



Popular Annual Financial Report

for the Fiscal Year Ended June 30, 2021





MISSION of NAPA SANITATION DISTRICT

The mission of NapaSan is to collect, treat, beneficially reuse and dispose of wastewater in an effective and fiscally responsible manner that respects the environment, maintains the public's health and meets or exceeds all local, state and federal regulations.

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LETTER FROM THE GENERAL MANAGER

NapaSan is pleased to share with you the Popular Annual Financial Report for fiscal year 2020/21.

Just like the last fiscal year, this year brought many challenges, but again provided many learning opportunities and a chance to see how resilient we are as an agency. We were able to continue providing excellent service to the community, implement vital sewer rehabilitation and construction projects, conduct Covid-safe community outreach, and make necessary upgrades to our facility.

NapaSan's responsibilities include meeting the day-to-day needs of residences and businesses in Napa and the surrounding community through sewer service, the treatment and disinfection of wastewater, production and distribution of recycled water, and the planning and construction of multi-year, large scale improvements that benefit the community. Our focus is to protect the public's health, safety, and water environment



through responsible wastewater management. We also strive to recover resources such as recycled water and energy.

This report is intended to be a brief but meaningful summary of the work that NapaSan performs for our ratepayers, and a way for ratepayers to look transparently at how their investments in the system are bringing benefit to the community through system maintenance, rehabilitation, and investment in the infrastructure of the future.

Financial information in this report is presented in conformity with generally accepted accounting principles. However, a more in-depth financial review of our operations can be found in the <u>Annual Comprehensive Financial</u> <u>Report</u> and audited financial statements, available online at www.NapaSan.com. You may also request a printed copy of this information by contacting NapaSan at 707-258-6000.

We thank you for your interest in NapaSan and hope that you find the information contained in the following pages helpful. We welcome your comments and suggestions on how we might improve future reports.

Jonethy B. Han

Tim Healy, P.E. General Manager



A CLOSER LOOK AT NAPASAN

Principal Revenue Payors



FY 2020/21

Payor	Total Paid	% of Revenue Collected
Napa State Hospital	\$796,277	2.6%
Napa Valley Unified School District	384,367	1.3%
Embassy Suites	272,765	0.9%
Meritage Resorts	256,146	0.8%
Napa County	214,489	0.7%
Marriott Hotel	204,518	0.7%
Meadows of Napa Valley	186,718	0.6%
La Tavola Linen Service	136,419	0.4%
Andaz Hotel	126,448	0.4%
Archer Hotel	118,028	0.4%
	\$2,696,175	8.8%

Note: Total revenue collected in FY 2020/21 was \$30,588,743.

Full-Time NapaSan Employees by Department



Note: Administration includes the General Manager, Administrative Staff, and the Safety/ Training/Fleet Officer.

Engineering includes Engineers, the Asset Management Analyst, and the Pollution Prevention/Outreach Coordinator.

WHAT WE DO



WASTEWATER

We collect used water that is flushed down toilets or runs down sinks, shower drains, and clothes washers, then treat it to high standards before either discharging it to the Napa River or reusing it for recycled water.



BIOSOLIDS

We collect biosolids from wastewater, use microbes to digest the solids and generate biogas used to make electricity, then apply the dewatered biosolids to farmland to grow crops for animal consumption.



RECYCLED WATER

We treat and disinfect wastewater to very high quality levels, then distribute that water through 26 miles of pipeline for irrigation use in parks, golf courses, landscaping, and vineyards.

NapaSan is an independent special district dedicated to operating and maintaining the community's publicly-owned sewer system. We are not part of the city or county government, but we coordinate our services closely with these agencies to provide seamless service to the public.

NapaSan's sewer service area (in green at right) covers 21 square miles and includes 270 miles of sewer main and another 270 miles of sewer laterals. There are 38,473 connections to the sewer system from residential, commercial and industrial customers.

NapaSan's recycled water service area (in purple at right) covers 26 square miles. The recycled water is used for irrigation of parks, golf courses, landscaping, and vineyards. Recycled water use reduces the demand for both groundwater and surface water and saves potable water from being used for irrigation.



Recycled Water Service AreaSewer Service Area

NAPASAN BY THE NUMBERS

1945 The year NapaSan was founded.

83,300 The number of customers in NapaSan's service area.

38,473 The number of service connections within the sewer system.

2.27 billion The number of gallons of wastewater that NapaSan received in fiscal year 2020/21.

6.2 million The average number of gallons of wastewater that NapaSan received per day in fiscal year 2020/21.

1.23 billion The number of gallons of recycled water distributed by NapaSan in fiscal year 2020/21. (= 3,789 acre feet)









50% The amount of self-generated energy used to power the treatment plant in fiscal year 2020/21.

1,386 dry tons The amount of biosolids produced by NapaSan in fiscal year 2020/21.

53 The number of approved employee positions at NapaSan.

RATE SETTING

Funded by Rates

NapaSan is funded entirely from rates and charges for service. It does not receive any property tax revenue or any other tax revenues, nor does it receive general revenues from the city, the county or the state. NapaSan must pay for the collection and treatment of wastewater, and the maintenance, repair and replacement of sewer pipes and treatment plant equipment all from rates and charges.

There are three main sources of operating revenue for NapaSan.

- Sewer Service Charges are about 90% of total operating revenues, and pay for the ongoing costs associated with wastewater collection and treatment.
- Capacity Charges are about 4% of total operating revenues, and are paid by developers and others to expand the sewer system to meet the capacity needs from growth and new connections.
- Recycled Water and other charges are about 6% of the total operating revenue, with the recycled water rates set to recover the costs associated with treatment and distribution of recycled water.

How Fees Are Collected

NapaSan collects most of its sewer service charges on the property tax rolls as an assessment, so that when most residential and commercial property owners pay their property taxes, they are also paying their annual sewer service charges. These are not taxes, but collecting revenues this way saves money, and this savings is passed on to rate payers. A very small percentage of our customers, such as industrial customers, are invoiced directly on a monthly basis.

Capacity charges are collected at the time of development, or when

a system user expands their use of sewer services. Recycled water customers are invoiced monthly, based on metered water use.

How Rates Are Set & Proposition 218

Sewer service charges are subject to California's Proposition 218. Passed by voters in 1996, the law requires that most new charges and fees be voter approved. The law excludes water and sewer rates from this requirement and instead sets up a different process. Under the law, sewer rates must not exceed the cost of providing the service, and the rate structure must be proportional to the use. The law also sets requirements for sending written notices to rate payers and requires a public hearing. If more than 50% of rate payers protest the proposed rates, then the rates cannot be passed.







RATE SETTING

In spring of 2021, NapaSan followed the process required by Proposition 218 and notified rate payers of its proposed sewer service charges in each of the next five fiscal years.

Maximum Rates Set by Board

A thorough rate study was conducted that included a review of wastewater generation by all customers to determine whether the assumed flow and strength of wastewater from each customer class adequately represents the demand put on the system by those customer classes. The study found that assumptions made in the old rate structure regarding residential wastewater discharge should be amended to be sure all costs are

split equitably among all customers. The definition of water usage and strength of waste from a single family home, also known as an Equivalent Dwelling Unit (EDU), changed based on the study results. The sewer service charges for other types of dwellings are calculated in relation to the wastewater generation associated with a single-family residence, or EDU.

What is an EDU?

An Equivalent Dwelling Unit, or EDU, is a measure that equates to the average wastewater flow and strength of a typical home. Business and industrial user sewer use is converted to EDUs to determine their fees.

At a public hearing in March 2021, the NapaSan

Board of Directors approved the new rate structure that

will result in the following maximum rate changes with an adjustment occurring each July 1, through 2025, as specified in the table below if approved by the Board of Directors.

Class	<u>Current</u> <u>Year</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Single-family	\$738.60	\$738.60	\$738.60	\$738.60	\$738.60	\$738.60
Duplex	\$738.60	\$709.06	\$679.51	\$649.97	\$620.42	\$590.88
Apartment	\$443.16	\$472.70	\$502.25	\$531.79	\$561.34	\$590.88
Condo/Townhome	\$738.60	\$716.44	\$694.28	\$672.13	\$649.97	\$627.81
Mobile Home	\$443.16	\$480.09	\$517.02	\$553.95	\$590.88	\$627.81
Accessory Dwelling Unit	\$738.60	\$369.30	\$369.30	\$369.30	\$369.30	\$369.30



YEAR IN REVIEW

Work in the Community

Inflow and Infiltration Project and Sewer Rehabilitation

Inflow and infiltration can add a significant amount of water to the sewer system that can overwhlem the system and lead to sewer overflows. Each calendar year, NapaSan conducts a rehabilitation project to decrease inflow and infiltration. In 2020 and 2021, NapaSan met the goal of replacing or repairing 2% or more of the sewer pipelines in the system and the replacing 600 laterals throughout the sewer system.

Sewer Collection System Maintenance and Assessment

In fiscal year 2020/21, NapaSan was able to clean 134.4 miles of sewer

mains, which is approximately 50% of the system. Crews also video inspected 55.4 miles of pipeline to assess its condition.

Browns Valley Road Trunk Sewer Project

This is a multi-year project that began in the spring of 2020 and will be completed in early 2022. In fiscal year 2020/21, roughly 80% of the project was finished. The goal of the project is to alleviate sewer capacity issues by diverting flow from overcapacity areas via a new 3-mile long sewer pipeline stretching from the junction of Thompson Avenue and Browns Valley Road and ending at the West Napa Pump Station, which is being replaced as part of this project.

The new pump station will be fully functional by the end of 2021 and will provide greater reliability and capacity during wet weather events, improve the energy efficiency, and includes solar panels.

Recycled Water Production and Distribution

In fiscal year 2020/21, NapaSan produced and distributed more recycled water than ever before. Approximately 1.2 billion gallons (3,800 acre feet) of water was distributed for irrigation of vineyards, golf courses, parks, school yards, cemeteries, and commercial landscaping. Use of NapaSan's recycled water reduces the demand on groundwater and surface water supplies and saves potable water from being used for irrigation.





Installing new sewer pipeline.

YEAR IN REVIEW

Work in the Treatment Plant

Pond Transfer Structure Replacement

NapaSan has four wastewater treatment ponds that allow for the treatment of water received in excess of what can be cleaned within the treatment plant in a given day. Transfer structures exist between each pond to allow for the water to be moved from pond to pond for proper treatment. Replacement of the pond transfer structures was identified in the 2011 Wastewater Treatment Plant Master Plan as a priority due to their condition and lack of adequate flow control. The structures between ponds 1 and 2 were replaced in 2011, and the structures between ponds 2 and 3 were replaced in 2019. This year, the remaining structures between ponds 2 and 4 and ponds 3 and 4 were replaced. The project will also remove some abandoned pipes from the outer levee wall from



Digging and compacting between Ponds 2 and 4.

ponds 2 and 3 and raise the height of the levee walls back to their original elevation to reestablish full storage capacity. The project was completed in the fall of 2021.

Computerized Maintenance Management System

NapaSan selected Cityworks as the new Computerized Maintenance Management System (CMMS) to help track the condition of collection system and treatment plant infrastructure. Cityworks will utilize a database of information about asset conditions and maintenance activities that will help NapaSan to schedule maintenance work, track costs, and make informed decisions about maintenance and replacement of equipment. Cityworks will take the place of multiple systems currently in use right now and integrate with important software to

streamline the asset management process. Training and testing of the system took place in the summer of 2021, and the system went live in October of 2021.

66" Trunk Rehabilitation Project

The biggest pipe in the system, the 66-inch trunk sewer, carries over 90 percent of the flow that comes from Napa and runs roughly 3 miles from Imola Avenue to NapaSan. The pipe is over 50 years old, and inspections showed deterioration of about 1.5 miles of the pipe's length. Since there is no back-up for this vital piece of pipeline, it was determined that rehabilitation needed to begin in the summer of 2021.

After examining several options, NapaSan selected the cured-in-placepipe (CIPP) lining method for this project. During the CIPP process, a flexible liner is inserted into the existing pipe using water pressure, and then it is exposed to heat to harden the liner inside the pipe. In order to perform the CIPP lining, a temporary bypass pipe was installed to carry the flow that would normally travel through the 66-inch trunk. When hardened, the liner forms a smooth surface inside the existing pipe to essnetially create a brand new pipe. The rehabilitation of the lower portion of the 66" trunk sewer was completed in September of 2021.





Before (top photo) and after (bottom photo) the rehabilitation of the 66" trunk sewer line.

Condensed Statement of Net Position

The Statement of Net Position, also known as a balance sheet, is a financial statement that summarizes what NapaSan owns and owes at the end of the fiscal year (June 30). It also shows our net worth at the end of the fiscal year. The largest portion of NapaSan's net assets is its investment in capital assets. Its long-term liabilities, mostly debt, are associated with the development of those capital assets.

	2021	2020	2019
Current Assets	\$47,252,198	\$36,129,263	29,585,347
Capital Assets	268,331,062	237,972,968	232,413,931
Deferred Outflows of Resources	4,438,088	5,563,622	6,374,959
Total Assets & Deferred Outflows of Resources	320,021,348	279,665,853	268,374,237
Current liabilities	12,368,876	8,394,683	8,724,936
Long-term liabilities	65,475,727	59,398,032	63,623,024
Deferred Inflows of Resources	1,954,367	2,645,010	1,989,956
Total Liabilities & Deferred Inflows of Resources	79,798,970	70,437,725	74,337,916
Net Investment in capital assets	227,561,561	193,977,023	185,087,392
Unrestricted	12,660,817	15,251,105	8,948,929
Total Net Position	240,222,378	209,228,128	194,036,321

Definition of Terms:

Current and Non-current Assets – includes all assets, other than fixed assets, that are owned by or due to NapaSan, including any restricted assets.

Capital Assets – includes land, treatment plant, facilities, pipelines, buildings and equipment, net of depreciation.

Deterred Outflows of Resources – includes the use of resources that will be applied to future accounting periods, incuding deferred employer pension contributions.

Current Liabilities - money owed by NapaSan and due within 12 months.

Long-term Liabilities – money owed by NapaSan that is due more than 12 months in the future.

Deferred Inflows of Resources – the purchase of resources that will be applied to future accounting periods, including pension.

Net Investment in Capital Assets – amounts invested in capital assets less accumulated depreciation.

Unrestricted (unrestricted net position) – the net amounts of total assets and total liabilities, not including the net investment in capital assets.



DEBT SERVICE COVERAGE RATIO

This is the ratio of net revenues to debt service requirements. NapaSan is required by bond covenants to maintain a debt service coverage ratio of at least 1.25.



ASSET CLASS BY TYPE*



LONG TERM DEBT LEVELS



Statement of Revenues, Expenses and Changes in Net Position

	2021	2020	2019
Operating Revenues			
Sewer Service Charges	\$30,589,112	\$29,576,130	\$28,018,017
Capacity Charges	1,324,411	4,403,474	2,396,746
Other charges for services	2,190,972	1,646,408	1,190,085
Total operating revenues	34,104,495	35,626,012	31,604,848
Operating Expenses			
Salaries and benefits	8,997,757	9,396,098	10,661,127
Other Operating Expenses	5,533,406	5,196,375	5,078,787
Depreciation	8,937,206	8,937,908	8,911,062
Total operating expenses	23,468,369	23,530,381	24,650,976
Total operating income	10,636,126	12,095,631	6,953,872
Non-Operating Revenue (Expense)			
Lease Income	233,091	131,631	415,667
Taxes	(35,549)	(42,025)	(40,691)
Gain on disposal of assets	169,626	(59,331)	(9,516)
Interest Income	250,336	487,400	504,027
Interest Expense	(1,491,424)	(1,257,599)	(1,382,540)
Other Non-Operating Revenue	85,306	35,882	63,726
Total non-operating revenue (expense)	(788,614)	(704,042)	(449,327)
Income (Loss) Before Capital Contributions	9,847,512	11,391,589	6,504,545
Capital Grants and Contributions	21,146,738	3,800,218	1,279,731
Change in Net Position	30,994,250	15,191,807	7,784,276
Net Position – Beginning of Year	209,228,128	194,036,321	186,252,045
Prior Period Adjustment			
Net Position Beginning of Year Restated	209,228,128	194,036,321	186,252,045
– Net Position – End of Year	\$240,222,378	\$209,228,128	\$194,036,321

Definition of Terms:

Revenues – income received from providing sewer or recycled water services.

Operating Expenses – Costs of running day-to-day operations at the sewer district.

Non-Operating Revenue and Expenses – Income and expenditures not directly related to ongoing operations.

OPERATING REVENUES



OPERATING REVENUES BY TYPE



OPERATING EXPENSES

OPERATING EXPENSES BY TYPE



EXPLANATION OF SIGNIFICANT CHANGES

Sewer service charges increased due to rate increases, while capacity charges decreased due to decreased development in the community. Lease revenue in 2020 and 2021 decreased from prior years due to the termination of the Somky property lease agreement. Salaries and benefits were lower in 2021 due to vacancies and the significant increase in the prior year due to changes in assumptions for pension and other post-employment benefits expenses. Although the overall operating expenses decreased, contractual services and utilities increased this year.

Condensed Statement of Cash Flows

The cash flow statement summarizes the net cash coming in and going out of NapaSan during the year. In fiscal year 2018/19, cash flow from operating activities increased due to receipts from customers, while cash flows from capital activities were negatives showing the spending on capital projects.

	2021	2020	2019
Cash flows from operating activities	\$16,673,343	\$19,266,097	\$20,458,208
Cash flows from non-capital financing activities	49,757	(6,143)	23,035
Cash flows from capital activities	(13,156,205)	(15,344,238)	(19,536,905)
Cash flows from investing activities	483,427	619,031	919,694
Net increase (decrease) in cash and cash equivalents	4,050,322	4,534,747	1,864,032
Cash and cash equivalents at beginning of year	32,880,484	28,345,737	26,481,705
Cash and cash equivalents at end of year	\$36,930,806	\$32,880,484	\$28,345,737

Definition of Terms:

Cash flows from operating activities – all cash received or spent related to NapaSan's daily normal business activities.

Cash flows from non-capital financing activities – includes cash in and out from from non-operating revenues, insurance settlement proceeds, dividends and rebates received, and taxes and assessments paid.

Cash flows from capital activities – cash received or spent related to construction of NapaSan's infrastructure. **Cash flows from investing activities** – cash received or spent related to investing NapaSan's cash reserves and from land leases.



AWARDS

Awards and Honors

NapaSan had the honor of receiving several awards in recent years. These awards recognized individual employees, NapaSan projects, innovations in the field, and operational practices. The awards received by NapaSan were:

FY 20/21

Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting GFOA Distinguished Budget Presentation Award GFOA Popular Annual Financial Reporting Award

FY 19/20

CWEA Community Engagement and Outreach Person of the Year GFOA Certificate of Achievement for Excellence in Financial Reporting GFOA Distinguished Budget Presentation Award GFOA Popular Annual Financial Reporting Award

FY 18/19

CWEA Redwood Empire Section Supervisor of the Year Water Resources Utility of the Future Today Award GFOA Distinguished Budget Presentation Award GFOA Popular Annual Financial Reporting Award GFOA Certificate of Achievement for Excellence in Financial Reporting



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

Napa Sanitation District

California

For its Annual Financial Report for the Fiscal Year Ended

2020

Christophen P. Monill

Executive Director/CEO



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IN THE COMMUNITY

Community Outreach and Education

NapaSan has many public outreach programs and participates in community events to inform residents about pollution prevention, maintaining a healthy sewer system, and the wastewater treatment process. While some of our outreach was paused due to the pandemic, we still have many accomplishments to report.

Public and School Facility Tours

NapaSan offers free tours of the Soscol Water Recycling Facility for students of all ages, organizations, service clubs, businesses, and any other group interested in wastewater treatment and water quality protection. Tours were still on hold this fiscal year due to the pandemic, but staff captioned the tour video and advertised it to teachers to utilize in their classrooms in lieu of an in-person tour.

Classroom and Community Presentations

Interactive classroom presentations introduce students to the importance of wastewater treatment and pollution prevention. Students learn about the wastewater treatment process, recycled water, biosolids, and the difference between wastewater and stormwater. There were 2 classroom presentations given this year. NapaSan took part in multiple community presentations, such as Talkin' Trash with City of Napa Recycling Division staff and events put on by the Environmental Education Coalition of Napa County.

The Pipeline Newsletter

This fiscal year, NapaSan sent a Spring and Fall Pipeline newsletter to all customers. The newsletter has information about pollution prevention, events, and any new NapaSan programs.

Farmers Markets

NapaSan had a monthly booth at the Farmers Market in downtown Napa to share information about NapaSan's programs and resources with an emphasis on proper disposal of fat, oil, and grease, or FOG. Free grease scrapers and compostable grease disposal containers were given away to market attendees.









IN THE COMMUNITY

Drug Takeback Program

Beginning in 2010, NapaSan managed an unused or expired drug takeback program at multiple locations in Napa. In December of 2019, NapaSan stopped directly managing takeback sites, but continues to help advertise the many safe disposal sites in Napa and helps plan and sponsor the annual drug takeback event each fall. A total of 2,108 pounds of medication was collected in fiscal year 2020/21.

Earth Day Napa

NapaSan sponsors and helps to plan the annual Earth Day event in downtown Napa. The event brings thousands of people together to learn about sustainable living, to celebrate the earth, and to hear about local opportunities to get involved in environmental protection and stewardship. This year, the event was able to offer some virtual and some inperson activities. NapaSan offered a scavenger hunt activity for community members looking to get outside and take some pictures or draw their local environment. The event was a great success with many community members participating and learning about local environmental groups and stewardship opportunities.

Napa Countywide Water Conservation Group

As a member of the Napa Countywide Water Conservation Group, NapaSan works with other local agencies to plan and sponsor the annual water conservation video contest for local students. This year's theme was "Imagine Our Waterwise Future." The winning video was shown prior to each movie at the theater in Napa for one week so students could see their creation on the big screen.

Facebook and Vimeo Channel

NapaSan has a Facebook page to update the community about the latest news from the District. NapaSan continued to grow its Facebook following in fiscal year 2020/21 and shared

information about NapaSan's programs, events, accomplishments, and construction projects. NapaSan's Vimeo channel is home to a collection of short videos about the wastewater treatment plant and careers in water and wastewater treatment.











Napa Sanitation District Napa, CA

www.napasan.com





Collection • Treatment • Recovery • Reuse