

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 Cash Flow 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/outflows.

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 18/19	\$676.38 per EDU
FY 19/20	\$710.20 per EDU
FY 20/21	\$738.62 per EDU
FY 21/22	\$760.78 per EDU
FY 22/23	\$783.60 per EDU
FY 23/24	\$807.10 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 2019.

The forecast assumes that NapaSan sell 2,035 acre feet of recycled water in FY 2019/20, with increasing sales in subsequent years until a total of 2,300 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 5.0% in 2020, and 4.8% annually starting in 2021, which includes an increase for operating expenses (by CPI) and a 2.0% increase for funding the recycled water renewal and replacement reserve.

Calendar Year	Peak RW Rate
2019	\$1.78 per 1,000 gallons
2020	\$1.87 per 1,000 gallons
2021	\$1.96 per 1,000 gallons
2022	\$2.06 per 1,000 gallons
2023	\$2.16 per 1,000 gallons
2023	\$2.27 per 1,000 gallons

Capacity Charges

Annually, the capacity charge rate increases with the Engineering News Record's Construction Cost Index (February-to-February), an inflation measure for capital infrastructure costs. Capacity charges increased 3.0% for FY 2019/20 to \$9,806 per Equivalent Dwelling Unit (EDU). Future year rates are estimated to increase 3.0% 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 19/20	528 EDU
FY 20/21	500 EDU
FY 21/22	425 EDU
FY 22/23	350 EDU
FY 23/24	300 EDU

Leases and Rents

Lease revenues include the existing lease with Eagle Vines Golf Club and the continuation of the Somky lease. 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 budget for 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% for 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 annually, 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 increase with inflation for future years. For the Ten-Year Financial Plan, salaries and benefits combined are projected to increase 2.8% 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 \$0.5 million 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 full 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. Several of these plans are set to be updated during the ten-year planning period.

When all of the recommendations from the current 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.

The Ten-Year Financial Plan includes five new debt issuances over the planning period for capital projects. Details about these planned debts can be found in the “Debt and Other Long Term Liabilities” section in this budget document. The loan proceeds and the associated debt service for these issuances have been included in the Ten-Year Financial Plan.

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 2019/20	Projected 2020/21	Projected 2021/22	Projected 2022/23	Projected 2023/24
Beginning Fund Equity	\$22,447,700	\$20,089,400	\$20,324,700	\$23,444,500	\$23,824,500
Operating revenue					
Sewer service charges	29,856,000	31,440,000	32,764,000	34,080,000	35,385,000
Capacity Charges	5,178,000	5,050,000	4,421,000	3,750,000	3,311,000
Recycled Water Sales	1,064,000	1,124,000	1,229,000	1,373,000	1,439,000
Hauler Fees	191,000	197,000	203,000	209,000	215,000
Development Fees	102,500	105,100	107,700	110,400	113,200
<u>Miscellaneous Revenue</u>	<u>90,000</u>	<u>92,000</u>	<u>94,000</u>	<u>96,000</u>	<u>98,000</u>
Total Operating Revenue	36,481,500	38,008,100	38,818,700	39,618,400	40,561,200
Non-Operating Revenue					
Interest	452,000	452,000	457,000	528,000	536,000
Rents and leases	126,000	129,000	433,000	736,000	739,000
From Other Governments	0	0	0	25,500	127,500
<u>Loan / Bond Proceeds</u>	<u>15,416,600</u>	<u>20,249,900</u>	<u>5,833,300</u>	<u>76,500</u>	<u>382,500</u>
Total - Non-Operating Revenue	15,994,600	20,830,900	6,723,300	1,366,000	1,785,000
Total Revenue	52,476,100	58,839,000	45,542,000	40,984,400	42,346,200
Operating Expense					
Salaries and benefits	10,258,600	10,615,400	10,951,900	11,302,000	11,605,900
Services and supplies	6,066,790	6,606,000	6,261,000	6,436,000	6,895,700
Taxes and Other	41,800	42,600	33,500	34,200	34,900
Debt Service - Existing	4,593,900	4,587,200	4,590,900	4,579,800	4,523,500
<u>Debt Service - New/Projected</u>	<u>0</u>	<u>0</u>	<u>820,000</u>	<u>1,852,000</u>	<u>1,852,000</u>
Total Operating Expense	20,961,090	21,851,200	22,657,300	24,204,000	24,912,000
Capital Projects	33,873,300	36,752,500	19,764,900	16,400,400	16,833,650
Total - All Expenses	54,834,390	58,603,700	42,422,200	40,604,400	41,745,650
Net revenue (deficit)	(2,358,290)	235,300	3,119,800	380,000	600,550
Ending combined fund equity	\$20,089,410	\$20,324,700	\$23,444,500	\$23,824,500	\$24,425,050
RW Repair & Replacement Reserve	106,000	218,000	341,000	478,000	622,000
Bond Reserve	1,032,000	1,032,000	1,032,000	1,382,000	1,382,000
Operating Reserve	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Cash Flow Reserve	12,500,000	13,000,000	14,000,000	14,800,000	15,700,000
Fund Equity Available for Use	\$451,410	\$74,700	\$2,071,500	\$1,164,500	\$721,050

10-Year Financial/Cash Flow Forecast

	Projected 2024/25	Projected 2025/26	Projected 2026/27	Projected 2027/28	Projected 2028/29
Beginning Fund Equity	\$24,425,100	\$25,778,500	\$26,922,200	\$28,416,400	\$29,053,900
Operating revenue					
Sewer service charges	36,696,000	38,053,000	39,460,000	40,916,000	42,424,000
Capacity Charges	3,410,000	3,512,000	3,618,000	3,726,000	3,838,000
Recycled Water Sales	1,513,000	1,586,000	1,666,000	1,753,000	1,839,000
Hauler Fees	221,000	228,000	235,000	242,000	249,000
Development Fees	116,000	118,900	121,900	124,900	128,000
<u>Miscellaneous Revenue</u>	<u>100,000</u>	<u>103,000</u>	<u>106,000</u>	<u>109,000</u>	<u>112,000</u>
Total Operating Revenue	42,056,000	43,600,900	45,206,900	46,870,900	48,590,000
Non-Operating Revenue					
Interest	550,000	580,000	606,000	639,000	654,000
Rents and leases	743,000	746,000	750,000	754,000	758,000
From Other Governments	1,122,000	0	0	0	0
<u>Loan / Bond Proceeds</u>	<u>4,455,000</u>	<u>3,267,000</u>	<u>21,779,500</u>	<u>2,000,000</u>	<u>8,000,000</u>
Total - Non-Operating Revenue	6,870,000	4,593,000	23,135,500	3,393,000	9,412,000
Total Revenue	48,926,000	48,193,900	68,342,400	50,263,900	58,002,000
Operating Expense					
Salaries and benefits	11,921,400	12,249,000	12,589,200	12,942,600	13,309,900
Services and supplies	6,644,000	6,777,000	6,913,000	7,051,000	7,192,000
Taxes and Other	35,600	36,300	37,000	37,700	38,500
Debt Service - Existing	4,526,800	4,516,900	4,517,600	4,512,300	2,756,400
<u>Debt Service - New/Projected</u>	<u>2,202,000</u>	<u>4,302,000</u>	<u>4,302,000</u>	<u>4,302,000</u>	<u>5,352,000</u>
Total Operating Expense	25,329,800	27,881,200	28,358,800	28,845,600	28,648,800
Capital Projects	22,242,850	19,169,000	38,489,450	20,780,800	29,949,800
Total - All Expenses	47,572,650	47,050,200	66,848,250	49,626,400	58,598,600
Net revenue (deficit)	1,353,350	1,143,700	1,494,150	637,500	(596,600)
Ending combined fund equity	\$25,778,450	\$26,922,200	\$28,416,350	\$29,053,900	\$28,457,300
RW Repair & Replacement Reserve	773,000	932,000	1,099,000	1,274,000	1,458,000
Bond Reserve	1,382,000	3,482,000	3,482,000	3,482,000	3,482,000
Operating Reserve	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Cash Flow Reserve	16,000,000	16,500,000	17,000,000	17,500,000	17,500,000
Fund Equity Available for Use	\$1,623,450	\$8,200	\$835,350	\$797,900	\$17,300