,000	6,949,000
Taxes and Other	31,600	32,200	32,800	33,500	34,200
Debt Service - Existing	4,752,300	4,697,100	4,699,900	4,699,900	4,699,900
Debt Service - New/Projected	<u>1,910,000</u>	<u>3,035,000</u>	<u>3,385,000</u>	<u>3,385,000</u>	<u>3,385,000</u>
Total Operating Expense	24,466,500	26,378,300	26,878,700	27,427,800	27,996,600
Capital Projects	17,356,700	34,666,600	17,933,100	14,961,400	15,197,800
Total - All Expenses	41,823,200	61,044,900	44,811,800	42,389,200	43,194,400
Net revenue (deficit)	634,300	(92,800)	404,900	1,325,100	2,081,700
<i>GAAP Adjustment</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
Ending combined fund equity	\$25,222,100	\$25,129,300	\$25,534,200	\$26,859,300	\$28,941,000
RW Repair & Replacement Reserv	515,000	659,000	810,000	967,000	1,131,000
Bond Reserve	5,300,000	5,300,000	5,300,000	5,300,000	5,300,000
Operating Reserve	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Cash Flow Reserve	12,400,000	13,100,000	13,400,000	13,700,000	13,700,000
Fund Equity Available for Use	\$1,007,100	\$70,300	\$24,199	\$892,299	\$2,809,999

Ten-Year Cash Flow

The table here and on the previous page 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.