



FY 2020/21 Operating Budget – Revised Budget Assumptions

NapaSan Board of Directors
May 20, 2020



Terminology

- Year 1 – FY 2020/21
- Year 2 – FY 2021/22



Sewer Service Charge Rate

Prior Assumptions

- Year 1 – 4%
- Year 2 – 3%

Revised Assumptions

- Year 1 – 0%
- Year 2 – 7%



Sewer Service Charge Rate

- S&P Rating Agency Recent Revision
 - AA Rating, Outlook: Positive to Stable
 - Local Service Area Economy Uncertainties (related to COVID-19)
- Strong enterprise risk profile
 - Stable, and primarily residential, customer base with strong income indicators;
 - Affordable sewer service rates with pre-authorized rate increases through fiscal 2021;
 - Very low industry risk as a monopolistic service provider of an essential public utility; and
 - Comprehensive asset management practices, which we consider very strong under our operational management assessment



Sewer Service Charge Rate

- Strong financial risk profile
 - Extremely strong all-in debt service coverage
 - Very strong liquidity
 - Relatively low leverage, with 19% debt-to-capitalization as of June 30, 2019
 - Well-defined financial management practices and policies



Sewer Service Charge Rate

- Stable Outlook: What would decrease or increase rating
 - Downside
 - Deterioration of liquidity due to capital-related pressure
 - Greater reliance on one-time capacity charges
 - Significant increase in debt burden
 - Upside
 - Broaden and diversify service territory economy
 - Manage CIP while increasing cash reserves



Sewer Service Charge Rate

- NPDES Permit Renewal
 - 2% Sewer Rehabilitation and Replacement



Revised Budget Assumptions

- Sewer service charge rate increase
 - Year 1 – 0%
 - Year 2 – 7%
- Reduce sewer service charge revenue (reduced water usage) in Year 2
- Reduce capacity charge revenue (fewer new development projects)
- Hold hiring vacant positions
 - Year 1 – 4 positions
 - Year 2 – 2 positions
- No additional PERS pension contribution payment
- Reduce Services/Supplies Budget in Year 1



Sewer Service Charge Revenue - Rates

| Year 1 | | |
|------------------------------------|--------------------------------------|----------------------|
| Prior Assumptions Increase - 4% | Revised Assumptions Increase - 0% | Reduction in Revenue |
| \$31,113,000 | \$29,916,000 | (\$1,197,000) |

| Year 2 | | |
|------------------------------------|--------------------------------------|----------------------|
| Prior Assumptions Increase - 3% | Revised Assumptions Increase - 7% | Reduction in Revenue |
| \$32,234,000 | \$32,162,000 | (\$72,000) |

Total SSC Revenue Reduction – (\$1,269,000)



Sewer Service Charge Revenue – Reduced Water Usage

Year 1 – No impact

| Year 2 | | |
|-----------------------------------|--|-----------------------------|
| Commercial EDUs – FY 19/20 | Assumed Reduction in EDUs – 46% | Reduction in Revenue |
| 9,200 | (4,225) | (\$3,211,000) |



Capacity Charge Revenue

| Year 1 | | |
|---------------------------------|-----------------------------------|----------------------|
| Prior Assumptions – 247 EDUs | Revised Assumptions – 200 EDUs | Reduction in Revenue |
| \$2,460,000 | \$1,992,000 | (\$468,000) |

| Year 2 | | |
|---------------------------------|-----------------------------------|----------------------|
| Prior Assumptions – 538 EDUs | Revised Assumptions – 350 EDUs | Reduction in Revenue |
| \$5,508,000 | \$3,583,000 | (\$1,925,000) |

Total Capacity Charge Revenue Reduction – (\$2,393,000)



Total Reduction in Revenue

| Year 1 | | | |
|---------------------|---------------------|---------------------|----------------------|
| | Prior Assumptions | Revised Assumptions | Reduction in Revenue |
| SSC (0%) | \$31,113,000 | \$29,916,000 | (\$1,197,000) |
| Reduced Water Usage | – | – | – |
| Capacity Charges | \$2,460,000 | \$1,992,000 | (\$468,000) |
| Total | \$33,573,000 | \$31,908,000 | (\$1,665,000) |

| Year 2 | | | |
|---------------------|---------------------|---------------------|----------------------|
| | Prior Assumptions | Revised Assumptions | Reduction in Revenue |
| SSC (7%) | \$32,234,000 | \$32,162,000 | (\$72,000) |
| Reduced Water Usage | – | (\$3,211,000) | (\$3,211,000) |
| Capacity Charges | \$5,508,000 | \$3,583,000 | (\$1,925,000) |
| Total | \$37,742,000 | \$32,534,000 | (\$5,208,000) |

Total Reduction in Revenue – (\$6,873,000)



Hold Hiring Vacant Positions

| Year 1 | |
|---------------------|------------------|
| Position | Budget |
| DAS/CFO | \$233,850 |
| Coll Sys Supervisor | \$162,400 |
| Coll Sys Worker | \$101,500 |
| Plant Attendant | \$117,100 |
| Total | \$614,850 |

| Year 2 | |
|---------------------|------------------|
| Position | Budget |
| DAS/CFO | Hire |
| Coll Sys Supervisor | Hire |
| Coll Sys Worker | \$101,500 |
| Plant Attendant | \$117,100 |
| Total | \$218,600 |

Total Savings from Vacant Positions – \$833,450



Additional PERS Contribution

| Year 1 | Year 2 |
|-----------|-----------|
| \$649,850 | \$521,000 |

Total Savings from Addt'l PERS Contribution – \$1,170,850



Services/Supplies Reduction – Year 1

| Services/Supplies Expense | Amount |
|---|------------------|
| Employee Picnic | \$4,000 |
| NapaSan 75 th Anniversary Event | \$10,000 |
| Plant Maintenance Dept – Intern | \$16,000 |
| Marsh Dredging Project | \$200,000 |
| Regulatory Compliance Dept – Temp Help | \$33,600 |
| Engineering Dept – Intern (50% reduction) | \$23,000 |
| Collection System Dept – Intern | \$23,000 |
| All Dept – Training/Conferences (50% reduction) | \$60,200 |
| Total Reduction (Savings) | \$369,800 |



Total Reduction in Operating Expenses (Savings)

| Year 1 | |
|--------------------------------|--------------------|
| Operating Expenses | Amount |
| Hold Hiring Vacant Positions | \$614,850 |
| Additional PERS Contribution | \$649,850 |
| Reduce Service/Supplies Budget | \$369,800 |
| Total | \$1,634,500 |
| Year 2 | |
| Operating Expenses | Amount |
| Hold Hiring Vacant Positions | \$218,600 |
| Additional PERS Contribution | \$521,000 |
| Reduce Service/Supplies Budget | - |
| Total | \$739,600 |

Total Reduction in Operating Expenses (savings) – \$2,374,100



Other Considerations

- Year 1
 - Salaries – COLA 3.5%
 - Employees PERS Share – 0.5%
 - Board compensation – 5%
- Year 2
 - Salaries – COLA 2.5%
 - Employees PERS Share – No change
 - Board compensation – 0%



Other Considerations – Year 1

| Salaries/Benefits | Proposed Budget | No Change | Savings |
|------------------------------------|-----------------|-------------|------------------|
| Salaries (3.5% COLA) | \$5,610,150 | \$5,421,250 | \$188,900 |
| Pension (3.5% COLA) | \$1,660,550 | \$1,634,200 | \$26,350 |
| Overtime | \$257,000 | \$248,450 | \$8,550 |
| Holiday Pay | \$13,550 | \$13,100 | \$450 |
| Medicare | \$89,250 | \$86,450 | \$2,800 |
| Insurance Premiums | \$1,065,700 | \$1,064,550 | \$1,150 |
| Board Compensation (5% increase) | \$29,800 | \$28,350 | \$1,450 |
| Pension (0.5% EE pick-up increase) | \$1,660,550 | \$1,679,200 | (\$18,650) |
| Total | | | \$211,000 |



Other Considerations – Year 2

| Salaries/Benefits | Proposed Budget | No Change | Savings |
|----------------------|--------------------|--------------------|------------------|
| Salaries (2.5% COLA) | \$5,750,404 | \$5,556,781 | \$193,623 |
| Pension | \$1,870,932 | \$1,884,582 | \$26,350 |
| Overtime | \$263,425 | \$254,661 | \$8,764 |
| Holiday Pay | \$13,889 | \$13,428 | \$462 |
| Medicare | \$89,500 | \$86,450 | \$2,800 |
| Insurance Premiums | N/A | N/A | - |
| Board Compensation | \$29,800 | \$28,350 | \$1,450 |
| Pension (EE pick-up) | \$1,870,932 | \$1,889,582 | (\$18,650) |
| Total | \$8,538,950 | \$8,326,063 | \$212,887 |

Total Savings for Year 1 and Year 2 – \$423,887



Summary of Reduced Revenues and Savings from Expenses Year 1 and Year 2

| Reduction in Revenues | | | |
|---------------------------|--------------------|--------------------|--------------------|
| | Year 1 | Year 2 | Total |
| SSC | \$1,197,000 | \$72,000 | \$1,269,000 |
| SSC – Reduced Water Usage | - | \$3,211,000 | \$3,211,000 |
| Capacity Charges | \$468,000 | \$1,925,000 | \$2,393,000 |
| Total | \$1,665,000 | \$5,208,000 | \$6,873,000 |

| Savings from Operating Expenses | | | |
|---------------------------------|--------------------|------------------|--------------------|
| | Year 1 | Year 2 | Total |
| Hold Hiring Vacant Positions | \$614,850 | \$218,600 | \$833,450 |
| Additional PERS Contribution | \$649,850 | \$521,000 | \$1,170,850 |
| Reduce Service/Supplies Budget | \$369,800 | - | \$369,800 |
| Total | \$1,634,500 | \$739,600 | \$2,374,100 |

Remaining Savings from Capital – \$4,498,900



Revenues

(excluding loan proceeds)

| | FY 2020/21 | Originally Proposed | Newly Proposed | Change |
|------------------------|------------|---------------------|-------------------|--------------------|
| Operating | | | | |
| Sewer Service Charges | | 31,113,000 | 29,916,000 | (1,197,000) |
| Recycled Water Sales | | 1,001,000 | 1,001,000 | - |
| Lease Revenue | | 129,000 | 129,000 | - |
| Interest | | 196,000 | 196,000 | - |
| Other | | 382,000 | 382,000 | - |
| Total | | 32,821,000 | 31,624,000 | (1,197,000) |
| Capital-Related | | | | |
| Capacity Charges | | 2,460,000 | 1,992,000 | (468,000) |
| Other | | 30,000 | 30,000 | - |
| Total | | 2,490,000 | 2,022,000 | (468,000) |

Total Reduction in Revenues for Year 1 – (\$1,665,000)



Operating Expenses

(excluding intrafund transfers)

| | FY 2020/21 | Originally Proposed | Newly Proposed | Change |
|--------------------------------|--------------|---------------------|-------------------|--------------------|
| | | | | |
| Salaries & Benefits | | 10,451,450 | 9,186,750 | (1,264,700) |
| Services & Supplies | | 6,556,100 | 6,186,300 | (369,800) |
| Taxes & Other | | 42,400 | 42,400 | - |
| Debt Service | | 4,588,000 | 4,588,000 | - |
| | Total | 21,637,950 | 20,003,450 | (1,634,500) |



Questions/Discussion



Further Discussion on Community Outreach