RECLAMATION DISTRICT NO. 1000 – FINANCIAL PLAN TECHNICAL MEMORANDUM

TO:	Kevin King, General Manager
FROM:	Kim Boehler, Director Alice Bou, Consultant
SUBJECT:	Comprehensive Financial Plan
DATE:	January 7, 2021

PURPOSE

Reclamation District No. 1000 (District) retained NBS to prepare a Comprehensive Financial Plan that includes all revenue sources, expenditures, reserves, capital improvement costs, repair and replacement costs, and net revenue requirements. This Memorandum addresses the following issues:

1. The development of net revenue requirements from FY 2021/22 to FY 2040/41.
2. The establishment and maintenance of reserve funds and targets.
3. The funding of the District's Capital Improvement Program (CIP).

NBS prepared long-term financial plans that incorporate the District's 2020 Capital Improvement Plan (CIP) developed by the engineering firm of Kjeldsen, Sinnock & Neudeck, Inc. (KSN)[1] together with preliminary modeling of the additional revenue requirements under each of the proposed financial plan alternatives.

Funding Shortfall: Based on the data provided by the District, a funding shortfall of approximately $1.0 million is projected by Fiscal Year 2022/23 if no action is taken at this time. In other words, the District will not be able to fund both operating and maintenance costs as well as the planned capital improvements if it does not implement a new funding mechanism to generate the necessary revenue. The financial plans project revenues and expenses through FY 2040/41 and, based on the assumptions used in the analysis, they yield an annual shortfall of approximately $7.2 million by the end of the 20-year projection period.

Reserve Funds: According to the District's Financial Reserve Policy,[2] the Operating Reserves (O&M) should maintain a target reserve balance equal to seventy percent of the annual fiscal year budget to adequately fund both operating and maintenance costs for a minimum of six (6) months. The District also

[1] Source file: *Attachment 1 CIP_Update_Final_09042020.pdf*.
[2] Source file: *2001 Reclamation District No 1000 Financial Reserve Policy.pdf*.

maintains a separate fund for Flood Fight with a target reserve balance of $1.5 million. Currently, the District has decided not to maintain a target balance in a Capital Reserve Fund, but to spend those funds on the planned CIP. The District will need additional funding to cover all costs and maintain the two reserve funds at target levels.

In the absence of a formal Capital Reserve Fund, it is even more critical for the District to consider other revenue streams to help fund the planned capital improvements and the rehabilitation and replacement of capital assets, while minimizing the impact on its customers. The total capital improvement program costs are estimated at $52 million over the next twenty years, or $2.5 million annually, as shown in Table 1. The District should also consider other revenue sources, such as grants and outside financing such as loans or revenue bonds.

Table 1. Total Project Costs

Total Capital Project Costs 2021-2041[1]	$ 52,059,570
Average Annual Expenditure	$ 2,479,027

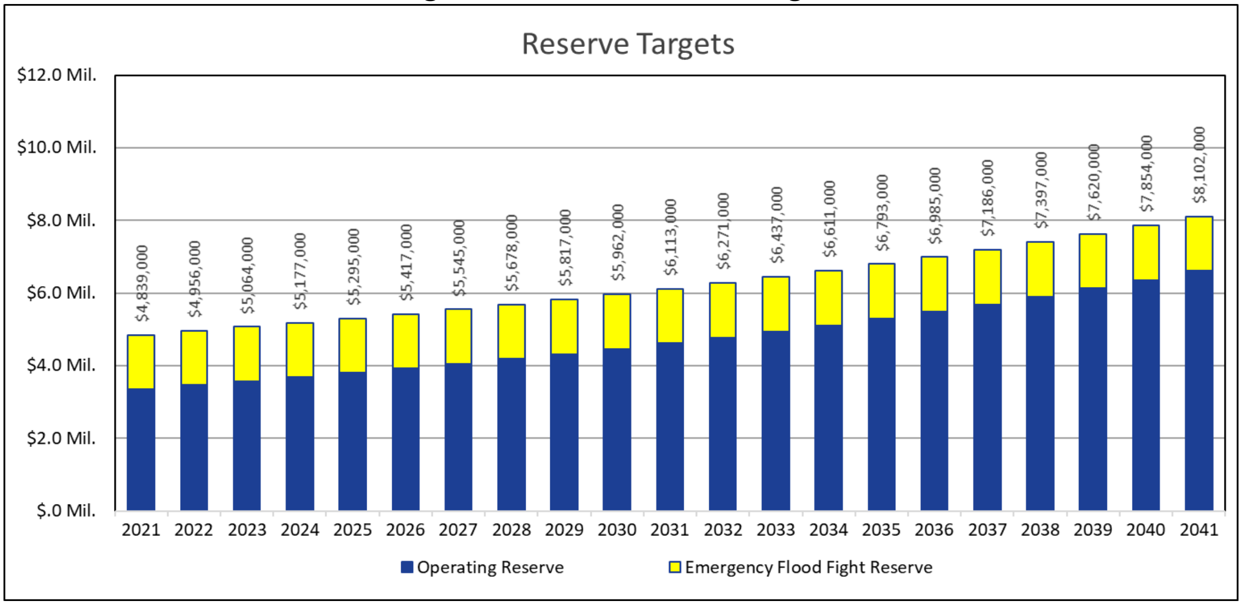
1. Per RD 1000, 2020 Capital Improvement Plan includes estimated cost inflation.

NBS has developed three (3) Financial Plan Alternatives for District staff and the Board of Directors (Board) to consider. The amount of additional revenue required from the new funding mechanism has been adjusted based on the following conditions: (1) whether the District decides to finance (e.g., revenue bonds, loans, or grants) a portion or all of the capital expenditures, and (2) whether the District decides to spend down the available capital reserves to fund the CIP. Table 2 and Figure 1 show the various alternatives and the proposed increases in revenue needed to meet all funding requirements, including the CIP program and reserve targets noted previously.

Table 2. Financial Plan Alternatives

Fiscal Year Ending June 30	Percentage Change in Revenue Needed to Meet Funding Requirements		
	Alternative #1	Alternative #2	Alternative #3
2022	34%	85%	75%
2023	3%	0%	3%
2024	3%	0%	3%
2025	3%	0%	0%
2026	3%	0%	0%
2027	3%	0%	0%
2028	3%	0%	0%
2029	3%	0%	0%
2030	3%	0%	0%
2031	3%	0%	0%
2032	3%	0%	0%
2033	3%	0%	0%
2034	2%	0%	0%
2035	2%	0%	0%
2036	2%	0%	0%
2037	2%	-15%	-15%
2038	2%	0%	0%
2039	2%	0%	0%
2040	3%	0%	0%
2041	3%	0%	0%

Figure 1. 20-Year Reserve Targets



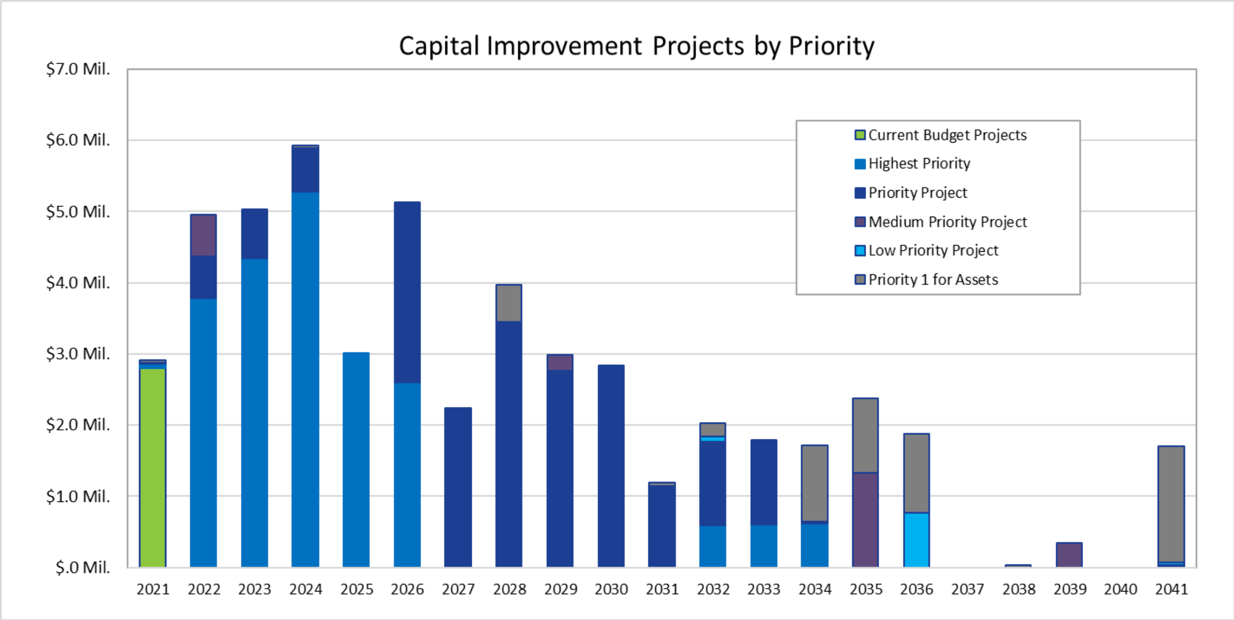
CIP Program: NBS has incorporated the District' 2020 Capital Improvement Plan, developed by KSN and approved by the Board, into the financial plans. Since almost 50% of the capital expenditures are for the next five (5) years, costs that are over a certain threshold were allocated over a 3-year or 5-year period according to the criteria shown in Table 3 below:

Table 3. CIP Allocation Methodology

Value of Project	Description of Methodology
Projects valued at less than $1 million	Assumed to be completed in that same year
Projects with costs greater than $1 million but less than $5 million	Allocated over a 3-year period
Projects with costs greater than $5 million	Allocated over a 5-year period

Figure 2 shows the total Capital Improvement Plan through Fiscal Year 2040/41 by priority and implementation date which will remain the same for all three (3) financial plan alternatives.

Figure 2. 20-Year Capital Improvement Plan



In summary, NBS modeled long-term financial plans for the proposed capital improvements that also address the O&M shortfall, funding reserves as stated above, and funding the CIP using a combination of debt financing and annual revenue collection through either increasing the existing assessment or implementing a new revenue source.

The following are available revenue tools for the District to consider:

1. General Obligation Property Tax
2. Uniform Parcel Tax
3. Special Tax
4. Property Related Fee
5. Special Assessment

These parcel charges provide critical data and will affect the District's decision-making process on the affordability of the CIP Program. Each of the above revenue tools are authorized by different implementation statutes and have various approval thresholds, methods, and participants which will also help determine the District's decisions. The District will need to authorize additional analysis for NBS to evaluate the specifics of each potential revenue tool and impacts to property owners.

LONG-TERM FINANCIAL PLAN

The following 20-year long-term financial plans were built using the following criteria:

1. New Revenue Funding was set at an initial amount in the Fiscal Year 2021/22 and then to escalate each year based on the proposed annual rate increases. This allows for a constant, stable escalation that most property owners are familiar with and will track with all potential revenue tools.

2. The additional revenue needed to Meet Funding Requirements:

Fiscal Year Ending June 30	Additional Revenue Needed to Meet Funding Requirements		
	Alternative #1	Alternative #2	Alternative #3
2022	$1,248,650	$3,121,625	$2,754,375
2023	1,422,561	3,163,035	2,982,682
2024	1,605,560	3,205,283	3,223,012
2025	1,798,054	3,248,387	3,266,472
2026	2,000,470	3,302,562	3,321,011
2027	2,213,252	3,347,637	3,366,458
2028	2,436,862	3,414,678	3,433,878
2029	2,671,782	3,477,981	3,497,568
2030	2,918,515	3,537,469	3,557,450
2031	3,177,585	3,603,263	3,623,647
2032	3,449,537	3,680,590	3,701,385
2033	3,734,941	3,759,125	3,780,339
2034	3,959,737	3,839,254	3,860,896
2035	4,191,694	3,918,376	3,940,454
2036	4,430,994	3,991,278	4,013,801
2037	4,677,820	2,919,593	2,938,584
2038	4,932,822	2,992,546	3,011,920
2039	5,196,238	3,065,474	3,085,239
2040	5,557,150	3,138,807	3,158,970
2041	5,935,017	3,414,645	3,435,920
Total	**$67,559,239**	**$68,141,609**	**$67,954,061**

3. The total Reserve Fund Balances were designed to closely approximate the total Reserve Fund target balances at the conclusion of the study period (FY 2040/41).

4. Debt issuance assumptions for Alternative 1 are as follows:

   a. 30-Year Term
   b. 2.00% Cost of Issuance
   c. 4.00% Annual Interest Cost

5. Debt was issued in 5-year increments for Alternative 1 for the following amounts:

Estimated Debt Financing Alternative 1	Issue Amount	Annual Debt Service Payment[1]
Issue #1, FY 2021/22	$ 14,000,000	$ 878,000
Issue #2, FY 2026/27	$ 9,000,000	$ 564,400
Issue #3, FY 2031/32	$ 9,000,000	$ 564,400
Total Debt Service in FY 2031/32	--	$ 2,007,000

1. Assumes 30-year repayment for each issue and 4% interest rate.

The following pages show the long-term financial plans and projected fund balances together with associated charts for each of the financial plan alternatives.

Alternative 1 - Full CIP with Bond Financing

Table 4. Alternative 1 – Financial Plan & Summary of Revenue Requirements

RATE REVENUE REQUIREMENTS SUMMARY	Budget	Projected									
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
Sources of Funds											
Revenue from Assessments	$ 3,650,000	$ 3,672,500	$ 3,695,225	$ 3,718,177	$ 3,741,359	$ 3,764,773	$ 3,788,420	$ 3,812,305	$ 3,836,428	$ 3,860,792	$ 3,885,400
Other Revenues	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337
Interest Earnings (in Operating & Capital Reserves)[1]	95,000	79,189	73,839	68,026	53,214	57,942	51,624	53,938	44,178	49,674	52,062
Total Sources of Funds	**$ 5,916,337**	**$ 5,923,026**	**$ 5,940,401**	**$ 5,957,540**	**$ 5,965,910**	**$ 5,994,052**	**$ 6,011,382**	**$ 6,037,580**	**$ 6,051,943**	**$ 6,081,803**	**$ 6,108,799**
Uses of Funds											
Operating Expenses:[2]											
Salaries	$ 1,249,049	$ 1,280,275	$ 1,312,282	$ 1,345,089	$ 1,378,716	$ 1,413,184	$ 1,448,514	$ 1,484,727	$ 1,521,845	$ 1,559,891	$ 1,598,888
Benefits	588,035	635,000	667,560	702,795	740,956	782,319	827,185	875,889	928,795	986,303	1,048,855
Other Operating Expenses	2,933,437	3,021,440	3,112,083	3,205,446	3,301,609	3,400,657	3,502,677	3,607,758	3,715,990	3,827,470	3,942,294
Subtotal: Operating Expenses	$ 4,770,521	$ 4,936,716	$ 5,091,926	$ 5,253,330	$ 5,421,282	$ 5,596,160	$ 5,778,377	$ 5,968,373	$ 6,166,630	$ 6,373,664	$ 6,590,037
Other Expenditures:											
Existing Debt Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
New Debt Service	-	877,953	877,953	877,953	877,953	877,953	1,442,351	1,442,351	1,442,351	1,442,351	1,442,351
Rate-Funded Capital Expenses[3]	-	-	-	1,318,422	969,186	1,748,357	725,537	1,951,922	471,335	822,514	172,924
Subtotal: Other Expenditures	$ -	$ 877,953	$ 877,953	$ 2,196,375	$ 1,847,138	$ 2,626,310	$ 2,167,887	$ 3,394,273	$ 1,913,686	$ 2,264,865	$ 1,615,274
Total Uses of Funds	**$ 4,770,521**	**$ 5,814,668**	**$ 5,969,878**	**$ 7,449,705**	**$ 7,268,420**	**$ 8,222,470**	**$ 7,946,264**	**$ 9,362,646**	**$ 8,080,316**	**$ 8,638,529**	**$ 8,205,312**
plus: Revenue from New Funding Mechanism	-	1,248,650	1,409,827	1,578,189	1,754,030	1,937,661	2,129,401	2,329,585	2,538,561	2,756,688	2,984,345
Annual Surplus/(Deficit)	**$ 1,145,816**	**$ 1,357,007**	**$ 1,380,350**	**$ 86,024**	**$ 451,520**	**$ (290,757)**	**$ 194,519**	**$ (995,481)**	**$ 510,188**	**$ 199,963**	**$ 887,832**
Net Revenue Req't. *(Total Uses less Non-Rate Revenue)*	**$ 2,504,184**	**$ 3,564,143**	**$ 3,724,702**	**$ 5,210,342**	**$ 5,043,869**	**$ 5,993,191**	**$ 5,723,303**	**$ 7,137,371**	**$ 5,864,801**	**$ 6,417,518**	**$ 5,981,912**
Total Revenue After New Funding Mechanism is Implemented	**$ 5,916,337**	**$ 7,171,676**	**$ 7,350,228**	**$ 7,535,729**	**$ 7,719,940**	**$ 7,931,713**	**$ 8,140,783**	**$ 8,367,165**	**$ 8,590,503**	**$ 8,838,491**	**$ 9,093,144**
Annual Revenue Increase Needed	***0.00%***	***34.00%***	***3.00%***	***3.00%***	***3.00%***	***3.00%***	***3.00%***	***3.00%***	***3.00%***	***3.00%***	***3.00%***
Cumulative Increase in Revenue	*0.00%*	*34.00%*	*38.02%*	*42.16%*	*46.43%*	*50.82%*	*55.34%*	*60.00%*	*64.80%*	*69.75%*	*74.84%*
Debt Coverage After Rate Increase	*N/A*	*2.55*	*2.57*	*2.60*	*2.62*	*2.66*	*1.64*	*1.66*	*1.68*	*1.71*	*1.74*

1. Interest earnings are per the District's adopted budget for FY 2019/20 and FY 2020/21. For all years beyond 2020/21, interest earnings are calculated here based on historical LAIF returns.
2. The operating expenses are based on the District's Final Budget for FY 2019/20 and FY 2020/21 (Source files: *6.1 Exhibit A 2019-2020 BUDGET REPORT_FINAL.pdf* & *6.2 Exhibit A 2020-2021 BUDGET REPORT_FINAL.pdf*). Inflationary factors are applied to these expenses to project costs in FY 2021/22 and beyond.
3. This analysis presents the District's capital projects based on the assumptions provided in Exhibit 2 (CIP). Source file: *6.1 Attachment 1 CIP_Update_Draft.pdf*.

Table 5. Alternative 1 – Reserve Fund Summary

SUMMARY OF CASH ACTIVITY	Budget	Projected									
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
Unrestricted Reserves (Assigned Fund Balances):											
Total Beginning Cash[1]	**$ 8,192,943**										
Operating Reserve											
Beginning Reserve Balance[2]	$ 3,233,000	$ 3,339,000	$ 3,456,000	$ 3,564,000	$ 3,677,000	$ 3,795,000	$ 3,542,944	$ 3,773,594	$ 2,816,596	$ 3,355,508	$ 3,589,690
Plus: Net Cash Flow (After Rate Increases)	1,145,816	1,357,007	1,380,350	86,024	451,520	(290,757)	194,519	(995,481)	510,188	199,963	887,832
Plus: Interest Earnings	32,970	34,051	35,244	36,346	37,498	38,701	36,131	38,483	28,724	34,219	36,608
Less: Transfer Out to General Capital Reserve	(1,072,786)	(1,274,058)	(1,307,594)	(9,370)	(371,018)	-	-	-	-	-	-
Ending Operating Reserve Balance	***$ 3,339,000***	***$ 3,456,000***	***$ 3,564,000***	***$ 3,677,000***	***$ 3,795,000***	***$ 3,542,944***	***$ 3,773,594***	***$ 2,816,596***	***$ 3,355,508***	***$ 3,589,690***	***$ 4,514,129***
Target Ending Balance (70% of O&M)[3]	*$ 3,339,000*	*$ 3,456,000*	*$ 3,564,000*	*$ 3,677,000*	*$ 3,795,000*	*$ 3,917,000*	*$ 4,045,000*	*$ 4,178,000*	*$ 4,317,000*	*$ 4,462,000*	*$ 4,613,000*
General Capital Fund Reserve											
Beginning Reserve Balance[4]	$ 3,394,412	$ 2,926,111	$ 2,284,515	$ 1,606,502	$ 41,050	$ 386,734	$ 19,241	$ 15,493	$ 15,455	$ 15,455	$ 15,455
Plus: Transfer of Operating Reserve Surplus	1,072,786	1,274,058	1,307,594	9,370	371,018	-	-	-	-	-	-
Plus: Transfer of Emergency Flood Fight Reserve Surplus	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297
Plus: Interest Earnings	34,616	29,840	23,297	16,383	419	3,944	196	158	158	158	158
Less: Use of Reserves for Capital Projects	(1,591,000)	(1,960,792)	(2,024,201)	(1,606,502)	(41,050)	(386,734)	(19,241)	(15,493)	(15,455)	(15,455)	(15,455)
Ending Capital Reserve Balance with Bonds	***$ 2,926,111***	***$ 2,284,515***	***$ 1,606,502***	***$ 41,050***	***$ 386,734***	***$ 19,241***	***$ 15,493***	***$ 15,455***	***$ 15,455***	***$ 15,455***	***$ 15,455***
Target Ending Balance ($0)[5]	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Emergency Flood Fight Fund											
Beginning Reserve Balance[6]	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000
Plus: Interest Earnings	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297
Less: Transfer Out to General Capital Reserve	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)
Ending Emergency Flood Assistance Program Reserve Balance	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***
Target Ending Balance	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*
Ending Balance - Excludes Restricted Reserves	***$ 7,765,111***	***$ 7,240,515***	***$ 6,670,502***	***$ 5,218,050***	***$ 5,681,734***	***$ 5,062,185***	***$ 5,289,087***	***$ 4,332,051***	***$ 4,870,962***	***$ 5,105,144***	***$ 6,029,584***
Minimum Target Ending Balance - Excludes Restricted Reserves	***$ 4,839,000***	***$ 4,956,000***	***$ 5,064,000***	***$ 5,177,000***	***$ 5,295,000***	***$ 5,417,000***	***$ 5,545,000***	***$ 5,678,000***	***$ 5,817,000***	***$ 5,962,000***	***$ 6,113,000***
Ending Surplus/(Deficit) Compared to Reserve Targets	***$ 4,848,943***	***$ 2,284,515***	***$ 1,606,502***	***$ 41,050***	***$ 386,734***	***$ (354,815)***	***$ (255,913)***	***$ (1,345,949)***	***$ (946,038)***	***$ (856,856)***	***$ (83,416)***
Restricted Reserves:[7]											
Nonspendable Funds											
Beginning Reserve Balance[8]	$ 65,532	$ 66,200	$ 66,875	$ 67,557	$ 68,246	$ 68,942	$ 69,645	$ 70,355	$ 71,073	$ 71,797	$ 72,530
Plus: Interest Earnings	668	675	682	689	696	703	710	717	725	732	740
Less: Transfer Out	-	-	-	-	-	-	-	-	-	-	-
Ending Prepaid Expense Fund Balance	***$ 66,200***	***$ 66,875***	***$ 67,557***	***$ 68,246***	***$ 68,942***	***$ 69,645***	***$ 70,355***	***$ 71,073***	***$ 71,797***	***$ 72,530***	***$ 73,269***
Target Ending Balance	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Target Ending Balance	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Annual Interest Earnings Rate[9]	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*

1. Beginning cash balance was provided by the District and includes cash and pooled investments, including the Sacramento County Pooled Investment Fund, City of Sacramento Investment Pool A Fund, and LAIF. Source files: *18-19 Audit (1).pdf*.
2. The beginning Operating Reserve balance is equal to 70% of the annual budget and includes residual positive net resources of the general fund in excess of what can be classified. Source file: *18-19 Audit (1).pdf*, page 22.
3. According to the District's Fund Balance Policy, the target level is set to a minimum of 70% of the annual fiscal budget approved by the Board. Source file: *2-1 2001 Reclamation District No 1000 Financial Reserve Policy.pdf*.
4. The General Capital Fund balance is based on the funds assigned by the District. Source file: *18-19 Audit (1).pdf*, page 22.
5. Capital Reserve target set to $0 in this iteration of the analysis.
6. Emergency Flood Fight Fund is based on the funds assigned by the District. Source file: *18-19 Audit (1).pdf*, page 22.
7. As of June 30, 2019, the District is no longer required to maintain a reserve for Sacrament Area Flood Control Agency (SAFCA) - Natomas Levee Improvement Project (NLIP). Source file: *18-19 Audit (1).pdf*, page 21.
8. The fund balance is related to prepaid expenses that cannot be spent by the District. Source file: *18-19 Audit (1).pdf*, page 21.
9. Historical interest earning rates are per the 5-year average annual yields for funds invested in LAIF (2014-2019). The source is the California State Treasurer's website: *https://www.treasurer.ca.gov/pmia-laif/historical/annual.asp*.

Alternative 1 - Full CIP with Bond Financing, cont.:

Figure 3. Alternative 1 – Revenue Requirements Under Existing & Increased Rates

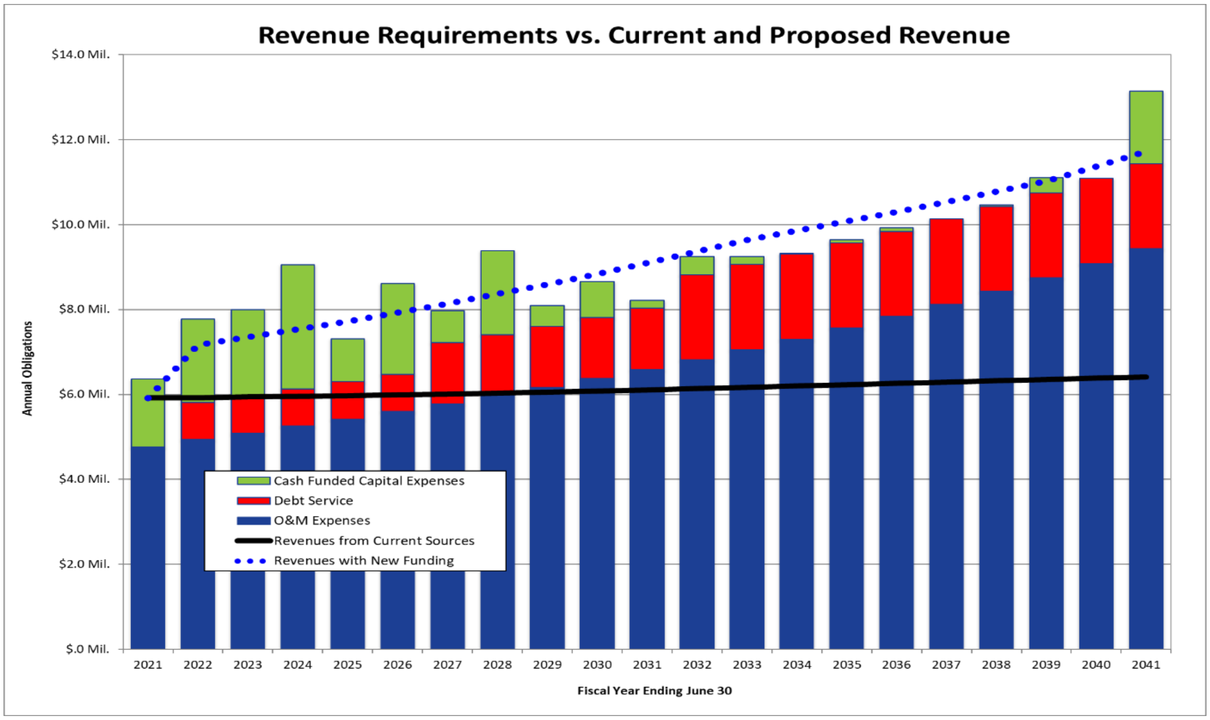
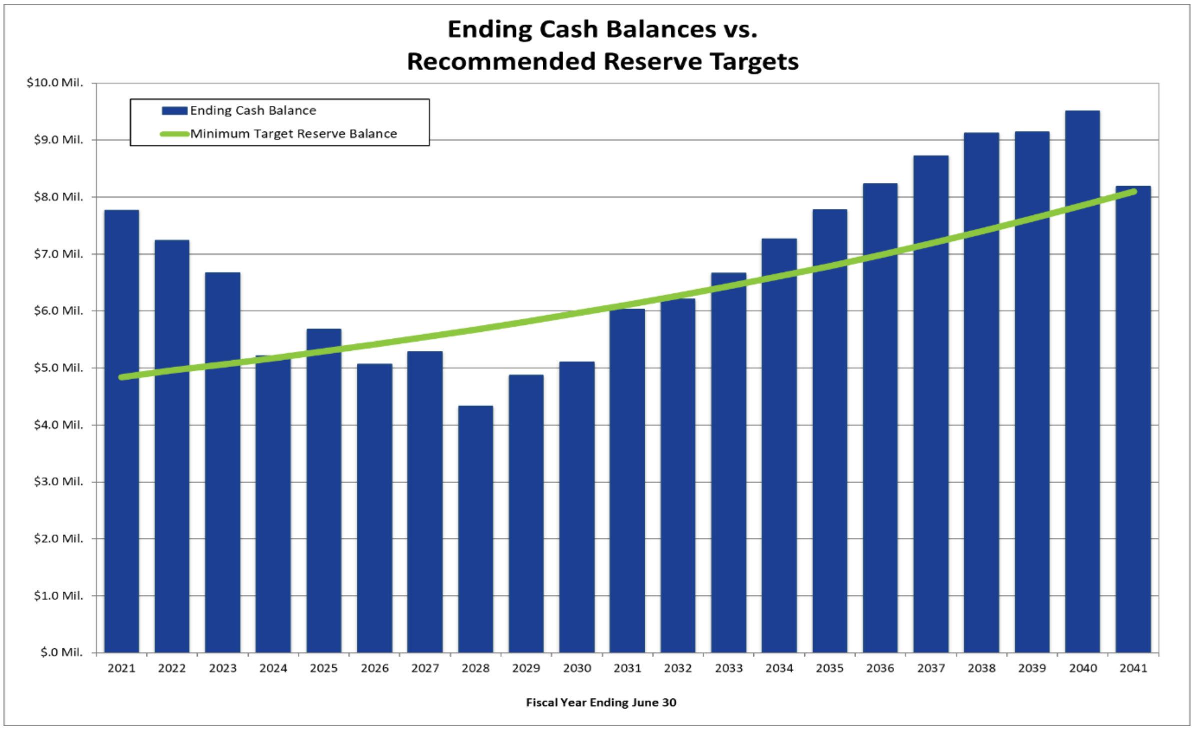


Figure 4. Alternative 1 – Ending Cash Balance vs. Recommended Reserve Targets



Alternative 2 – Full CIP with no Bond Financing:

Table 6. Alternative 2 – Financial Plan & Summary of Revenue Requirements

RATE REVENUE REQUIREMENTS SUMMARY	Budget	Projected									
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
Sources of Funds											
Revenue from Assessments	$ 3,650,000	$ 3,672,500	$ 3,695,225	$ 3,718,177	$ 3,741,359	$ 3,764,773	$ 3,788,420	$ 3,812,305	$ 3,836,428	$ 3,860,792	$ 3,885,400
Other Revenues	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337
Interest Earnings (in Operating & Capital Reserves)[1]	95,000	79,189	71,299	61,569	41,364	49,320	34,552	47,672	42,133	45,044	48,010
Total Sources of Funds	**$ 5,916,337**	**$ 5,923,026**	**$ 5,937,861**	**$ 5,951,083**	**$ 5,954,060**	**$ 5,985,429**	**$ 5,994,309**	**$ 6,031,314**	**$ 6,049,898**	**$ 6,077,173**	**$ 6,104,747**
Uses of Funds											
Operating Expenses:[2]											
Salaries	$ 1,249,049	$ 1,280,275	$ 1,312,282	$ 1,345,089	$ 1,378,716	$ 1,413,184	$ 1,448,514	$ 1,484,727	$ 1,521,845	$ 1,559,891	$ 1,598,888
Benefits	588,035	635,000	667,560	702,795	740,956	782,319	827,185	875,889	928,795	986,303	1,048,855
Other Operating Expenses	2,933,437	3,021,440	3,112,083	3,205,446	3,301,609	3,400,657	3,502,677	3,607,758	3,715,990	3,827,470	3,942,294
Subtotal: Operating Expenses	$ 4,770,521	$ 4,936,716	$ 5,091,926	$ 5,253,330	$ 5,421,282	$ 5,596,160	$ 5,778,377	$ 5,968,373	$ 6,166,630	$ 6,373,664	$ 6,590,037
Other Expenditures:											
Existing Debt Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
New Debt Service	-	-	-	-	-	-	-	-	-	-	-
Rate-Funded Capital Expenses[3]	-	2,034,681	2,988,759	4,951,608	2,985,013	5,119,537	2,229,322	3,951,961	2,971,336	2,822,514	1,172,924
Subtotal: Other Expenditures	$ -	$ 2,034,681	$ 2,988,759	$ 4,951,608	$ 2,985,013	$ 5,119,537	$ 2,229,322	$ 3,951,961	$ 2,971,336	$ 2,822,514	$ 1,172,924
Total Uses of Funds	**$ 4,770,521**	**$ 6,971,397**	**$ 8,080,685**	**$10,204,938**	**$ 8,406,294**	**$10,715,698**	**$ 8,007,699**	**$ 9,920,334**	**$ 9,137,966**	**$ 9,196,178**	**$ 7,762,961**
plus: Revenue from New Funding Mechanism	-	3,121,625	3,152,841	3,184,370	3,216,213	3,248,375	3,280,859	3,313,668	3,346,805	3,380,273	3,414,075
Annual Surplus/(Deficit)	**$ 1,145,816**	**$ 2,073,254**	**$ 1,010,017**	**$ (1,069,486)**	**$ 763,979**	**$ (1,481,893)**	**$ 1,267,470**	**$ (575,353)**	**$ 258,737**	**$ 261,267**	**$ 1,755,861**
Net Revenue Req't. *(Total Uses less Non-Rate Revenue)*	**$ 2,504,184**	**$ 4,720,871**	**$ 5,838,049**	**$ 7,972,033**	**$ 6,193,593**	**$ 8,495,041**	**$ 5,801,810**	**$ 7,701,325**	**$ 6,924,496**	**$ 6,979,797**	**$ 5,543,614**
Total Revenue After New Funding Mechanism is Implemented	**$ 5,916,337**	**$ 9,044,651**	**$ 9,090,702**	**$ 9,135,452**	**$ 9,170,273**	**$ 9,233,805**	**$ 9,275,168**	**$ 9,344,981**	**$ 9,396,702**	**$ 9,457,445**	**$ 9,518,822**
Annual Revenue Increase Needed	***0.00%***	***85.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***
Cumulative Increase in Revenue	*0.00%*	*85.00%*	*85.00%*	*85.00%*	*85.00%*	*85.00%*	*85.00%*	*85.00%*	*85.00%*	*85.00%*	*85.00%*
Debt Coverage After Rate Increase	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*

1. Interest earnings are per the District's adopted budget for FY 2019/20 and FY 2020/21. For all years beyond 2020/21, interest earnings are calculated here based on historical LAIF returns.
2. The operating expenses are based on the District's Final Budget for FY 2019/20 and FY 2020/21 (Source files: *6.1 Exhibit A 2019-2020 BUDGET REPORT_FINAL.pdf* & *6.2 Exhibit A 2020-2021 BUDGET REPORT_FINAL.pdf*). Inflationary factors are applied to these expenses to project costs in FY 2021/22 and beyond.
3. This analysis presents the District's capital projects based on the assumptions provided in Exhibit 2 (CIP). Source file: *6.1 Attachment 1 CIP_Update_Draft.pdf* .

Table 7. Alternative 2 – Reserve Fund Summary

SUMMARY OF CASH ACTIVITY	Budget	Projected									
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
Unrestricted Reserves (Assigned Fund Balances):											
Total Beginning Cash[1]	**$ 8,192,943**										
Operating Reserve											
Beginning Reserve Balance[2]	$ 3,233,000	$ 3,339,000	$ 3,456,000	$ 3,564,000	$ 2,530,860	$ 3,320,649	$ 1,872,620	$ 3,159,186	$ 2,616,051	$ 2,901,466	$ 3,192,322
Plus: Net Cash Flow (After Rate Increases)	1,145,816	2,073,254	1,010,017	(1,069,486)	763,979	(1,481,893)	1,267,470	(575,353)	258,737	261,267	1,755,861
Plus: Interest Earnings	32,970	34,051	35,244	36,346	25,810	33,864	19,097	32,217	26,678	29,589	32,555
Less: Transfer Out to General Capital Reserve	(1,072,786)	(1,990,305)	(937,261)	-	-	-	-	-	-	-	(367,738)
Ending Operating Reserve Balance	***$ 3,339,000***	***$ 3,456,000***	***$ 3,564,000***	***$ 2,530,860***	***$ 3,320,649***	***$ 1,872,620***	***$ 3,159,186***	***$ 2,616,051***	***$ 2,901,466***	***$ 3,192,322***	***$ 4,613,000***
Target Ending Balance (70% of O&M)[3]	*$ 3,339,000*	*$ 3,456,000*	*$ 3,564,000*	*$ 3,677,000*	*$ 3,795,000*	*$ 3,917,000*	*$ 4,045,000*	*$ 4,178,000*	*$ 4,317,000*	*$ 4,462,000*	*$ 4,613,000*
General Capital Fund Reserve											
Beginning Reserve Balance[4]	$ 3,394,412	$ 2,926,111	$ 2,035,442	$ 973,316	$ 25,223	$ 15,554	$ 15,456	$ 15,455	$ 15,455	$ 15,455	$ 15,455
Plus: Transfer of Operating Reserve Surplus	1,072,786	1,990,305	937,261	-	-	-	-	-	-	-	367,738
Plus: Transfer of Emergency Flood Fight Reserve Surplus	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297
Plus: Interest Earnings	34,616	29,840	20,757	9,926	257	159	158	158	158	158	158
Less: Use of Reserves for Capital Projects	(1,591,000)	(2,926,111)	(2,035,442)	(973,316)	(25,223)	(15,554)	(15,456)	(15,455)	(15,455)	(15,455)	(15,455)
Ending Capital Reserve Balance with Bonds	***$ 2,926,111***	***$ 2,035,442***	***$ 973,316***	***$ 25,223***	***$ 15,554***	***$ 15,456***	***$ 15,455***	***$ 15,455***	***$ 15,455***	***$ 15,455***	***$ 383,193***
Target Ending Balance ($0)[5]	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Emergency Flood Fight Fund											
Beginning Reserve Balance[6]	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000
Plus: Interest Earnings	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297
Less: Transfer Out to General Capital Reserve	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)
Ending Emergency Flood Assistance Program Reserve Balance	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***
Target Ending Balance	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*
Ending Balance - Excludes Restricted Reserves	**$ 7,765,111**	**$ 6,991,442**	**$ 6,037,316**	**$ 4,056,083**	**$ 4,836,203**	**$ 3,388,075**	**$ 4,674,641**	**$ 4,131,505**	**$ 4,416,921**	**$ 4,707,777**	**$ 6,496,193**
Minimum Target Ending Balance - Excludes Restricted Reserves	**$ 4,839,000**	**$ 4,956,000**	**$ 5,064,000**	**$ 5,177,000**	**$ 5,295,000**	**$ 5,417,000**	**$ 5,545,000**	**$ 5,678,000**	**$ 5,817,000**	**$ 5,962,000**	**$ 6,113,000**
Ending Surplus/(Deficit) Compared to Reserve Targets	***$ 4,848,943***	***$ 2,035,442***	***$ 973,316***	***$ (1,120,917)***	***$ (458,797)***	***$ (2,028,925)***	***$ (870,359)***	***$ (1,546,495)***	***$ (1,400,079)***	***$ (1,254,223)***	***$ 383,193***
Restricted Reserves:[7]											
Nonspendable Funds											
Beginning Reserve Balance[8]	$ 65,532	$ 66,200	$ 66,875	$ 67,557	$ 68,246	$ 68,942	$ 69,645	$ 70,355	$ 71,073	$ 71,797	$ 72,530
Plus: Interest Earnings	668	675	682	689	696	703	710	717	725	732	740
Less: Transfer Out	-	-	-	-	-	-	-	-	-	-	-
Ending Prepaid Expense Fund Balance	***$ 66,200***	***$ 66,875***	***$ 67,557***	***$ 68,246***	***$ 68,942***	***$ 69,645***	***$ 70,355***	***$ 71,073***	***$ 71,797***	***$ 72,530***	***$ 73,269***
Target Ending Balance	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Target Ending Balance	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Annual Interest Earnings Rate[9]	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*

1. Beginning cash balance was provided by the District and includes cash and pooled investments, including the Sacramento County Pooled Investment Fund, City of Sacramento Investment Pool A Fund, and LAIF. Source files: *18-19 Audit (1).pdf* .
2. The beginning Operating Reserve balance is equal to 70% of the annual budget and includes residual positive net resources of the general fund in excess of what can be classified. Source file: *18-19 Audit (1).pdf* , page 22.
3. According to the District's Fund Balance Policy, the target level is set to a minimum of 70% of the annual fiscal budget approved by the Board. Source file: *2-1 2001 Reclamation District No 1000 Financial Reserve Policy.pdf* .
4. The General Capital Fund balance is based on the funds assigned by the District. Source file: *18-19 Audit (1).pdf* , page 22.
5. Capital Reserve target set to $0 in this iteration of the analysis.
6. Emergency Flood Fight Fund is based on the funds assigned by the District. Source file: *18-19 Audit (1).pdf* , page 22.
7. As of June 30, 2019, the District is no longer required to maintain a reserve for Sacrament Area Flood Control Agency (SAFCA) - Natomas Levee Improvement Project (NLIP). Source file: *18-19 Audit (1).pdf* , page 21.
8. The fund balance is related to prepaid expenses that cannot be spent by the District. Source file: *18-19 Audit (1).pdf* , page 21.
9. Historical interest earning rates are per the 5-year average annual yields for funds invested in LAIF (2014-2019). The source is the California State Treasurer's website: *https://www.treasurer.ca.gov/pmia-laif/historical/annual.asp* .

Alternative 2 – Full CIP with no Bond Financing, cont.:

Figure 5. Alternative 2 – Revenue Requirements Under Existing & Increased Rates

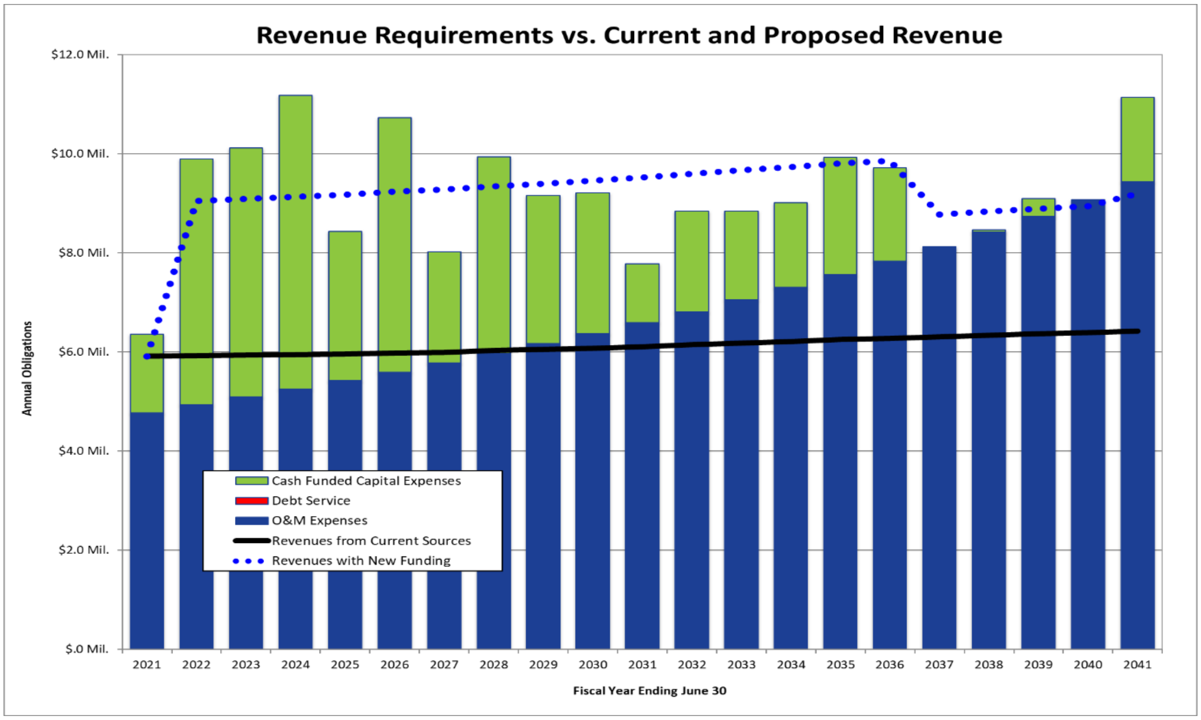
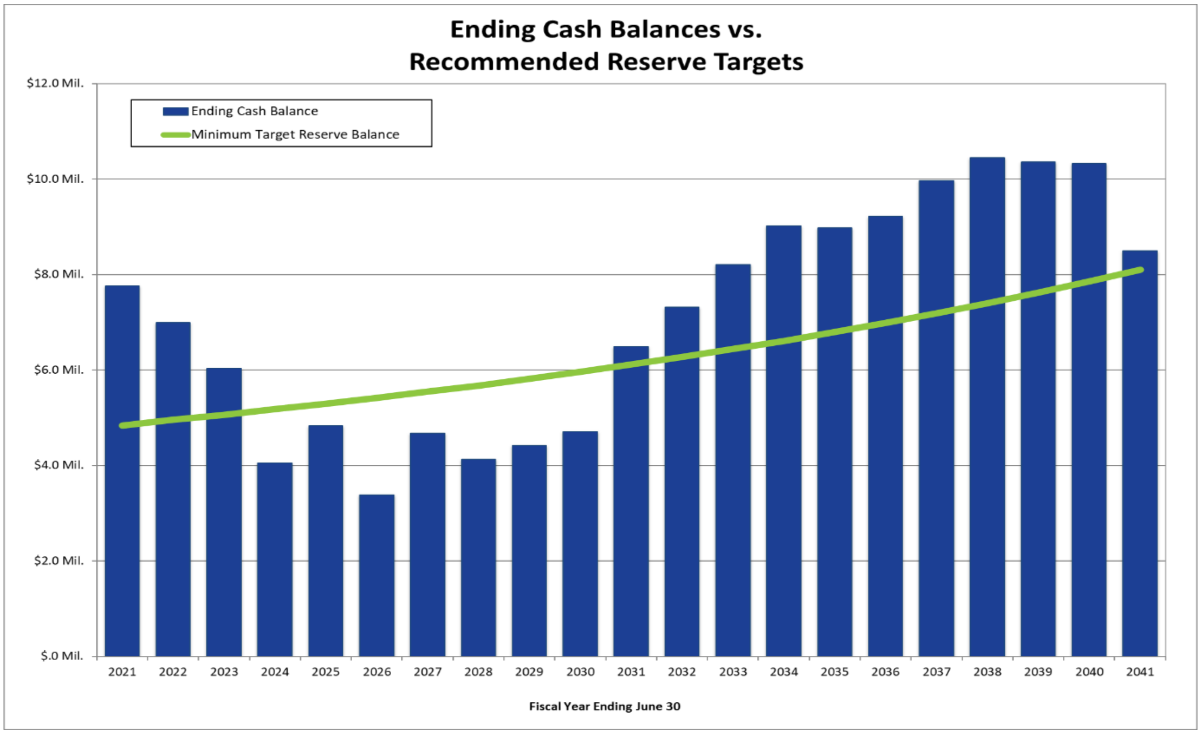


Figure 6. Alternative 2 – Ending Cash Balance vs. Recommended Reserve Targets



Alternative 3 – Full CIP with no Bond Financing & Reserve Spend Down:

Table 8. Alternative 3 – Financial Plan & Summary of Revenue Requirements

RATE REVENUE REQUIREMENTS SUMMARY	Budget	Projected									
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
Sources of Funds											
Revenue from Assessments	$ 3,650,000	$ 3,672,500	$ 3,695,225	$ 3,718,177	$ 3,741,359	$ 3,764,773	$ 3,788,420	$ 3,812,305	$ 3,836,428	$ 3,860,792	$ 3,885,400
Other Revenues	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337	2,171,337
Interest Earnings (in Operating & Capital Reserves)[1]	95,000	79,189	67,554	55,946	35,865	43,949	29,314	42,573	37,178	40,238	43,359
Total Sources of Funds	**$ 5,916,337**	**$ 5,923,026**	**$ 5,934,116**	**$ 5,945,460**	**$ 5,948,561**	**$ 5,980,058**	**$ 5,989,071**	**$ 6,026,215**	**$ 6,044,943**	**$ 6,072,367**	**$ 6,100,096**
Uses of Funds											
Operating Expenses:[2]											
Salaries	$ 1,249,049	$ 1,280,275	$ 1,312,282	$ 1,345,089	$ 1,378,716	$ 1,413,184	$ 1,448,514	$ 1,484,727	$ 1,521,845	$ 1,559,891	$ 1,598,888
Benefits	588,035	635,000	667,560	702,795	740,956	782,319	827,185	875,889	928,795	986,303	1,048,855
Other Operating Expenses	2,933,437	3,021,440	3,112,083	3,205,446	3,301,609	3,400,657	3,502,677	3,607,758	3,715,990	3,827,470	3,942,294
Subtotal: Operating Expenses	$ 4,770,521	$ 4,936,716	$ 5,091,926	$ 5,253,330	$ 5,421,282	$ 5,596,160	$ 5,778,377	$ 5,968,373	$ 6,166,630	$ 6,373,664	$ 6,590,037
Other Expenditures:											
Existing Debt Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
New Debt Service	-	-	-	-	-	-	-	-	-	-	-
Rate-Funded Capital Expenses[3]	-	2,034,681	3,356,009	5,502,957	2,990,635	5,119,595	2,229,323	3,951,961	2,971,336	2,822,514	1,172,924
Subtotal: Other Expenditures	$ -	$ 2,034,681	$ 3,356,009	$ 5,502,957	$ 2,990,635	$ 5,119,595	$ 2,229,323	$ 3,951,961	$ 2,971,336	$ 2,822,514	$ 1,172,924
Total Uses of Funds	**$ 4,770,521**	**$ 6,971,397**	**$ 8,447,935**	**$10,756,287**	**$ 8,411,917**	**$10,715,755**	**$ 8,007,699**	**$ 9,920,334**	**$ 9,137,966**	**$ 9,196,178**	**$ 7,762,961**
plus: Revenue from New Funding Mechanism	-	2,754,375	2,976,233	3,207,721	3,239,798	3,272,196	3,304,918	3,337,967	3,371,347	3,405,060	3,439,111
Annual Surplus/(Deficit)	**$ 1,145,816**	**$ 1,706,004**	**$ 462,414**	**$ (1,603,106)**	**$ 776,442**	**$ (1,463,501)**	**$ 1,286,290**	**$ (556,153)**	**$ 278,323**	**$ 281,249**	**$ 1,776,245**
Net Revenue Req't. *(Total Uses less Non-Rate Revenue)*	**$ 2,504,184**	**$ 4,720,871**	**$ 6,209,044**	**$ 8,529,004**	**$ 6,204,715**	**$ 8,500,469**	**$ 5,807,048**	**$ 7,706,424**	**$ 6,929,451**	**$ 6,984,603**	**$ 5,548,265**
Total Revenue After New Funding Mechanism is Implemented	**$ 5,916,337**	**$ 8,677,401**	**$ 8,910,349**	**$ 9,153,181**	**$ 9,188,359**	**$ 9,252,254**	**$ 9,293,989**	**$ 9,364,181**	**$ 9,416,289**	**$ 9,477,427**	**$ 9,539,206**
Annual Revenue Increase Needed	***0.00%***	***75.00%***	***3.00%***	***3.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***
Cumulative Increase in Revenue	*0.00%*	*75.00%*	*80.25%*	*85.66%*	*85.66%*	*85.66%*	*85.66%*	*85.66%*	*85.66%*	*85.66%*	*85.66%*
Debt Coverage After Rate Increase	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*

1. Interest earnings are per the District's adopted budget for FY 2019/20 and FY 2020/21. For all years beyond 2020/21, interest earnings are calculated here based on historical LAIF returns.
2. The operating expenses are based on the District's Final Budget for FY 2019/20 and FY 2020/21 (Source files: *6.1 Exhibit A 2019-2020 BUDGET REPORT_FINAL.pdf* & *6.2 Exhibit A 2020-2021 BUDGET REPORT_FINAL.pdf*). Inflationary factors are applied to these expenses to project costs in FY 2021/22 and beyond.
3. This analysis presents the District's capital projects based on the assumptions provided in Exhibit 2 (CIP). Source file: *6.1 Attachment 1 CIP_Update_Draft.pdf* .

Table 9. Alternative 3 – Reserve Fund Summary

SUMMARY OF CASH ACTIVITY	Budget	Projected									
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
Unrestricted Reserves (Assigned Fund Balances):											
Total Beginning Cash[1]	**$ 8,192,943**										
Operating Reserve											
Beginning Reserve Balance[2]	$ 3,233,000	$ 3,339,000	$ 3,456,000	$ 3,564,000	$ 1,997,239	$ 2,794,049	$ 1,359,042	$ 2,659,191	$ 2,130,157	$ 2,430,204	$ 2,736,236
Plus: Net Cash Flow (After Rate Increases)	1,145,816	1,706,004	462,414	(1,603,106)	776,442	(1,463,501)	1,286,290	(556,153)	278,323	281,249	1,776,245
Plus: Interest Earnings	32,970	34,051	35,244	36,346	20,368	28,494	13,860	27,118	21,723	24,783	27,904
Less: Transfer Out to General Capital Reserve	(1,072,786)	(1,623,055)	(389,658)	-	-	-	-	-	-	-	-
Ending Operating Reserve Balance	***$ 3,339,000***	***$ 3,456,000***	***$ 3,564,000***	***$ 1,997,239***	***$ 2,794,049***	***$ 1,359,042***	***$ 2,659,191***	***$ 2,130,157***	***$ 2,430,204***	***$ 2,736,236***	***$ 4,540,385***
Target Ending Balance (70% of O&M)[3]	*$ 3,339,000*	*$ 3,456,000*	*$ 3,564,000*	*$ 3,677,000*	*$ 3,795,000*	*$ 3,917,000*	*$ 4,045,000*	*$ 4,178,000*	*$ 4,317,000*	*$ 4,462,000*	*$ 4,613,000*
General Capital Fund Reserve											
Beginning Reserve Balance[4]	$ 3,394,412	$ 2,926,111	$ 1,668,192	$ 421,967	$ 19,600	$ 15,497	$ 15,455	$ 15,455	$ 15,455	$ 15,455	$ 15,455
Plus: Transfer of Operating Reserve Surplus	1,072,786	1,623,055	389,658	-	-	-	-	-	-	-	-
Plus: Transfer of Emergency Flood Fight Reserve Surplus	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297
Plus: Interest Earnings	34,616	29,840	17,012	4,303	200	158	158	158	158	158	158
Less: Use of Reserves for Capital Projects	(1,591,000)	(2,926,111)	(1,668,192)	(421,967)	(19,600)	(15,497)	(15,455)	(15,455)	(15,455)	(15,455)	(15,455)
Ending Capital Reserve Balance with Bonds	***$ 2,926,111***	***$ 1,668,192***	***$ 421,967***	***$ 19,600***	***$ 15,497***	***$ 15,455***	***$ 15,455***	***$ 15,455***	***$ 15,455***	***$ 15,455***	***$ 15,455***
Target Ending Balance ($0)[5]	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Emergency Flood Fight Fund											
Beginning Reserve Balance[6]	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000	$ 1,500,000
Plus: Interest Earnings	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297	15,297
Less: Transfer Out to General Capital Reserve	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)	(15,297)
Ending Emergency Flood Assistance Program Reserve Balance	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***	***$ 1,500,000***
Target Ending Balance	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*
Ending Balance - Excludes Restricted Reserves	***$ 7,765,111***	***$ 6,624,192***	***$ 5,485,967***	***$ 3,516,840***	***$ 4,309,546***	***$ 2,874,497***	***$ 4,174,646***	***$ 3,645,612***	***$ 3,945,659***	***$ 4,251,690***	***$ 6,055,840***
Minimum Target Ending Balance - Excludes Restricted Reserves	***$ 4,839,000***	***$ 4,956,000***	***$ 5,064,000***	***$ 5,177,000***	***$ 5,295,000***	***$ 5,417,000***	***$ 5,545,000***	***$ 5,678,000***	***$ 5,817,000***	***$ 5,962,000***	***$ 6,113,000***
Ending Surplus/(Deficit) Compared to Reserve Targets	***$ 4,848,943***	***$ 1,668,192***	***$ 421,967***	***$ (1,660,160)***	***$ (985,454)***	***$ (2,542,503)***	***$ (1,370,354)***	***$ (2,032,388)***	***$ (1,871,341)***	***$ (1,710,310)***	***$ (57,160)***
Restricted Reserves:[7]											
Nonspendable Funds											
Beginning Reserve Balance[8]	$ 65,532	$ 66,200	$ 66,875	$ 67,557	$ 68,246	$ 68,942	$ 69,645	$ 70,355	$ 71,073	$ 71,797	$ 72,530
Plus: Interest Earnings	668	675	682	689	696	703	710	717	725	732	740
Less: Transfer Out	-	-	-	-	-	-	-	-	-	-	-
Ending Prepaid Expense Fund Balance	***$ 66,200***	***$ 66,875***	***$ 67,557***	***$ 68,246***	***$ 68,942***	***$ 69,645***	***$ 70,355***	***$ 71,073***	***$ 71,797***	***$ 72,530***	***$ 73,269***
Target Ending Balance	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Target Ending Balance	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Annual Interest Earnings Rate[9]	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*	*1.02%*

1. Beginning cash balance was provided by the District and includes cash and pooled investments, including the Sacramento County Pooled Investment Fund, City of Sacramento Investment Pool A Fund, and LAIF. Source files: *18-19 Audit (1).pdf* .
2. The beginning Operating Reserve balance is equal to 70% of the annual budget and includes residual positive net resources of the general fund in excess of what can be classified. Source file: *18-19 Audit (1).pdf* , page 22.
3. According to the District's Fund Balance Policy, the target level is set to a minimum of 70% of the annual fiscal budget approved by the Board. Source file: *2-1 2001 Reclamation District No 1000 Financial Reserve Policy.pdf* .
4. The General Capital Fund balance is based on the funds assigned by the District. Source file: *18-19 Audit (1).pdf* , page 22.
5. Capital Reserve target set to $0 in this iteration of the analysis.
6. Emergency Flood Fight Fund is based on the funds assigned by the District. Source file: *18-19 Audit (1).pdf* , page 22.
7. As of June 30, 2019, the District is no longer required to maintain a reserve for Sacrament Area Flood Control Agency (SAFCA) - Natomas Levee Improvement Project (NLIP). Source file: *18-19 Audit (1).pdf* , page 21.
8. The fund balance is related to prepaid expenses that cannot be spent by the District. Source file: *18-19 Audit (1).pdf* , page 21.
9. Historical interest earning rates are per the 5-year average annual yields for funds invested in LAIF (2014-2019). The source is the California State Treasurer's website: *https://www.treasurer.ca.gov/pmia-laif/historical/annual.asp* .

Alternative 3 – Full CIP with no Bond Financing & Reserve Spend Down, cont.:

Figure 7. Alternative 3 – Revenue Requirements Under Existing & Increased Rates

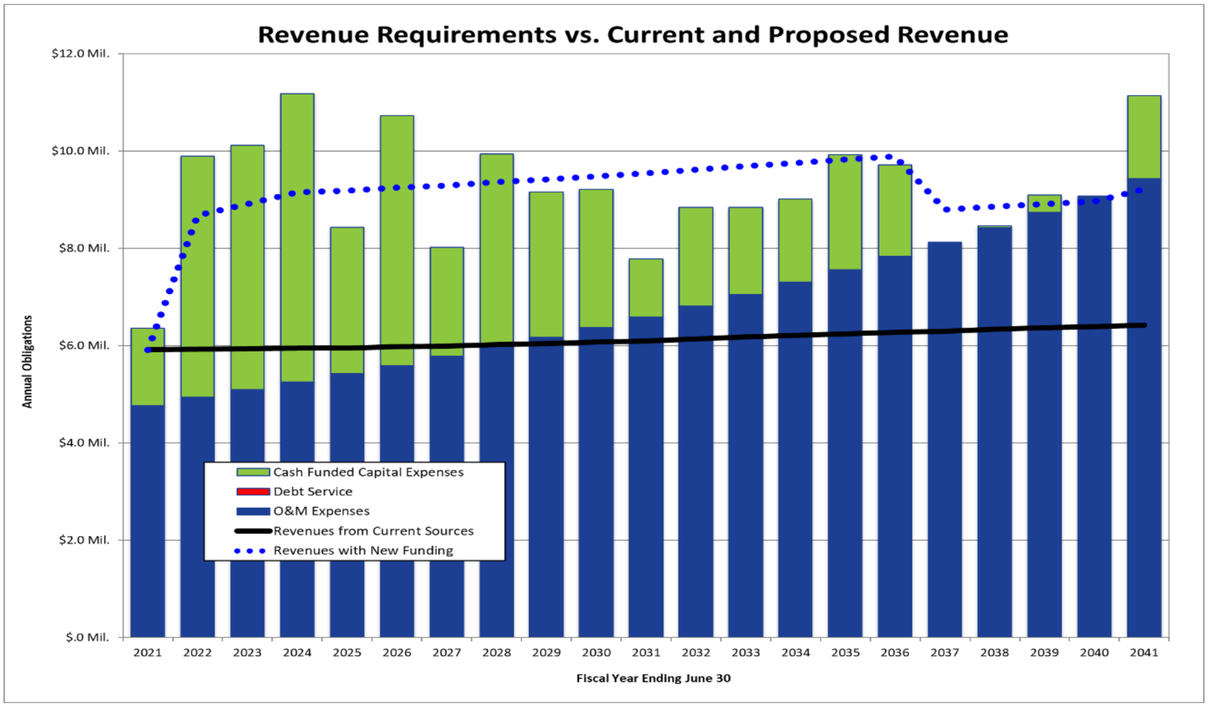
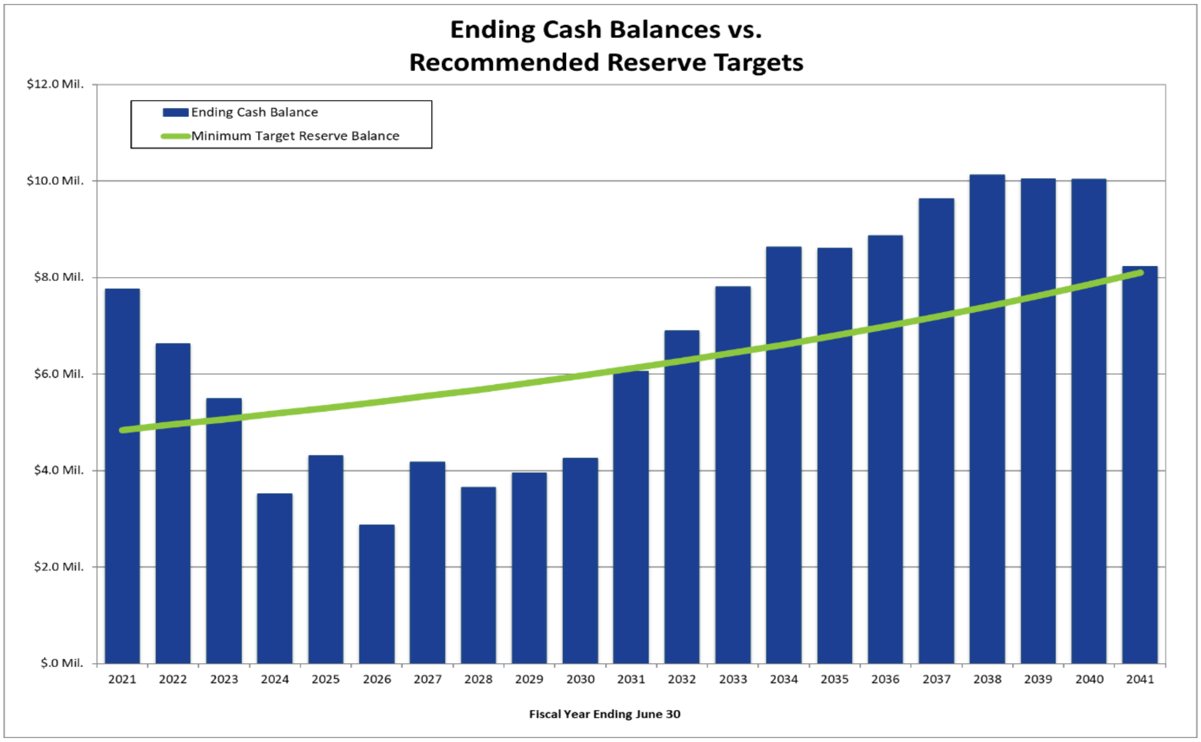


Figure 8. Alternative 3 – Ending Cash Balance vs. Recommended Reserve Targets



LONG TERM FUNDING SOLUTIONS

The long-range financial plan contemplates three alternatives where the total amount of the required increases in revenue will correlate with the planned CIP, increased funding needed for operating and maintenance costs, and to ensure the District has sufficient reserve funds. There are three primary types of funding instruments which are appropriate to provide the needed revenue: (1) a tax; (2) an assessment; or (3) a fee. The structural basics of each of these funding instruments are shown in Table 4 below.

Table 10. Funding Instrument Overview

Type	Approved by	Approval Threshold	Required Findings
Tax	Registered Voters	2/3 Ballots Cast	Method must be reasonable
Assessment	Property Owners	Majority Protest of Ballots Cast, Weighted according to Assessment Amount	1. Identify all Benefits 2. Separate Special from General Benefits 3. Apportion costs to parcels based on Proportional Special Benefit per parcel
Fee[1]			Proportional cost of providing service to each parcel
1st Step	Property Owners	Majority Protest of *all* Property Owners	
2nd Step	a) Property Owners, *or*	Majority Approval of Ballots Cast: 1 vote/parcel	
	b) Registered Voters	2/3 of Ballots Cast	

1. Property Related Fees require a two-step approval process unless exempt. Storm Water Drainage services are not yet considered exempt, pending outcome of SB 231 validation proceeding.

Each of the above-referenced funding instruments have certain strengths and weaknesses that may make them a more or less desirable option. These issues are outlined in Table 5 below.

Table 11. Funding Instrument Strengths and Weaknesses

Type	Strength	Weakness
Tax	No substantial required findings Most legally defensible	2/3 Voter Approval[1]
Assessment	Property Owner Majority Protest	1. Extensive Finding Requirements related to defining the Benefits provided 2. Separation of General & Special Benefits 3. Allocation of costs shall be according to the Proportional Special Benefits provided 4. Additional Assessment Engineering Time/Expense to support required findings 5. City must Fund all General Benefit costs, may be a substantial amount 6. May not exempt any parcels based on ownership or use 7. Most Legally Vulnerable
Fee	Option to select approval group, Property Owner majority protest Legally defensible	If Registered Voters selected as approval group, 2/3 Voter Approval

1. AB 195 (Chaptered 2017) modified the appearance and content of ballots which may make complicated tax formulas difficult to fit within the prescribed content limitations.

Assuming no additional considerations, the funding instruments are ranked below in order of preferability based on the ease of approval and legal defensibility:

1. Property Related Fee
    a. If successful SB 231 defense, only a one-step public hearing is required
    b. If no SB 231 outcome yet, 2nd step property owner election required
2. Special Tax
3. Assessment

Further analysis is required to determine the best instrument to fund the District's CIP . To perform the analysis, the District will need to identify exactly what improvements and related costs are being funded by the new funding instrument. NBS currently assumes the improvements included in the District's CIP will more or less service the entire District area in an equal manner.

NBS' ASSUMPTIONS AND CONSIDERATIONS

In preparing this memorandum and the opinions and recommendations included herein, NBS has relied on a number of principal assumptions and considerations with regard to financial matters that may occur in the future. This information and assumptions, including the District's budgets, capital improvement costs, and information from District staff were provided by sources NBS believes to be reliable, although NBS has not independently verified this data.

NBS' use of such information and assumptions is reasonable for the purpose of this report and its recommendations, but some assumptions will invariably not materialize as stated herein and may vary significantly due to unanticipated events and circumstances. Therefore, the actual results are expected to vary from those projected to the extent that actual future conditions differ from those assumed by NBS or provided to NBS by others.