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 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.

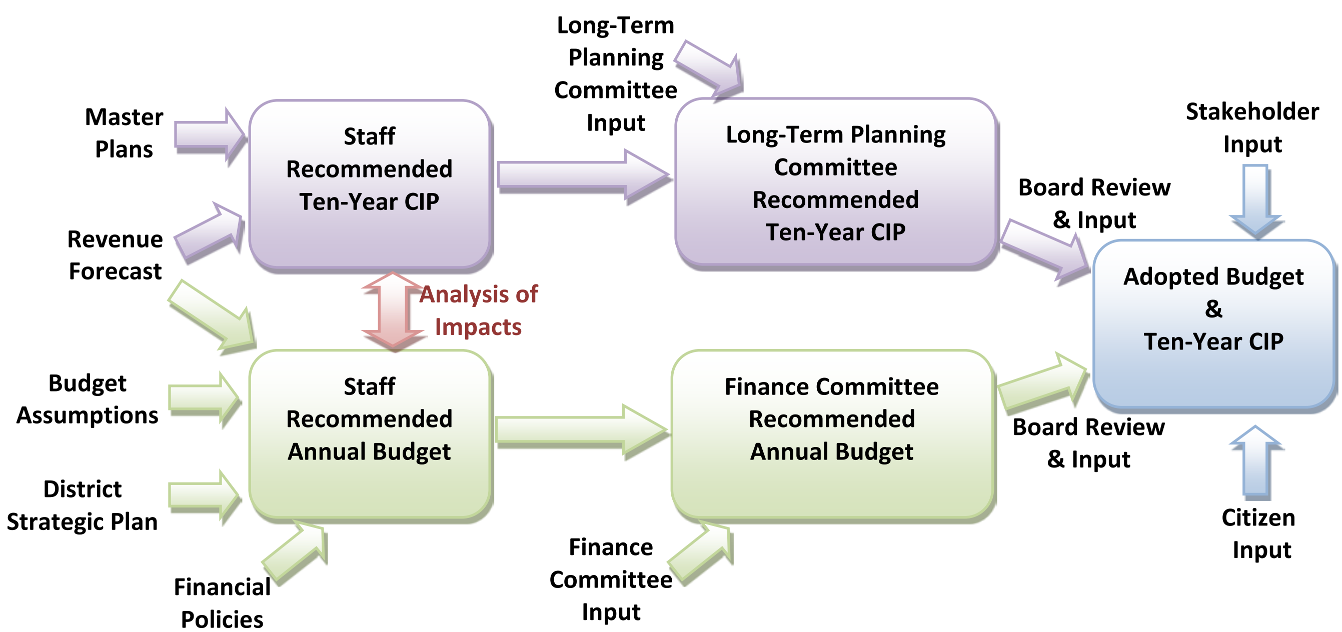
Budget Development Process

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.

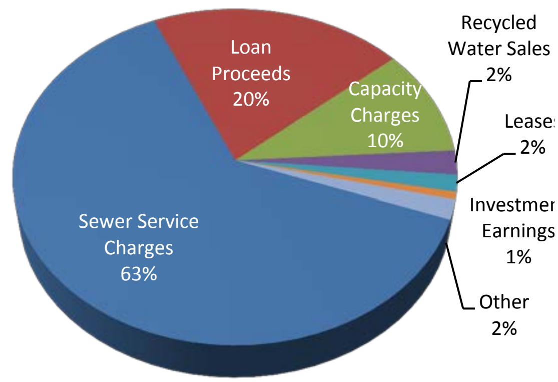
Budget Calendar for FY 2018/19

Jan. 16, 2018	Finance Committee meeting, to discuss budget development calendar, assumptions for next year, and policy direction.
Feb. 7, 2018	Budget direction and assumptions confirmed with Board of Directors.
Jan. to March	Staff develops proposed budget and Ten-Year CIP.
April 2, 2018	Finance Committee makes recommendations.
April 9, 2018	Long Term Planning Committee reviews Ten-Year CIP and makes recommendations.
May 2, 2018	Board of Directors receives and discusses the Proposed Operating Budget for FY 2018/19.
May 16, 2018	Board of Directors receives and discusses the Ten-Year CIP for FY 2018/19 through FY 2027/28.
June 6, 2018	Board of Directors adopts the FY 2018/19 Operating and Capital Budget and Ten-Year CIP.

Sources of Funds/Revenues

NapaSan has a stable revenue foundation, with 65% of NapaSan's FY 18/19 total revenues coming from sewer service charges collected as assessments on property tax bills (excluding loan proceeds, the number is closer to 80%). Other significant revenue sources include capacity charges, recycled water sales, land leases, and interest earnings.

Source of Funds
Total = $44,765,400
(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 9.7% 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.

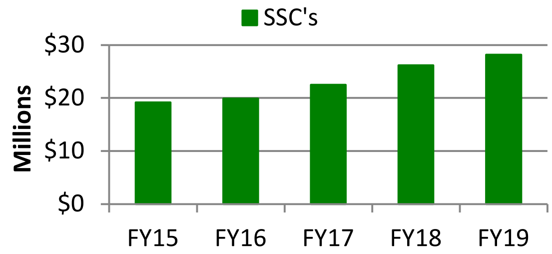
Sewer service charges are subject to California's Proposition 218, which requires that increases to the fee be noticed to all property owners, with the opportunity to protest the increase through letters and statements at a public hearing. If there is a majority of the property owners in protest of the 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 2018/19 from $638.10 to $676.38 per Equivalent Dwelling Unit (EDU). For the following years, the rate can increase up to the maximum amounts shown in the chart to the right, but the actual amounts will be set by the Board annually.

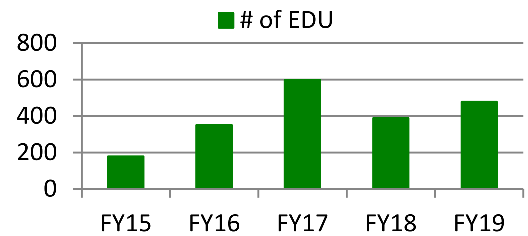
Sewer Service Charges
History and Projection

	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 2018/19 based on the estimated number of EDUs and the sewer service charge fee of $676.38 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 479 EDU being developed during the fiscal year. The annual capacity charge fee increase is based on the Engineering News Record Construction Cost Index for San Francisco (February-to-February). For February 2018, there was a 3.4% increase to the index compared to prior year.

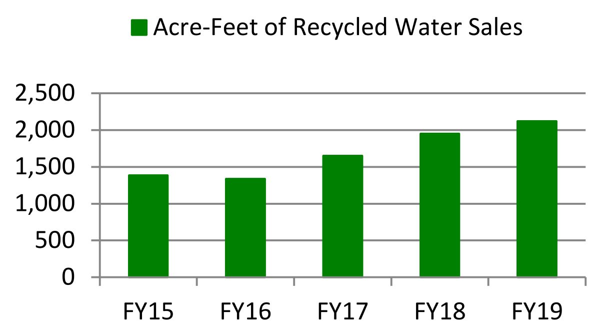
Capacity Charges Fee Schedule

	Charge per EDU	**% Increase**
FY 15	$8,723	5.0%
FY 16	$8,950	2.6%
FY 17	$8,950	0.0%
FY 18	$9,299	3.8%
FY 19	$9,624	3.4%

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 2,100 acre-feet (690 million gallons), which includes an increase of recycled water usage compared to historical averages due additional recycled water connections in the MST and Los Carneros Water District Recycled areas.

In January 2018, the rates increased to $1.67 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 January 2019, the rate is estimated to increase to $1.72 per 1,000 gallons.

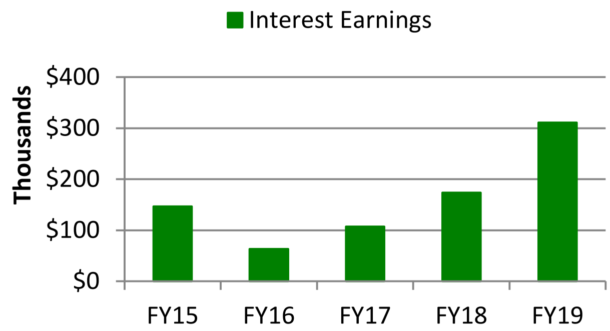


Recycled water sales are affected by the weather. Cooler, wetter spring and summer months result in less need to irrigate and therefore lower volumes of water are sold.

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.

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.

With recent increases in the Federal Funds rate and an indication of further rate increases in 2018, the forecast assumes interest earnings to increase from 1.25% in FY 17/18 to 1.50% in FY 18/19. The overall revenue is higher because of the increased rate and additional cash balances at certain times of the year.



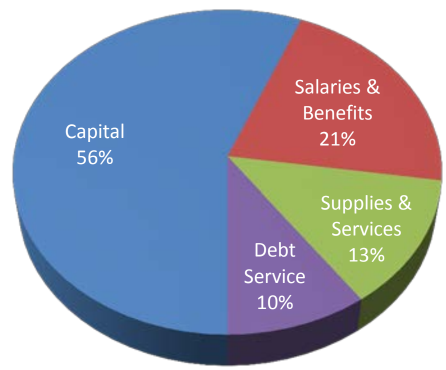
REVENUE - ALL SOURCES

Account Description	Actual FY 15/16	Actual FY 16/17	Adjusted FY 17/18	Estimated FY 17/18	Proposed FY 18/19	Percent Change
780 - Operations						
Interest: Invested Funds	62,553	103,686	174,000	174,000	311,000	78.7%
Rent - Building/Land	715,254	718,251	722,000	122,000	725,000	0.4%
Construction/Bldg Permit Review Svcs	161,238	154,607	189,100	189,100	193,800	2.5%
Hauler Fees	182,808	150,757	175,000	175,000	180,000	2.9%
Sewer Usage Fees	19,887,172	22,501,543	26,152,000	26,162,000	28,156,000	7.7%
State - Other Funding	-	13,680	15,000	1,000	-	(100.0%)
Penalties on Delinquent Sewer Fees	32,019	21,167	10,000	10,000	10,000	-
Recycled Water Sales	453,048	735,717	913,000	913,000	1,042,000	14.1%
Miscellaneous	89,989	80,472	51,000	384,000	53,000	3.9%
Total - Operations	**21,584,081**	**24,479,880**	**28,401,100**	**28,130,100**	**30,670,800**	**8.0%**
781 - Capital Improvement Projects						
Interest: Invested Funds	-	-	-	-	-	-
Federal Grants - USBR & FEMA	1,861,364	353,338	1,001,000	1,320,000	-	(100.0%)
Other Government Agencies	17,354,109	2,694,683	3,075,000	3,067,000	375,000	(87.8%)
Miscellaneous	27,925	-	-	8,000	5,000	-
Bond/Loan Proceeds	-	-	10,137,000	-	9,075,000	(10.5%)
Sale of Capital Assets	14,147	20,313	25,000	25,000	25,000	-
Intrafund Transfers In	10,898,000	7,737,000	12,530,000	12,530,000	16,150,000	28.9%
Total - Capital Improvement Projects	**30,155,545**	**10,805,334**	**26,768,000**	**16,950,000**	**25,630,000**	**(4.3%)**
782 - Expansion						
Interest: Invested Funds	1,352	3,405	-	2,500	-	-
Capacity Charges	3,139,503	5,355,828	3,630,000	6,276,000	4,614,600	27.1%
Total - Expansion	**3,140,855**	**5,359,233**	**3,630,000**	**6,278,500**	**4,614,600**	**27.1%**
Total - All Departments	**54,880,481**	**40,644,447**	**58,799,100**	**51,358,600**	**60,915,400**	**3.6%**

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 = $46,973,100
(excluding intrafund transfers)

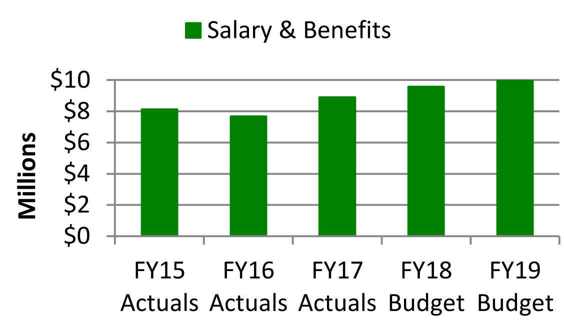


Salaries and benefits are those expenses related to payroll and staffing. They include salary and wages of employees, overtime, payroll taxes such as Medicare, health insurance benefits, and retirement benefits. This category also includes expenses for funding NapaSan's OPEB ("Other Post-Employment Benefits")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

Labor agreements went into effect on July 1, 2014, and will expire on June 30, 2020. Salaries will increase 2.75% in FY 2018/19 for a cost of living adjustment per the 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 2018/19 budget. Overall, salaries are budgeted to increase 1.1% over prior year.

Health benefits are known for the first two quarters in FY 2018/19. The budget assumes a 7% increase in employer costs for the last two quarters. In the FY 18/19 budget, health insurance premiums paid for retirees has been reclassified from "Employee Insurance – Premiums" to "Other Post-Employment Benefits" to better account for OPEB expenses, with the result a crease in the Insurance Premium budget of 27.9%.

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 current MOUs, the employees will pick up 5.5% of the employee contribution for FY 2018/19. The minimum retirement cost contribution to CalPERS increased by 4.8%. The budgeted amount is 11.9% higher than prior year and includes an additional $135,000 payment toward this liability.



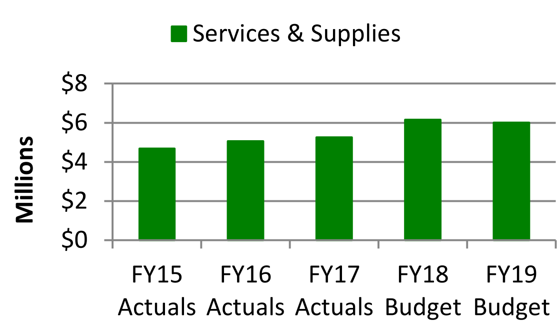
(presented on budgetary basis)

Payments in lieu of health benefits are expected to decrease by 9.1%. A decrease in the per-person eligible is built into the MOUs.

Workers' compensation insurance costs are lower than prior year by 20.8%, based on a decrease in the Experience Modification Rate.

In total, the salaries and benefits budget increases 4.0% 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 15/16	Actual FY 16-17	Adj. Budget FY 17/18	Estimated FY 17/18	Proposed FY 18/19	Percent Change
Salaries & Benefits	$6,597,459	$8,907,912	$9,581,300	$9,359,421	$9,961,350	4.0%
Services & Supplies	5,053,311	5,263,274	6,154,300	5,431,533	6,003,100	(2.5%)
Capital Expenses	24,250,109	10,096,002	33,210,500	21,968,750	26,385,700	(20.6%)
Debt Service	4,547,473	4,770,891	4,777,450	4,773,500	4,593,800	(3.8%)
Taxes & Assesments	24,995	26,545	28,650	28,714	29,150	1.7%
Total All Expenses	**$40,473,346**	**$29,064,624**	**$53,752,200**	**$41,561,918**	**$46,973,100**	**(12.6%)**

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

Total services and supplies for FY 2018/19 are budgeted to be 2.5% lower than the prior fiscal year adjusted budget. One-time only projects in the prior year were removed, lowering the overall budget. Electricity is down 8.8%, even with expanded recycled water distribution expected in FY 2018/19, because of anticipated savings from the solar and stationary storage projects. The chemicals budget is anticipated to increase about 0.8%, even with increases in unit costs, because of lower anticipated 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 2018/19 capital plan include the Summer 2018 and Summer 2019 I&I Reduction Projects, the Browns Valley Trunk project and related improvements at West Napa Pump Station, plant rehabilitation projects. The plan also includes the completion of a recycled water filling station in the MST area, which is being paid for by Napa County.

Debt service includes the principal and interest payments for all of NapaSan's outstanding loans. Debt service is approximately $4.6 million, a decrease of 3.9%. This is due to the refinancing of the 2009B Certificates of Participation at the end of 2017. Debt service is anticipated to increase in FY 2021/22 when the debt service for the Browns Valley Road Truck and West Napa Pump Station 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 ($7,250,000)

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 2018/19, the estimated Ending Fund Equity is $2,197,700 lower than the Beginning Fund Equity for the fiscal year, with the ending equity available to fund future capital projects. The change in Fund Equitity (10.6% 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 18/19 as recommended in the 2016 rate study.

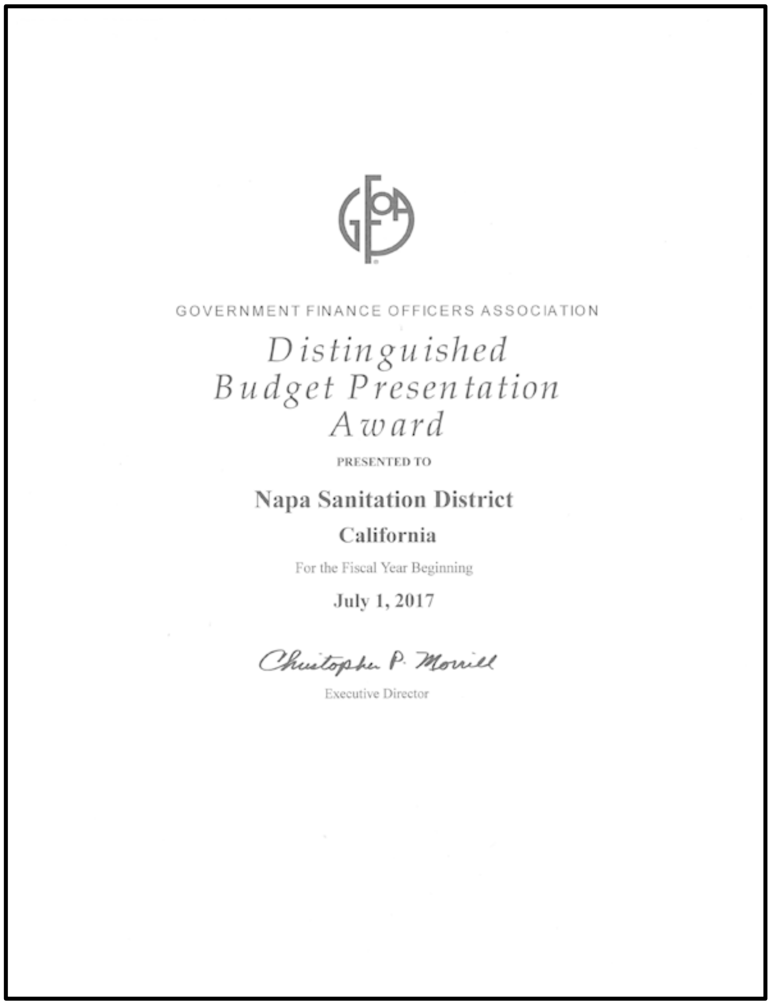
The second reserve is an **operating cash flow reserve**. This reserve is the amount of cash necessary for NapaSan to have on hand on July 1 to cover its anticipated expenses through the summer and fall until NapaSan receives the bulk of its operating revenues (sewer services charges collected as property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

The third reserve is a **debt reserve** held in trust by a third party. With the refinancing of the 2009B COPs, there is currently no debt reserve requirement. However, it is assumed that future debt issuances will require a reserve.

Financial Overview

	FY 15/16 Actuals	FY 16/17 Actuals	FY 17/18 Adj Budget	FY 17/18 Estimate	FY 18/19 Budget
Beginning Fund Equity	**$18,820,600**	**$17,262,069**	**$22,145,297**	**$22,145,297**	**$21,116,600**
Revenues					
Use of Money/Property	$779,159	$825,342	$896,000	$298,500	$1,036,000
Charges for Services	23,855,083	28,959,620	31,059,100	33,715,100	34,186,400
Intergovernmental	15,228,939	3,061,702	4,091,000	4,388,000	375,000
Bond Proceeds	0	0	10,137,000	0	9,075,000
Sale of assets	14,147	20,313	25,000	25,000	25,000
Miscellaneous Revenues	104,853	40,473	61,000	402,000	68,000
Total Revenues	**$39,982,181**	**$32,907,450**	**$46,269,100**	**$38,828,600**	**$44,765,400**
Operating Expenditures					
Salaries and Benefits	$5,872,455	$8,179,992	$9,581,300	$9,359,421	$9,961,350
Services and Supplies	5,053,312	5,263,276	6,154,300	5,431,533	6,003,100
Taxes and Assessments	24,995	26,545	28,650	28,714	29,150
Debt Service	4,776,996	4,770,891	4,777,450	4,773,500	4,593,800
Total Operating Expenditures	**$15,727,758**	**$18,240,704**	**$20,541,700**	**$19,593,168**	**$20,587,400**
Capital Expenditures	$24,250,109	$10,096,002	$33,210,500	$20,364,085	$26,385,700
GAAP Adjustments	1,562,845	(312,484)	0	(100,000)	0
Total Expenditures	**$41,540,712**	**$28,024,222**	**$53,752,200**	**$39,857,253**	**$46,973,100**
Ending Fund Equity	**$17,262,069**	**$22,145,297**	**$14,662,197**	**$21,116,644**	**$18,908,900**
Operating Reserve	$2,227,000	$2,243,000	$2,314,000	$2,314,000	$6,000,000
Debt Reserve	1,990,000	1,990,000	1,990,000	1,990,000	0
Operating Cash Flow Reserve	10,987,000	10,375,000	10,750,000	10,750,000	12,500,000
Total Reseves	$15,204,000	$14,608,000	$15,054,000	$15,054,000	$18,500,000
Available for Use (Fund Equity minus Reserves)	**$2,058,069**	**$7,537,297**	**($391,803)**	**$6,062,644**	**$408,900**

The numbers above are net of transfers in and out.



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, 2017. 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 2018/19 budget continues to conform to program requirements and will be submitting it to GFOA to determine its eligibility for another award.