

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.

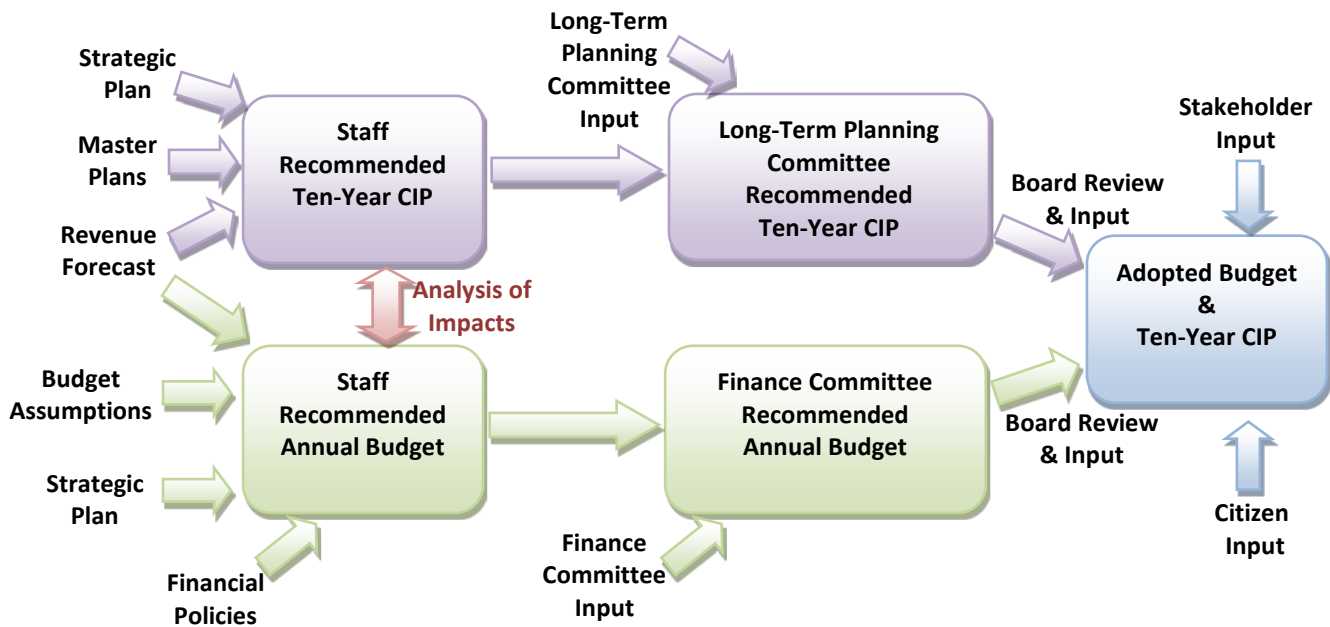
Budget Development Process

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 2020/21

- Jan. 16, 2020** Finance Committee meeting, to discuss budget development calendar, assumptions for next year, and policy direction.
- Feb. 19, 2020** Budget direction and assumptions confirmed with Board of Directors.
- Jan. to April** Staff develops proposed budget and Ten-Year CIP.
- April 2, 2020** Finance Committee makes recommendations.
- April 9, 2020** Long Term Planning Committee reviews Ten-Year CIP and makes recommendations.
- May 6, 2020** Board of Directors receives and discusses the Proposed Operating Budget for FY 2020/21.
- May 20, 2020** Board of Directors receives and discusses the Ten-Year CIP for FY 2020/21 through FY 2029/30.
- June 3, 2020** Board of Directors adopts the FY 2020/21 Operating and Capital Budget and Ten-Year CIP.

Sources of Funds/Revenues

NapaSan has a stable revenue foundation, with 50% of NapaSan’s FY 20/21 total revenues coming from sewer service charges collected as assessments on property tax bills (excluding loan proceeds, the number is about 88%). Other significant revenue sources include capacity charges, recycled water sales, land leases, and interest earnings.

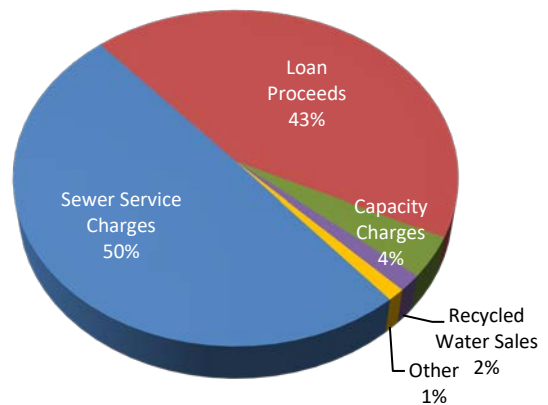
Sewer service charges (SSC’s) are the fees charged to residences and businesses for sewer use. For most residences and businesses, these fees are paid annually as assessments on property tax bills. Some industrial and commercial customers are charged monthly, rather than annually, based either on water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

Sewer service charges are a highly distributed revenue source for NapaSan. The top ten sewer service customers represent only 10.3% 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 for five (5) years. FY 2020/21 is the fifth year and is set to increase in FY 2020/21 from \$710.20 to \$738.60 per Equivalent Dwelling Unit (EDU). NapaSan will go through the Proposition 218 process in Spring 2021 to set the rates for the following five (5) years.

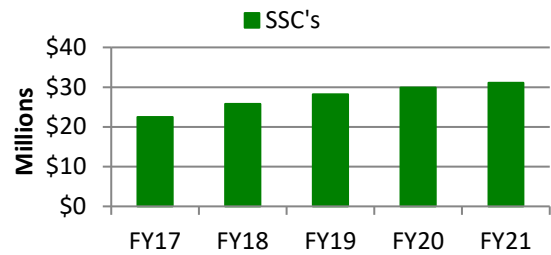
Source of Funds
Total = \$62,560,100
(excluding intrafund transfers)



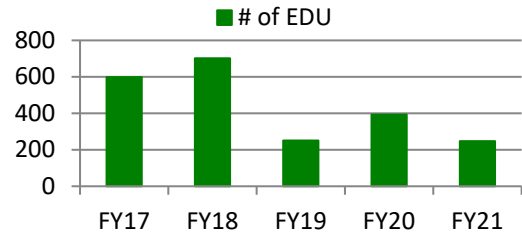
Sewer Service Charges History and Projection

	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	\$738.60	4.0%

Sewer service charges revenue is forecasted for FY 2020/21 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 247 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 2020, there was a 1.6% increase to the index compared to prior year. (Note, in October 2018, the capacity charge was decreased from \$9,624 to \$9,520.)

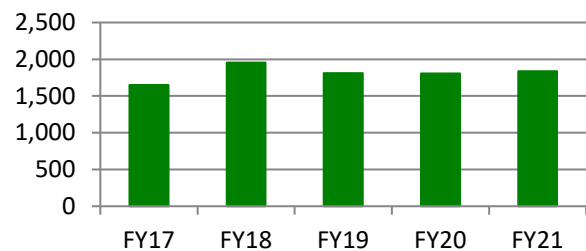
Capacity Charges Fee Schedule

	Charge per EDU	% Change
FY 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%
FY 21	\$9,959	1.6%

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 1,835 acre-feet (599 million gallons). The increase of recycled water usage is slow but steady as more customers in the MST and Los Carneros Water District areas begin to connect to the recycled water system.

Acre-Feet of Recycled Water Sales



Recycled water rates are set on a calendar year basis. In January 2020, the rates increased to \$1.86 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.

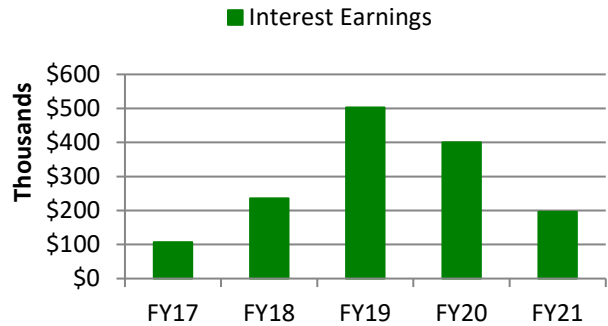
Recycled water sales are affected by the weather. Cooler, wetter spring and summer months result in less need to irrigate and therefore lower volumes of water are sold.

Land Leases generate revenue for the District. NapaSan currently 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 cuts to the Federal Funds rate in an effort to counter the negative financial impacts due to COVID-19, the forecast assumes interest earnings to decrease from an average 2.0% in FY 19/20 to 1.0% in FY 20/21.



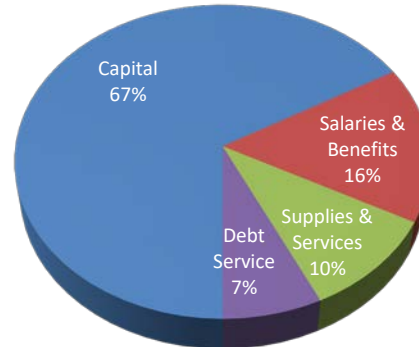
REVENUE - ALL SOURCES						
Account Description	Actual FY 17/18	Actual FY 18/19	Adjusted FY 19/20	Estimated FY 19/20	Proposed FY 20/21	Percent Change
780 - Operations						
Interest: Invested Funds	235,840	503,127	452,000	400,000	196,000	(56.6%)
Rent - Building/Land	725,626	415,668	126,000	131,632	129,000	2.4%
Construction/Bldg Permit Review Svcs	167,564	113,530	102,500	120,000	123,000	20.0%
Hauler Fees	187,705	196,916	191,000	191,000	197,000	3.1%
Sewer Usage Fees	25,806,368	28,018,017	29,856,000	29,856,000	31,113,000	4.2%
State - Other Funding	63,286	-	-	-	-	-
Penalties on Delinquent Sewer Fees	29,513	21,296	10,000	30,000	10,000	-
Recycled Water Sales	833,333	858,343	1,064,000	1,050,000	1,001,000	(5.9%)
Miscellaneous	386,405	63,726	50,000	35,000	52,000	4.0%
Total - Operations	28,435,641	30,190,621	31,851,500	31,813,632	32,821,000	3.0%
781 - Capital Improvement Projects						
Interest: Invested Funds	-	-	-	-	-	-
Federal Grants - USBR & FEMA	543,096	(15,303)	-	-	-	-
Other Government Agencies	2,535,003	693,659	-	300,000	-	-
Miscellaneous	6,870	-	5,000	-	5,000	-
Bond/Loan Proceeds	-	-	15,416,600	14,416,600	27,249,900	76.8%
Sale of Capital Assets	8,372	(9,516)	25,000	25,000	25,000	-
Intrafund Transfers In	8,080,000	11,835,558	14,078,000	3,850,000	11,465,000	(18.6%)
Total - Capital Improvement Projects	11,173,341	12,504,398	29,524,600	18,591,600	38,744,900	31.2%
782 - Expansion						
Interest: Invested Funds	10,796	900	-	-	-	-
Capacity Charges	6,532,806	2,396,746	5,178,000	3,850,000	2,460,000	(52.5%)
Total - Expansion	6,543,602	2,397,646	5,178,000	3,850,000	2,460,000	(52.5%)
Total - All Departments	46,152,584	45,092,665	66,554,100	54,255,232	74,025,900	11.2%

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 = \$64,828,450
 (excluding intrafund transfers)

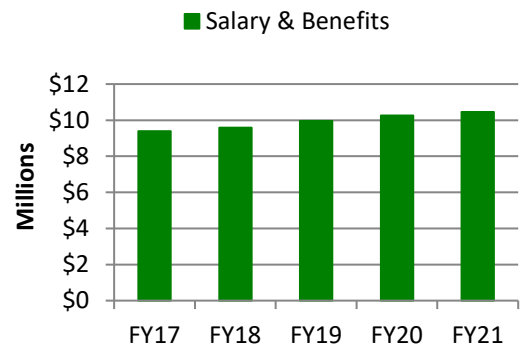
Salaries and benefits are those expenses related to payroll and staffing. They include salary and wages of employees, overtime, payroll taxes such as Medicare, health insurance benefits, and retirement benefits. This category also includes expenses for funding NapaSan’s OPEB (“Other Post-Employment Benefits”)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



Labor agreements went into effect on July 1, 2014, and expired on June 30, 2020. At this time, negotiations are still in progress. For budgeting purposes, salaries include an increase of 3.5% in FY 2020/21. There will be no changes made and all salaries and benefits will remain the same as FY 2019/20 until negotiations are completed and a new agreement is executed. Individual salaries were 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 2020/21 budget. Overall, salaries are budgeted to increase 1.9% over prior year.

Health benefits are known for the first two quarters in FY 2020/21. The budget assumes a 7% increase in employer costs for the last two quarters. The impact as a result of the pandemic to future healthcare costs are unknown at this time. We will be monitoring this closely and will make adjustments where necessary as more information becomes available. The overall budget for insurance premiums increased 3.1% 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. 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. Again, with negotiations still in progress, for budgeting purposes, the employees pick-up is increased to 7.25%. No changes will be made and the FY 2019/20 employee pick-up will remain the same until an agreement is reached. The minimum retirement cost contribution to CalPERS decreased by 24.12%. 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. The budgeted amount is 1.4% higher than prior year and includes an additional \$649,850 payment toward this liability to level the payment. This attains the policy goals of using freed up budgetary capacity towards additional CalPERS payments.

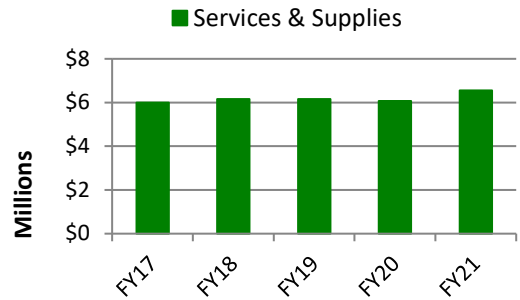


Payments in lieu of health benefits are expected to decrease by 6.2%. The eligibility of this benefit was changed in the last MOUs. As long-time employees separate from NapaSan and new employees come on board, less employees are eligible and the cost of this benefit decreases.

The rate of the Workers’ compensation insurance increases when salaries increase. However, it is expected to cost the same as prior year due to a decrease in the Experience Modification (“X-Mod”) Rate. The budget is higher than prior year by 20.4%, based on an underbudget in FY 2019/20.

In total, the salaries and benefits budget increases 1.9% 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						
<u>Account Description</u>	<u>Actual FY 17/18</u>	<u>Actual FY 18/19</u>	<u>Adj. Budget FY 19/20</u>	<u>Estimated FY 19/20</u>	<u>Proposed FY 20/21</u>	<u>Percent Change</u>
Salaries & Benefits	\$7,045,111	\$11,514,082	\$10,258,600	\$9,878,727	\$10,451,450	1.9%
Services & Supplies	4,960,077	5,078,785	6,281,650	5,493,698	6,556,100	4.4%
Capital Expenses	14,288,430	26,385,700	39,047,000	35,297,000	43,190,500	10.6%
Debt Service	4,391,899	4,597,161	4,593,900	4,596,350	4,588,000	(0.1%)
Taxes & Assessments	28,710	40,691	41,800	42,025	42,400	1.4%
Total All Expenses	\$30,714,227	\$47,616,419	\$60,222,950	\$55,307,800	\$64,828,450	7.6%
<i>(excluding intrafund transfers)</i>						
<i>(presented on budgetary basis – does not conform to GAAP)</i>						

Total services and supplies for FY 2020/21 are budgeted to be 4.4% higher than the prior fiscal year adjusted budget. The FY 2020/21 includes a cathodic protection testing and a marsh dredging project that are on a 2-year and 5-year cycle, respectively. Property liability insurance will see a 45.3% increase. The risk pool authority says the increase is due to the wildfires in California and other catastrophic events around the world. Electricity is up 2.3% due to a small increase in usage in FY 2020/21. The chemicals budget decreases 3.3% 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 2020/21 capital plan include the Summer 2020 and Summer 2021 collection system rehabilitation projects, the Browns Valley trunk project and replacement of the West Napa Pump Station, and the Pond Levee Repair.

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 66” Trunk (Kaiser Road to IPS) Rehabilitation project financing begins and again 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 (\$2,465,000)

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 2020/21, the estimated Ending Fund Equity is \$2,267,550 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 (11.6% 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 20/21 as recommended in the 2016 rate study.

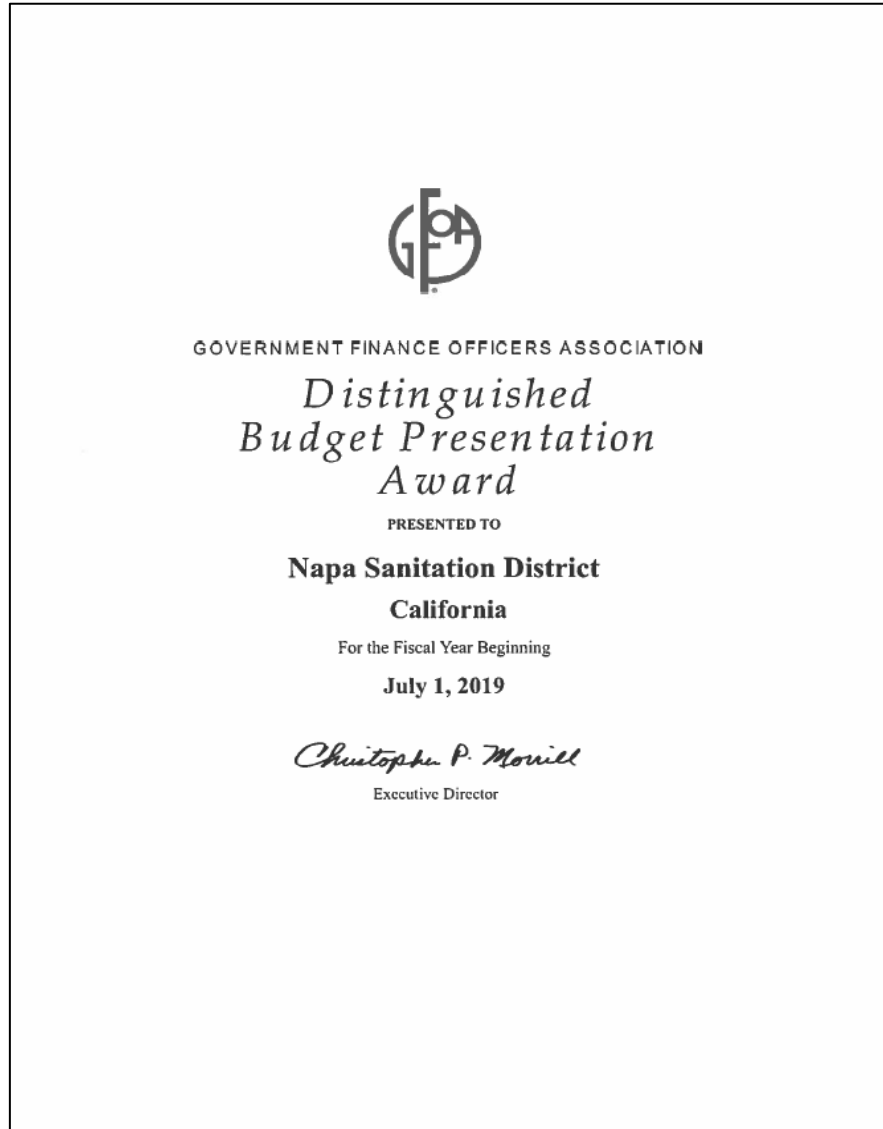
The second reserve is an **operating cash flow reserve**. This reserve is the amount of cash necessary for NapaSan to have on hand on July 1 to cover its anticipated expenses through the summer and fall until NapaSan receives the bulk of its operating revenues (sewer services charges collected as property 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 17/18 Actuals	FY 18/19 Actuals	FY 19/20 Adj Budget	FY 19/20 Estimate	FY 20/21 Budget
Beginning Fund Equity	\$22,145,297	\$25,609,380	\$24,527,787	\$24,527,787	\$19,625,200
Revenues					
Use of Money/Property	\$972,262	\$919,694	\$578,000	\$531,632	\$325,000
Charges for Services	33,557,289	31,604,848	36,391,500	35,067,000	34,894,000
Intergovernmental	3,141,384	559,745	0	300,000	0
Bond Proceeds	0	0	15,416,600	14,416,600	27,249,900
Sale of assets	8,372	(9,516)	25,000	25,000	25,000
Miscellaneous Revenues	415,164	63,726	65,000	65,000	67,000
Total Revenues	\$38,094,471	\$33,138,497	\$52,476,100	\$50,405,232	\$62,560,900
Operating Expenditures					
Salaries and Benefits	\$6,213,994	\$10,661,127	\$10,258,600	\$9,878,727	\$10,451,450
Services and Supplies	4,959,918	5,078,787	6,281,650	5,493,698	6,556,100
Taxes and Assessments	28,710	40,691	41,800	42,025	42,400
Debt Service	4,456,644	4,594,467	4,593,900	4,596,350	4,588,000
Total Operating Expenditures	\$15,659,266	\$20,375,072	\$21,175,950	\$20,010,800	\$21,637,950
Capital Expenditures	\$14,288,430	\$15,770,574	\$39,047,000	\$35,297,000	\$43,190,500
GAAP Adjustments	4,682,692	(1,925,556)	0	0	0
Total Expenditures	\$34,630,388	\$34,220,090	\$60,222,950	\$55,307,800	\$64,828,450
Ending Fund Equity	\$25,609,380	\$24,527,787	\$16,780,937	\$19,625,219	\$17,357,650
RW Repair & Replacement Reserve	\$0	\$0	\$106,000	\$106,000	\$206,000
Debt Reserve	1,990,000	0	0	0	1,100,000
Operating Reserve	2,314,000	6,000,000	6,000,000	6,000,000	4,900,000
Operating Cash Flow Reserve	10,750,000	12,500,000	10,005,000	10,005,000	10,819,000
Total Reseves	\$15,054,000	\$18,500,000	\$16,111,000	\$16,111,000	\$17,025,000
Available for Use (Fund Equity minus Reserves)	\$10,555,380	\$6,027,787	\$669,937	\$3,514,219	\$332,650

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, 2019. 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 2020/21 budget continues to conform to program requirements and will be submitting it to GFOA to determine its eligibility for another award.