



Agenda Date: 5/20/2020

Agenda Placement: 8B

Napa Sanitation District Board Agenda Letter

TO: Honorable Board of Directors

FROM: Timothy Healy - General Manager
NS-Technical Services/Engineer

REPORT BY: Matthew Lemmon, Senior Civil Engineer - 707-258-6004

SUBJECT: Consideration of Proposed FY 2020/21 Capital Project Appropriation Request and Update of FY 2020/21 to FY 2029/30 Ten-Year Capital Improvement Plan

RECOMMENDATION

Consideration of proposed FY 2020/21 Capital Project Appropriation request and update of FY20/21 - FY29/30 Ten-Year Capital Improvement Plan

EXECUTIVE SUMMARY

The proposed FY 2020/21 Capital Project Appropriation and the Ten-Year Capital Improvement Plan constitute the proposed Capital Improvement Program for NapaSan. Details of the Capital Improvement Plan and Ten-Year Financial Forecast are attached.

Consistent with Policy and Adopted Master Plans

The proposed Ten-Year Capital Improvement Plan includes recommendations from the Treatment Plant Master Plan (2011) and the Collection System Master Plan (2007). However, there are some projects that have been postponed to match the cash flow projected from sewer service charges over the next several years. The new Collection System Master Plan (anticipated completion in 2020) and Treatment Plant Master Plan (anticipated completion in 2022) will provide new project recommendations for future years.

Collection System Replacement

The Ten-Year plan continues the increased investment in the collection system to replace or rehabilitate on average 2% of sewers through I&I projects and R&R projects annually, as established as part of the most recent Proposition 218 process and the Board's Strategic Plan. Due to decreased revenue projections, the 2021 and 2022 projects have been reduced to replace 1.5% of the system (compared to 2%). Even after the reduction of scope of these two projects, the six-year average (2017-2022) will be 2.0% per year since some projects in recent years have exceeded 2% replacement.

Reserves

Adopted by the Board several years ago and last updated in May 2018, the financial policies establish minimum thresholds for an operating reserve for emergencies, debt service reserves, and a cash flow reserve. The Sewer Service Charge Fee Study conducted in 2016 also recommended specific levels of operating reserves. The Recycled Water Rate Study recommended including an additional element in the recycled water fee to create a Recycled Water Capital Reserve, which started in calendar year 2019. The establishment and full funding of these reserves helps to ensure NapaSan's long-term financial strength and provide resources in the event of operating or financial emergencies.

Anticipated Debt Issuance

The 10-Year Financial and Cash Flow Plan anticipates several projects will be funded through the use of debt. The Browns Valley Trunk Project and the West Napa Pump Station Replacement Project have been combined into one financing: a State Revolving Fund Loan through the State Water Resources Control Board under a special EPA program that provides some loan forgiveness for projects that result in increased energy efficiency. The financial forecast has included the associated debt service in the 10-year forecast starting in FY 22/23, as debt service payments are anticipated to begin after construction is complete.

Construction of the 66-inch Trunk Rehabilitation (Kaiser to IPS) project is expected to occur during FY 20/21 and FY 21/22. NapaSan plans to issue debt of approximately \$15 million for this project in about January 2021. Debt service payments are expected to begin in early FY 21/22.

The Ten-Year Financial Plan includes the issuance of debt in FY 24/25 for the construction of the second digester, new aeration basin and clarifier, and associated improvements, with debt service beginning the following fiscal year. The rehabilitation of the 66" trunk main from Imola to Kaiser Road will also result in the issuance of debt, anticipated in FY 27/28.

Committee Discussions and Revised Recommendations

As was discussed with the Long Term Planning Committee on April 9, the Ten-Year Plan is an evolving vision of NapaSan's capital needs, and continues to be updated and amended as more information comes available in the future or as NapaSan's priorities are further refined. Revisions to the proposed Ten-Year Plan were made after revised budget assumptions were presented to the Finance Committee on May 13.

The 10-Year Financial Forecast Is Balanced

The Board has taken considerable steps, both in terms of providing revenue through changes to the Sewer Service Charges, and through policy direction related to the capital plan and financing plan to ensure that there are sufficient resources to match anticipated expenditures.

Supporting Documents

The following material has been provided to explain and detail the proposed Capital Improvement Plan and the 10-Year Financial Forecast for the District:

- Project Descriptions for each project for FY 2019/20
- Allocation of Capacity Charges for FY 2019/20
- Spreadsheets detailing the 10-Year Capital Improvement Plan (yellow highlighted cells are deferred projects and orange highlighted cells are reduced budgets)
- 10-Year Financial Forecast

FISCAL & STRATEGIC PLAN IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	Sewer service charges, capacity charges, recycled water sales, interest earnings, loan proceeds, and other miscellaneous revenues.
	For the Browns Valley Trunk project and associated West Napa Pump Station replacement, NapaSan obtained a Clean Water State Revolving Fund loan.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	The Capital Improvement Plan is necessary to replace infrastructure that has reached the end of its useful life, does not meet regulatory requirements, or poses a hazard to the health and safety to NapaSan's customers or employees. Projects are also necessary to meet anticipated capacity needs.
Is the general fund affected?	Yes
Future fiscal impact:	Appropriations for FY 2020/21 capital projects are proposed to be \$42,436,800. Also, funding for projects approved for expenditure in FY 2019/20 but uncompleted as of June 30, 2020 are anticipated to be carried forward into FY 2020/21.
	Total Ten-Year Capital Improvement Plan projection, not including funds appropriated in FY 19/20 that may be carried forward, is \$229,816,500.
	See attachments for further details.
Consequences if not approved:	NapaSan will not have funded its capital program and its infrastructure may no longer reliably meet the service levels required.
Additional Information:	None.

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

None.

SUPPORTING DOCUMENTS

A . Presentation Slides

B . FY 20/21 Capital Project Descriptions

C . Allocation of Capacity Charges

D . 10-Year CIP Spreadsheets

E . 10-Year Financial Forecast

Napa Sanitation District: Approve

Reviewed By: Timothy Healy