

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.

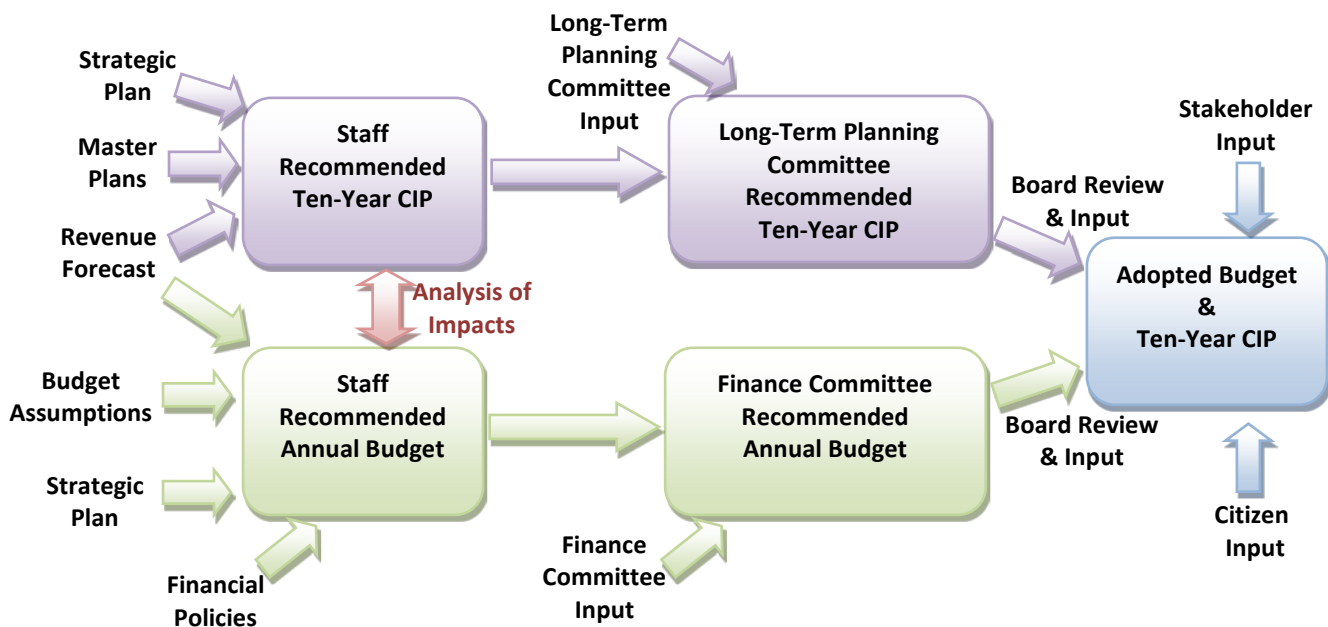
Budget Development Process

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 2019/20

Jan. 17, 2019	Finance Committee meeting, to discuss budget development calendar, assumptions for next year, and policy direction.
March 6, 2019	Budget direction and assumptions confirmed with Board of Directors.
Jan. to April	Staff develops proposed budget and Ten-Year CIP.
April 18, 2019	Finance Committee makes recommendations.
April 25, 2019	Long Term Planning Committee reviews Ten-Year CIP and makes recommendations.
May 1, 2019	Board of Directors receives and discusses the Proposed Operating Budget for FY 2019/20.
May 15, 2019	Board of Directors receives and discusses the Ten-Year CIP for FY 2019/20 through FY 2028/29.
June 5, 2019	Board of Directors adopts the FY 2019/20 Operating and Capital Budget and Ten-Year CIP.

Sources of Funds/Revenues

NapaSan has a stable revenue foundation, with 57% of NapaSan's FY 19/20 total revenues coming from sewer service charges collected as assessments on property tax bills (excluding loan proceeds, the number is closer to 81%). Other significant revenue sources include capacity charges, recycled water sales, land leases, and interest earnings.

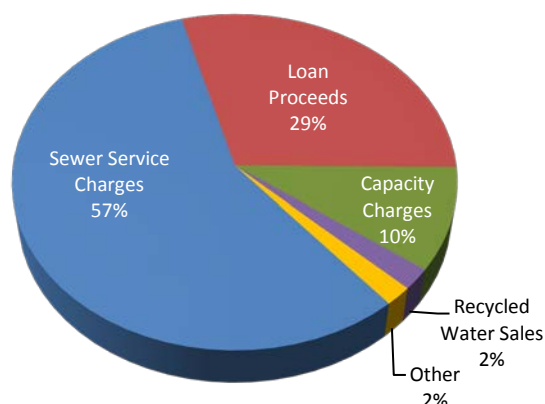
Sewer service charges (SSC's) are the fees charged to residences and businesses for sewer use. For most residences and businesses, these fees are paid annually as assessments on property tax bills. Some industrial and commercial customers are charged monthly, rather than annually, based either on water usage or actual sewer flows.

Sewer service charges are a highly distributed revenue source for NapaSan. The top ten sewer service customers represent only 9.2% 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 2019/20 from \$676.38 to \$710.20 per Equivalent Dwelling Unit (EDU). For FY 2020/21, the rate can increase up to the maximum amount shown in the chart to the right, but the Board will set the actual amount annually.

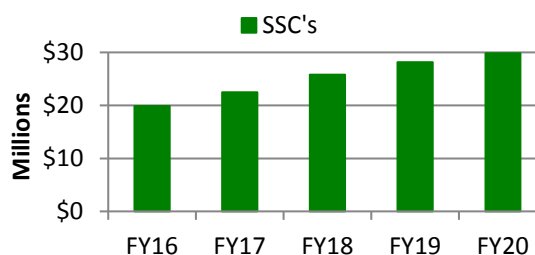
Source of Funds
Total = \$52,476,100
(excluding intrafund transfers)



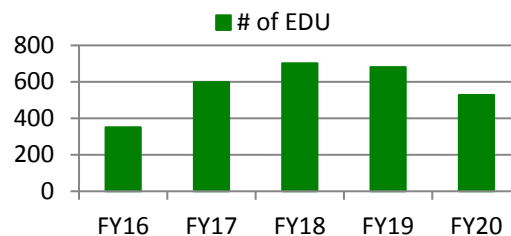
Sewer Service Charges History and Projection

	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 2019/20 based on the estimated number of EDUs and the sewer service charge fee of \$710.20 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 528 EDU 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 2019, there was a 3.0% increase to the index compared to prior year. (Note, in October 2018, the capacity charge was decreased from \$9,624 to \$9,520.)

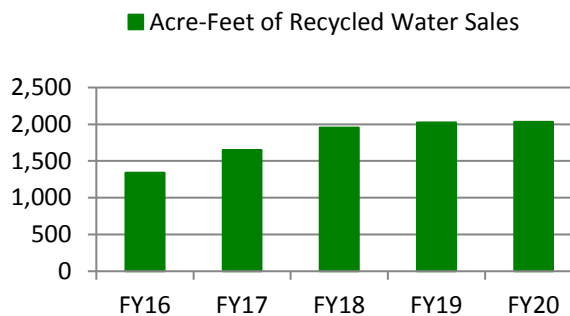
Capacity Charges Fee Schedule

	Charge per EDU	% Change
FY 16	\$8,950	2.6%
FY 17	\$8,950	0.0%
FY 18	\$9,299	3.8%
FY 19	\$9,624	3.4%
FY 19	\$9,520	(1.1%)
FY 20	\$9,803	3.0%

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 2,035 acre-feet (663 million gallons), which includes an increase of recycled water usage compared to historical averages due to additional recycled water connections in the MST and Los Carneros Water District Recycled areas.

Recycled water rates are set on a calendar year basis. In January 2019, the rates increased to \$1.78 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. In January 2020, the rate is estimated to increase to \$1.87 per 1,000 gallons.



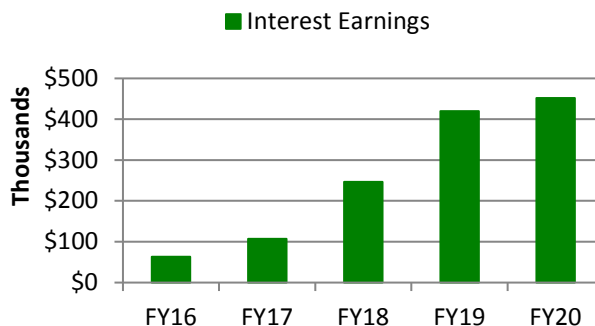
Recycled water sales are affected by the weather. Cooler, wetter spring and summer months result in less need to irrigate and therefore lower volumes of water are sold.

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. In early 2019, NapaSan was informed that the largest lease (Somky Ranch) would no longer be paid. 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.

With recent increases in the Federal Funds rate and an indication of one potential rate increase in 2019, the forecast assumes interest earnings to increase from an average 2.0% in FY 18/19 to 2.25% in FY 19/20. 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 16/17	Actual FY 17/18	Adjusted FY 18/19	Estimated FY 18/19	Proposed FY 19/20	Percent Change
<u>780 - Operations</u>						
Interest: Invested Funds	103,686	235,840	311,000	420,000	452,000	45.3%
Rent - Building/Land	718,251	725,626	725,000	427,000	126,000	(82.6%)
Construction/Bldg Permit Review Svcs	154,607	167,564	193,800	100,000	102,500	(47.1%)
Hauler Fees	150,757	187,705	180,000	185,000	191,000	6.1%
Sewer Usage Fees	22,501,543	25,806,368	28,156,000	28,166,000	29,856,000	6.0%
State - Other Funding	13,680	63,286	-	-	-	-
Penalties on Delinquent Sewer Fees	21,167	29,513	10,000	13,000	10,000	-
Recycled Water Sales	735,717	833,333	1,042,000	979,000	1,064,000	2.1%
Miscellaneous	80,472	386,405	53,000	55,000	50,000	(5.7%)
Total - Operations	24,479,880	28,435,641	30,670,800	30,345,000	31,851,500	3.8%
<u>781 - Capital Improvement Projects</u>						
Interest: Invested Funds	-	-	-	-	-	-
Federal Grants - USBR & FEMA	353,338	543,096	-	32,000	-	-
Other Government Agencies	2,694,683	2,535,003	375,000	440,050	-	(100.0%)
Miscellaneous	-	6,870	5,000	-	5,000	-
Bond/Loan Proceeds	-	-	9,075,000	-	15,416,600	69.9%
Sale of Capital Assets	20,313	8,372	25,000	90,000	25,000	-
Intrafund Transfers In	7,737,000	8,080,000	16,150,000	-	14,078,000	(12.8%)
Total - Capital Improvement Projects	10,805,334	11,173,341	25,630,000	562,050	29,524,600	15.2%
<u>782 - Expansion</u>						
Interest: Invested Funds	3,405	10,796	-	-	-	-
Capacity Charges	5,355,828	6,532,806	4,614,600	5,100,000	5,178,000	12.2%
Total - Expansion	5,359,233	6,543,602	4,614,600	5,100,000	5,178,000	12.2%
Total - All Departments	40,644,447	46,152,584	60,915,400	36,007,050	66,554,100	9.3%

Uses of Funds/Expenditures

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

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 2019/20 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 2019/20 budget. Overall, salaries are budgeted to increase 3.0% over prior year.

Health benefits are known for the first two quarters in FY 2019/20. The budget assumes a 7% increase in employer costs for the last two quarters. Because the rates in the first two quarters were lower than previously estimated, the overall budget for insurance premiums decreased 0.4% compared to last fiscal year.

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. Under the current MOUs, the employees will pick up 6.75% of the employee contribution for FY 2019/20. The minimum retirement cost contribution to CalPERS increased by less than 1%. The budgeted amount is 6.6% higher than prior year and includes an additional \$135,000 payment toward this liability.

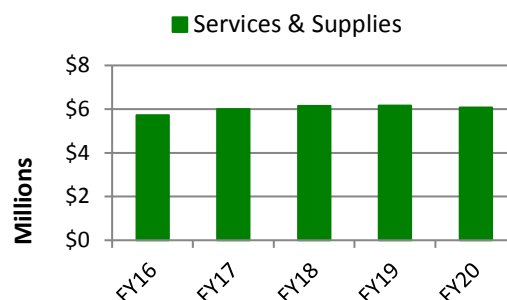
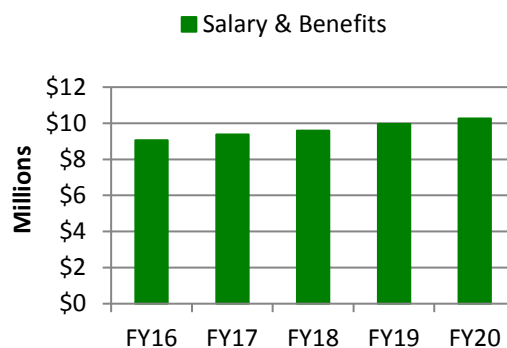
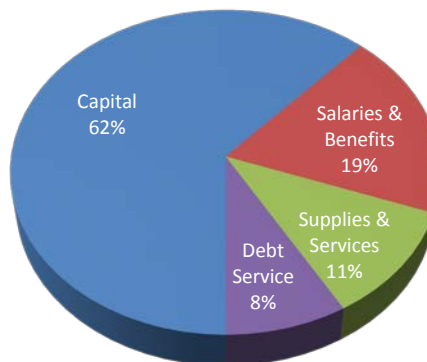
Payments in lieu of health benefits are expected to decrease by 3.4%. A decrease in the per-person eligible is built into the MOUs.

Workers' compensation insurance costs are lower than prior year by 3.7%, based on a decrease in the Experience Modification ("X-Mod") Rate.

In total, the salaries and benefits budget increases 3.0% 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.

Use of Funds Total = \$54,792,590 (excluding intrafund transfers)



EXPENSES - OPERATING AND CAPITAL

Account Description	Actual FY 16/17	Actual FY 17/18	Adj. Budget FY 18/19	Estimated FY 18/19	Proposed FY 19/20	Percent Change
Salaries & Benefits	\$8,907,912	\$7,045,111	\$9,961,350	\$9,450,000	\$10,258,600	3.0%
Services & Supplies	5,263,274	4,960,077	6,160,950	5,160,650	6,066,800	(1.5%)
Capital Expenses	10,096,002	14,288,430	32,410,100	20,735,100	33,873,300	4.5%
Debt Service	4,770,891	4,391,899	4,593,800	4,593,800	4,593,900	0.0%
Taxes & Assessments	26,545	28,710	29,150	29,150	41,800	43.4%
Total All Expenses	\$29,064,624	\$30,714,227	\$53,155,350	\$39,968,700	\$54,834,400	3.2%
<i>(excluding intrafund transfers)</i>						
<i>(presented on budgetary basis – does not conform to GAAP)</i>						

Total services and supplies for FY 2019/20 are budgeted to be 1.5% lower than the prior fiscal year adjusted budget. One-time only projects in the prior year were removed, lowering the overall budget. Electricity is up only 1.0%, even with PG&E rate increase and expanded recycled water distribution expected in FY 2019/20, because of anticipated savings from the solar and stationary storage projects. The chemicals budget is anticipated to increase about 9.6%, which represents increases in unit costs, even with lower anticipated 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 2019/20 capital plan include the Summer 2019 and Summer 2020 collection system rehabilitation projects, the Browns Valley trunk project and replacement of the West Napa Pump Station, and 2019 and 2020 treatment plant rehabilitation projects. The plan also includes the completion of the Coombsville recycled water truck 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, the same as last fiscal year. 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 (SRF loan) and the 66" Trunk (Kaiser Road to IPS) Rehabilitation project financing begin. 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 (\$5,178,000)

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 2019/20, the estimated Ending Fund Equity is \$2,358,290 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 (10.5% reduction) is due to the implementation of planned capital projects.

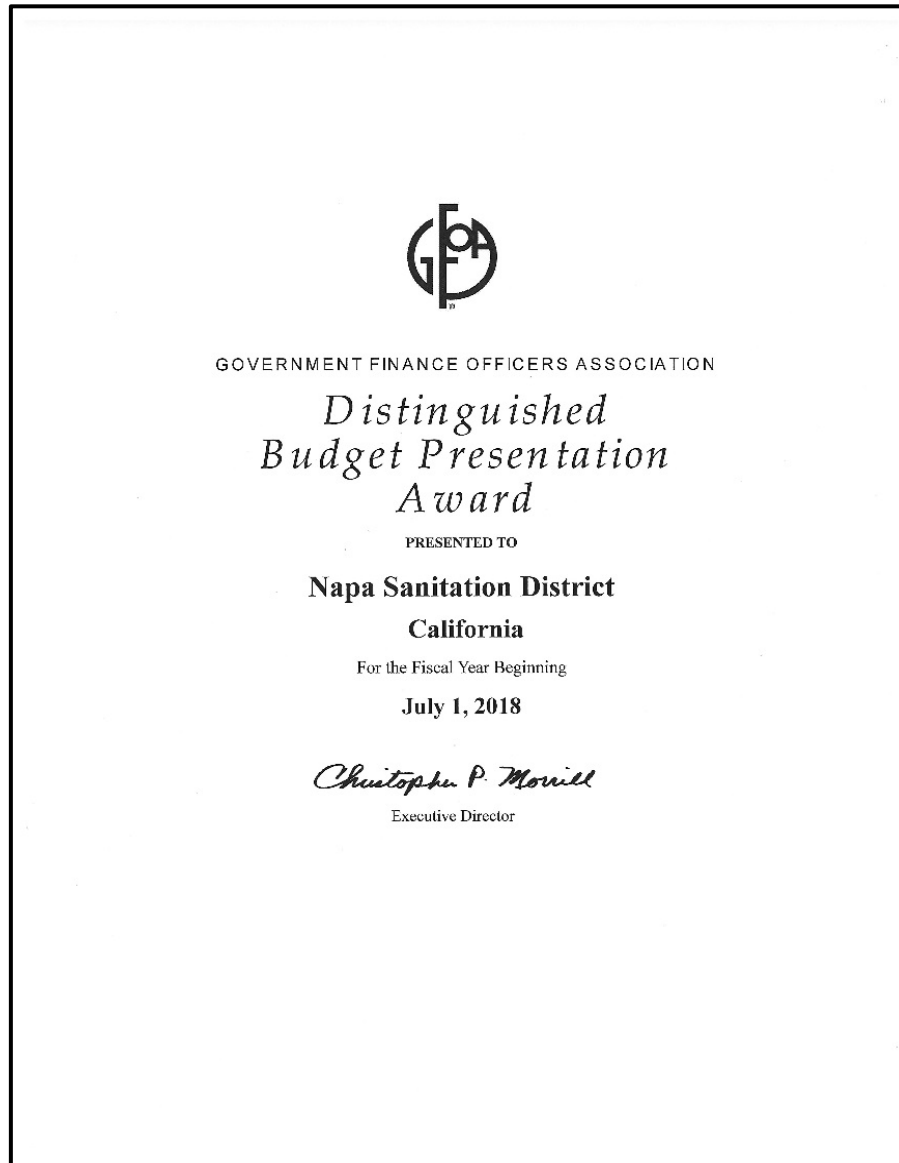
Reserves

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 19/20 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**. 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 16/17 Actuals	FY 17/18 Actuals	FY 18/19 Adj Budget	FY 18/19 YTD	FY 18/19 Estimate	FY 19/20 Budget
Beginning Fund Equity	\$17,262,069	\$22,145,297	\$25,609,380	\$25,609,380	\$25,609,380	\$22,447,700
Revenues						
Use of Money/Property	\$825,342	\$972,262	\$1,036,000	\$579,603	\$847,000	\$578,000
Charges for Services	28,959,620	33,557,289	34,186,400	21,153,872	34,530,000	36,391,500
Intergovernmental	3,061,702	3,141,384	375,000	(5,344)	472,050	0
Bond Proceeds	0	0	9,075,000	0	0	15,416,600
Sale of assets	20,313	8,372	25,000	81,370	90,000	25,000
Miscellaneous Revenues	40,473	415,164	68,000	42,661	68,000	65,000
Total Revenues	\$32,907,450	\$38,094,471	\$44,765,400	\$21,852,162	\$36,007,050	\$52,476,100
Operating Expenditures						
Salaries and Benefits	\$8,179,992	\$6,213,994	\$9,961,350	\$4,691,602	\$9,450,000	\$10,258,600
Services and Supplies	5,263,276	4,959,918	6,160,950	2,531,343	5,160,650	6,066,800
Taxes and Assessments	26,545	28,710	29,150	14,880	29,150	41,800
Debt Service	4,770,891	4,456,644	4,593,800	3,679,849	4,593,800	4,593,900
Total Operating Expenditures	\$18,240,704	\$15,659,266	\$20,745,250	\$10,917,673	\$19,233,600	\$20,961,100
Capital Expenditures	\$10,096,002	\$14,288,430	\$32,410,100	\$6,102,806	\$20,735,100	\$33,873,300
GAAP Adjustments	(312,484)	4,682,692	0	0	(800,000)	0
Total Expenditures	\$28,024,222	\$34,630,388	\$53,155,350	\$17,020,480	\$39,168,700	\$54,834,400
Ending Fund Equity	\$22,145,297	\$25,609,380	\$17,219,430	\$30,441,063	\$22,447,730	\$20,089,400
RW Repair & Replacement Reserve	\$0	\$0	\$0	\$0	\$0	\$106,000
Debt Reserve	1,990,000	1,990,000	0	0	0	1,032,000
Operating Reserve	2,243,000	2,314,000	6,000,000	6,000,000	6,000,000	6,000,000
Operating Cash Flow Reserve	10,375,000	10,750,000	12,500,000	12,500,000	12,500,000	12,500,000
Total Reserves	\$14,608,000	\$15,054,000	\$18,500,000	\$18,500,000	\$18,500,000	\$19,638,000
Available for Use	\$7,537,297	\$10,555,380	(\$1,280,570)	\$11,941,063	\$3,947,730	\$451,400



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, 2018. 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 2019/20 budget continues to conform to program requirements and will be submitting it to GFOA to determine its eligibility for another award.