

# 2019 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Exhibit D

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018



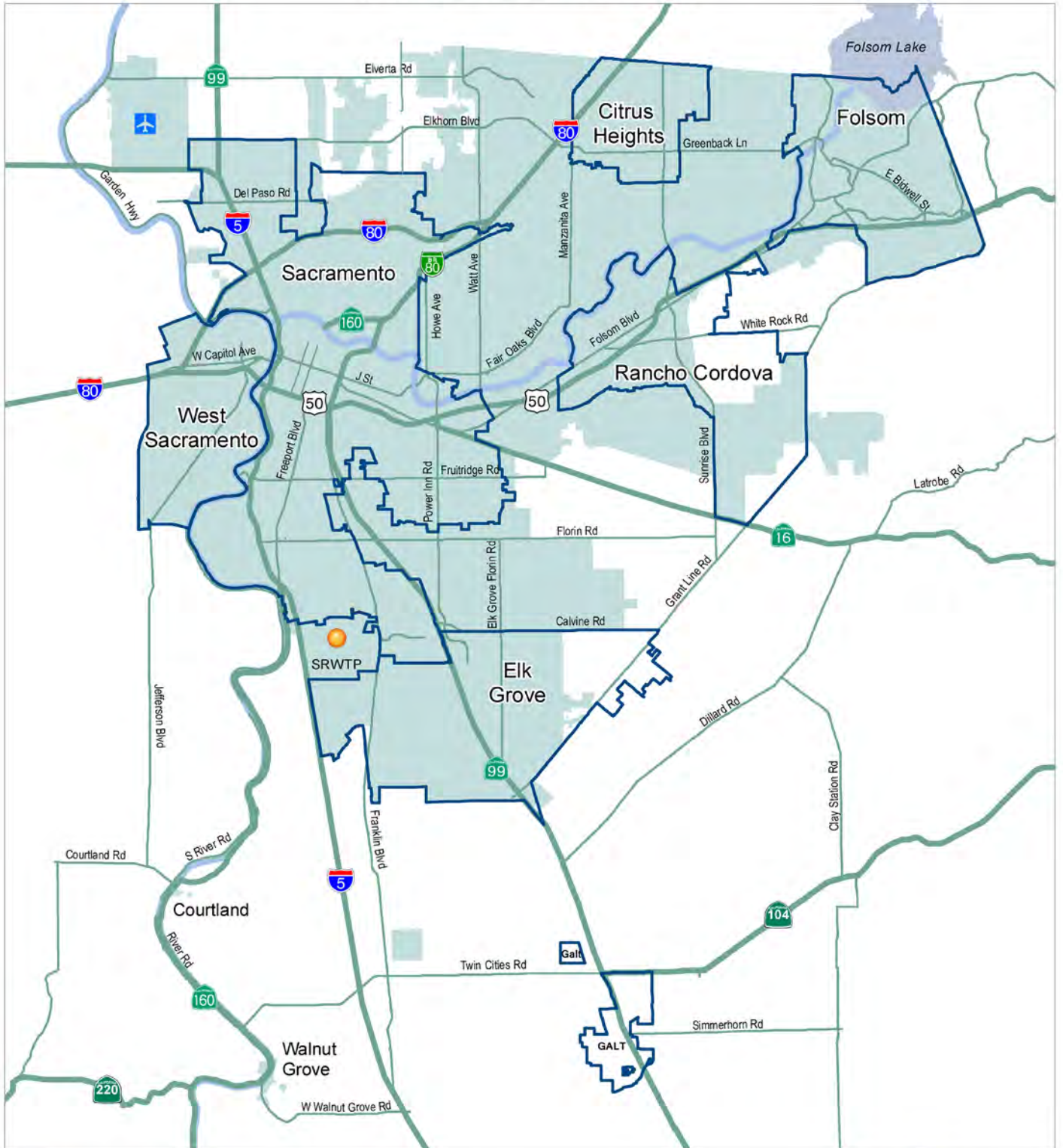
**REGIONALSAN**

Sacramento Regional County Sanitation District

Sacramento, California

# REGIONALSAN

## SERVICE AREA



**LEGEND**

- City Boundary
- Highway
- Main Road
- River
- Regional San Service Area
- Sacramento Regional Wastewater Treatment Plant

0 2.5 5 10 Miles

October 2017

**REGIONALSAN**  
 TAKING THE WASTE OUT OF WATER  
 Sacramento Regional County Sanitation District

# **SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

*Sacramento, California*

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Fiscal Years Ended June 30, 2019 and 2018

**Prepared by:**

*Prabhakar Somavarapu  
District Engineer*

*Joseph T. Maestretti  
District Chief Financial Officer*

Intentionally Blank

# Table of Contents

## INTRODUCTORY SECTION

Transmittal Letter.....	iii
Officials .....	ix
Organizational Chart.....	x
Certificate of Achievement for Excellence in Financial Reporting.....	xi

## FINANCIAL SECTION

Independent Auditors' Report .....	1
Management's Discussion and Analysis (Required Supplementary Information) .....	3
Basic Financial Statements:	
• Statements of Net Position.....	12
• Statements of Revenues, Expenses and Changes in Fund Net Position.....	13
• Statements of Cash Flows .....	14
• Notes to the Basic Financial Statements .....	16
Required Supplementary Information (Unaudited)	
• Schedule of Regional San's Proportionate Share of the County's Net OPEB Liability.....	70
• Schedule of Regional San's Proportionate Share of the County's Net Pension Liability .....	71
• Schedule of Regional San's Contributions – Pension .....	72

## STATISTICAL SECTION

Index to statistical section .....	74
Tables Presented:	
• Net Position by Component .....	75
• Changes in Net Position.....	76
• Operating Revenues by Source .....	77
• Operating Expenses .....	78
• Non-Operating Revenues and Expenses .....	80
• Wastewater Treated .....	81
• Number of Customers by Type .....	82
• Ten Largest Customers .....	83
• Sewer Rates .....	84
• Net Ratios of Outstanding Debt by Type .....	85
• Pledged Revenue Coverage .....	86
• Demographic and Economic Statistics .....	87
• Private Sector Principal Employers .....	88
• Number of Employees by Identifiable Activity .....	89
• Operating and Capital Indicators .....	90

## BOND DISCLOSURE SECTION

Annual Continuing Disclosure .....	92
------------------------------------	----

Intentionally Blank









# REGIONALSAN

TAKING THE WASTE OUT OF WATER

Sacramento Regional County Sanitation District

December 19, 2019

Honorable Board of Directors  
Sacramento Regional County Sanitation District

### Main Office

10060 Goethe Road  
Sacramento, CA 95827-3553  
Tel: 916.876.6000  
Fax: 916.876.6160

### Treatment Plant

8521 Laguna Station Road  
Elk Grove, CA 95758-9550  
Tel: 916.875.9000  
Fax: 916.875.9068

### Board of Directors

Representing:

County of Sacramento

County of Yolo

City of Citrus Heights

City of Elk Grove

City of Folsom

City of Rancho Cordova

City of Sacramento

City of West Sacramento

Prabhakar Somavarapu

*District Engineer*

Ruben Robles

*Director of Operations*

Christoph Dobson

*Director of Policy & Planning*

David O'Toole

*Director of Internal Services*

Joseph Maestretti

*Chief Financial Officer*

Nicole Coleman

*Public Affairs Manager*

[www.regionalsan.com](http://www.regionalsan.com)

The Sacramento Regional County Sanitation District (Regional San) hereby submits the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended on June 30, 2019. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with Regional San. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported to fairly present the financial position and changes in financial position for Regional San. All disclosures necessary to enable the reader to gain an understanding of Regional San's financial activities have been included.

The CAFR is divided into four sections: introductory, financial, statistical, and bond disclosure. The introductory section includes this transmittal letter, a listing of Regional San's Board of Directors, a listing of officials, an organization chart, and a Certificate of Achievement for Excellence in Financial Reporting. The financial section includes the independent auditor's report, Management's Discussion and Analysis (MD&A), and audited financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The bond disclosure section includes disclosures required by Securities and Exchange Commission Rule 15c2-12(b) (5) for any municipal bond issue closing after July 1, 1995.

An independent auditor audits Regional San's financial statements each year. The firm Macias Gini & O'Connell LLP, was selected to perform the independent audit for the fiscal year ended on June 30, 2019. The independent auditor's report is presented as the first component of the financial section of this report. The goal of the independent audit was to provide reasonable assurance that Regional San's basic financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an unmodified opinion that Regional San's basic financial statements for the fiscal year ended on June 30, 2019 is fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP).

The independent audit of Regional San's financial statements is designed to be part of a broader, federally mandated "single audit" at the level that meets the special needs of federal grantor agencies. The standards governing single audit engagements require the independent auditor to report not only on the fair presentation of the basic financial statements, but also on Regional San's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The single audit report is issued separately from the CAFR. The single audit was last prepared for the fiscal year ended on June 30, 2017.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Regional San's MD&A can be found immediately following the report of the independent auditor.

### ***PROFILE OF REGIONAL SAN***

Regional San is an independent special district created in 1973 under the California Health and Safety Code to provide a consolidated response to the scientific and environmental challenges of wastewater conveyance, treatment, and disposal. In November 1974, the Master Interagency Agreement (MIA) was executed by Regional San, Sacramento County, and the three contributing agencies: City of Folsom, City of Sacramento, and Sacramento Area Sewer District (formerly CSD-1). The MIA, updated most recently in 1996, governs the relationship between Regional San and the contributing agencies and establishes the monthly service charges and sewer impact fees to be collected by the contributing agencies at no cost to Regional San. Regional San's treatment facilities went online in November 1982 and continue to operate reliably and in conformance with State of California discharge requirements. In April 2004, the City of West Sacramento was annexed into Regional San's service area. Services are provided through a Wastewater Services Agreement. However, the MIA has not yet been updated to make the City of West Sacramento a signatory to the MIA.

The governing body of Regional San includes the Sacramento County Board of Supervisors; a member from the Yolo County Board of Supervisors; and one or more members of the city councils of the cities of Sacramento, Folsom, Citrus Heights, Rancho Cordova, Elk Grove, and West Sacramento. Regional San's Board currently has 17 members, and is based on the population within each jurisdiction.

Regional San's service area currently encompasses approximately 383-square miles and includes four contributing agencies: the cities of Sacramento, Folsom, West Sacramento, and the Sacramento Area Sewer District. Service is provided to a population of approximately 1.4 million. The region's wastewater travels through 169 miles of interceptor pipelines, which include 58 miles of force mains (pressurized pipes), and 11 pump stations before it reaches the Sacramento Regional Wastewater Treatment Plant (SRWTP) near Elk Grove where it is treated and safely discharged to the Sacramento River. Up to 181 million gallons of wastewater can be treated daily. SRWTP is the largest inland wastewater treatment plant in California.

Regional San is staffed by Sacramento County employees (per the existing Master Interagency Agreement) in the Sanitation Districts Agency (SDA). Employees of Regional San's Operations Department operate and maintain the facilities at the Sacramento Regional Wastewater Treatment Plant and interceptor system. That staff is responsible for planning, design, and construction of the EchoWater and other capital projects. Additional supporting services for Regional San are provided by the Policy and Planning Department, the Internal Services Department, the Office of Finance, and the Public Affairs Office. Oversight of personnel matters is provided through the Sacramento County Board of Supervisors and the County Executive's Office.

## ***FACTORS AFFECTING THE FINANCIAL CONDITION OF REGIONAL SAN***

Regional, state, national, and global economies and financial markets have an impact on the Regional San financial condition. Market interest rates also have an impact on Regional San's financial condition. Market interest rates have gone from all-time highs in the 1980s to all-time lows in early 2013 and have remained at historically low levels. Low interest rates have both positive and negative effects on Regional San's financial outlook. On the positive side, low interest rates reflect the low inflation rates in the economy, which help control operating costs. On the negative side, Regional San is unable to earn a good return on invested cash balances. Regional San's cash reserves of over \$439 million are invested in the Sacramento County Pooled Investment Fund (Pool). The Pool is limited by State law and local policy to investing in securities with maturities of five years or less. Because of this short-term nature of the Pool, the returns that Regional San receives may be below the rate of inflation which may result in a loss of value over time.

Because Regional San is an integral part of the Sacramento regional economy, economic conditions and trends here have an impact on Regional San's financial condition and outlook. The regional economy and population growth fuels Regional San's customer growth (new connections), which fuels revenue growth by adding new permanent ratepayers. In addition, new customers pay impact fees to cover the cost of added infrastructure necessary to support growth. Although population growth in the Sacramento region has remained steady throughout the past decade, development growth has been volatile.

This recent slow growth in new connections has not had a negative impact on Regional San's financial condition because monthly rates have been at sufficient levels to cover costs while maintaining cash reserves.

## ***INTERNAL CONTROLS***

The Regional San management is responsible for establishing and maintaining internal controls designed to ensure that Regional San's assets are protected from loss, theft, or misuse and to ensure that accounting data are compiled to allow for the preparation of financial statements in conformity with U.S. generally accepted accounting principles. The internal controls are designed to provide a reasonable, but not absolute, assurance that these objectives will be met with the following considerations: (1) the cost of controls should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

## ***BUDGETARY CONTROLS***

Regional San prepares operational and capital budgets that are presented to the Board of Directors for its review and approval. Those budgets, as approved by the Board, provide the financial basis for Regional San's operations. The budget document provides additional information for the Board, customers, regulators, and employees. The final budget is prepared and presented to the Board of Directors for approval in late May or early June and becomes effective on July 1<sup>st</sup> of the corresponding fiscal year. The final budget for fiscal year 2019-20 was approved by Regional San's Board of Directors on May 22, 2019.

Regional San and County level controls require the use of requisitions, purchase orders, contracts, and specific approval and verification procedures to verify expenses and ensure budgeted amounts are not exceeded. Monthly comparison of actual-to-budgeted revenues and expenses identify significant variances that may require Regional San to take corrective action.

## **CRITICAL ISSUES AFFECTING REGIONAL SAN**

While Regional San has maintained a financially stable position there are critical issues that have occurred or could occur over the next several years that could impact Regional San.

- **EchoWater Project**—On December 9, 2010, the State of California Central Valley Regional Water Quality Control Board (Regional Water Board) issued a stringent discharge permit to Regional San. This permit required Regional San to make significant upgrades to the current wastewater treatment plant. This major upgrade, called the “EchoWater Project”, involves the implementation of more than 20 interrelated construction projects with an estimated cost of \$1.75 billion. Regional San initiated planning for the EchoWater Project in 2011 and moved into planning and design shortly thereafter. Construction started in 2015 and is expected to be completed by 2023.
- **Other regulatory requirement changes**—Future changes to the regulatory requirements that govern Regional San’s operations could cause significant increases to the operational and capital costs. Potential additional treatment requirements and the associated costs are unknown at this time.
- **Aging Infrastructure**—Another critical issue is the age of the SRWTP. Programs are being implemented to address the condition of the treatment plant and conveyance system assets through condition assessment inspections, repairs, rehabilitations, and replacements to ensure reliable and sustainable wastewater treatment systems are maintained.
- **Legal Challenges**—Lawsuits and other legal challenges have had financial impacts on Regional San. There have been several bid protests and legal challenges related to the EchoWater Project contract bidding. While all of these have been resolved in Regional San’s favor, future protests and legal challenges could potentially cause project delays and could result in additional regulatory, construction, and legal costs.

## **LONG-TERM PLANNING**

Regional San’s staff prepares a number of long-term planning documents to assist in achieving its vision and goals while carrying out its mission. Some of these planning documents include the following:

- **Comprehensive Long-Term Financial Plan (CLTFP)**—The CLTFP is comprised of data regarding financial performance measures, critical issues, a 10-year financial forecast and forecast assumptions, a 10-year Capital Funding Projection that serves as the strategic document to estimate Regional San’s funding needs. The CLTFP is updated annually, and the last update was presented to Regional San’s Board of Directors in June 2018.
- **Interceptor Sequencing Study (ISS)**—The ISS is a planning document prepared to forecast Regional San’s long-term interceptor pipeline needs in order to provide sanitary sewer conveyance to a growing Sacramento region. Interceptor construction is not likely to be needed for at least ten years due to current development trends and water conservation efforts.
- **Water Recycling Opportunities Study**—This Study evaluated local recycled water opportunities to use Regional San’s highly treated wastewater to provide drought-tolerant water supplies for agricultural and landscape irrigation and commercial use, improve regional water supply sustainability, and enhance the environment.

- SRWTP’s Solids Management Plan—This plan was developed to evaluate biosolids handling, storage, reuse, and disposal methods to identify the long-term need and timing of additional biosolids management facilities to meet future demand.
- SRWTP’s Facilities Plan—This plan was developed as part of the EchoWater Project, defining the new treatment facilities required to meet permit requirements issued in 2010.

## **DEBT ADMINISTRATION**

As discussed in the Management’s Discussion and Analysis section of this report, Regional San has approximately \$2.1 billion in total long-term debt obligation, including \$617 million in Clean Water State Revolving Fund (CWSRF) loan proceeds received as of June 30, 2019.

On April 7, 2015, the State Water Resources Control Board approved CWSRF loans of up to \$1.57 billion for the EchoWater Project with an interest rate of 1.6 to 1.7 percent. The master loan is divided into eight separate loans—one for each of the eight major projects. Each loan, after completion of its project, will amortize separately over a 30-year period. The table below shows the loan amounts for the eight projects:

<b>As of 6/30/2019</b>	<b>Loan Start Fiscal Year</b>	<b>Amended/ Maximum Loan Amount</b>	<b>Interest Rate %</b>	<b>Annual Debt Service (estimated)</b>
<b>CWSRF Loan 1 – Site Preparation (Final)</b>	2017-18	\$43,949,856	1.6%	\$1,773,695
<b>CWSRF Loan 2 – Flow Equalization</b>	2019-20	\$138,672,372	1.6%	\$5,893,775
<b>CWSRF Loan 3 – Main Electric Substation Expansion (Final)</b>	2017-18	\$3,439,831	1.6%	\$121,051
<b>CWSRF Loan 4 – Disinfection Chemical Storage</b>	2018-19	\$21,465,759	1.6%	\$906,661
<b>CWSRF Loan 5 – Nitrifying Sidestream Treatment</b>	2019-20	\$53,490,845	1.6%	\$2,260,130
<b>CWSRF Loan 6 – Biological Nutrient Removal Facility</b>	2021-22	\$533,142,603	1.7%	\$22,834,105
<b>CWSRF Loan 7 – Return Activated Sludge Pumping Station</b>	2020-21	\$35,696,952	1.7%	\$1,528,874
<b>CWSRF Loan 8 – Tertiary Treatment Facility</b>	2023-24	\$564,657,506	1.7%	\$24,183,865
<b>Total EchoWater CWSRF Loan</b>		\$1,394,515,724		\$59,502,156

On July 2, 2018, the Direct Purchase agreement with Wells Fargo, N.A., for the Subordinate Lien Variable Rate Revenue Bonds, Series 2012A bonds was renewed for an additional three-year term to July 2, 2021. The renewed direct purchase agreement allows for early termination flexibility and reduces the cost by \$100,000 per year.

On April 4, 2019, the Direct Purchase agreement with Bank of America, N.A., for the Subordinate Lien Variable Rate Revenue Bonds, Series 2013C and 2013D bonds were renewed for an additional three-year term to April 4, 2022. The renewed direct purchase agreement allows for early termination flexibility and reduces the cost by \$200,000 per year.

On May 22, 2019, the Direct Purchase agreement with Wells Fargo, N.A., for the Subordinate Lien Variable Rate Revenue Bonds, Series 2013B bonds was renewed for an additional two-year term to May 22, 2022. The renewed direct purchase agreement allows for early termination flexibility and reduces the cost by \$100,000 per year.

Bond ratings are an underlying indicator of financial strength and performance. Regional San's uninsured bond ratings were Aa3, AA, and AA- by Moody's, Standard & Poor's (S&P), and Fitch, respectively, all with stable outlooks.

### **AWARDS AND ACKNOWLEDGEMENTS**

Regional San's Comprehensive Annual Financial Report for the fiscal year ended on June 30, 2018 was awarded the *Certificate of Achievement for Excellence in Financial Reporting* by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. Such a report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. Regional San continues to conform to the Certificate of Achievement program requirements, and we will be submitting our current year CAFR to the GFOA for Certificate of Achievement.

I would like to thank Glen Iwamura and supporting staff for their conscientious and timely work in preparing this CAFR. This internally generated CAFR represents an important accomplishment for Regional San, and we expect to continue to improve upon the award-winning CAFRs that Regional San has presented in past years.

Regional San would also like to recognize the unwavering support of our Board of Directors. The tangible result of this support is inherent in the high standard of professionalism and fiscal management outlined in this document.

Respectfully submitted,



Joseph T. Maestretti, CPA  
Sacramento Regional County Sanitation District Chief Financial Officer

# Sacramento Regional County Sanitation District

## Board of Directors

<b>Vacant</b>	City of Sacramento
<b>Vacant</b>	City of Sacramento
<b>Jeannie Bruins</b>	City of Citrus Heights
<b>Larry Carr</b>	City of Sacramento
<b>Sue Frost</b>	County of Sacramento, Vice Chair
<b>Jeff Harris</b>	City of Sacramento
<b>Kerri Howell</b>	City of Folsom
<b>Patrick Hume</b>	City of Elk Grove, Chair
<b>Patrick Kennedy</b>	County of Sacramento
<b>Steve Ly</b>	City of Elk Grove
<b>Robert McGarvey</b>	City of Rancho Cordova
<b>Don Nottoli</b>	County of Sacramento
<b>Quirina Orozco</b>	City of West Sacramento
<b>Susan Peters</b>	County of Sacramento
<b>Phil Serna</b>	County of Sacramento
<b>Oscar Villegas</b>	County of Yolo
<b>Allen Warren</b>	City of Sacramento

## Regional San Officials

**Prabhakar Somavarapu**  
District Engineer

**Christoph Dobson**  
Director of Policy and Planning

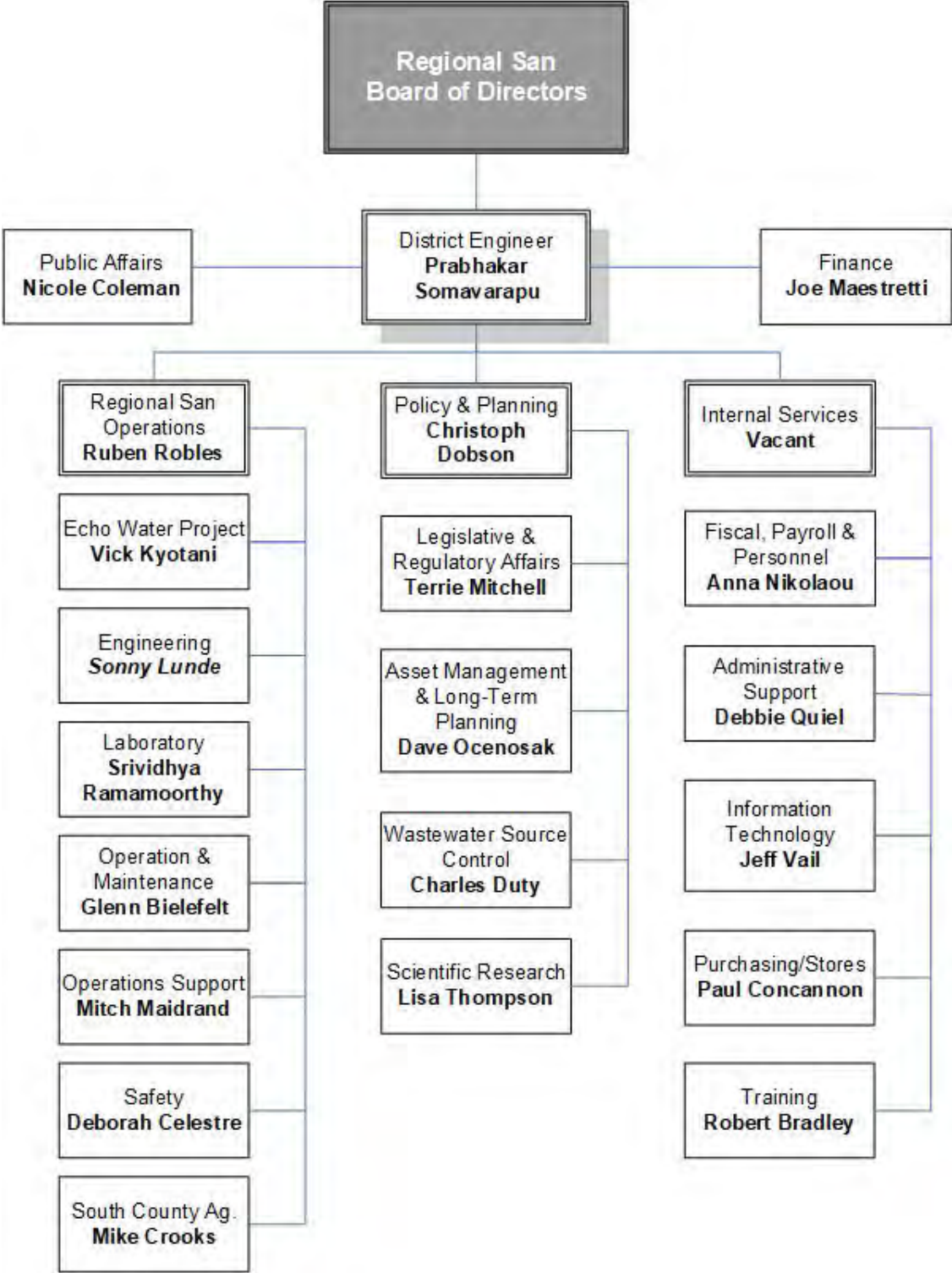
**Ruben Robles**  
Director of Operations

**Joseph T. Maestretti, CPA**  
Chief Financial Officer

**Vacant**  
Director of Internal Services

**Nicole Coleman**  
Public Affairs Manager

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT  
ORGANIZATIONAL CHART**





**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN  
FINANCIAL REPORTING**



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Sacramento Regional  
County Sanitation District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2018**

*Christopher P. Morrill*

Executive Director/CEO

Intentionally Blank







## Independent Auditor's Report

Board of Directors  
Sacramento Regional County Sanitation District  
Sacramento, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Sacramento Regional County District (Regional San), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Regional San's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional San as of June 30, 2019, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Prior Period Financial Statements*

The financial statements of Regional San as of and for the fiscal year ended June 30, 2018 were audited by other auditors, whose report dated November 28, 2018, expressed an unmodified opinion on those 2018 financial statements.

### *Required Supplementary Information*

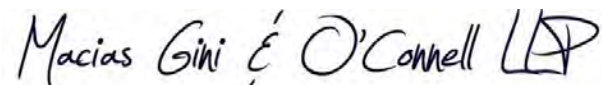
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of Regional San's proportionate share of the County's net OPEB liability, the schedule of Regional San's proportionate share of the County's net pension liability, and the schedule of Regional San's pension contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Regional San's basic financial statements. The introductory section, statistical section, and bond disclosure section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019, on our consideration of Regional San's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional San's internal control over financial reporting and compliance.

  
Sacramento, California  
December 19, 2019

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

This section of the Sacramento Regional County Sanitation District's (Regional San) Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of Regional San's financial performance during the fiscal years ended June 30, 2019. Please read it in conjunction with the transmittal letter at the front of this report and Regional San's basic financial statements following this section.

### FINANCIAL HIGHLIGHTS

- At June 30, 2019, the assets and deferred outflows of resources of Regional San exceeded liabilities and deferred inflows of resources by \$1.396 billion (*net position*). Of this amount, \$361 million was unrestricted, \$28 million was legally restricted for debt service, \$12 million was restricted for landfill closure, \$18 million was restricted for capital construction and \$977 million was for net investment in capital assets. At June 30, 2018, the assets and deferred outflows of resources of Regional San exceeded liabilities and deferred inflows of resources by \$1.306 billion (*net position*). Of this amount, \$342 million was unrestricted, \$45 million was legally restricted for debt service, \$11 million was restricted for landfill closure, \$13 million was restricted for capital construction and \$894 million was for net investment in capital assets.
- Regional San's change in net position increased by \$90.0 million during 2018-19 and increased \$96.5 million during 2017-18. The majority of these increases were the result of Regional San's normal operations and the change in investment in capital assets for the fiscal years 2018-19 and 2017-18.
- Regional San's long-term debt obligations increased by approximately \$131.7 million during the 2018-19 fiscal year. These changes were the result of new debt, scheduled debt service payments and early payoff of bonds. Regional San's long-term debt obligations increased by approximately \$178.3 million during the 2017-18 fiscal year. These changes were the result of new debt and scheduled debt service payments.
- In April 2015, the State Water Resources Control Board approved a financing program for Regional San's EchoWater Project of \$1.4 billion for eight component projects. Interest rates on the component projects range from 1.6 to 1.7 percent. The starting dates of the projects range from March 2015 to January 2018 with completion dates from August 2016 to March 2022. Repayment for each component project will begin one year after completion of construction. As of June 30, 2019, the outstanding balance was \$670.2 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Regional San's basic financial statements. Regional San's basic financial statements are comprised of two components: the basic financial statements and notes to the basic financial statements.

Regional San has one blended component unit. Regional San entered into a Joint Exercise of Powers Agreement with the Sacramento Area Sewer District (SASD) to form the Sacramento County Sanitation Districts Financing Authority (Authority) which is determined to be a blended component unit of Regional San.

**Basic Financial Statements** (page 12) are designed to provide readers with a broad overview of Regional San's finances.

## SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

#### FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

The *Statements of Net Position* present information on all Regional San assets, deferred outflow of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Regional San is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present information showing how net position changed during the most recent two fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected service charges).

The *Statements of Cash Flows* present information about the cash receipts and cash payments of Regional San during the two most recent fiscal years. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess Regional San's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on Regional San's financial position of its cash and its noncash investing, capital, and related financing transactions during the year.

**Notes to the basic Financial Statements** (starting on page 16) provide additional information that is essential to a full understanding of the data provided in Regional San's basic financial statements. The notes are included immediately following the basic financial statements within this report.

### **FINANCIAL ANALYSIS**

As previously noted, net position may serve over time as a useful indicator of Regional San's financial position. As of June 30, 2019 and 2018, total assets and deferred outflows exceeded total liabilities and deferred inflows by \$1.396 billion and \$1.306 billion, respectively. During the fiscal year ended June 30, 2019 and 2018, the change in net position increased by approximately \$90.0 million and \$96.5 million, respectively.



**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

The following table summarizes the changes between assets, deferred outflows of resources, liabilities and deferred inflows of resources, and net position as of June 30, 2019, 2018, and 2017:

**Condensed Statements of Net Position  
(Amounts Expressed in Thousands)**

	2019	% Change	2018	% Change	2017
<b>Assets:</b>					
Current Assets	\$ 523,522	6.3%	\$ 492,305	12.6%	\$ 437,240
Restricted and other noncurrent assets	231,275	-5.7%	245,170	-4.8%	257,579
Capital assets, net	2,894,812	8.1%	2,676,906	10.1%	2,432,285
<b>Total assets</b>	<b>3,649,609</b>	<b>6.9%</b>	<b>3,414,381</b>	<b>9.2%</b>	<b>3,127,104</b>
<b>Deferred Outflows of Resources</b>	<b>164,911</b>	<b>13.2%</b>	<b>145,665</b>	<b>-17.5%</b>	<b>176,610</b>
<b>Liabilities:</b>					
Current liabilities	111,214	0.7%	110,391	12.2%	98,352
Long-term obligations	1,902,862	7.4%	1,771,184	11.2%	1,592,867
Other noncurrent liabilities	396,435	8.0%	367,122	-6.7%	393,353
<b>Total liabilities</b>	<b>2,410,511</b>	<b>7.2%</b>	<b>2,248,697</b>	<b>7.9%</b>	<b>2,084,572</b>
<b>Deferred Inflows of Resources</b>	<b>8,170</b>	<b>48.1%</b>	<b>5,515</b>	<b>-14.5%</b>	<b>6,447</b>
<b>Net position:</b>					
Net investment in capital assets	976,789	9.3%	893,810	6.5%	839,106
Restricted for capital construction	18,568	40.3%	13,234	81.2%	7,305
Restricted for debt service	27,773	-39.0%	45,505	-27.2%	62,505
Restricted for landfill closure	11,964	6.6%	11,225	0.0%	11,225
Unrestricted	360,745	5.5%	342,060	16.8%	292,755
<b>Total net position</b>	<b>\$ 1,395,839</b>	<b>6.9%</b>	<b>\$ 1,305,834</b>	<b>7.7%</b>	<b>\$ 1,212,896</b>

As of June 30, 2019, the current assets increased by approximately \$31.2 million. Of those current assets, cash and investments increased by \$10.7 million, due from other local governments increased by \$20.2 million, mainly due to reimbursements received from the State Revolving Fund Loan. In the fiscal year ended June 30, 2018, the current assets increased by approximately \$55.1 million. Of those current assets, cash and investments increased by \$37.5 million, due from other local governments – other increased by \$14.2 million, mainly due to reimbursements received from the State Revolving Fund Loan.

In the fiscal year ended June 30, 2019, restricted and other noncurrent assets decreased by \$13.9 million. The majority of the balance in restricted and other noncurrent assets is restricted cash and investments (\$55.6 million) and long term portion due from Finance Authority (\$169.3 million). This was mainly due to a decrease in restricted cash and investments. During the year, \$10.8 million was drawn from restricted cash and investments for the redemption of the 2006 Series Bond. In the fiscal year ended June 30, 2018, restricted and other noncurrent assets decreased by \$12.6 million. The decrease was mainly due to the drawdown of bond proceeds.

## **SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

#### **FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

In fiscal year ended 2019 and 2018, deferred outflows of resources increased by \$19.2 million and decreased by \$30.9 million, respectively, due to the change in valuation of the derivative instruments, change in deferred outflows relating to pension and OPEB, and a decrease of the deferred outflows on loan refunding due to the amortization of the costs.

In fiscal year ended June 30, 2019, the current liabilities increased by \$823 thousand based on the normal operations of the District. In fiscal year ended June 30, 2018, the current liabilities increased by \$12.0 million mainly due to the increase in capital projects relating to the Echo Water Project and normal operations.

In fiscal year ended 2019, other noncurrent liabilities decreased by \$29.3 million. These changes are due primarily to the increase in fair value on derivative instruments of \$36.9 million, offset by net pension liability decrease of \$6.3. The majority of the balance in other noncurrent liabilities is long-term obligations – Finance Authority (\$169.3 million), Derivative instruments – fair value (\$146.4 million) and net pension liability (\$53.1 million). In fiscal year ended 2018, other noncurrent liabilities decreased by \$26.2 million. These changes are due primarily to the decrease in fair value on derivative instruments of \$37.4 million, offset by net pension liability increase of \$8.2 million and OPEB liability increase of \$6.1 million as a result of the implementation of GASB 75.

For 2019, long-term obligations increased by \$131.7 million primarily due to \$197.7 million funds being drawn from the State Revolving Fund Loan offset by \$58.8 million in debt payments. For 2018, long-term obligations increased by \$178.3 million primarily due to funds being drawn from the State Revolving Fund Loan.

The largest portion of Regional San's net position (70% and 68% at June 30, 2019 and 2018, respectively) reflects its investment in capital assets (e.g., land, easement, software, structure and improvements, equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. Regional San uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although Regional San's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of Regional San's net position are assets restricted for debt service (2% and 4% at June 30, 2019 and 2018, respectively), restricted for capital construction (1% and 1% at June 30, 2019 and 2018, respectively) and restricted for landfill closure (1% and 1% at June 30, 2019 and 2018, respectively) that represent resources subject to external restrictions on how they may be used. The remaining amount (26% and 26% at June 30, 2019 and 2018 respectively) is unrestricted and may be used to meet Regional San's ongoing obligations to customers and creditors.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

The following table summarizes the changes in net position for the fiscal years ended June 30, 2019, 2018, and 2017:

<b>Regional San's Changes in Net Position (Amounts Expressed in Thousands)</b>					
	2019	%	2018	%	2017
		Change		Change	
Operating revenues:					
Sewer service fees	\$ 282,338	3.9%	\$ 271,617	4.0%	\$ 261,073
Other	16,039	7.4%	14,932	-0.8%	15,060
Nonoperating revenues:					
Interest income	10,880	46.2%	7,442	63.8%	4,544
Derivative Investments - fair value	(8,188)	-225.1%	6,543	-48.4%	12,675
Interest revenue from - Financing Authority	9,062	-0.5%	9,112	-0.4%	9,152
Total revenues	<u>310,131</u>	0.2%	<u>309,646</u>	2.4%	<u>302,504</u>
Operating expenses:					
County labor - SDA	67,705	2.6%	66,015	5.2%	62,772
Depreciation and amortization	50,900	1.8%	50,021	1.1%	49,488
Electricity	12,926	5.9%	12,202	-6.2%	13,014
Other	48,670	16.9%	41,648	16.3%	35,799
Nonoperating expenses:					
Interest expense	58,741	0.0%	58,760	33.1%	44,155
Interest expense - Financing Authority	8,984	-0.6%	9,035	-0.4%	9,074
Other expenses	3,356	7.8%	3,113	14.5%	2,719
Total expenses	<u>251,282</u>	4.4%	<u>240,794</u>	11.0%	<u>217,021</u>
Income before capital contributions	58,849	-14.5%	68,852	-19.5%	85,483
Capital Contributions:					
Grant revenue	1,646	-100.0%	2,255	100.0%	-
Sewer impact fees	29,510	16.2%	25,385	15.7%	21,936
Total Capital Contributions	31,156	12.7%	27,640	26.0%	21,936
Change in net position	90,005	-6.7%	96,492	-10.2%	107,419
Net position, beginning of year *	<u>1,305,834</u>		<u>1,209,342</u>		<u>1,105,477</u>
Net position, end of year	<u>\$ 1,395,839</u>	6.9%	<u>\$ 1,305,834</u>	7.7%	<u>\$ 1,212,896</u>

\* In fiscal year 2018, beginning balance was restated due to adoption of GASB Statement No. 75.  
See Note 14 for further information.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

Total operating revenues, which consist of sewer service fees and other revenues, increased approximately \$11.8 million in FY 2018-19 increased approximately \$10.4 million in FY 2017-18. In FY 2018-19, sewer service fees increased due to growth in the number of customers and a rate increase of \$1.00 to \$37.00 per month per ESD effective July 1, 2018. In FY 2017-18, sewer service fees increased due to growth in the number of customers and a rate increase of \$1.00 to \$36.00 per month per ESD effective July 1, 2017. Other operating revenues increased by approximately \$1.1 million and decreased by \$128 thousand for fiscal year 2018-19 and 2017-18 respectively. These changes are mainly attributable to the fluctuations in capital labor costs reimbursements from the Sacramento Area Sewer District to Regional San.

In fiscal years ended June 30, 2019 and 2018, nonoperating revenues decreased by approximately \$11.3 million and increased by \$3.3 respectively, mainly due to the change in fair value on derivative investments.

The tables below shows the Sewer Impact fees in effect for the 2018-19 and 2017-18 years.

Table 1. Sewer Impact Fees for Residential and Commercial Users

Area	Effective July 1, 2017	Effective July 1, 2018
Infill	\$3,358	\$3,358
New	\$5,827	\$6,146

Table 2. Sewer Impact Fees for Industrial Users

Area	Flow <sup>a</sup>	BOD <sup>b</sup>	TSS <sup>b</sup>	TKN <sup>b</sup>	Pathegen <sup>c</sup>	Effective Period
Infill	\$59	\$44,665	\$14,409	\$103,727	\$22	Effective July 1, 2017
New	\$116					
Infill	\$83	\$46,296	\$14,935	\$103,727	\$22	Effective July 1, 2018
New	\$190					

<sup>a</sup> Cost for flow is per 1,000 gallons per month

<sup>b</sup> Cost for BOD, TSS, and TKN is per 1,000 pounds per month

<sup>c</sup> Cost for Pathogens is per 1,000 gallons of domestic wastewater flow per month

The fee structure for impact fees is tiered based on the location of new development within Regional San. Effective July 1, 2018 Sewer impact fees for new residential and new commercial users increased from \$5,827 to \$6,146 per ESD and fees for the “infill” tier remained at \$3,358 per ESD. Sewer impact fee revenue increased by 16.2% and 15.7% in 2018-19 and 2017-18 respectively, due mostly to changes in construction activity and the increase in impact fees. These fees are generated by development and thus remain sensitive to construction trends.

Total expenses increased by approximately \$10.5 million in 2018-19. The major factors were \$1.7 million in increased labor costs, \$1.2 million increase in utilities and \$4.9 million in increased chemical costs. Total expenses increased by approximately \$23.8 million in 2017-18. The major factors were \$14.6 million in increased interest costs due to the SRF loan balance, \$5.2 million increase in chemical costs as the District transitioned from gas to liquid chlorine in the treatment process, and an increase of \$3.2 million for labor.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

**Capital Assets**, net of accumulated depreciation, totaled \$2.9 billion and \$2.7 billion at June 30, 2019 and 2018, respectively. This corresponded to an increase in total capital assets of \$217.9 million and an increase of \$244.6 million during those fiscal years, respectively. The following table summarizes the changes in capital assets for the fiscal years ended June 30, 2019, 2018, and 2017:

#### Regional San's Changes in Capital Assets (Amounts Expressed in Thousands)

	2019	% Change	2018	% Change	2017
Land	\$ 45,461	0.0%	\$ 45,461	0.0%	\$ 45,461
Permanent easements	1,341	-5.0%	1,412	10.8%	1,274
Software	6,621	0.0%	6,621	3.4%	6,404
Structures, improvements and equipment	2,855,137	1.6%	2,809,518	3.9%	2,705,005
Construction in Progress	932,410	31.0%	712,012	35.5%	525,470
Less accumulated depreciation	<u>(946,158)</u>	5.3%	<u>(898,118)</u>	5.5%	<u>(851,330)</u>
	<u>\$2,894,812</u>	8.1%	<u>\$2,676,906</u>	10.1%	<u>\$2,432,284</u>

From July 1, 2018 to June 30, 2019, construction in progress increased by \$220.4 million due to new construction projects started but not completed at year end. A majority of the increase in construction in progress is attributable to the EchoWater Project. The increase was offset by \$45 million of completed projects that were transferred to Structures. From July 1, 2017 to June 30, 2018, construction in progress increased by \$186.5 million.

For fiscal years ended June 30, 2019 and 2018, there was no change in land. Permanent easements decreased by \$71 thousand and increased \$138 thousand for the fiscal year ended June 30, 2019 and 2018, respectively.

Additional information on Regional San's capital assets can be found in Note 4 of the notes to the basic financial statements.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**Long-term obligations** totaled \$2.1 and \$2.0 billion at June 30, 2019 and 2018, respectively. These amounts were comprised of Regional San's revenue bonds, State Revolving Fund, loans with a contributing agency, capital leases, landfill closure and post closure liability, compensated absences, derivative borrowing and the Financing Authority's long term obligations. The following table summarizes the amount of long-term obligations for the fiscal years ended June 30, 2019, 2018, and 2017.

### Regional San's Outstanding Long-term Obligations (Amounts Expressed in Thousands)

	2019	2018	2017
Financing Authority Revenue Bonds, Net	\$ 170,786	\$ 172,161	\$ 173,496
Regional San's Revenue Bonds, Net	1,271,659	1,329,916	1,365,527
State Revolving Loans	670,212	474,574	253,787
Loans	1,126	1,671	2,204
Capital Leases	7,391	8,617	9,805
Compensated Absences	7,115	6,821	6,699
Landfill Closure and postclosure liability	12,407	12,386	11,796
Derivative Borrowing	2,576	2,790	3,005
Total Long-term obligations	<u>\$ 2,143,272</u>	<u>\$ 2,008,936</u>	<u>\$ 1,826,319</u>

Regional San's revenue bonds, loans, and capital leases have increased by approximately \$134.3 and \$182.6 million during the 2018-19 and 2017-18 fiscal year respectively. Most of Regional San's increase in long-term obligations relate to the State Revolving Fund. The increase was offset by scheduled debt service payments and the early payoff of the Series 2006 bonds.

With the implementation of GASB 61, it was determined that the Financing Authority is a blended component unit thus all of the Authority's long term obligations have been presented, including the long term obligations issued on the behalf of Sacramento Area Sewer District.

Additional information on Regional San's long-term debt obligations can be found in Note 5 of the notes to the basic financial statements.

### ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of Regional San's finances for all those with an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Joseph T. Maestretti, Chief Financial Officer; Sacramento Regional County Sanitation District, 10060 Goethe Road, Sacramento California 95827, or phone (916) 876-6116.

**SACRAMENTO REGIONAL COUNTY  
SANITATION DISTRICT**  
*Sacramento, California*

**Basic Financial Statements**

For the Fiscal Years Ended June 30, 2019 and 2018

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

STATEMENTS OF NET POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS:</b>		
<b>CURRENT ASSETS:</b>		
Cash and investments	\$ 439,301,580	\$ 428,641,975
Sewer services fees receivable	36,129,776	35,301,521
Due from other local governments:		
Accrued interest receivable - Financing Authority	3,917,733	3,939,191
Current portion loan due - Financing Authority	1,430,155	1,375,155
Interest	5,566,789	3,079,478
State Water Resources Control Board	34,089,652	16,434,774
Other accounts receivable	128,738	372,877
Inventories	<u>2,957,896</u>	<u>3,160,177</u>
<b>TOTAL CURRENT ASSETS</b>	<u>523,522,319</u>	<u>492,305,148</u>
<b>NONCURRENT ASSETS:</b>		
Restricted cash and investments	55,595,989	67,790,283
Deposits with others	5,829,150	6,100,212
Long-term receivables:		
Long term portion loan due - Financing Authority	169,355,525	170,785,680
Due from other local governments	493,766	493,766
Capital assets:		
Permanent easements	1,340,620	1,411,683
Land	45,460,871	45,460,871
Construction in progress	932,409,862	712,012,071
Software	6,621,398	6,621,398
Equipment	147,649,974	147,274,049
Structures and improvements	<u>2,707,486,785</u>	<u>2,662,244,179</u>
Total capital assets	3,840,969,510	3,575,024,251
Less accumulated depreciation	<u>(946,157,505)</u>	<u>(898,118,481)</u>
Total capital assets, net of accumulated depreciation	<u>2,894,812,005</u>	<u>2,676,905,770</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>3,126,086,435</u>	<u>2,922,075,711</u>
<b>TOTAL ASSETS</b>	<u>3,649,608,754</u>	<u>3,414,380,859</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Hedging Derivative Instruments	113,331,095	84,646,621
Deferred outflows related to pension	20,088,051	27,436,446
Deferred outflows related to OPEB	252,125	228,983
Deferred amounts on refunding	<u>31,239,688</u>	<u>33,353,056</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>164,910,959</u>	<u>145,665,106</u>
<b>LIABILITIES:</b>		
<b>CURRENT LIABILITIES:</b>		
Warrants payable	1,470,131	5,356,341
Accounts payable and accrued expenses	51,262,441	50,377,544
Accrued interest payable	4,311,912	4,509,415
Accrued interest payable - Financing Authority	3,917,733	3,939,191
Compensated absences	1,067,226	1,023,123
Current portion of long-term obligations - Financing Authority	1,430,155	1,375,155
Current portion of long-term obligations	47,526,453	43,594,051
Current portion of derivative borrowing	214,633	214,633
Current portion of accrued landfill closure and postclosure care costs	<u>12,997</u>	<u>2,086</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>111,213,681</u>	<u>110,391,539</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term obligations	1,902,861,665	1,771,183,721
Long-term obligations - Financing Authority	169,355,525	170,785,680
Derivative instruments - fair value	146,469,115	109,596,785
Compensated absences	6,047,614	5,797,697
Net Pension Liability	53,111,998	59,402,515
OPEB Liability	6,201,921	6,086,205
Derivative borrowing	2,360,971	2,575,604
Unearned revenue	493,766	493,766
Accrued landfill closure and postclosure care costs	<u>12,394,280</u>	<u>12,384,119</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>2,299,296,855</u>	<u>2,138,306,092</u>
<b>TOTAL LIABILITIES</b>	<u>2,410,510,536</u>	<u>2,248,697,631</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred amounts on refunding - Financing Authority	1,319,695	1,397,324
Deferred inflows related to pension	6,254,814	3,760,194
Deferred inflows related to OPEB	595,314	357,246
<b>TOTAL DEFERRED INFLOWS OF RESOURCES:</b>	<u>8,169,823</u>	<u>5,514,764</u>
<b>NET POSITION:</b>		
Net investment in capital assets	976,789,495	893,810,285
Restricted for capital construction	18,567,869	13,234,120
Restricted for debt service	27,773,197	45,504,646
Restricted for landfill closure	11,963,897	11,224,882
Unrestricted	<u>360,744,896</u>	<u>342,059,637</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,395,839,354</u>	<u>\$ 1,305,833,570</u>

See accompanying notes to the basic financial statements.



**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES:</b>		
Sewer service fees	\$ 282,337,704	\$ 271,617,413
Other revenue	16,038,992	14,931,715
Total operating revenues	<u>298,376,696</u>	<u>286,549,128</u>
<b>OPERATING EXPENSES:</b>		
Office equipment	676,525	394,307
Depreciation and amortization	50,899,506	50,021,285
Data processing	3,550,235	3,266,886
Laboratory	481,040	423,002
County labor - SDA	67,705,494	66,015,300
Services and supplies	1,764,466	2,326,953
Consultants	8,171,261	7,086,144
County labor - other	164,162	165,220
Chemicals	18,985,657	14,074,988
Landfill closure and postclosure care	34,069	588,308
Insurance	1,085,764	747,355
Other utilities	6,131,475	4,939,625
Electricity	12,925,661	12,202,211
Plant and interceptor maintenance	7,626,102	7,634,695
Total operating expenses	<u>180,201,417</u>	<u>169,886,279</u>
Operating income	<u>118,175,279</u>	<u>116,662,849</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest revenue	10,880,222	7,441,734
Interest revenue from - Financing Authority	9,061,695	9,112,204
Interest expense - Financing Authority	(8,984,067)	(9,034,575)
Interest expense	(58,740,098)	(58,760,283)
Sewer incentive program	(1,879,707)	(1,921,244)
Derivative instruments - fair value	(8,187,856)	6,543,193
Other expense	(1,476,008)	(1,192,077)
Total nonoperating revenues (expenses)	<u>(59,325,819)</u>	<u>(47,811,048)</u>
Income before capital contributions	<u>58,849,460</u>	<u>68,851,801</u>
<b>CAPITAL CONTRIBUTIONS:</b>		
Sewer impact fees	29,510,201	25,385,073
Grant revenue	1,646,123	2,255,049
Total Capital Contributions	<u>31,156,324</u>	<u>27,640,122</u>
Change in net position	90,005,784	96,491,923
Net position, beginning of year	<u>1,305,833,570</u>	<u>1,209,341,647</u>
Net position, end of year	<u>\$ 1,395,839,354</u>	<u>\$ 1,305,833,570</u>

See accompanying notes to the basic financial statements.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers and users	\$ 281,753,588	\$ 269,806,879
Receipts from others	16,038,992	14,931,715
Payments to County for labor force	(67,536,751)	(64,325,715)
Payments to suppliers for goods and services	(61,544,877)	(55,263,412)
Payments to others	<u>(3,061,695)</u>	<u>(2,991,010)</u>
Net cash provided by operating activities	<u>165,649,257</u>	<u>162,158,457</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(265,536,414)	(279,411,846)
Principal received on loan due - SASD	1,030,000	999,000
Interest received on loan due - SASD	9,773,464	9,473,859
Proceeds from issuance of long-term obligations	171,888,997	207,773,664
Principal payments on long-term obligations	(37,737,335)	(35,175,023)
Interest payments on long-term obligations	(54,218,429)	(62,443,225)
Payment to escrow agent for refunded debt	(21,130,000)	-
Principal payments on loan due - SASD	(1,030,000)	(999,000)
Interest payments on loan due - SASD	(9,773,464)	(9,473,859)
Sewer impact fees collected	29,510,201	25,385,073
Cash receipts from grantors	<u>1,646,123</u>	<u>2,255,049</u>
Net cash (used by) capital and related financing activities	<u>(175,576,857)</u>	<u>(141,616,308)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from redemption of GIC	10,828,885	-
Interest received	<u>8,392,911</u>	<u>6,026,203</u>
Net cash provided by investing activities	<u>19,221,796</u>	<u>6,026,203</u>
Net increase in cash and cash equivalents	9,294,196	26,568,352
Cash and cash equivalents, beginning of year	<u>485,603,373</u>	<u>459,035,021</u>
Cash and cash equivalents, end of year	<u>\$ 494,897,569</u>	<u>\$ 485,603,373</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:</b>		
Cash and investments	\$ 439,301,580	428,641,975
Restricted cash and investments	55,595,989	67,790,283
Less long-term investments	-	(10,828,885)
Total cash and cash equivalents	<u>\$ 494,897,569</u>	<u>\$ 485,603,373</u>

See accompanying notes to the basic financial statements.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

STATEMENTS OF CASH FLOWS (Continued)  
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 118,175,279	\$ 116,662,849
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	50,899,506	50,021,285
Payments for excess sewer capacity and incentive	(1,879,707)	(1,921,244)
Amortization of Pension Expense	3,552,498	4,712,457
Amortization of OPEB Expense	330,642	409,234
Other expense	(1,181,988)	(1,069,766)
Net effect of changes in:		
Sewer service fees receivable	(828,255)	(1,712,256)
Other accounts receivable	244,139	(98,278)
Inventories	202,281	(98,280)
Warrants payable	(3,886,210)	(5,337,938)
Accrued landfill closure and postclosure care costs	21,072	590,394
Net cash provided by operating activities	<u>\$ 165,649,257</u>	<u>\$ 162,158,457</u>
<b>NONCASH CAPITAL AND FINANCING ACTIVITIES:</b>		
Purchase of capital assets on account	\$ 51,262,441	\$ 50,377,544
Derivative borrowing amortization	214,633	214,633
Deposits applied to capital assets acquisition	-	6,100
Net increase (decrease) in fair value of derivative instruments	36,872,330	(37,397,732)
Net increase in due from State Water Resources Control Board	17,654,878	14,173,263
Capitalized Interest on SRF Loan	8,215,264	-

See accompanying notes to the basic financial statements.

# **SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Entity**

The accompanying basic financial statements, with comparative information, of the Sacramento Regional County Sanitation District (Regional San) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of Regional San's accounting policies are described below.

Regional San is a political subdivision of the State of California. Regional San is governed by a Board of Directors comprised of the five members of the Sacramento County (the County) Board of Supervisors. Five representatives from the Sacramento City Council, two representatives from Elk Grove and one representative each from Folsom, Citrus Heights, Rancho Cordova and West Sacramento City Councils, and a representative from the Board of Supervisors of Yolo County. Each city representative is selected by their respective city councils to serve on Regional San Board. The length of the appointment is subject to the discretion of each city council, but can be no longer than the individual's term of office.

Regional San has four Contributing Agencies: City of Folsom, City of Sacramento, Sacramento Area Sewer District (SASD) and City of West Sacramento. Each Contributing Agency is responsible for contributing wastewater from its local collection system to Regional San as well as for billing monthly service charges and sewer impact fees.

In October 1993, Regional San entered into a Joint Exercise of Powers Agreement organized under Section 6500 et seq. of the California Government Code with the Sacramento Area Sewer District (SASD) to form the Sacramento County Sanitation Districts Financing Authority (Authority) for the purpose of facilitating the financing of acquisition and/or constructing of real and personal property in and for Regional San and SASD. The Board of Directors of Regional San serves as the Authority's governing board. For financial reporting purposes, the Authority and Regional San have a financial and operational relationship which requires that the Authority's financial statements to be blended into Regional San's financial statements. Separate financial statements for the Authority are available from Regional San at 10060 Goethe Road, Sacramento Ca, 95827, upon request.

In June 1992, Regional San's Board approved a Joint Powers Agreement with the Sacramento Municipal Utility District (SMUD), which formed the Central Valley Financing Authority (CV Authority). The CV Authority was formed for the purpose of obtaining financing for the SMUD cogeneration project at the Sacramento Regional Wastewater Treatment Plant (SRWTP). SMUD and the CV Authority are responsible for all project costs except for modifications within SRWTP facilities. The CV Authority governing board is composed of the seven members of SMUD's governing board and a non-voting representative of Regional San. The CV Authority has been excluded from Regional San's reporting entity, as there is no financial relationship between them. Regional San is staffed by the Sacramento County's Sanitation District Agency. The Sanitation District Agency operates and maintains Regional San's facilities as well as a large wastewater collection system in the County's unincorporated area operated by SASD.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Measurement Focus and Basis of Accounting

Regional San uses the accounting principles applicable to enterprise funds. Regional San uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

Regional San distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Regional San's operations. The principal operating revenues of Regional San are customer sanitation service charges. The principal operating expenses of Regional San are related to its labor force, depreciation, utilities, services and supplies and chemicals. Non-operating revenues and expenses consist of those revenues and expenses that are related to the Authority and SASD transactions related to long-term debt related activities and financing and investing activities and result from non-exchange transactions or ancillary activities. When both restricted and unrestricted resources are available for use, it is Regional San's policy to use restricted resources first.

#### Budgetary Process

Regional San prepares an annual operating and capital budget, which is approved and adopted by Regional San's Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California state law does not require formal adoption of appropriated budgets for enterprise funds.

#### Cash Equivalents and Investments

For purposes of the statement of cash flows, Regional San considers all short-term highly liquid investments with an original maturity of three months or less, including restricted cash, to be cash equivalents. Investments held in the County Treasurer's pool are available on demand to individual entities; thus, they are considered highly liquid and cash equivalents for purposes of the statements of cash flows.

Investments are presented at fair value based on quoted market information obtained from fiscal agents or other sources, except for the guaranteed investments contracts which are presented at cost.

#### Receivables

Contributing Agencies bill sewer service fees to customers and are responsible for remitting to Regional San on a monthly basis the full amount of billed sewer service fees. Since the Contributing Agencies have agreed to absorb any uncollectible accounts and the administrative costs attributable to the collection of such fees, Regional San has no allowance for uncollectible accounts. At June 30, 2019 and 2018, there was \$36,129,776 and \$35,301,521, respectively, in sewer service fee receivables from Contributing Agencies.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Federal and State Grants**

Federal and state grant funding is accounted for on a reimbursement basis whereby costs are incurred prior to actual cash receipt of the grant. Federal and state grants receivable on the statement of net position represent claims to various federal and state granting agencies for costs incurred but not reimbursed at year-end under various programs. Claims are filed with the appropriate agencies.

Regional San is required by the grant agreements made with federal and state governmental agencies to maintain books, records, documents, other evidence, and accounting procedures and practices sufficient to reflect properly all costs incurred and claimed. These records are subject to audit by the appropriate government agency and 2 CFR 200 (Uniform Guidance). Any amounts disallowed will reduce future claims or be directly recovered from Regional San, which are not expected to be material to the Financial Statements. For the fiscal year ending June 30, 2019, there was no federal grant funding.

#### **Inventories**

Inventories are maintained to meet the operating and maintenance requirements of Regional San and are valued at cost, which approximates fair value, using the weighted average method.

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Regional San reports deferred outflows related to pensions, OPEB, hedging derivative instruments and deferred amounts on refunding.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Regional San reports deferred inflows related to pensions, OPEB and deferred amounts on refunding.

#### **Capital Assets**

Capital assets are stated at historical cost. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the basic financial statements. Any resulting gain or loss from the retirement or disposal of an asset is reflected in the statement of revenues, expenses and changes in net position for the period.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and amortization are provided on each asset using the straight-line method over the following estimated useful lives:

Software	5 years
Equipment	5 to 40 years
Structures and improvements	15 to 100 years

Regional San's policy is to capitalize all land and permanent easements; Computer hardware and light vehicles with a value equal to or greater than \$20,000; other equipment with a value equal to or greater than \$35,000; and computer software, structures and improvements with a value equal to or greater than \$100,000, and a useful life of more than one year.

Maintenance and repairs are charged to expense as incurred. Significant renewals or betterments are capitalized and depreciated or amortized over their estimated useful lives. Costs incurred for major improvements or construction of capital assets are carried in construction in progress until the project is completed at which time costs related to the project are capitalized as treatment plant and equipment.

The Master Interagency Agreement provided that Contributing Agencies transfer property, plant and equipment to Regional San. In return, Regional San would assume certain long-term debt of the Contributing Agencies. For financial statement purposes, the assets acquired by Regional San from the Contributing Agencies have been valued based upon the consideration given, which approximated the acquisition value that consisted of the long-term debt assumed. These assets have been included in capital assets. Contributed capital received is recorded at acquisition value.

#### Compensated Absences

Regional San's labor force are employees of the County. Employees accrue vacation in varying amounts based on classification and length of service. Additionally, certain employees are allowed compensated time off in lieu of overtime compensation and/or working on holidays.

Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to following years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits. Upon retirement, management employees have the option of receiving payment for one half of accrued sick leave with the balance included in the calculation of retirement benefits.

It is the policy of the County not to pay accumulated sick leave to employees who terminate prior to retirement. The liability for compensated absences earned through year-end, but not yet taken, is accrued in the accompanying financial statements. Compensated absences for the fiscal years ended June 30, 2019 and 2018 was \$7,114,840 and \$6,820,820 respectively, (see Note 5).

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Capitalization of Interest

For the year ended June 30, 2018, the Regional San implemented GASB Statement No. 89. The statement requires interest costs relating to construction to be expensed during the current period. Prior to implementation, interest costs relating to a financed construction project were capitalized.

#### Risk Management

Regional San participates in the County's self-insurance program. Annual premiums are based primarily on claims experience and are charged to expense when paid. During the past three fiscal years, there were no instances of settlements which exceeded insurance coverage and no significant reductions in insurance coverage. The following is a summary of Regional San's coverages:

- General and automobile liability - \$25 million limit - per occurrence
- Workers' Compensation and Employer's Liability - \$5 million
- Property (All Risk) - \$1.7 billion limit – per occurrence
- Property (Flood) - \$1.5 billion limit – per occurrence
- Earthquake - \$25 million limit - per occurrence
- Boiler and machinery - \$100 million limit - per occurrence
- Pollution liability - \$10 million limit - per occurrence
- Crime/Dishonesty/Forgery - \$15 million limit - per occurrence
- Cyber Liability - \$5 million limit - per occurrence

#### Pensions

Regional San participates in the County of Sacramento's cost-sharing defined benefit pension plan. For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Sacramento County Employees' Retirement System (SCERS) and additions to/deductions from the SCERS's fiduciary net position have been determined on the same basis as they are reported by SCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.



# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### New Accounting Pronouncements

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. This statement did not have a material effect on the financial statements.

GASB Statement No. 88 - In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District has implemented this standard for fiscal year ending June 30, 2019.

### 2. CASH AND INVESTMENTS

Regional San maintains specific cash deposits and investments with the County and participates in the Sacramento County Pooled Investment Fund, which is not rated by credit rating agencies. At June 30, 2019 and 2018, the carrying amount of Regional San's cash held by the Sacramento County Pooled Investment Fund was \$439,301,580 and \$428,641,975, respectively. The weighted average maturity of the Treasurer's cash and investments' pool was 321 and 309 days at June 30, 2019 and 2018 respectively. The interagency agreement requires Regional San to invest funds with the County and follow County policy.

The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Section 27134 of the California Government Code. The pool is not registered with the SEC as an investment company.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 2. CASH AND INVESTMENTS (Continued)

Government Code Section 53601 and the County Investment Policy lists the investments in which the Treasurer may purchase. These include bonds issued by the County; United States Treasury notes, bonds, bills or certificates of indebtedness; registered state warrants, supranational notes, treasury notes, or bonds of the State of California; registered treasury notes or bonds of any of the other 49 states in addition to California; bonds, notes, warrants or other forms of indebtedness of any local agency (Teeter Notes and Local Agency Investment Fund-LAIF) within California; obligations issued by banks for cooperatives, federal land banks, federal home loan banks, the Federal Home Loan Bank Board or other instruments of, or issued by, a federal agency or United States, government sponsored enterprise; money market mutual funds (not to exceed 20 percent of the total portfolio); bankers acceptances (not over 180 days maturity, not to exceed 40 percent of the total portfolio); commercial paper (not to exceed 40 percent of total portfolio) of "prime quality" (the highest ranking provided by either Moody's investor services or Standard and Poor's Corporation) and these investments are further restricted as to capacity and credit rating of the company and are restricted as to a percentage of the whole portfolio and the dollar-weighted average maturity is also restricted; negotiable certificates of deposit issued by approved banks, not to exceed 30 percent of the total portfolio; repurchase and reverse repurchase agreements are permitted investments but are subject to stringent rules regarding term, value and timing, all put in place to minimize risk of loss; medium term notes, carry a maturity of no more than five years and rated "A" or better by a nationally recognized rating service, not to exceed 30 percent of the portfolio; shares of beneficial interest issued by a diversified management company subject certain limitations; notes, bonds and other obligations that are at all times secured by a valid first priority security interest in securities of the types listed in Government Code Section 53651; mortgage pass-through securities and other mortgage and consumer receivable backed bonds, not to exceed maturity of five years, subject to the credit rating of the issuer and not to exceed 20 percent of the portfolio; shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized previously.

In addition to the restrictions and guidelines cited in the Government Code, the County Board of Supervisors annually adopts an "Annual Investment Policy for the Pooled Investment Fund" (Investment Policy). The Investment Policy is prepared by the Department of Finance and is based on criteria cited in the Government Code. The Investment Policy adds further specificity to investments permitted, reducing concentration within most permitted investment types and reducing concentration of investments with any broker, dealer or issuer.

The County was in full compliance with its own more restrictive Investment Policy, and therefore was also in compliance with the above cited Government Code sections. The District does not have a separate deposit or investment policy that addresses a specific type of risk. Investments held in the County's investment pool are available on demand and are reported at amortized cost, which approximates fair value.

The County, acting in a fiduciary capacity, segregates and invests Regional San's bond proceeds issued through the Authority in accordance with long-term obligation covenants. The segregated bond funds include funds for servicing debt during the construction/acquisition of plant and equipment. Bond reserves are held by outside fiscal agents in the name of the Authority, for Regional San as required by the bond indentures.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**2. CASH AND INVESTMENTS (Continued)**

At June 30, 2019 and 2018, all cash held by fiscal agents was covered by federal depository insurance or by collateral held by the County Treasurer's financial institutions in the County's name.

Restricted cash and investments consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash at banks (held for retentions)	\$ 19,949,729	\$ 13,234,120
Restricted proceeds from debt issues held by:		
Cash held by County Treasurer (as Treasury Pool)	<u>34,887,874</u>	<u>36,646,990</u>
Investments held by County Fiscal Agent	758,386	7,080,288
Investment held by Financial Institution as Bond Trustee	<u>-</u>	<u>10,828,885</u>
Total Restricted Investments Held by Trustees	<u>758,386</u>	<u>17,909,173</u>
Total Restricted Cash and Investments	<u>\$ 55,595,989</u>	<u>\$ 67,790,283</u>

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by the bond trustee is governed by provisions of the debt agreements rather than the general provisions of the California Government code or Regional San's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
U.S. Dollar denominated deposits accounts, federal funds and bankers' acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Fund	None	None	None
Municipal Obligations	None	None	None
County of Sacramento Pooled Investment Fund	None	None	None
Investment Agreements	None	None	None

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**2. CASH AND INVESTMENTS (Continued)**

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Regional San's investments held by bond trustees are monitored for interest rate risk by measuring the weighted average maturity.

Investment Type	Amount at June 30, 2019	Weighted Average Maturity (in years)	Amount at June 30, 2018	Weighted Average Maturity (in years)
County Treasurer's cash and investment pool	<u>\$ 34,887,874</u>	0.88	<u>\$ 36,646,990</u>	0.85
Held by Fiscal Agent/Bond Trustee:				
Government Securities	756,404	0.90	7,079,629	0.11
Money Market Mutual Funds	1,982	0.08	659	0.75
Guaranteed Investments Contracts	-	N/A	<u>10,828,885</u>	18.44
Total Held by Fiscal Agent/Bond Trustee	<u>758,386</u>		<u>17,909,173</u>	
Total	<u><u>\$ 35,646,260</u></u>		<u><u>\$ 54,556,163</u></u>	

**Credit Risk**

This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. Regional San and the Authority are permitted to hold investments purchased with bond proceeds of issuers with a short-term rating of superior capacity and a minimum long-term rating of upper medium grade by the top two nationally recognized statistical rating organizations (rating agencies). For short-term rating, the issuers' rating must be at least A-1 and P-1 and the long-term rating must be at least A and A2, respectively, by Standard & Poor's and Moody's rating agencies. In addition, Regional San and the Authority are permitted to invest in the State's Local Agency Investment Fund, guaranteed investment contracts, collateralized certificate of deposits and notes issued by the County that are not rated.

Investment Type	Amount at June 30, 2019	Ratings as of June 30, 2019	Amount at June 30, 2018	Ratings as of June 30, 2018
County Treasurer's cash and investment pool	<u>\$ 34,887,874</u>	Not Rated	<u>\$ 36,646,990</u>	Not Rated
Held by Fiscal Agent/Bond Trustee:				
Government Securities	756,404	Aaa/AA+	7,079,629	P-1/A-1+
Money Market Mutual Funds	1,982	Aaa/AAA	659	Aaa/AAA
Guaranteed Investments Contracts	-	N/A	<u>10,828,885</u>	Not Rated
Total Held by Fiscal Agent/Bond Trustee	<u>758,386</u>		<u>17,909,173</u>	
Total	<u><u>\$ 35,646,260</u></u>		<u><u>\$ 54,556,163</u></u>	

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 2. CASH AND INVESTMENTS (Continued)

#### Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2019, Regional San does not have investments in any one issuer that represent five percent of total investments. As of June 30, 2018 the following investments represent five percent or more of total investments:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount at June 30, 2018</u>
FHLB Discount Note	Government Securities	\$ 7,079,629
FSA	Guaranteed Investment Contract	10,828,885

Mutual funds are excluded from this disclosure.

#### Custodial Credit Risk

This is the risk that in the event a financial institution or counterparty fails, Regional San would not be able to recover the value of its deposits and investments. As of June 30, 2019 and 2018, one hundred percent of Regional Sans investments are held in the County's name. Regional San does not have a policy for custodial credit risk.

#### Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Regional San has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Regional Sans' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Regional San's own data.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 2. CASH AND INVESTMENTS (Continued)

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methods and assumptions used by Regional San to estimate the fair value of its investments. There have been no changes in the methods and assumptions used at June 30, 2019. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Regional San management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Regional San's custodians generally use a multi-dimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others. Regional San's Level 2 investments primarily consist of investments in the U.S. government that did not trade on the Regional San's fiscal year end date. These investments are valued on the basis of prices provided by SunGard pricing services. In determining the value of a particular investment at bid, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

Regional San has investments that are not subject to the fair value hierarchy which includes funds with the County of Sacramento's treasury pool, guaranteed investment contracts and money market mutual funds.

Regional San does not have any level 3 investments. The inputs or methodology used for valuing those assets are not necessarily an indication of the risks associated with investing in those assets. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**2. CASH AND INVESTMENTS (Continued)**

Regional San has the following recurring fair value measurements as of June 30, 2019 and 2018.

<u>Investments by Fair Value Level</u>	<u>Balance at June 30, 2019</u>	<u>Fair Value Measurements on a Recurring Basis Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
FHLB Discount Note	\$ 756,404	\$ -	\$ 756,404	\$ -
<b>Investments Not Measured at Fair Value or Subject to Fair Value Hierarchy</b>				
Cash and Investments held by County Treasury	474,189,454			
Money Market Mutual Funds	1,982			
Total Investments	<u>\$ 474,947,840</u>			

<u>Investments by Fair Value Level</u>	<u>Balance at June 30, 2018</u>	<u>Fair Value Measurements on a Recurring Basis Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
FHLB Discount Note	\$ 7,079,629	\$ -	\$ 7,079,629	\$ -
<b>Investments Not Measured at Fair Value or Subject to Fair Value Hierarchy</b>				
Cash and Investments held by County Treasury	465,288,965			
Guaranteed Investment Contract	10,828,885			
Money Market Mutual Funds	659			
Total Investments	<u>\$ 483,198,138</u>			

Refer to Note 3 for hedging derivative instruments valuations.

**Investment Derivative Instruments**

Regional San is a party to contracts for various investment derivative instruments related to its bond issuance, as discussed in the following table and in Note 3.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 2. CASH AND INVESTMENTS (Continued)

The following table displays Regional San's investment derivative instruments outstanding at June 30, 2019 and 2018, reported in the Derivative instruments – fair value balance on the statement of net position, along with the credit rating of the associated counterparty:

Type	Notional Amount	Fair Value	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
<b>Year ended June 30, 2019</b>						
<b>Series 2008A (2013 B)</b>						
Pay-fixed interest rate swap	\$50,000,000	(\$16,569,010)	12/1/2008	12/1/2036	Pay 3.75%; receive 63.61% of five year USD-ICE Swap Index	A+ (S&P) Aa3 (Moody's)
<b>Series 2008C (2012 A)</b>						
Pay-fixed interest rate swap	\$50,000,000	(\$16,569,010)	12/1/2008	12/1/2036	Pay 3.75%; receive 63.61% of five year USD-ICE Swap Index	A+ (S&P) Aa3 (Moody's)
<b>Total Investment Derivative Instruments</b>		<u><u>(\$33,138,020)</u></u>				
<b>Year ended June 30, 2018</b>						
<b>Series 2008A (2013 B)</b>						
Pay-fixed interest rate swap	\$50,000,000	(\$12,475,082)	12/1/2008	12/1/2036	Pay 3.75%; receive 63.61% of five year USD-ICE Swap Index	A (S&P) Aa3 (Moody's)
<b>Series 2008C (2012 A)</b>						
Pay-fixed interest rate swap	\$50,000,000	(\$12,475,082)	12/1/2008	12/1/2036	Pay 3.75%; receive 63.61% of five year USD-ICE Swap Index	A (S&P) Aa3 (Moody's)
<b>Total Investment Derivative Instruments</b>		<u><u>(\$24,950,164)</u></u>				

**FAIR VALUE:** Investment derivative instruments are categorized as Level 2 and are valued using a discounted cash flow technique, which calculates the future net settlement payments, assuming that current forward rates implied by the yield curve correctly anticipates future spot interest rates (London Inter-Bank Offered Rate (LIBOR) or Securities Industry and Financial Markets Association (SIFMA)). The payments are then discounted using the spot rates (LIBOR or SIFMA) implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

#### **2008 Series A (2013 B) and 2008 Series C (2012 A) Variable Rate Revenue Bonds Interest Rate Swap**

**OBJECTIVE OF THE INTEREST RATE SWAP:** To reduce its interest rate risk, Regional San entered into interest rate swaps effective December 1, 2008 in connection with its \$51,305,000 Series 2008 A Variable Rate Revenue Bonds (refunded by 2013 B Variable Rate Revenue Bonds) and with its \$50,000,000 Series 2008 C Variable Rate Revenue Bonds (refunded by 2012 A Variable Rate Revenue Bonds). Regional San pays the counterparty a fixed payment of 3.750% and Regional San receives a variable payment computed at 63.61% of the USD-ICE 5 year swap rate, which effectively changes Regional San's variable rate on the 2012 A and 2013 B bonds to a synthetic fixed rate of 4.76% and 4.76%, respectively.



**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**2. CASH AND INVESTMENTS (Continued)**

This swap is not deemed an effective hedge derivative; therefore the changes in fair value are recorded in the Statement of Revenues, Expenses and Changes in Net Position.

*INTEREST RATE RISK:* The Series 2008 A (Series 2013 B Bonds) mature on December 1, 2036 and the Series 2008 C (Series 2012 A Bonds) matures on December 1, 2038 and the related swaps mature on December 1, 2036. The swaps each have a notional amount of \$50,000,000. Under the terms of the swaps, Regional San pays the counterparty a fixed payment of 3.750% and receives a variable payment computed at 63.61% of the USD-ICE 5 year swap.

The Series 2013 B (previously the Series 2008 A) bonds' variable coupons are based on 1 month LIBOR times 70% plus .45% basis points. At June 30, 2019 the actual rate was 2.13%.

The Series 2012 A (previously the Series 2008 C) bonds' variable coupons are based on 1 month LIBOR times 70% plus .45% basis points. At June 30, 2019 the actual rate was 2.13%.

**Schedule of Outstanding Notional Amounts**

2020 - 2036	\$ 100,000,000
December 1, 2036	Termination Date

*CREDIT RISK:* As of June 30, 2019 and 2018, Regional San was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swap's become positive, Regional San would be exposed to a credit risk in the amount of the derivative's fair value if there was an early termination. The swap counterparty was rated A+ by Standard & Poor's and Aa3 by Moody's Investors Services as of June 30, 2019 and A by Standard & Poor's and Aa3 by Moody's Investors Services as of June 30, 2018.

At June 30, 2019, the maturity of Regional San's 2008A and 2008C Interest Rate Swaps were as follows:

Investment Derivative Instruments	Fair Value	Investment Maturities (in years)	
		Less than one year	More than 10 years
Pay-fixed interest rate swap	\$ (33,138,020)	\$ -	\$ (33,138,020)

**3. DERIVATIVES – INTEREST RATE SWAPS**

Derivative instruments classified by type, with the notional amounts, changes in fair value, and fair value balances set forth by level, within the fair value hierarchy of derivative instruments outstanding at June 30, 2019 and 2018 and for the fiscal year then ended as reported in the June 30, 2019 and 2018 financial statements on the following page (debit (credit)) (see note #2):

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**3. DERIVATIVES – INTEREST RATE SWAPS (Continued)**

Derivative Instruments at June 30, 2019					
	Notional Amount	Classification	Changes in Fair Value	Fair Value	
				Classification	Level 2
<i>Cash Flow Hedges:</i>					
<b>Series 2000C Swap</b>					
Pay-fixed interest rate sw ap-Hybrid	\$100,000,000	Deferred outflow	\$ (5,267,759)	Debt	\$ (23,344,067)
<b>Series 2007B Swap</b>					
Pay-fixed interest rate sw ap	\$353,450,000	Deferred outflow	\$ (23,416,715)	Debt	\$ (89,987,028)
<i>Total change in fair value - deferred outflow</i>			<u>\$ (28,684,474)</u>	<i>Total</i>	<u>\$ (113,331,095)</u>
<i>Investment Derivatives:</i>					
<b>Series 2008A Swap (2013 B)</b>					
Pay-fixed interest rate sw ap	\$50,000,000	Investment income	\$ (4,093,928)	Investment	\$ (16,569,010)
<b>Series 2008C Swap (2012 A)</b>					
Pay-fixed interest rate sw ap	\$50,000,000	Investment income	\$ (4,093,928)	Investment	\$ (16,569,010)
<i>Total change in fair value - investment income</i>			<u>\$ (8,187,856)</u>	<i>Total</i>	<u>\$ (33,138,020)</u>
				<i>Total Fair Value</i>	<u><u>\$ (146,469,115)</u></u>

Derivative Instruments at June 30, 2018					
	Notional Amount	Classification	Changes in Fair Value	Fair Value	
				Classification	Level 2
<i>Cash Flow Hedges:</i>					
<b>Series 2000C Swap</b>					
Pay-fixed interest rate sw ap-Hybrid	\$100,000,000	Deferred outflow	\$ 5,492,179	Debt	\$ (18,076,308)
<b>Series 2007B Swap</b>					
Pay-fixed interest rate sw ap	\$353,450,000	Deferred outflow	\$ 23,419,500	Debt	\$ (66,570,313)
<b>Series 2008B Swap (2013 C)</b>					
Pay-fixed interest rate sw ap	\$50,000,000	Deferred outflow	\$ 605,739	Debt	\$ -
<b>Series 2008D Swap (2013 D)</b>					
Pay-fixed interest rate sw ap	\$50,000,000	Deferred outflow	\$ 605,739	Debt	\$ -
<i>Total change in fair value - deferred outflow</i>			<u>\$ 30,123,157</u>	<i>Total</i>	<u>\$ (84,646,621)</u>
<i>Investment Derivatives:</i>					
<b>Series 2008A Swap (2013 B)</b>					
Pay-fixed interest rate sw ap	\$50,000,000	Investment income	\$ 2,968,727	Investment	\$ (12,475,082)
<b>Series 2008C Swap (2012 A)</b>					
Pay-fixed interest rate sw ap	\$50,000,000	Investment income	\$ 2,968,727	Investment	\$ (12,475,082)
<b>Series 2008E Swap (2013 A)</b>					
Pay-fixed interest rate sw ap	\$50,000,000	Investment income	\$ 605,739	Investment	\$ -
<i>Total change in fair value - investment income</i>			<u>\$ 6,543,193</u>	<i>Total</i>	<u>\$ (24,950,164)</u>
				<i>Total Fair Value</i>	<u><u>\$ (109,596,785)</u></u>

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**3. DERIVATIVES – INTEREST RATE SWAPS (Continued)**

**Objectives and Terms of Hedging Derivative Instruments**

The following table displays the objective and terms of Regional San’s cash flow hedging derivative instruments outstanding at June 30, 2019, along with the credit rating of the associated counterparty:

<b>Series 2000C</b> Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2000C bonds	\$100,000,000	1/2/2003	12/1/2030	Pay 3.74%; receive 65% of 1 Mo. USD- LIBOR	A+ (S&P) Aa2 (Moody's)
<b>Series 2007B</b> Pay-fixed interest rate swap	Hedge of variable rate risk on the 2007B bonds	\$353,450,000	3/1/2007	12/1/2035	Pay 4.152%; receive Lesser of (67% of 3 Mo. USD-LIBOR plus 53 bps) or 12%	A+ (S&P) Aa2 (Moody's)

**FAIR VALUE:** Hedging derivative instruments are classified as Level 2 and are valued using a discounted cash flow technique, which calculates the future net settlement payment, assuming that current forward rates implied by the yield curve correctly anticipate future spot interest rates (LIBOR). The payments are then discounted using the spot rates (LIBOR) implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

**DETAILED DISCUSSION ON EACH SWAP TRANSACTION**

**2000 Series C Subordinate Lien Variable Rate Revenue Bonds Interest Rate Swap**

**OBJECTIVE OF THE INTEREST RATE SWAP:** To hedge the risk of overall changes in cash flows associated with the variable rate bonds, and obtain up-front value to fund future programs, Regional San entered into an interest rate swap effective January 2003 in connection with its \$100 million Series 2000 C Subordinate Lien Variable Rate Revenue Bonds.

Under GASB 53, a swap transaction that has an issuer receive an upfront payment can be considered a hybrid instrument comprising of an instrument valued at the upfront amount received, and an at-market swap, which would be a swap that Regional San would have entered into without this one-time premium. The fair value of the at-market swap which would exclude the fair value of the instrument was (\$23,344,067) and (\$18,076,308) for June 30, 2019 and 2018, respectively. The intention of the swap was to effectively change Regional San’s variable interest rate on the bonds to a synthetic fixed rate of 3.75%. The (\$23,344,067) derivative is recorded as a swap liability, and since the swap qualifies for hedge accounting, a corresponding deferred outflow of this amount is also recorded. The up-front payment was accounted for separately as derivative borrowing under noncurrent liabilities.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 3. DERIVATIVES – INTEREST RATE SWAPS (Continued)

*TERMS:* The bonds and the related swap agreement mature on December 1, 2030, and the swap's notional amount of \$100 million matches the \$100 million variable-rate bonds. Starting in fiscal year 2027-28, the notional value of the swap and the principal amount of the associated debt begins to decline. Under the swap, Regional San pays the counterparty a fixed payment of 3.75% and receives a variable payment computed at 65% of the 1-month London Interbank Offered Rate (LIBOR). The bond's variable rates are based on the Weekly Rate.

Before July 2015, the counterparty had the option of ending the swap arrangement on the first day of June and December of each year. If the counterparty had exercised this option, no termination payment would have been due by either counterparty. In July 2015, Regional San terminated the counterparty's option of ending the swap termination arrangement by paying \$1.465 million.

*CREDIT RISK:* As of June 30, 2019 and 2018, Regional San was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, Regional San would be exposed to credit risk in the amount of the derivative's fair value if there was an early termination. The swap counterparty was rated A+ by Standard & Poor's and Aa2 by Moody's Investors Services as of June 30, 2019 and A+ by Standard & Poor's and Aa3 by Moody's Investors Services as of June 30, 2018.

*BASIS RISK:* The basis risk is the difference between the Weekly Rate paid on the variable rate bonds and the floating amount received from the interest rate swap of 65% of 1-month LIBOR. As of June 30, 2019, the rate set by Bank of America Securities LLC according to market trends was 1.44%, whereas the weekly reset of 65% of 1-month LIBOR was 1.56%, a difference of 0.12%. As of June 30, 2019, the effect of this difference decreases the intended synthetic fixed rate of 3.75% to a rate of 3.62%.

*INTEREST RATE RISK:* Regional San is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR, the bond floating rate swap index, or the SIFMA swap index decreases, Regional San's net payment on the swaps increases.

*TERMINATION RISK:* Regional San or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap were terminated, the variable-rate bonds would no longer carry a synthetic fixed interest rate. If the swap were terminated and at the time of termination the swap has a negative fair value, Regional San would be liable to the counterparty for a payment equal to the swap's fair value.

*UP-FRONT PAYMENT:* As part of the swap agreement, Regional San received an up-front payment from the counterparty equal to the negative value of the swap agreement on January 2, 2003, totaling \$9,087,000, which was restricted for funding certain future specific programs. Regional San has recorded this amount as a noncurrent liability and amortized it over the term of the agreement. At June 30, 2019 and 2018 the unamortized up-front payment totaled \$2,575,604 and \$2,790,237, respectively, and is accounted for as a liability in the Statements of Net Position as a portion of the derivative borrowing.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**3. DERIVATIVES – INTEREST RATE SWAPS (Continued)**

Assuming current interest rates remain the same for their term, as described, debt service requirements of the Series 2000 C variable rate debt and the net swap payments, are as shown in the following table. As rates vary, variable rate bond interest payments and net swap payments will vary and it is anticipated these schedules will vary from year to year. Interest rate swap schedules are based on interest rates effective on June 30, 2019.

<u>Fiscal Years Ending</u> <u>June 30:</u>	<u>Variable Rate Debt</u>		<u>Interest Rate</u>	<u>Total Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Swaps, Net</u>	
2020	\$ -	\$ 1,440,000	\$ 2,181,300	\$ 3,621,300
2021	-	1,440,000	2,181,300	3,621,300
2022	-	1,440,000	2,181,300	3,621,300
2023	-	1,440,000	2,181,300	3,621,300
2024	-	1,440,000	2,181,300	3,621,300
2025-2029	46,200,000	6,563,520	9,942,365	16,505,885
2030-2031	53,800,000	783,360	1,186,627	1,969,987
	<u>\$ 100,000,000</u>	<u>\$ 14,546,880</u>	<u>\$ 22,035,493</u>	<u>\$ 36,582,373</u>

**2007 Series B Refunding Bonds Interest Rate Swap**

*OBJECTIVE OF THE INTEREST RATE SWAP:* To reduce its interest rate risk, Regional San entered into an interest rate swap effective March 1, 2007 in connection with its \$353,450,000 Series 2007 B Refunding Bonds. The swap changes Regional San's variable interest rate on the bonds to a synthetic fixed rate of 4.152%. Under GASB 53, this swap is deemed a hedging instrument and therefore the changes in fair value are recorded as a deferred outflow of resources on the Statements of Net Position.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 3. DERIVATIVES – INTEREST RATE SWAPS (Continued)

*SIGNIFICANT TERMS:* The bonds and related swap mature on December 1, 2035. The swaps notional amount is \$353,450,000. Starting in fiscal year 2023-24, the notional amount of the swap will decline each December 1 as follows:

#### Schedule of Outstanding Notional Amounts

2020-2024	\$ 353,450,000
2025	339,665,000
2026	325,285,000
2027	310,300,000
2028	295,015,000
2029	279,895,000
2030	264,395,000
2031	248,460,000
2032	202,810,000
2033	155,220,000
2034	105,610,000
2035	53,900,000
December 1, 2035	Termination Date

Under the terms of the swap, Regional San pays the counterparty a fixed payment of 4.152% and receives a variable payment computed at the lesser of (A) 67% of 3-month LIBOR plus 0.53% or (B) 12% on the notional amount.

*CREDIT RISK:* As of June 30, 2019 and 2018, Regional San was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, Regional San would be exposed to a credit risk in the amount of the derivative's fair value if there was an early termination. The swap counterparty was rated A+ by Standard & Poor's and Aa2 by Moody's Investors Services as of June 30, 2019. The swap counterparty was rated A+ by Standard & Poor's and Aa3 by Moody's Investors Services as of June 30, 2018.

*BASIS RISK:* Regional San has no basis risk because the rate paid on the variable rate bonds and the floating amount received from the interest rate swap are identical: The lesser of 67% of the 3-Month LIBOR plus 0.53%, provided the resulting interest rate never exceed 12%. As of June 30, 2019 and 2018, the variable interest rate was 2.08% and 1.40%, respectively.

*INTEREST RATE RISK:* Regional San is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR, or the bond floating rate swap index, Regional San's net payment on the swaps increases.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**3. DERIVATIVES – INTEREST RATE SWAPS (Continued)**

*TERMINATION RISK:* Regional San or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, other than by the counterparty exercising its option under the agreement, and at the time of termination the swap has a negative fair value, Regional San would be liable to the counterparty for a payment equal to the swap's fair value.

*DERIVATIVE INSTRUMENT PAYMENTS:* Assuming current interest rates remain the same for their term, as described, debt service requirements of the 2007 Series B variable rate debt and the net swap payments, are as shown in the following table. As rates vary, variable rate bond interest payments and net swap payments will vary and it is anticipated these schedules will vary from year to year. Interest rate swap schedules are based on interest rates effective June 30, 2019.

<b>Fiscal Years Ending June 30:</b>	<b>Variable Rate Debt</b>		<b>Interest Rate</b>	<b>Total Interest</b>
	<b>Principal</b>	<b>Interest</b>	<b>Swaps, Net</b>	
2020	\$ -	\$ 7,367,075	\$ 7,308,169	\$ 14,675,244
2021	-	7,367,075	7,308,169	14,675,244
2022	-	7,367,075	7,308,169	14,675,244
2023	-	7,367,075	7,308,169	14,675,244
2024	13,785,000	7,223,412	7,165,655	14,389,067
2025-2029	75,270,000	31,526,058	31,273,980	62,800,038
2030-2034	210,495,000	18,159,699	18,014,497	36,174,196
2035	53,900,000	561,728	557,236	1,118,964
	<u>\$ 353,450,000</u>	<u>\$ 86,939,197</u>	<u>\$ 86,244,044</u>	<u>\$ 173,183,241</u>

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**4. CAPITAL ASSETS**

Capital assets activity for the fiscal years ended June 30, 2019 and 2018 were as follows:

	<u>July 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2019</u>
Capital assets not being depreciated:				
Permanent easement	\$ 1,411,683	\$ -	\$ (71,063)	\$ 1,340,620
Land	45,460,871	-	-	45,460,871
Construction in progress	<u>712,012,071</u>	<u>265,961,188</u>	<u>(45,563,397)</u>	<u>932,409,862</u>
Total capital assets not being depreciated	<u>758,884,625</u>	<u>265,961,188</u>	<u>(45,634,460)</u>	<u>979,211,353</u>
Capital assets being depreciated:				
Software	6,621,398	-	-	6,621,398
Equipment	147,274,049	982,723	(606,798)	147,649,974
Structures and improvements	<u>2,662,244,179</u>	<u>45,242,606</u>	<u>-</u>	<u>2,707,486,785</u>
Total capital assets being depreciated	<u>2,816,139,626</u>	<u>46,225,329</u>	<u>(606,798)</u>	<u>2,861,758,157</u>
Less accumulated depreciation:				
Software	(4,899,535)	(763,050)	-	(5,662,585)
Equipment	(146,258,363)	(216,405)	482,152	(145,992,616)
Structures and improvements	<u>(746,960,583)</u>	<u>(47,541,721)</u>	<u>-</u>	<u>(794,502,304)</u>
Total accumulated depreciation	<u>(898,118,481)</u>	<u>(48,521,176)</u>	<u>482,152</u>	<u>(946,157,505)</u>
Total capital assets, being depreciated, net	<u>1,918,021,145</u>	<u>(2,295,847)</u>	<u>(124,646)</u>	<u>1,915,600,652</u>
Net capital assets	<u>\$ 2,676,905,770</u>	<u>\$ 263,665,341</u>	<u>\$ (45,759,106)</u>	<u>\$ 2,894,812,005</u>
	<u>July 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2018</u>
Capital assets not being depreciated:				
Permanent easement	\$ 1,274,143	\$ 137,540	\$ -	\$ 1,411,683
Land	45,460,871	-	-	45,460,871
Construction in progress	<u>525,469,989</u>	<u>291,034,115</u>	<u>(104,492,033)</u>	<u>712,012,071</u>
Total capital assets not being depreciated	<u>572,205,003</u>	<u>291,171,655</u>	<u>(104,492,033)</u>	<u>758,884,625</u>
Capital assets being depreciated:				
Software	6,403,743	217,655	-	6,621,398
Equipment	147,196,813	465,348	(388,112)	147,274,049
Structures and improvements	<u>2,557,809,471</u>	<u>104,434,708</u>	<u>-</u>	<u>2,662,244,179</u>
Total capital assets being depreciated	<u>2,711,410,027</u>	<u>105,117,711</u>	<u>(388,112)</u>	<u>2,816,139,626</u>
Less accumulated depreciation:				
Software	(4,018,749)	(880,786)	-	(4,899,535)
Equipment	(146,440,224)	(204,005)	385,866	(146,258,363)
Structures and improvements	<u>(700,871,179)</u>	<u>(46,089,404)</u>	<u>-</u>	<u>(746,960,583)</u>
Total accumulated depreciation	<u>(851,330,152)</u>	<u>(47,174,195)</u>	<u>385,866</u>	<u>(898,118,481)</u>
Total capital assets, being depreciated, net	<u>1,860,079,875</u>	<u>57,943,516</u>	<u>(2,246)</u>	<u>1,918,021,145</u>
Net capital assets	<u>\$ 2,432,284,878</u>	<u>\$ 349,115,171</u>	<u>\$ (104,494,279)</u>	<u>\$ 2,676,905,770</u>



**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**4. CAPITAL ASSETS (Continued)**

Depreciation expense included in the Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2019 and 2018 totaled \$48,521,176 and \$47,174,195, respectively.

**5. LONG-TERM DEBT**

Long-term debt at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
<b>District's Revenue Bonds</b>		
2014B Series Taxable Refunding Bonds	\$ 48,635,000	\$ 58,460,000
2014A Series Refunding Bonds	402,132,231	411,991,547
2011A Series Refunding Bonds	81,976,534	82,509,482
2007A/B Series Refunding Bonds	419,402,454	429,920,178
2006 Series Revenue Bonds	-	21,691,713
2001 Series Refunding Bonds	19,512,800	25,342,556
2000 Series C Subordinate Lien Revenue Bonds	100,000,000	100,000,000
<b>Direct Purchase Arrangements</b>		
2013D Series Subordinate Refunding Bonds	50,000,000	50,000,000
2013C Series Subordinate Refunding Bonds	50,000,000	50,000,000
2013B Series Subordinate Refunding Bonds	50,000,000	50,000,000
2012A Series Subordinate Refunding Bonds	50,000,000	50,000,000
<b>Clean Water State Revolving Fund Loan</b>	670,212,103	474,574,145
<b>Loan with Contributing Agency (Note 8)</b>	1,125,920	1,670,770
<b>Capital Lease Obligation (Note 9)</b>	<u>7,391,076</u>	<u>8,617,381</u>
District's Total long-term debt	1,950,388,118	1,814,777,772
Less District's current portion	(47,526,453)	(43,594,051)
District's Long-term portion	<u>1,902,861,665</u>	<u>1,771,183,721</u>
 <b>Financing Authority Revenue Bonds:</b>		
2010A/B Series Revenue Bonds	120,136,769	121,205,223
2015 Series Revenue Bonds	50,648,911	50,955,612
Total long-term debt - Financing Authority	<u>170,785,680</u>	<u>172,160,835</u>
Less current portion	(1,430,155)	(1,375,155)
Long-term portion - Financing Authority	<u>169,355,525</u>	<u>170,785,680</u>
Total Long-term portion	<u>\$ 2,072,217,190</u>	<u>\$ 1,941,969,401</u>

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 5. LONG-TERM DEBT (Continued)

#### Letter of Credit

The Series 2000 C Subordinate Lien Variable Rate Revenue Bonds (the Series 2000C Bonds) are secured by an irrevocable direct pay Letter of Credit (LOC). The current LOC provider for the Series 2000C Bonds is Bank of America, N.A. The LOC is drawn down by the amount necessary to pay the bondholders the principal and interest due on each interest and principal payment date. The funds received by the Trustee from Regional San are used to reimburse Bank of America for the amount of the LOC draw plus the draw fee of \$250.00 per draw. The LOC current value committed remains constant at \$100,000,000. On February 21, 2018, Regional San extended the expiration date of the letter of credit from March 25, 2018 to March 25, 2021.

#### Direct Purchase Arrangements

The \$50 million Series 2013 C and \$50 million Series 2013 D Subordinate Lien Variable Rate Refunding Revenue Bonds (the "Series 2013 C and D Bonds") refunded the Series 2008 B and D Variable Rate Revenue Bonds on November 14, 2013. The Series 2008 B and D Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2013 C and D Bonds were purchased directly by Banc of America Preferred Funding Corporation (BofA). Pursuant to its direct purchase of the Series 2013 C and D Bonds, BofA will hold the Sacramento County Sanitation Districts Financing Authority (Authority) Bonds. The original agreement was for three years ending in November of 2016. The direct purchase agreement was renewed at that time for an additional three-year term ending in November 2019. On April 4, 2019, the agreement was renewed until April 4, 2022. BofA cannot put the bonds back to the Authority or Regional San during the term of the agreement. This eliminates the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the duration of the agreement. The renewed direct purchase agreements reduces the cost by \$12,500 per year for each series and changes the index used to calculate the variable rate from SIFMA to 70% of 1 month LIBOR plus 50 bps.

The \$50 million Series 2012 A Subordinate Lien Variable Rate Refunding Revenue Bonds (the "Series 2012 A Bonds") refunded the Series 2008 C Variable Rate Revenue Bonds in July 2012. The 2008 C Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2012 A Bonds were purchased directly by Wells Fargo Bank (WFB). Under the current direct purchase agreement with the Series 2012 A Bonds dated July 2, 2018, WFB will hold the Bonds for three years through July 2, 2021.

WFB cannot put the bonds back to the Authority or Regional San during the term of the agreement. This eliminates the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the three year term of the agreement. Per the direct purchase agreement, the rate is 80% of one-month LIBOR plus .45 BPS per annum for the duration of the agreement.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 5. LONG-TERM DEBT (Continued)

The \$50 million Series 2013 B Subordinate Lien Variable Rate Refunding Revenue Bonds (the "Series 2013 B Bonds") refunded the 2008 A Variable Rate Revenue Bonds on May 30, 2013. The Series 2008 A Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2013 B Bonds were purchased directly by Wells Fargo Bank (WFB). Under the current direct purchase agreement with the Series 2013 B Bonds dated July 2, 2018, WFB will hold the Bonds for three years through July 2, 2021.

WFB cannot put the bonds back to the Authority or Regional San during the term of the agreement. This eliminates the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the three year term of the agreement. Per the direct purchase agreement, the rate is 80% of one-month LIBOR plus .45 BPS per annum for the duration of the agreement.

#### 2014B Series Refunding Bonds

In November 2014, the Sacramento County Sanitation Districts Financing Authority (Authority) issued the 2014 B Series Taxable Refunding Bonds senior lien bonds in the amount of \$61,895,000 with interest rates ranging from 0.5% to 3.2%, principal payments ranging from \$1,105,000 to \$10,830,000 with the first payment starting in 2015 and ending in 2023. Proceeds from this debt issue were used to advance refund \$58,730,000 of the tax-exempt Series 2005 Revenue Bonds. Regional San completed the advance refunding to reduce its future total debt service payments by approximately \$4.3 million and obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3.8 million. Unamortized deferred amount on refunding was \$3,322,823 and \$3,987,388 at June 30, 2019 and 2018, respectively.

#### 2014A Series Revenue Bonds

In July 2014, Regional San (through the Authority) issued the 2014 A Series Revenue Bonds in the amount of \$378,510,000 with interest rates ranging from 3.0% to 5.0%, principal payments ranging from \$7,400,000 to \$36,250,000 with the first payment starting in 2016 and ending in 2044, net of premium of \$55,778,814. Proceeds from this debt issue were used to advance refund \$260,600,000 of the Series 2006 Revenue Bonds and to pay certain costs of preliminary planning design, construction and related activities in connection with the implementation of facilities and upgrades to the Sanitation System. Regional San completed the advance refunding to reduce its future total debt service payments by approximately \$29.9 million and obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$21.6 million. Unamortized premium was \$46,782,231 and deferred amount on refunding was \$14,230,364 at June 30, 2019. Unamortized premium was \$48,581,547 and deferred amount on refunding was \$14,777,686 at June 30, 2018.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 5. LONG-TERM DEBT (Continued)

#### 2013D Series Refunding Bonds

In November 2013, Regional San (through the Authority) refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 D Bonds by issuing \$50,000,000 Series 2013 D Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 D Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of 70% of 1 month LIBOR plus 50 basis points. Unamortized deferred amount on refunding was \$310,338 and \$324,444 at June 30, 2019 and 2018, respectively. Proceeds on the Series 2013 D Bonds were used for the refunding of the 2008 A Series Bonds.

#### 2013C Series Refunding Bonds

In November 2013, Regional San (through the Authority) refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 B Bonds by issuing \$50,000,000 Series 2013 C Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 C Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of 70% of 1 month LIBOR plus 50 basis points. Unamortized deferred amount on refunding was \$310,338 and \$324,444 at June 30, 2019 and 2018, respectively. Proceeds on the Series 2013 C Bonds were used for the refunding of the 2008 B Series Bonds.

#### 2013B Series Refunding Bonds

In May 2013, Regional San (through the Authority) refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 A Bonds by issuing \$50,000,000 Series 2013 B Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 B Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of 70% of 1 month LIBOR plus 45 basis points. Unamortized deferred amount on refunding was \$310,338 and \$324,444 at June 30, 2019 and 2018, respectively. Proceeds on the Series 2013 B Bonds were used for the refunding of the 2008 A Series Bonds.

#### 2012A Series Refunding Bonds

In July 2012, Regional San (through the Authority) refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 C Bonds by issuing \$50,000,000 Series 2012 A Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2012 A Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of 70% of 1 month LIBOR plus 45 basis points. Unamortized deferred amount on refunding was \$310,338 and \$324,444 at June 30, 2019 and 2018, respectively. Proceeds on the Series 2012 A Bonds were used for the refunding of the 2008 C Series Bonds.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 5. LONG-TERM DEBT (Continued)

#### 2011A Series Refunding Bonds

In August 2011, Regional San (through the Authority) refunded approximately \$85,420,000 of the 2001 Bonds by issuing \$77,180,000 Series 2011 A Refunding Bonds. The Series 2011 A Refunding Bonds carry a fixed interest rate ranging from 4.000% to 5.000% and mature serially commencing in fiscal year 2022 through 2027. Proceeds of these bonds were used to partially refund the Series 2001 Refunding Bonds. Unamortized premium was \$4,796,534 and \$5,329,482 and deferred amount on refunding was \$1,590,552 and \$1,767,280 at June 30, 2019 and 2018, respectively.

#### 2007A and 2007B Series Refunding Bonds

In February 2007, Regional San (through the Authority) issued Series 2007 A Refunding Bonds in the amount of \$89,915,000 and Series 2007 B Refunding Bonds in the amount of \$353,450,000. The Series 2007 A Refunding Bonds carry fixed interest rates ranging from 4.00% to 5.25%. The Series 2007 B Refunding Bonds bear interest at a variable interest rate which is established at each quarterly interest payment date based on 67% of the Three-Month LIBOR Rate plus a per annum spread of 0.53%, providing the resulting interest rate never exceed 12%. The variable rate at June 30, 2019 was 2.084%. Concurrently with the issuance of the bonds, Regional San entered into an interest rate swap in the notional amount of the Series 2007 B Refunding Bonds whereby Regional San pays the swap counterparty the fixed rate of 4.152% and receives a floating amount equal to the debt service requirements (see Note 3). The Series 2007 A Refunding Bonds mature serially commencing in fiscal year 2017 through 2036. The 2007 B Series Refunding Bonds mature serially commencing in fiscal year 2025 through 2036. Proceeds of the Series 2007 A and B Refunding Bonds were used to: i) advance refund \$456,865,000 of the outstanding principal of Series 2004 A Revenue Bonds (the refunded bonds); ii) pay certain bond issuance costs; and iii) fund the reserve requirements for the bonds.

The bonds were issued at a premium and \$485,933,906 of the proceeds, including reserve fund and available debt service monies related to the refunded bonds, was deposited in an irrevocable trust to retire the Series 2004 A refunded bonds as they come due in fiscal year 2016 through 2036; \$445,770,000 and \$454,765,000 of such defeased bonds were outstanding as of June 30, 2019 and 2018, respectively. Unamortized premium related to the Series 2007 A and B Refunding Bonds was \$6,562,454 and \$6,960,178 at June 30, 2019 and 2018 respectively; unamortized deferred amount on refunding was \$10,647,203 and \$11,292,488 at June 30, 2019 and 2018, respectively.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 5. LONG-TERM DEBT (Continued)

#### 2006 Series Revenue Bonds

In July 2006, Regional San (through the Authority) issued Series 2006 Revenue Bonds in the amount of \$338,960,000. Interest rates range from 4.00% to 5.00%. The bonds mature serially from December 2007 through December 2031. Proceeds of these bonds were to be used to: i) finance improvements to the wastewater conveyance, treatment and disposal system; ii) pay certain bond issuance costs; and iii) fund the reserve requirements for the bonds. The bonds were issued at a premium. Unamortized premium was \$0 and \$561,713 at June 30, 2019 and 2018, respectively.

In July 2018, the 2006 Series Revenue Bonds were redeemed early. The bonds were scheduled to mature in 2036 and became callable on June 1, 2016. The funds used to redeem the bonds were paid from the associated reserve fund and a cash contribution from the Regional San. The early payoff of the 2006 Series Bond had a net present value savings to Regional San of \$1,911,209.

#### 2001 Series Refunding Revenue Bonds

In June 2001, Regional San (through the Authority) issued the Series 2001 Refunding Revenue bonds. These bonds funded an escrow sufficient to solely provide for the payment of interest on the Series 2001 Refunding Bonds as it became due on and prior to December 1, 2005 (also known as the "Crossover Date") and a portion of the principal of the Series 2000 A Revenue Bonds. Principal payments are due serially commencing on December 1, 2006 through 2027 with interest rates ranging from 4.00% to 5.50%. On the Crossover Date, the escrow deposit of \$121,953,020 was used to refund \$120,145,000 of Series 2000 A Revenue Bonds.

In August 2011, Regional San (through the Authority) refunded approximately \$85,420,000 of the 2001 bonds by issuing \$77,180,000 Series 2011A Tax Exempt Revenue Bonds. Proceeds were used for a current refunding, as a result a portion of the 2001 bonds are considered to be refunded and the liability for those bonds has been removed from Regional San's financial statements. Unamortized discount was \$92,200 and \$102,444 and unamortized deferred amount on refunding was \$207,393 and \$230,437, at June 30, 2019 and 2018, respectively.

#### 2000 Series Revenue Bonds

In June 2000, Regional San (through the Authority) issued the Series 2000 C Subordinate Lien Variable Rate Revenue Bonds in the amount of \$100,000,000. Interest rates for the Series 2000 C rates are set by Bank of America Securities LLC on a weekly basis according to market trends. The variable rate was 2.129% and 1.230% at June 30, 2019 and 2018, respectively.

Proceeds from these debt issues were used to finance the acquisition and construction of new facilities. The Series 2000 C Variable Rate Revenue Bonds are secured by a pledge of and lien on the net revenues of Regional San subordinate to the claims of any additional parity revenue bonds subsequently issued by Regional San.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 5. LONG-TERM DEBT (Continued)

In June 2000, Regional San (through the Authority) issued the Series 2000 A Revenue Bonds in the amount of \$390,563,095 and the Series 2000 B Refunding bonds in the amount of \$12,973,543. Proceeds from these debt issues were used to; i) advance refund all of the outstanding amounts of the Series 1993 and Series 1995 Revenue Bonds; and ii) finance the acquisition and construction of new facilities.

Final payment on the Series 2000 B Revenue bonds was made in December of 2003. The Series 2000A was refunded in 2010 with the issuance of the 2010 A and 2010 B Series Revenue Bonds

The portion of the proceeds of the Series 2000 A and Series 2000 B Revenue Bonds used to refund the Series 1993 and Series 1995 Revenue Bonds were irrevocably deposited with an escrow agent and applied to purchase certain investments permitted by the escrow agreement. The principal and interest on which will be sufficient to pay principal, interest and redemption premium, if any, when due with respect to the Series 1993 and Series 1995 Revenue Bonds. As a result, the Series 1993 and Series 1995 Revenue Bonds are considered to be in-substance defeased and the liability for those bonds has been removed from Regional San's financial statements. In December 2017, the final payment of the 1995 defeased Revenue Bonds were paid. As of June 30, 2019 and 2018, \$35,815,000 and \$42,495,000, respectively, of the Series 1993 defeased Revenue Bonds remain outstanding.

In November 2014, Regional San (through the Authority) executed an escrow liquidation of the Series 1993 defeased Revenue Bonds. The amount of the early liquidation was \$8,375,000 saving approximately \$4.8 million. There was a second early escrow liquidation of the Series 1993 defeased Revenue Bonds on January 6, 2016 in the amount of \$23,670,000, saving approximately \$3.9 million.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**5. LONG-TERM DEBT (Continued)**

**Maturity Schedule**

Future debt service requirements on Regional San revenue bonds, State Revolving Fund Loan, and City of Sacramento loan at June 30, 2019 are as follows:

Year Ending June 30,	Bonds			Direct Borrowings Notes, SRF and City of Sacramento Loan		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 35,330,000	\$ 44,578,851	\$ 79,908,851	\$ 8,210,363	\$ 10,774,848	\$ 18,985,211
2021	36,910,000	42,976,823	79,886,823	8,351,013	10,649,390	19,000,403
2022	38,610,000	41,266,423	79,876,423	17,179,627	16,617,796	33,797,423
2023	39,220,000	39,497,539	78,717,539	17,462,490	16,334,933	33,797,423
2024	41,055,000	37,638,770	78,693,770	18,505,138	16,544,382	35,049,520
2025-2029	240,490,000	158,263,332	398,753,332	97,204,905	78,042,694	175,247,599
2030-2034	305,045,000	102,525,142	407,570,142	105,490,239	69,757,360	175,247,599
2035-2039	142,200,000	42,117,949	184,317,949	264,079,218	53,866,024	317,945,242
2040-2044	98,500,000	26,424,750	124,924,750	172,160,356	20,211,191	192,371,546
2045-2049	36,250,000	902,300	37,152,300	127,901,772	9,294,011	137,195,783
2050-2053	-	-	-	34,792,903	972,731	35,765,634
	1,013,610,000	536,191,879	1,549,801,879	871,338,023	303,065,360	1,174,403,383
Plus net unamortized discounts and premiums	58,049,019	-	58,049,019	-	-	-
	<u>\$ 1,071,659,019</u>	<u>\$ 536,191,879</u>	<u>\$ 1,607,850,898</u>	<u>\$ 871,338,023</u>	<u>\$ 303,065,360</u>	<u>\$ 1,174,403,383</u>

The interest requirements, for the purpose of the maturity schedule above, for Regional San's Variable rate debt, related to the Series 2000 C Subordinate Lien Variable Rate Revenue Bonds are based on the estimated rate of 3.62%, the Series 2007 B Variable Rate Refunding Bonds are based on a rate of 4.15%, the Series 2013 C Subordinate Lien Variable Rate Refunding Revenue Bonds are based on the estimated rate of 2.18%, the Series 2013 D Subordinate Lien Variable Rate Refunding Revenue Bonds are based on the estimated rate of 2.18%, and the Series 2012A and 2013B Subordinate Lien Variable Rate Refunding Bonds are based on the estimated rate of 4.76% and 4.76%.

**Financing Authority 2015 Series Revenue Bonds**

In May 2015, the Sacramento County Sanitation Districts Financing Authority (Authority) issued \$45,435,000 2015 Series Revenue Bonds on behalf of the Sacramento Area Sewer District (SASD). The bonds proceeds were placed in an irrevocable trust to completely defease the 2005 Series Revenue Bonds. The bonds mature serially from August 2025 through August 2035. Interest rates for the Series 2015 range from 3.00% to 5.00%, principal payments range from \$3,260,000 to \$5,115,000 with the first payment starting in August 2025 and ending in August 2035. SASD paid \$70.3 million toward the refunding. The refunding resulted in an economic gain of \$6.2 million. Unamortized premium was \$5,213,911 and \$5,520,612 as of June 30, 2019 and 2018, respectively. Deferred amount on refunding was \$1,319,695 and \$1,397,324 at June 30, 2019 and 2018, respectively.



**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**5. LONG-TERM DEBT (Continued)**

**Financing Authority 2010A/B Series Revenue Bonds**

In August 2010, the Authority issued \$110,690,000 Revenue Bonds, Series 2010A Federally Taxable Direct Subsidy Build America Bonds and \$15,930,000 Revenue Bonds, Series 2010B. The bond proceeds were then loaned to SASD. The bonds mature serially from August 2011 through August 2040. Interest rates for the Series A Bonds range from 6.125% to 6.325%, principal payments ranging from \$1,440,000 to \$16,175,000 with the first payment starting in 2026 and ending in 2040. Interest rates for the Series B Bonds range from 2.5% to 5.0%, principal payments ranging from \$820,000 to \$1,180,000 with the first payment starting in 2011 and ending in 2021. The proceeds were used to finance improvements to the collection system to reduce or eliminate potential sewer overflows, serve new growth, and to purchase capital improvements completed by Regional San.

**Financing Authority Maturity Schedule**

Future debt service requirements on Financing Authority bonds as of June 30, 2019 are as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,085,000	\$ 9,380,859	\$ 10,465,859
2021	1,130,000	9,330,909	10,460,909
2022	1,180,000	9,279,059	10,459,059
2023	1,230,000	9,230,859	10,460,859
2024	1,275,000	9,180,759	10,455,759
2025-2029	21,285,000	43,597,455	64,882,455
2030-2034	40,930,000	36,094,798	77,024,798
2035-2039	64,935,000	20,846,344	85,781,344
2040-2041	31,695,000	2,025,423	33,720,423
	<u>164,745,000</u>	<u>148,966,465</u>	<u>313,711,465</u>
Plus net unamortized discounts, and premiums	6,040,680	-	6,040,680
	<u>\$ 170,785,680</u>	<u>\$ 148,966,465</u>	<u>\$ 319,752,145</u>

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 5. LONG-TERM DEBT (Continued)

#### Bond Covenants

Pursuant to various agreements and resolutions entered into by Regional San and Financing Authority related to its Revenue Bonds, Regional San is required to abide the following provisions:

- Punctual payment of interest and principal will be made when due.
- Proceeds of the Revenue Bonds will be used by Regional San to pay the costs of financing or refinancing the acquisition and construction (together with the incidental costs and expenses related thereto) of the Projects approved by the Board of Directors.
- Rates, fees, and charges will be fixed and collected at an amount sufficient to yield adjusted annual net revenues, as defined, equal to at least the amount required by the coverage requirement, as defined by the Master Installment Purchase Contract, for the fiscal year.

For the year ended June 30, 2019 and 2018, Regional San was in compliance with the preceding covenants.

The debt issued by the Financing Authority are not secured by a legal or equitable pledge, or charge or lien upon, any property of the Financing Authority or any of its income or receipts except the Financing Authority's revenues. Neither the payment of the interest on or principal of or redemption premiums, if any constitutes a debt, liability or obligation of the Financing Authority or any member of the Financing Authority (including Regional San) for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation.

#### Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. The estimated amount payable to the U.S. Treasury for excess investment income related to Regional San's long-term obligations was \$0 for the year ending June 30, 2019 and 2018. The ultimate liability to be paid to the U.S. Treasury will fluctuate based upon the timing of construction draw-downs and changing investment yields.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 5. LONG-TERM DEBT (Continued)

#### Changes in Long-Term Obligations

Changes in long-term obligations for the fiscal years ended June 30, 2019 and 2018 were as follows:

	July 1, 2018	Increase	Decrease	June 30, 2019	Due Within One year
Revenue Bonds - Financing Authority	\$ 165,775,000	\$ -	\$ (1,030,000)	\$ 164,745,000	\$ 1,085,000
Plus premium	6,385,835	-	(345,155)	6,040,680	345,155
Total - Financing Authority	<u>172,160,835</u>	<u>-</u>	<u>(1,375,155)</u>	<u>170,785,680</u>	<u>1,430,155</u>
Regional San's - Revenue bonds	1,068,585,000	-	(54,975,000)	1,013,610,000	35,330,000
Regional San's - Notes from direct borrowings	200,000,000	-	-	200,000,000	-
Plus (less):					
Premium (discounts)	61,330,476	-	(3,281,457)	58,049,019	2,719,745
State revolving loan	474,574,145	197,729,575	(2,091,617)	670,212,103	7,653,527
Loan with contributing agency	1,670,769	-	(544,849)	1,125,920	556,836
Capital lease	8,617,381	-	(1,226,305)	7,391,076	1,266,345
Derivative borrowing	2,790,239	-	(214,634)	2,575,605	214,633
Compensated Absences	6,820,820	1,317,143	(1,023,123)	7,114,840	1,067,226
Landfill closure and postclosure liability	12,386,205	229,627	(208,555)	12,407,277	12,997
Total - Regional San's	<u>1,836,775,035</u>	<u>199,276,345</u>	<u>(63,565,540)</u>	<u>1,972,485,840</u>	<u>48,821,309</u>
Total	<u>\$ 2,008,935,870</u>	<u>\$ 199,276,345</u>	<u>\$ (64,940,695)</u>	<u>\$ 2,143,271,520</u>	<u>\$ 50,251,464</u>

	July 1, 2017	Increase	Decrease	June 30, 2018	Due Within One year
Revenue Bonds - Financing Authority	\$ 166,765,000	\$ -	\$ (990,000)	\$ 165,775,000	\$ 1,030,000
Plus premium	6,730,990	-	(345,155)	6,385,835	345,155
Total - Financing Authority	<u>173,495,990</u>	<u>-</u>	<u>(1,335,155)</u>	<u>172,160,835</u>	<u>1,375,155</u>
Regional San's - Revenue bonds	1,100,880,000	-	(32,295,000)	1,068,585,000	33,845,000
Regional San's - Notes from direct borrowings	200,000,000	-	-	200,000,000	-
Plus (less):					
Premium (discounts)	64,648,630	-	(3,318,154)	61,330,476	2,749,309
State revolving loan	253,786,588	221,946,927	(1,159,370)	474,574,145	5,228,587
Loan with contributing agency	2,203,890	-	(533,121)	1,670,769	544,849
Capital lease	9,804,914	-	(1,187,533)	8,617,381	1,226,306
Derivative borrowing	3,004,872	-	(214,633)	2,790,239	214,633
Compensated Absences	6,698,509	1,127,087	(1,004,776)	6,820,820	1,023,123
Landfill closure and postclosure liability	11,795,811	1,036,800	(446,406)	12,386,205	2,086
Total - Regional San's	<u>1,652,823,214</u>	<u>224,110,814</u>	<u>(40,158,993)</u>	<u>1,836,775,035</u>	<u>44,833,893</u>
Total	<u>\$ 1,826,319,204</u>	<u>\$ 224,110,814</u>	<u>\$ (41,494,148)</u>	<u>\$ 2,008,935,870</u>	<u>\$ 46,209,048</u>

Premiums and discounts, which are recorded as part of long-term obligation, are amortized over the life of the related debt, using the straight-line method.

The District's outstanding notes from direct borrowings, revenue bonds and the state revolving loan contain a provision that in an event of default, outstanding amounts become immediately due if the District is unable to make payment. The District's outstanding notes from direct borrowings, bonds and the state revolving loan are secured by a pledge of and charge and lien of the District's revenues.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 5. LONG-TERM DEBT (Continued)

#### **State Water Resources Control Board Division of Financial Assistance**

In April 2015, the State Water Board approved the Clean Water State Revolving Fund (CWSRF) program financing to the Sacramento Regional County Sanitation District (District) for the EchoWater Project. The EchoWater Project is estimated to be in eight construction phases and is estimated to take place over the next several years, starting in March 2015 and ending in February 2022. The total cost of the project is estimated at approximately \$1.6 billion. Pursuant to CWSRF Policy, the interest rate for a construction financing agreement is established by the earlier of the date that the Division of Financial Assistance (Division) initiates preparation of the financing agreement or the date the financing is approved by the State Water Board.

Repayment of an associated financing agreement begins one year after completion of construction of each phase as established in the associated financing agreement for each phase of construction. The combined financing agreements of approximately \$1.4 billion with thirty year terms and rates estimated to be from 1.6 percent to 1.7 percent. The interest rate for the associated financing agreements for each component would be the rate otherwise in effect at the time that each financing agreement is approved. These component projects vary in their start dates from March 2015 to January 2018 and completion dates from August 2016 to March 2022.

The amount of existing debt will be on parity with the CWSRF debt and the Master Installment Purchase Contract because it provides adequate security for financing. It allows parity debt if the net revenues equal at least 1.2 times the total debt service. A separate reserve fund shall be maintained for the full term of the financing agreements equal to one year's debt service on all associated financing agreements by completion of construction. The State Water Board reserves the right to add new or modify existing conditions to the commitment in the future, as required by state or federal law or agreements. All eight components of the EchoWater Project have been approved for financing at an interest rate ranging from 1.6% to 1.7% over a 30 year life. As of June 30, 2019, a total of \$650,967,712 in draws have been processed relating to the different components of the EchoWater Project. This amount does not reflect the capitalized interest that has been added to the loan balances for projects that have not been completed.

In November 2015, the California State Water Resources Control Board approved construction financing for the phased construction of a transmission pipeline that will provide recycled water to the southern portions of the City of Sacramento. The pipeline will convey recycled water from the existing Sacramento Regional Wastewater Treatment Plant Water Reclamation Facility to the Sacramento Power Authority Cogeneration Facility for use at its cooling towers.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**5. LONG-TERM DEBT (Continued)**

The table below shows the estimated costs and maximum loan amounts, interest rate and loan balance at June 30, 2019 related to each of the eight EchoWater Projects components and the Water Recycling Pipeline Project.

<b>Component</b>	<b>CWSRF Number</b>	<b>Estimated Cost/Maximum Loan Amount</b>	<b>Loan balance at 6/30/2019</b>	<b>Interest rate</b>	<b>Construction Start Date</b>
<b>EchoWater Project</b>					
Site Preparation	C-06-8025-110	\$ 43,949,856	\$ 39,777,946	1.6%	Mar-15
Flow Equalization	C-06-8025-120	138,672,372	129,750,167	1.6%	Mar-15
Main Electrical Substation Expansion	C-06-0825-130	3,439,831	2,714,763	1.6%	Aug-15
Disinfection Chemical Storage	C-06-8025-140	21,465,759	21,490,033	1.6%	Sep-15
Nitrifying Sidestream Treatment	C-06-8025-150	53,490,845	52,441,967	1.6%	Jan-16
Biological Nutrient Removal Facility	C-06-8025-160	533,142,603	359,068,146	1.7%	Apr-16
RAS Pumping Station	C-06-8025-170	35,696,952	28,752,029	1.7%	Jul-16
Tertiary Treatment Facility	C-06-8025-180	564,657,506	29,234,606	1.7%	Jun-18
Total EchoWater		<u>1,394,515,724</u>	<u>663,229,657</u>		
<b>Water Recycling Pipeline Project</b>					
Phase 1B	C-06-8082-110	<u>8,182,200</u>	<u>6,982,446</u>	1.0%	Oct-16
<b>Total CWSRF Loan</b>		<u>\$ 1,402,697,924</u>	<u>\$ 670,212,103</u>		

**6. LINE OF CREDIT**

On December 27, 2016, Wells Fargo Bank, N.A. issued an Irrevocable Standby Letter of Credit to Regional San for \$505,770, with an expiration date of June 15, 2018. The letter of credit was established for the benefit of the Department of Fish and Wildlife for environmental mitigation on the South River Pump Station Flood Protection Project. On September 14, 2017, the Letter of Credit was extended to January 1, 2023 and the credit balance limit reduced to \$32,370. The reduction was due to the project being nearly complete at the time of the amendment. As of June 30, 2019, the District has a zero balance outstanding on the line of credit

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**7. CONDENSED COMPONENT UNIT INFORMATION**

Presented is condensed component unit information for the Sacramento County Sanitation Districts Financing Authority (Authority), for the fiscal year ended 2019 and 2018. The Authority is a blended component unit of Regional San.

Condensed Statements of Net Position

ASSETS	2019	2018
Current assets		
Loan receivable - Regional San <sup>1</sup>	\$ 50,011,056	\$ 46,326,185
Loan and interest receivable - Authority	5,347,888	5,314,346
<b>TOTAL CURRENT ASSETS</b>	<b>55,358,944</b>	<b>51,640,531</b>
Noncurrent assets		
Long term loan - Regional San <sup>1</sup>	1,896,167,850	1,762,666,725
Long term loan - Authority	169,355,525	170,785,680
<b>TOTAL NONCURRENT ASSETS</b>	<b>2,065,523,375</b>	<b>1,933,452,405</b>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts on refunding - Regional San	31,239,688	33,353,053
LIABILITIES		
Current liabilities		
Current liabilities - Regional San	50,011,056	46,326,185
Current liabilities - Authority	5,347,888	5,314,346
<b>TOTAL CURRENT LIABILITIES</b>	<b>55,358,944</b>	<b>51,640,531</b>
Noncurrent liabilities		
Long term obligation - Regional San	1,896,167,850	1,762,666,725
Long term obligation - Authority	169,355,525	170,785,680
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>2,065,523,375</b>	<b>1,933,452,405</b>
<b>TOTAL LIABILITIES</b>	<b>2,120,882,319</b>	<b>1,985,092,936</b>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts on refunding - Authority	1,319,695	1,397,324
NET POSITION		
Unrestricted for Regional San debt service	31,239,688	33,353,053
Unrestricted - Authority	(1,319,695)	(1,397,324)
<b>TOTAL NET POSITION</b>	<b>\$ 29,919,993</b>	<b>\$ 31,955,729</b>

(1) The loan receivable between Regional San and the Financing Authority is eliminated for financial reporting.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**7. CONDENSED COMPONENT UNIT INFORMATION (Continued)**

Condensed Statement of Revenue, Expenses, and Change in Net Position

NONOPERATING REVENUES (EXPENSES)	2019	2018
Base payments - Regional San	\$ 35,211,930	\$ 35,525,515
Nonoperating expenses - Regional San	(37,325,295)	(38,113,853)
Base payments - Authority	9,061,695	9,112,204
Nonoperating expenses - Authority	(8,984,066)	(9,034,575)
<b>TOTAL NONOPERATING REVENUES</b>	<b>(2,035,736)</b>	<b>(2,510,709)</b>
 Change in net position	 (2,035,736)	 (2,510,709)
NET POSITION, Beginning of year	31,955,729	34,466,438
NET POSITION, End of year	\$ 29,919,993	\$ 31,955,729

Condensed Statement of Cash Flows

NET CASH PROVIDED (USED) BY:		
Operating activities - Regional San	\$ (101,974,067)	\$ (149,500,690)
Non-capital financing activities - Regional San	101,974,067	149,500,690
Operating activities - Authority	10,380,679	10,041,074
Non-capital financing activities - Authority	(10,380,679)	(10,041,074)
 Net increase (decrease) in cash and cash equivalents	 -	 -
CASH AND CASH EQUIVALENTS, beginning of year	-	-
CASH AND CASH EQUIVALENTS, end of year	\$ -	\$ -

**8. RELATED PARTY TRANSACTIONS**

Under the terms of a cost-sharing agreement with the City of Sacramento, a Contributing Agency of Regional San, Regional San agreed to reimburse the City for certain improvements made to the City's and Regional San's sewer delivery network (Sump 2A). During fiscal year 2001-02, Regional San paid a lump-sum amount of \$1,504,934 to the City and incurred a long-term obligation of \$9,093,532 under this agreement. These amounts were capitalized in deferred charges and are amortized over the twenty year useful life of the underlying improvement (Sump 2A). At June 30, 2019 and 2018, respectively, deferred charges related to this asset were \$5,829,150 and \$6,094,112, which are net of accumulated amortization of \$4,769,316 and \$4,504,354 and is included in deposits with others on the Statement of Net Position.

The long-term obligation incurred to finance the contribution is being repaid in an amount of \$581,606 per year over the twenty-year period ending in fiscal year 2020-21. At June 30, 2019 and 2018 respectively, the outstanding balance was \$1,125,920 and \$1,670,770.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**8. RELATED PARTY TRANSACTIONS (Continued)**

Regional San employees are County employees and Regional San is contractually obligated to reimburse the County for all employee costs. Regional San has contracted with the City of Sacramento and the County of Sacramento to manage and operate wastewater treatment facilities. In addition, Regional San authorized the various departments within the County of Sacramento to provide administrative, management and engineering services for the wastewater treatment construction program. Regional San also obtains various services, such as computer support, from the County. In fiscal years 2018-19 and 2017-18, Regional San paid approximately \$73.7 and \$72.5 million respectively, for these services. These amounts have been charged to operating expenses.

**9. CAPITAL LEASE OBLIGATION**

In July 2002, Regional San entered into a service contract agreement for the design, construction, financing, and operation of Regional San's Biosolids Facility (Facility) with Synagro-WWT, Inc. Regional San leased the site to Synagro for \$1 per year to use the facility site to construct the Facility. The Facility was completed in January 2005. Regional San paid a service fee to Synagro at an imputed interest rate of 5.71% from July 2002 through December 2014. In December 2014 Synagro refinanced the debt related to the Facility which adjusted the imputed interest rate to 3.265% saving Regional San approximately \$2 million over the balance of the 20 year agreement. At the end of the 20 year contract term, Synagro will surrender the Facility to Regional San and ownership of the Facility will revert to Regional San at no cost to Regional San.

The assets acquired through this capital lease were as follows at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Structures and improvements	\$ 20,080,339	\$ 20,080,339
Less accumulated depreciation	(14,558,246)	(13,554,229)
Total	<u>\$ 5,522,093</u>	<u>\$ 6,526,110</u>

The future minimum lease obligations as of June 30, 2019 are as follows:

<u>Year Ending June 30</u>	<u>Present Value of Minimum Lease Payments</u>	<u>Imputed Interest</u>	<u>Total Lease Payments</u>
2020	\$ 1,266,345	\$ 241,319	\$ 1,507,664
2021	1,307,690	199,972	1,507,662
2022	1,350,387	157,276	1,507,663
2023	1,394,477	113,186	1,507,663
2024	1,440,007	67,657	1,507,664
2025	632,170	20,640	652,810
Future minimum lease obligations	<u>\$ 7,391,076</u>	<u>\$ 800,050</u>	<u>\$ 8,191,126</u>



**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**10. LANDFILL CLOSURE AND POSTCLOSURE CARE**

State and federal laws and regulations place specific requirements on Regional San regarding closure and post closure maintenance and monitoring functions for its grit and screening landfill site, solid storage basins (SSBs) and dedicated land disposal sites (DLDs) for 30 years after closure. The California Regional Water Quality Control Board has oversight responsibility for Regional San's adherence to the laws and regulations. Although closure and post closure care costs will be paid only near or after the date that the site is closed, Regional San reports a portion of these closure and post closure care costs as an operating expense in each period.

The entire amount of the estimated liability for the grit and screening landfill site was recognized June 30, 1994, as it reached its capacity and was closed. The engineers report for SSBs and DLDs was updated in 2008 for recognizing closure and post closure care costs, these costs will be amortized over estimated useful lives of 50 years for both the SSBs and DLDs. The SSB's will accept waste through the year 2041 and the DLDs through the year 2053. The prior engineers report had a useful life for the amortization of 15 years for the SSBs and 60 years for the DLDs.

Regional San has reported the following as its closure and post closure care liability at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Landfill	\$ 56,365	\$ 69,362
SSBs and DLDs	<u>12,350,912</u>	<u>12,316,843</u>
	<u>\$ 12,407,277</u>	<u>\$ 12,386,205</u>

Regional San will recognize estimated costs for closure and post closure care of \$12,350,912 over the remaining useful life of up to 22 years of the SSBs and 34 years for DLDs. This amount is based on the estimated cost to perform all closure and post closure care in 2019. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. As of June 30, 2019, the percentage of landfill capacity used to date for SSBs was 54% and DLDs was 30%. As of June 30, 2018, the percentage of landfill capacity used to date for SSBs was 52% and DLDs was 28%.

Regional San is required by state and federal laws and regulations to provide financial assurance that appropriate resources will be available to finance closure and post closure costs in the future. This amount will be increased each year as Regional San approaches closure of the SSBs and DLDs. Regional San was in compliance with applicable laws and regulations. Regional San expects that any changes to future closure and post closure costs (e.g. due to changes in technology or applicable laws or regulations) will be paid from charges to future users or from future tax revenues.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 11. COMMITMENTS AND CONTINGENCIES

Regional San has entered into contracts for the construction of certain projects and other operational activities. At June 30, 2019 and 2018, the unexpended balance of the contract commitments was \$355,472,880 and \$534,962,327, respectively. The decrease is mainly due to the EchoWater project.

Regional San is a defendant in various matters of litigation. Of these matters, management and Regional San's legal counsel do not anticipate any material effect on the June 30, 2019 and 2018 financial statements.

### 12. NET POSITION

Net Position is the excess of all Regional San's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources. Net Position is divided into three captions as described below:

Net Investment in Capital Assets, describes the portion of Net Position which is represented by the current net book value of Regional San's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which Regional San cannot unilaterally alter. Restrictions include a reserve for debt service, which represents the portion of net position legally restricted for debt service payments as required by the related debt covenants offset by any bond proceeds used to finance debt service reserve requirements. Restrictions include retentions that are held for capital construction projects. Restrictions also include a reserve for facility closure mandated by the state to finance closure costs of solid storage basins (SSB) and dedicated land disposal sites (DLD).

Unrestricted describes the portion of Net Position which is not restricted to use and includes designations which are described below.

Designations of unrestricted net positions are imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**12. NET POSITION (Continued)**

At June 30, 2019 and 2018, the details of designations of unrestricted net position are for the following:

	<u>2019</u>	<u>2018</u>
General reserve	\$ 29,792,557	\$ 29,248,256
Rate stabilization	23,200,000	23,200,000
Equipment replacement	1,103,813	1,076,891
Industrial incentive program	-	3,500,000
SLRAP	-	6,505,000
Expansion	20,908,124	20,908,124
Replacement	82,747,278	80,729,052
Bufferland	-	1,000,000
Confluence program	10,000,000	-
Debt service stabilization	4,000,000	4,000,000
Undesignated	188,993,124	171,892,314
	<u>\$ 360,744,896</u>	<u>\$ 342,059,637</u>
Total Unrestricted Net Position		

**(a) General Reserve**

Designated for general reserve is established to provide for unexpected expenses not covered or foreseen in the annual budget. The target amount of this reserve is equal to 25 percent of Regional San's total operating budget based net of depreciation on industry practices and historical standards of Regional San.

**(b) Rate Stabilization**

Designated for rate stabilization represents the amount set aside for the unlikely event Regional San is unable to achieve the specified amount of "coverage" that the bond documents require. If this event occurs, rate stabilization funds will be transferred to revenue accounts to achieve the required 120% coverage.

**(c) Equipment Replacement**

Designated for equipment replacement represents the amount set aside to purchase equipment.

**(d) Industrial Incentive Program**

Designated for incentive program is established in the event that sufficient non-service charge revenues are not received to fund the program in a specific year. For the 2018-19 year, the reserve was moved to the Confluence Program.

**(e) SLRAP**

Designated for SLRAP (Sewer Lifeline Rate Assistance Program) serves as an endowment to generate interest revenue to fund a portion of the credit given to qualified customers. For the 2018-19 year, the reserve was moved to the Confluence Program.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 12. NET POSITION (Continued)

#### (f) Expansion

Designated for expansion was established to fund expansions to Regional San's system beyond the original Wastewater Management Program. This reserve will be used to cover any shortfalls in budgeted sewer impact fees due to a slowdown in growth.

#### (g) Replacement

Designated for replacement are maintained to pay for a portion of Regional Sans future rehabilitation and replacement costs of existing treatment and conveyance system facilities. The goal is to smooth and minimize the monthly service charge adjustments required to fund significant future costs.

#### (h) Bufferland

Designated for the rehabilitation of historical properties located in the Bufferlands that surround the treatment plant.

#### (i) Confluence Program

Designated to supports programs for economic incentives, educational programs, the Sewer Lifeline Rate Assistance Program, and other community partnership programs. These programs are supported by non-rate/non-fee activity. For the 2018-19 year, the Industrial Incentive Program and the SLRAP reserve balances have been moved into the Confluence Program

#### (j) Debt Service Stabilization

Designated for debt service stabilization has been established to provide for fluctuations in the amount of interest due on Regional San's variable rate bonds. This will prevent monthly service charges from suddenly increasing to pay for increased debt service. Any difference between the budgeted debt service and actual debt service for variable rate bonds will either be added to or subtracted from this on an annual basis.

#### (k) Undesignated

The remaining balance in the unrestricted net position is undesignated by the Board of Directors.

### 13. OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (OPEB)

#### Plan Description

Regional San's labor force are employees of the County, which provides medical and dental insurance, and subsidy/offset payments as authorized by the Board of Supervisors on an annual basis. The County has established a Retiree Healthcare Plan (HC Plan), and participates in a single-employer plan and it does not issue a publicly available report. In September 2018 and September 2017, the Board of Supervisors approved the Retiree Medical and Dental Insurance Program Administrative Policy for calendar years 2019 and 2018, respectively.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**13. OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)**

The County provides access to group medical insurance and dental insurance, medical and dental offset payments to a specific group of eligible retirees as a result of a settlement. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75. For financial reporting purposes, Regional San reports a proportionate share of the County's collective total OPEB liability, OPEB expense, and deferred inflows and outflows. Accordingly, the disclosures and required supplementary information have been reported for Regional San as a cost sharing participant.

**Benefits Provided**

All annuitants are eligible to enroll in a retiree medical and/or dental insurance plan in a given calendar year if (1) they began receiving a continuing retirement allowance from SCERS during that calendar year, or (2) they were enrolled in the annual plan previously approved by the County (continuous coverage), or (3) they previously waived coverage but elected to enroll during the County authorized enrollment period with a coverage date effective January of the given calendar year. Total benefits paid by Regional San during the year ended June 30, 2019 and 2018 is \$252,125 and \$228,983 respectively.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

Regional San reported a liability of \$6,201,921 and \$6,086,205 for its proportionate share of the total OPEB liability as of June 30, 2019 and 2018, respectively. At June 30, 2019, the total OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the OPEB liability was determined by an actuarial valuation as of the same date. Regional San's proportion of the total OPEB liability was based on the total full-time equivalents (FTE) of Regional San relative to the total FTEs of the County. At June 30, 2019 and 2018, Regional San's proportion was 3.88 and 4.02 percent respectively.

For the year ended June 30, 2019 and 2018, Regional San recognized OPEB expense of \$330,642 and \$409,234, respectively.

At June 30, 2019, Regional San reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 411,623
Changes in proportion	-	183,691
Contributions subsequent to the measurement date	252,125	-
Total	<u>\$ 252,125</u>	<u>\$ 595,314</u>

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**13. OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)**

At June 30, 2018, Regional San reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Amount paid for OPEB subsequent to measurement date	\$ 228,983	\$ -
Changes in assumptions	<u>-</u>	<u>(357,246)</u>
Total	<u>\$ 228,983</u>	<u>\$ (357,246)</u>

For the year ending June 30, 2019, \$252,125 was reported as deferred outflows of resources related to OPEB resulting from amounts paid by Regional San subsequent to the measurement date will be recognized as a reduction of the total OPEB liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30</u>	
2020	\$ 90,150
2021	90,150
2022	90,150
2023	90,150
2024	90,150
2025 - 2026	144,564
Total	<u>\$ 595,314</u>

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**13. OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)**

**Actuarial Assumptions**

The total OPEB liability in the June 30, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Valuation Date	June 30, 2018 and 2017
Discount Rate	3.87% at June 30, 2018 (Bond Buyer 20-Bond GO Index) 3.58% at June 30, 2017 (Bond Buyer 20-Bond GO Index)
Inflation	2.75%
Medical Trend	7.50%, decreasing to an ultimate rate of 4.00%
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2017
Salary Increase	3%
Healthcare Participation	45%

**Discount Rate**

The discount rate used to measure the total OPEB liability was 3.87 and 3.58 percent for the June 30, 2018 and 2017 valuation date, respectively and was based on the Bond Buyer 20-Bond GO Index

**Sensitivity of Regional San's Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate**

The following presents Regional San's proportionate share of the total OPEB liability as of June 30, 2019, as well as what Regional San's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current discount rate:

	1% Decrease <u>(2.87%)</u>	Discount Rate <u>(3.87%)</u>	1% Increase <u>(4.87%)</u>
Total OPEB Liability	\$ 6,671,843	\$ 6,201,921	\$5,756,940

The following presents Regional San's proportionate share of the total OPEB liability as of June 30, 2018, as well as what Regional San's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current discount rate:

	1% Decrease <u>(2.58%)</u>	Discount Rate <u>(3.58%)</u>	1% Increase <u>(4.58%)</u>
Total OPEB Liability	\$ 6,545,579	\$ 6,086,246	\$5,648,866

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**13. OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)**

**Sensitivity of Regional San's Proportionate Share of the Total OPEB liability to Changes in the Healthcare Cost Trend Rates**

The following presents Regional San's proportionate share of the total OPEB liability as of June 30, 2019, as well as what Regional San's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.5% decreasing to 3.0% in 2076)	Discount Rate (7.5% decreasing to 4.0% in 2076)	1% Increase (8.5% decreasing to 5.0% in 2076)
Total OPEB Liability	\$ 5,488,951	\$ 6,201,921	\$ 7,038,937

The following presents Regional San's proportionate share of the total OPEB liability as of June 30, 2018, as well as what Regional San's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.5% decreasing to 3.0% in 2076)	Discount Rate (7.5% decreasing to 4.0% in 2076)	1% Increase (8.5% decreasing to 5.0% in 2076)
Total OPEB Liability	\$ 5,420,767	\$ 6,086,246	\$ 6,864,587

**14. NET PENSION LIABILITY**

**Plan Descriptions**

Employees of Regional San participate in the County of Sacramento's (County) cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the Sacramento County Employees Retirement System (SCERS). The Plan is governed by the Sacramento Board of Retirement (Board) under the California County Employees' Retirement Law of 1937 (CERL) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of Sacramento Board of Supervisors and/or the SCERS Board. SCERS issues a stand-alone financial report, which may be obtained by contacting Sacramento County Employees' Retirement System, 980 9th Street, Suite 1900 Sacramento, CA 95814.



# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 14. NET PENSION LIABILITY (Continued)

#### Benefits Provided

SCERS provides service retirement, disability, death and survivor benefits to eligible employees. All permanent full-time or part-time employees of the County of Sacramento or contracting districts become members of SCERS upon employment. There are separate retirement cost pools for Safety and Miscellaneous member employees. Safety membership is extended to those involved in active law enforcement, fire suppression, and certain other classifications. All other employees, including Regional San's employees, are classified as Miscellaneous members. There are five tiers applicable to Miscellaneous members. Those hired prior to September 27, 1981 are included in Tier 1. Those hired after that date but prior to January 1, 2012 are included in Tier 2 or Tier 3 depending on date of hire and bargaining unit. County members hired after that date but prior to January 1, 2013 are included in Tier 4. New members hired on or after January 1, 2013 are designated as PEPRA Miscellaneous (Tier 5) and are subject to the provisions of California Government Code 7522 et seq. and AB 197.

Miscellaneous members hired prior to January 1, 2013, are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. Miscellaneous members who are first hired on or after January 1, 2013, are eligible to retire once they have attained the age of 52, and have acquired five years of retirement service credit.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

Miscellaneous member benefits for Tier 1, Tier 2 and Tier 3 are calculated pursuant to the provisions of California Government Code Section 31676.14. Miscellaneous member benefits for Tier 4 are calculated pursuant to the provisions of California Government Code Section 31676.1. The monthly allowance is equal to 1/90th of the first \$350 of final compensation, plus 1/60th of the excess final compensation times years of accrued retirement service credit times age factor from either Section 31676.14 (Tier 1, Tier 2 and Tier 3) or Section 31676.1 (Tier 4). Miscellaneous member benefits for those who are first hired on or after January 1, 2013, are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

For members with membership dates before January 1, 2013, the maximum monthly retirement allowance is 100% of final compensation. There is no maximum for members with membership dates on or after January 1, 2013. Final average compensation consists of the highest 12 consecutive months for a Tier 1 Safety or Tier 1 Miscellaneous member and the highest 36 consecutive months for a Tier 2, Tier 3, Tier 4 or Tier 5 member.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 14. NET PENSION LIABILITY (Continued)

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse. An eligible surviving spouse is one married to the member one year prior to the effective retirement date. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse or named beneficiary having an insurable interest in the life of the member.

SCERS provides an annual cost-of-living benefit to Safety Tier 1, Tier 2, Tier 3 and Tier 4 member retirees and Miscellaneous Tier 1, Tier 3, Tier 4 and Tier 5 member retirees. The cost-of-living adjustment, based upon the Consumer Price Index for the San Francisco-Oakland-San Jose area, is capped at 4% for Tier 1 members and 2% for all other members eligible for a cost-of-living adjustment.

#### Contributions

Participating employers and active members (i.e County), including Regional San, are required by statute to contribute a percentage of covered salary to the Plan. Contributions to the Plan are made pursuant to Section 31584 of the County Employees Retirement Law of 1937. The Plan's funding policy provides for periodic contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when legally due. Each employer of the Plan is obligated by state law to make all required contributions to the plan and depending on the participating employer and their employees' tiers. The average contribution rate was 17.49% of covered payroll for the year ending June 30, 2019 and 15.03% of covered payroll for the year ending June 30, 2018. Regional San's proportionate share of the County's contribution to the Plan was \$6,894,244 and \$5,783,687 for the year ended June 30, 2019 and June 30, 2018, respectively.

#### Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

Regional San reported a liability of \$53,111,998 and \$59,402,515 for its proportionate share of the County's net pension liability at June 30, 2019 and June 30, 2018 respectively. The net pension liability was measured as of June 30, 2018 and June 30, 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. Regional San's proportion of the County's net pension liability was based on Regional San's fiscal year 2018 and 2017 actual contributions to the County's pension plan relative to the total contributions of the County as a whole. At June 30, 2018, Regional San's proportion was 2.71%, which was a decrease of 0.12% from its proportionate share measured as of June 30, 2017. At June 30, 2017, Regional San's proportion was 2.83%.

Regional San recognized pension expense for the year ended June 30, 2019 and June 30, 2018 in the amount of \$10,454,493 and \$10,428,251 respectively.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**14. NET PENSION LIABILITY (Continued)**

At June 30, 2019, Regional San reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 11,726	\$ 1,173,555
Changes in assumptions	13,089,433	-
Net differences between projected and actual earnings on plan investments	-	3,608,408
Changes in proportion and differences between employer contributions and proportionate share of contributions	92,648	1,472,851
Employer contributions paid by Regional San to County subsequent to the measurement date	6,894,244	-
Total	<u>\$ 20,088,051</u>	<u>\$ 6,254,814</u>

The \$6,894,244 reported as deferred outflows of resources related to pension, resulting from Regional San's contributions to the County's plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to Regional San's proportion of the County's pension plan will be recognized in pension expense as follows:

<u>Year ended June 30</u>	
2020	\$ 2,050,340
2021	2,050,340
2022	2,050,340
2023	1,804,299
Total	<u>\$ 7,955,319</u>

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**14. NET PENSION LIABILITY (Continued)**

At June 30, 2018, Regional San reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ 2,500,986
Changes in assumptions	18,394,651	317,023
Net differences between projected and actual earnings on plan investments	3,040,645	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	217,463	942,185
Employer contributions paid by Regional San to County subsequent to the measurement date	5,783,687	-
Total	<u>\$ 27,436,446</u>	<u>\$ 3,760,194</u>

**Actuarial Assumptions**

Regional San's proportion of the County's total pension liability in the June 30, 2018 and June 30, 2017 actuarial valuation was determined using the following actuarial assumptions applied in the measurement:

<u>June 30, 2019</u>	
Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry-Age actuarial cost method
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Inflation	3.00%
Projected Salary increases	Miscellaneous: 4.50% to 10.75%.
Cost of Living Adjustments	See below
<u>June 30, 2018</u>	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry-Age actuarial cost method
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Inflation	3.00%
Projected Salary increases	Miscellaneous: 4.50% to 10.75%.
Cost of Living Adjustments	See below

Cost of living adjustments for Miscellaneous Tier 1 benefits are assumed to increase at 3.00% per year, Miscellaneous Tier 3, Tier 4, and Tier 5 benefits are assumed to increase at 2% per year and Miscellaneous Tier 2 receives no COLA increase for the actuarial valuation dated June 30, 2019 and 2018.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 14. NET PENSION LIABILITY (Continued)

Mortality rates used in the actuarial valuation dated June 30, 2018 are based on Headcount-Weighted RP-2014 with the two-dimensional scale MP-2016. For healthy Miscellaneous members, the ages are set forward one year for males and no age adjustment for females. For Miscellaneous members that are disabled, the ages are set forward seven years for males and set forward eight years for females. Mortality rates used in the actuarial valuation dated June 30, 2016 are based on the RP-2000 Combined Healthy mortality table projected with Scale BB to 2022. For healthy Miscellaneous members, no adjustments are made. For Miscellaneous members that are disabled, the ages are set forward three years for females.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the three year period of July 1, 2013 through June 30, 2016. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the three year period of July 1, 2010 through June 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and projected arithmetic real rates of return for each major asset class used in the derivation of the long-term expected investment rate of return assumption as of June 30, 2018 are summarized in the table below:

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**14. NET PENSION LIABILITY (Continued)**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
U.S. Large Cap Equity	17.00%	5.61%
U.S. Small Cap Equity	4.00%	6.37%
International Developed Equity	16.00%	6.96%
Emerging Markets Equity	4.00%	9.28%
High Yield Bonds	1.00%	3.65%
Bank Loans	1.00%	2.96%
Growth Oriented Abs. Return	3.00%	4.97%
Private Equity	9.00%	8.70%
Private Credit/Private Debt	4.00%	5.10%
Core/Core Plus Bonds	10.00%	1.06%
Global Bonds	3.00%	0.07%
U.S. Treasury	5.00%	0.16%
Diversifying Abs. Return	7.00%	3.04%
Private Real Estate	7.00%	4.37%
Private Assets	7.00%	7.74%
Commodities	2.00%	3.76%
<b>Total</b>	<b>100.00%</b>	

**Change of Assumptions**

For the measurement period ended June 30, 2017, the discount rate was reduced from 7.5 percent to 7.0 percent.

**Discount Rate**

The discount rates used to measure the Total Pension Liability (TPL) was 7.00% for the measurement period ending June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2018 and June 30, 2017.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**14. NET PENSION LIABILITY (Continued)**

**Sensitivity of Regional San's Proportionate Share of the County's Net Pension Liability to Changes in the Discount Rate**

The following table presents Regional San's proportionate share of the County's net pension liability calculated using the discount rate of 7.00% for the year ending June 30, 2019 and 2018, as well as what Regional San's proportionate share of the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage –point lower or 1-percentage-point higher than the current rate at June 30, 2019 and 2018.

**Regional San's proportionate share of the County's net pension liability**

<b>Year Ending June 30</b>	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
2019	\$95,620,506	\$53,111,998	\$18,389,187
2018	\$102,307,899	\$59,402,515	\$24,384,355

**Pension Plan Fiduciary Net Position**

Detailed information about the County's collective net pension liability is available in the County's separately issued Comprehensive Annual Financial Report (CAFR). The County of Sacramento's financial statements may be obtained on the internet at <http://www.finance.saccounty.net/AuditorController/Pages/AcctGeneral.aspx>.

Detailed information about the SCERS's fiduciary net position is available in a separately issued SCERS comprehensive annual financial report. That report may be obtained on the Internet at [www.retirement.saccounty.net/Pages/FinancialInformation.aspx](http://www.retirement.saccounty.net/Pages/FinancialInformation.aspx).

**15. FUTURE GASB PRONOUNCEMENTS**

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Regional San is currently evaluating the effect of this standard on the financial statements.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

### 15. FUTURE GASB PRONOUNCEMENTS (Continued)

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Regional San is currently evaluating the effect of this standard on the financial statements.

GASB Statement No 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statement no. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Regional San is currently evaluating the effect of this standard on the financial statements.

GASB Statement No 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Regional San is currently evaluating the effect of this standard on the financial statements.



**SACRAMENTO REGIONAL COUNTY  
SANITATION DISTRICT**

*Sacramento, California*

**Required Supplementary Information**

For the Fiscal Years Ended June 30, 2019 and 2018

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**Schedule of Regional San's Proportionate Share of the County's Net OPEB Liability**

**Last Ten Years <sup>(1)</sup>**

	<b>Fiscal Year</b>	
	<b>2019</b>	<b>2018</b>
Regional San's proportion of the County's OPEB liability	3.88%	4.02%
Regional San's proportionate share of the County's OPEB liability	\$ 6,201,921	\$ 6,086,246
Regional San's covered payroll	\$ 39,330,009	\$ 38,885,860
Regional San's proportionate share of the OPEB liability as a percentage of its covered employee payroll	15.77%	15.65%
Measurement date	6/30/2018	6/30/2017

**Notes to Schedule:**

(1) Fiscal year 2018 was the first year of implementation; therefore, only two years are shown.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

**Schedule of Regional San's Proportionate Share of the County's Net Pension Liability**

	Last Ten Years <sup>(1, 2)</sup>				
	Fiscal Year				
	2019	2018	2017	2016	2015
Regional San's proportion of the County's net pension liability	2.71%	2.83%	3.16%	2.97%	2.68%
Regional San's proportionate share of the County's net pension liability	\$ 53,111,998	\$ 59,402,515	\$ 51,209,450	\$ 31,876,088	\$ 19,434,740
Regional San's covered payroll	38,474,050	38,255,528	36,769,665	35,980,289	34,753,345
Regional San's proportionate share of the net pension liability as a percentage of its covered payroll	138.05%	155.28%	139.27%	88.59%	55.92%
Plan's fiduciary net position as a percentage of the total pension liability	82.51%	80.37%	81.40%	87.26%	91.02%
Measurement date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014

**Notes to Schedule:**

(1) Fiscal year 2015 was the first year of implementation; therefore, only five years are shown.

(2) Changes in assumptions: In the measurement period ended June 30, 2017, the discount rate changed from 7.5% to 7.0%

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

**Schedule of Regional San's Contributions - Pension  
Last Ten Years <sup>(1)</sup>**

	Fiscal Year				
	2019	2018	2017	2016	2015
Actuarially determined contributions	\$ 6,894,244	\$ 5,783,687	\$ 6,080,054	\$ 6,469,853	\$ 7,541,083
Contributions in relation to the actuarially determined contribution	<u>(6,894,244)</u>	<u>(5,783,687)</u>	<u>(6,080,054)</u>	<u>(6,469,853)</u>	<u>(7,541,083)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Regional San's covered payroll	 \$ 39,415,257	 \$ 38,474,050	 \$ 38,255,528	 \$ 36,769,665	 \$ 35,980,289
Contributions as a percentage of covered payroll	17.49%	15.03%	15.89%	17.60%	20.96%

**Notes to Schedule:**

(1) Fiscal year 2015 was the first year of implementation; therefore, only five years are shown.





**SACRAMENTO REGIONAL COUNTY  
SANITATION DISTRICT**

*Sacramento, California*

**Statistical Section**

For the Fiscal Years Ended June 30, 2019 and 2018

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## Index to Statistical Section

This part of the Sacramento Regional County Sanitation District comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about Regional San's overall financial health.

### Contents

#### ***Financial Trends***

These schedules contain trend information to help the reader understand how Regional San's financial performance has changed over time:

- Net Position by Component – Fiscal Years 2009-10 through 2018-19
- Changes in Net Position - Fiscal Years 2009-10 through 2018-19
- Operating Revenues by Source - Fiscal Years 2009-10 through 2018-19
- Operating Expenses - Fiscal Years 2009-10 through 2018-19
- Nonoperating Revenues and Expenses - Fiscal Years 2009-10 through 2018-19

#### ***Revenue Capacity***

These schedules contain information to help the reader assess the factors affecting Regional San's ability to generate its sewer service fees:

- Wastewater Treated - Fiscal Years 2009-10 through 2018-19
- Number of Customers by Type - Fiscal Years 2009-10 through 2018-19
- Ten Largest Customers – Fiscal Years 2019 and 2010
- Sewer Rates - Fiscal Years 2009-10 through 2018-19

#### ***Debt Capacity***

These schedules present information to help the reader assess the affordability of Regional San's current level of outstanding debt and its ability to issue additional debt in the future:

- Net Ratios of Outstanding Debt by Type - Fiscal Years 2009-10 through 2018-19
- Pledged Revenue Coverage - Fiscal Years 2009-10 through 2018-19

#### ***Demographic and Economic Information***

These schedules present demographic and economic indicators to help the reader understand the environment within which Regional San's financial activities take place:

- Demographic and Economic Statistics - Fiscal Years 2009-10 through 2018-19
- Private Sector Principal Employers – Fiscal Years 2019 and 2010

#### ***Operating Information***

These schedules contain service and infrastructure information to help the reader understand how the information in Regional San's financial report relates to the services Regional San provides and the activities it performs:

- Number of Employees by Identifiable Activity - Fiscal Years 2009-10 through 2018-19
- Operating and Capital Indicators - Fiscal Years 2009-10 through 2018-19



**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Net Position by Component**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 1**

Fiscal Year	Net investment in capital assets	Restricted				Unrestricted	Total Net Position
		Capital Construction	Financing Authority Debt Service	Debt Service	Facility Closure		
2019	\$ 976,789,495	\$ 18,567,869	\$ -	\$ 27,773,197	\$ 11,963,897	\$ 360,744,896	\$ 1,395,839,354
2018 <sup>3</sup>	893,810,285	13,234,120	-	45,504,646	11,224,882	342,059,637	1,305,833,570
2017	839,106,137	7,304,756	-	62,505,045	11,224,882	292,755,351	1,212,896,171
2016	801,739,262	-	-	77,229,103	10,857,424	215,651,098	1,105,476,887
2015	679,594,579	-	-	96,859,933	10,543,592	270,611,532	1,057,609,636
2014	753,174,791	-	3,350,093	35,081,214	10,543,592	255,887,708	1,058,037,398
2013	725,776,658	-	3,547,157	40,224,910	10,543,592	274,593,780	1,054,686,097
2012 <sup>1,2</sup>	701,153,220	-	3,744,221	32,059,832	10,312,554	289,890,877	1,037,160,704
2011 <sup>1,2</sup>	715,564,275	-	3,941,285	61,971,937	10,312,554	272,130,515	1,063,920,566
2010	802,186,894	-	-	33,401,521	10,192,868	253,822,423	1,099,603,706

**Note**<sup>1</sup>: Fiscal year 2011 and 2012 have been revised in accordance with the implementation guidance in GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. Prior years have not been restated as permitted by the standard.

**Note**<sup>2</sup>: Fiscal year 2011 and 2012 have been revised in accordance with the implementation GASB Statement No. 61 *The Financial Reporting Entity: Omnibus - an amendment of GASB Statement No. 14 and No. 39*. Prior years have not been restated.

**Note**<sup>3</sup>: Fiscal year 2018 have been revised in accordance with the implementation GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Changes in Net Position**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 2**

<b>Fiscal Year</b>	<b>Operating Revenues</b>	<b>Operating Expenses</b>	<b>Operating Income</b>	<b>Non-operating Revenues (Expenses)</b>	<b>Capital Contributions</b>	<b>Change in Net Position</b>	<b>Beginning Net Position</b>	<b>Ending Net Position</b>
2019	\$ 298,376,696	\$(180,201,417)	\$ 118,175,279	\$ (59,325,819)	\$ 31,156,324	\$ 90,005,784	\$1,305,833,570	\$1,395,839,354
2018 <sup>4</sup>	286,549,128	(169,886,279)	116,662,849	(47,811,048)	27,640,122	96,491,923	1,209,341,647	1,305,833,570
2017	276,132,785	(161,076,897)	115,055,888	(29,576,402)	21,935,800	107,415,286	1,105,476,887	1,212,896,171
2016	252,415,620	(153,042,081)	99,373,539	(67,303,498)	15,797,210	47,867,251	1,057,609,636	1,105,476,887
2015 <sup>3</sup>	231,361,832	(149,908,566)	81,453,266	(55,368,627)	10,739,885	36,824,524	1,020,785,112	1,057,609,636
2014	202,454,271	(147,926,717)	54,527,554	(58,583,851)	7,404,598	3,348,301	1,054,689,097	1,058,037,398
2013	185,855,640	(143,295,992)	42,559,648	(37,293,142)	12,261,887	17,528,393	1,037,160,704	1,054,689,097
2012 <sup>1,2</sup>	167,526,350	(131,889,180)	35,637,170	(74,078,031)	11,680,999	(26,759,862)	1,063,920,566	1,037,160,704
2011 <sup>1,2</sup>	152,939,158	(124,230,758)	28,708,400	(68,597,018)	8,162,111	(31,726,507)	1,095,647,073	1,063,920,566
2010	154,282,934	(114,004,217)	40,278,717	(14,573,945)	8,303,093	34,007,865	1,065,595,841	1,099,603,706

**Note** <sup>1</sup>: Fiscal year 2011 and 2012 have been revised in accordance with the implementation guidance in GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. Prior years have not been restated as permitted by the standard.

**Note** <sup>2</sup>: Fiscal year 2011 and 2012 have been revised in accordance with the implementation GASB Statement No. 61 *The Financial Reporting Entity: Omnibus - an amendment of of GASB Statement No. 14 and No. 39*. Prior years have not been restated.

**Note** <sup>3</sup>: Fiscal year 2015 beginning net position has been revised in accordance with the implementation guidance in GASB Statement No. 68 *Financial Reporting for Pensions*. Prior years have not been restated as permitted by the standard.

**Note** <sup>4</sup>: Fiscal year 2018 beginning net position has been revised in accordance with the implementation guidance in GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Prior years have not been restated as permitted by the standard.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Operating Revenues by Source**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 3**

<b>Fiscal Year</b>	<b>Sewer Service Fees</b>	<b>Other Revenue</b>	<b>Total Operating Revenues</b>
2019	\$ 282,337,704	\$ 16,038,992	\$ 298,376,696
2018	271,617,413	14,931,715	286,549,128
2017	261,072,833	15,059,952	276,132,785
2016	237,034,177	15,381,443	252,415,620
2015	216,875,848	14,485,984	231,361,832
2014	191,127,721	11,326,550	202,454,271
2013	176,390,036	9,465,604	185,855,640
2012 <sup>1</sup>	158,312,082	9,214,268	167,526,350
2011 <sup>1</sup>	147,066,928	5,872,230	152,939,158
2010	146,696,150	7,586,784	154,282,934

**Note** <sup>1</sup>: Fiscal year 2011 and 2012 have been revised in accordance with the implementation of GASB Statement No. 61 *The Financial Reporting Entity: Omnibus - an amendment of GASB Statement No. 14 and No. 39*. Prior years have not been restated.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Operating Expenses**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 4**

Fiscal Year	County Labor			Depreciation and Amortization	Utilities			Services and Supplies
	SDA	Other	Total		Electricity	Other	Total	
2019	\$ 67,705,494	\$ 164,162	\$ 67,869,656	\$ 50,899,506	\$ 12,925,661	\$ 6,131,475	\$ 19,057,136	\$ 1,764,466
2018	66,015,300	165,220	66,180,520	50,021,285	12,202,211	4,939,625	17,141,836	2,326,953
2017	62,772,157	195,307	62,967,464	49,488,494	13,013,548	5,514,619	18,528,167	2,131,884
2016	54,850,665	239,908	55,090,573	49,211,734	11,728,932	5,528,863	17,257,795	1,603,874
2015	52,844,294	215,324	53,059,618	48,847,967	11,487,675	5,150,124	16,637,799	1,675,281
2014	54,218,370	333,013	54,551,383	47,323,205	11,801,544	5,307,767	17,109,311	2,103,032
2013	52,733,714	397,005	53,130,719	46,890,586	10,789,203	4,444,100	15,233,303	1,215,686
2012 <sup>2,3</sup>	52,001,289	323,737	52,325,026	35,453,426	10,446,816	4,292,375	14,739,191	1,410,617
2011 <sup>3</sup>	48,829,735	356,259	49,185,994	33,596,284	9,819,786	4,469,969	14,289,755	1,718,277
2010 <sup>1</sup>	46,693,516	438,038	47,131,554	27,862,959	9,826,145	4,872,004	14,698,149	1,689,650

**Note**<sup>1</sup>: The District transferred duties from County MIS to the District MIS staff in fiscal year 2009-10.

**Note**<sup>2</sup>: Fiscal year 2012 has been revised in accordance with the implementation guidance in GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. Prior years have not been restated as permitted by the standard.

**Note**<sup>3</sup>: Fiscal year 2011, 2012 and 2013 have been revised in accordance with the implementation of GASB Statement No. 61 *The Financial Reporting Entity: Omnibus - an amendment of GASB Statement No. 14 and No. 39*. Prior years have not been restated.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Operating Expenses (Continued)**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 4**

<b>Chemicals</b>	<b>Plant and Interceptor Maintenance</b>	<b>Consultants</b>	<b>Landfill Closure and Postclosure Care</b>	<b>Insurance</b>	<b>Data Processing</b>	<b>Laboratory</b>	<b>Office Equipment</b>	<b>Total Operating Expenses</b>
\$ 18,985,657	\$ 7,626,102	\$ 8,171,261	\$ 34,069	\$ 1,085,764	\$ 3,550,235	\$ 481,040	\$ 676,525	\$ 180,201,417
14,074,988	7,634,695	7,086,144	588,308	747,355	3,266,886	423,002	394,307	169,886,279
8,837,116	6,953,135	7,864,848	438,363	988,772	2,079,457	467,183	328,016	161,072,899
8,331,568	7,526,655	9,320,883	166,254	1,051,303	2,164,153	542,620	774,669	153,042,081
8,502,099	7,148,056	9,258,070	389,036	1,247,381	1,996,139	537,469	609,651	149,908,566
7,891,074	6,857,555	7,693,665	175,626	1,392,073	1,901,203	553,463	375,127	147,926,717
6,306,468	6,064,517	10,297,809	(345,301)	1,313,227	2,160,599	564,625	463,754	143,295,992
6,362,741	5,854,874	11,544,807	419,501	1,332,928	1,598,564	586,252	261,253	131,889,180
5,436,372	5,879,560	10,456,613	(118,859)	1,080,095	1,787,232	588,727	330,708	124,230,758
6,102,597	5,641,399	8,206,183	75,005	832,591	936,187	543,391	284,552	114,004,217

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Nonoperating Revenues and Expenses**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 5**

<b>Fiscal Year</b>	<b>Interest Expense</b>	<b>Authority Interest Expense</b>	<b>SASD Base Payment</b>	<b>Authority Other Expense</b>	<b>Interest Revenue</b>	<b>Sewer Incentive Program<sup>1</sup></b>	<b>Arbitrage Rebate Expense</b>	<b>Derivative Investments</b>	<b>Other Revenue (Expenses)</b>	<b>Total Non-operating Revenues (Expenses)</b>
2019	\$ (58,740,098)	\$(8,984,067)	\$9,061,695	\$ -	\$ 10,880,222	\$(1,879,707)	\$ -	\$ (8,187,856)	\$(1,476,008)	\$ (59,325,819)
2018	(58,760,283)	(9,034,575)	9,112,204	-	7,441,734	(1,921,244)	-	6,543,193	(1,192,077)	\$(47,811,048)
2017	(44,154,951)	(9,074,042)	9,151,671	-	4,544,181	(1,941,797)	-	12,674,697	(776,161)	\$(29,576,402)
2016	(51,147,853)	(9,101,995)	7,549,413	-	1,214,076	(1,352,945)	-	(17,805,522)	3,341,328	\$(67,303,498)
2015	(49,895,919)	(14,951,737)	14,951,737	(3,350,093)	1,552,401	(1,457,841)	-	(4,355,048)	2,137,873	\$(55,368,627)
2014	(54,181,398)	(14,254,750)	14,254,750	(197,064)	1,552,541	(1,441,252)	-	(188,802)	(4,127,876)	\$(58,583,851)
2013	(53,829,320)	(13,993,685)	13,993,685	(197,064)	4,497,542	(1,408,484)	90,394	16,825,504	1,996,242	\$(32,025,186)
2012 <sup>2</sup>	(53,829,320)	(14,190,666)	14,190,666	(197,064)	4,121,409	(1,321,063)	-	(21,619,786)	(1,232,207)	\$(74,078,031)
2011 <sup>2</sup>	(54,795,844)	(13,630,151)	13,630,151	(197,064)	4,362,767	(1,257,414)	502,838	1,888,837	(19,101,138)	\$(68,597,018)
2010	(13,664,571)	-	-	-	4,027,421	(1,677,806)	318,053	(721,931)	(2,855,111)	\$(14,573,945)

**Note<sup>1</sup>:** In Fiscal year 2012-13 name changed from Excess Sewer Capacity and Incentive to Sewer Incentive Program name was established to more correctly match current program.

**Note<sup>2</sup>:** Fiscal year 2011 and 2012 have been revised in accordance with the implementation GASB Statement No. 61 *The Financial Reporting Entity: Omnibus - an amendment of GASB Statement No. 14 and No. 39. Prior years have not been restated.*

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Wastewater Treated**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 6**

<b>Fiscal Year</b>	<b>Connected Equivalent Single-Family Dwellings (ESD)</b>	<b>Monthly Sewer Rate per ESD</b>
2019	598,217	\$37.00
2018	592,857	36.00
2017	588,054	35.00
2016	586,351	32.00
2015	586,519	29.00
2014	579,940	26.00
2013	580,568	24.00
2012	577,312	22.00
2011	573,425	20.00
2010	570,321	19.75

**Source:** ESD - Chief Financial Officer's Billing Report  
District Sewer Rate Ordinances

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Number of Customers by Type**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 7**

<b>Fiscal Year</b>	<b>Residential ESD's</b>	<b>Commercial <sup>1</sup> ESD's</b>	<b>Total ESD's <sup>2</sup></b>	<b>Industrial Flow Customers</b>	<b>Total</b>
2019	492,877	105,340	598,217	131	598,348
2018	485,263	107,593	592,857	130	592,987
2017	481,314	106,739	588,053	130	588,183
2016	490,140	96,211	586,351	127	586,478
2015	483,219	103,300	586,519	144	586,663
2014	479,189	100,751	579,940	155	580,095
2013	480,089	100,479	580,568	159	580,727
2012	477,299	100,013	577,312	146	577,458
2011	473,664	99,761	573,425	99	573,524
2010	570,321	-	570,321	103	570,424

**Source:** Customer billing records

**Note 1:** FY2006 - FY2010 Commercial is incorporated with the Residential totals as data is unavailable for these fiscal years

**Note 2:** Total ESD's for Residential and Commercial is not the total number of customers by type since many customers have multiple types of ESD's



**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Ten Largest Customers**

**Current Year and Nine Years Ago  
Schedule 8**

**Fiscal Year 2019**

<b>Customer</b>	<b>Amount <sup>1</sup></b>	<b>%</b>
Procter and Gamble Manufacturing	\$ 2,651,407	0.94%
H.P. Hood, LLC	2,460,020	0.87%
Nor-Cal Beverage Company, Inc.	464,644	0.16%
Folsom State Prison	453,431	0.16%
The American Bottling Company	418,028	0.15%
Mission Linen Supply	413,589	0.15%
Huhtamaki, Inc.	406,981	0.14%
Sacramento County Airport System - SIA	321,975	0.11%
Aramark Uniform Services, Inc.	271,508	0.10%
Rio Cosumnes Correctional Center	241,509	0.09%
Subtotal (10 largest)	8,103,093	2.87%
Balance from other customers	274,234,611	97.13%
Grand totals	\$ 282,337,704	100.00%

**Fiscal Year 2010**

<b>Customer</b>	<b>Amount <sup>1</sup></b>	<b>%</b>
Proctor & Gamble Manufacturing	\$ 1,526,327	1.07%
Campbell Soup Company	853,418	0.60%
Crystal Cream and Butter Co.	235,028	0.16%
Folsom State Prison	205,929	0.14%
Huhtamaki Food Services, Inc	202,050	0.14%
Pepsi-Cola Bottling Co	183,581	0.13%
Nor-Cal Beverage Co	181,437	0.13%
Mission Industries	130,616	0.09%
Bryte Bend Water Treatment Plant	121,881	0.09%
Aramark Services Inc.	120,088	0.08%
Subtotal (10 largest)	3,760,355	2.47%
Balance from other customers	142,935,795	97.53%
Grand totals	\$ 146,696,150	100.00%

**Source:** Annual customer billing records from Wastewater Source Control

**Note <sup>1</sup>:** Amount includes base rate charges as well as multiple meters on various accounts.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Sewer Rates**

**Fiscal Years 2010-2011 through 2019-2020  
Schedule 9**

	Fiscal Year									
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Residential Rates <sup>1</sup> :										
Operations and Maintenance	\$12.00	\$14.00	\$13.00	\$14.00	\$13.54	\$13.65	\$12.90	\$13.09	\$12.55	\$12.30
Capital Improvement Program	25.00	22.00	22.00	18.00	15.46	12.35	11.10	8.91	7.45	7.45
Total	<u>\$37.00</u>	<u>\$36.00</u>	<u>\$35.00</u>	<u>\$32.00</u>	<u>\$29.00</u>	<u>\$26.00</u>	<u>\$24.00</u>	<u>\$22.00</u>	<u>\$20.00</u>	<u>\$19.75</u>
Industrial Rates <sup>3</sup> :										
Per Million Gallons	\$783.00	\$783.00	\$779.00	\$741.00	\$318.46	\$318.46	\$318.46	\$318.46	\$318.46	\$318.46
Per Thousand Lbs BOD <sup>2</sup>	378.00	378.00	363.00	362.00	191.89	191.89	191.89	191.89	191.89	191.89
Per Thousand Lbs SS <sup>2</sup>	255.00	255.00	215.00	215.00	110.87	110.87	110.87	110.87	110.87	110.87
TKN	835.00	783.00	778.00	605.00	431.90	0.00	0.00	0.00	0.00	0.00
Pathogens	226.00	216.00	215.00	167.00	119.42	0.00	0.00	0.00	0.00	0.00

**Source:** Regional San Sewer Rate Ordinances

**Note <sup>1</sup>:** Monthly rate at June 30 per equivalent single-family dwelling (ESD).

**Note <sup>2</sup>:** BOD=Biochemical Oxygen Demand, SS=Suspended Solids.

**Note <sup>3</sup>:** Industrial rates are based on flow (millions of gallons) and per thousands of pounds of BOD and SS.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Net Ratios of Outstanding Debt by Type**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 10**

Fiscal Year	Authority Net Revenue Bonds <sup>4,5</sup>	Outstanding Debt <sup>1</sup>				Regional San's Net Debt		
		State Revolving Loan	Regional San Net Revenue Bonds <sup>4</sup>	Capital Leases	City of Sacramento Loan	District Amount Outstanding	Per Equivalent Single-Family Dwelling <sup>2</sup>	As a Share of Personal Income <sup>3</sup>
2019	\$ 170,785,680	\$670,212,103	\$ 1,271,659,019	\$7,391,076	\$ 1,125,920	\$ 1,950,388,117	\$ 3,260	N/A
2018	172,160,835	474,574,145	1,329,915,477	8,617,381	1,670,769	1,814,777,772	3,061	2.4%
2017	173,495,990	253,786,588	1,365,528,630	9,804,914	2,203,890	1,631,324,022	2,774	2.2%
2016	174,791,145	57,868,521	1,399,806,784	10,954,900	2,725,534	1,471,355,739	2,509	2.1%
2015	176,056,300	-	1,483,189,938	12,068,526	3,235,949	1,498,494,413	2,555	2.3%
2014	267,480,272	-	1,341,262,496	13,222,403	3,735,377	1,358,220,277	2,342	2.1%
2013	272,529,262	-	1,365,911,779	14,125,541	4,224,054	1,384,261,374	2,384	2.3%
2012	277,403,251	-	1,385,542,654	14,979,895	4,702,212	1,405,224,761	2,380	2.6%
2011	282,102,240	-	1,376,434,789	15,788,101	5,170,077	1,397,392,967	2,445	2.6%
2010	153,910,022	-	1,396,637,253	16,639,424	5,627,869	1,418,904,546	2,495	2.7%

**Source:** Resources Restricted to Repaying Principal from trust statement

**Note**<sup>1</sup>: Details regarding the Authority's outstanding debt can be found in the notes to the financial statements.

**Note**<sup>2</sup>: Equivalent single-family dwelling. Data is shown at schedule 6.

**Note**<sup>3</sup>: Per Capita income data is shown on Schedule 13. Not available until April 2019.

**Note**<sup>4</sup>: Revenue Bonds for the Authority (Regional San and SASD) presented Net of deferred items. See changes in long term obligations for detail.

**Note**<sup>5</sup>: Authority Net Revenue Bonds are not included in the ratio calculation as all debt payments relating to the Authority Revenue Bonds are paid by the Sacramento Area Sewer District.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Pledged–Revenue Coverage**

**Fiscal Years 2009-2010 through 2018-2019**

**Schedule 11**

(Dollars in Thousands)

Fiscal Year	Sewer Service Fees	Sewer Impact Fees	Interest Grants and Other Operating Income	Gross Revenues	Less Operating Expenses (excluding depreciation and landfill)	Net Revenues	Revenue Bonds Debt Service			Coverage Ratio <sup>2</sup>
							Principal	Interest	Total	
2019	\$ 282,338	\$ 29,510	\$ 28,565	\$ 340,413	\$ 129,267	\$ 211,146	\$ 54,975	\$ 53,387	\$ 108,362	1.95
2018	271,617	25,385	24,089	321,091	119,277	201,814	32,295	55,889	88,184	2.29
2017	261,073	21,936	19,604	302,613	111,146	191,467	30,960	57,336	88,296	2.17
2016	237,034	13,618	16,596	267,248	106,511	160,737	30,065	58,461	88,526	1.82
2015	216,876	10,740	16,038	243,654	104,838	138,816	23,090	59,972	83,062	1.67
2014	191,128	7,330	12,954	211,512	100,428	111,084	22,600	56,742	79,342	1.40
2013	176,390	11,056	15,170	202,616	96,612	106,004	17,960	61,233	79,193	1.34
2012 <sup>1</sup>	158,312	8,029	16,987	183,328	96,016	87,312	18,085	60,740	78,825	1.11
2011	147,067	8,162	10,235	165,464	91,820	73,644	13,235	61,292	74,527	0.99
2010 <sup>3</sup>	146,696	8,303	11,614	166,613	86,066	80,547	21,895	66,784	88,679	0.91

**Note <sup>1</sup>:** See Schedule 4. Fiscal year 2012 has been revised in accordance with the implementation guidance in GASB Statement NO. 65 *Items Previously Reported as Assets and Liabilities*. Prior years have not been restated as permitted by the standard.

**Note <sup>2</sup>:** This schedule presents all non–general obligation long-term debt backed by pledged revenues. The coverage ratio differs from those required by specific bond indentures.

**Note <sup>3</sup>:** Principal does not include \$22,660,000 defeased in fiscal year 2009-10.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Demographic and Economic Statistics**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 12**

<b>Fiscal Year</b>	<b>County Population</b>	<b>Personal Income</b> <i>(in thousands)</i>	<b>Per Capita Personal Income</b>	<b>County Unemployment Rate</b>	<b>School Enrollment</b>	<b>County Labor Force <sup>1</sup></b>
2019	1,540,975	NA	NA	3.8%	247,000	706,900
2018	1,530,615	\$ 76,832,420	\$ 50,197	4.6%	246,000	703,500
2017	1,514,460	72,878,458	48,122	5.4%	244,000	697,600
2016	1,501,335	69,870,482	46,539	6.0%	243,000	693,000
2015	1,482,000	65,126,187	43,944	7.3%	241,000	689,800
2014	1,462,000	63,512,541	43,438	8.8%	240,000	679,300
2013	1,450,000	60,668,975	41,837	10.5%	238,000	684,000
2012	1,436,000	54,861,602	38,202	12.1%	237,000	685,400
2011	1,422,000	53,612,730	37,700	12.6%	237,000	677,400
2010	1,409,000	52,377,247	37,184	11.3%	238,000	682,000

**Note:** NA = Not available until April 2019. Information will be updated next fiscal year.

**Note 1:** Data for Sacramento County has been changed to reflect only Sacramento County information.

**Source:** Sacramento County Comprehensive Annual Financial Report  
County Labor Force from California Employment Department (amounts are for previous calendar year)

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Private Sector Principal Employers**

**Current Year and Nine Years Ago  
Schedule 13**

<u>Employer</u>	<u>Number of Employees <sup>a</sup></u>	<u>Percent of County Labor Force <sup>1 c</sup></u>
	<u>2019</u>	<u>2019</u>
UC Davis Health System	12,840	1.88%
Kaiser Permanente	11,005	1.61%
Sutter / California Health Services	8,177	1.20%
Dignity /Mercy Healthcare	7,000	1.02%
Intel Corporation	6,000	0.88%
Apple Inc.	5,000	0.73%
Raley's Inc. / Bel Air	3,374	0.49%
Health Net of California Inc.	3,000	0.44%
VSP Global	2,700	0.40%
Amazon - Sacramento Fulfillment Center	2,000	0.29%
	<u>2010 <sup>b</sup></u>	<u>2010 <sup>c</sup></u>
Kaiser Permanente	10,081	1.65%
CHW / Mercy Health Care	8,279	1.36%
Sutter/California Health Services	7,314	1.20%
Intel Corporation	6,000	0.98%
Wells Fargo & Co.	3,690	0.61%
Raley's Inc./Bel Air	3,401	0.56%
PRIDE Industries	2,841	0.47%
HealthNet of CA	2,512	0.41%
Cash Creak Casino Resort	2,460	0.40%
Pacific Gas and Electric Co.	2,169	0.36%

**Source <sup>a</sup>:** Sacramento Business Journal Annual Book of Lists

**Source <sup>b</sup>:** Sacramento Area Commerce and Trade Organization

**Source <sup>c</sup>:** California Employment Development Department, Labor Market Information

**Note <sup>1</sup>:** County labor force is shown in schedule 12.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Number of Employees by Identifiable Activity**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 14**

	Full-time-Equivalent Employees as of June 30									
	2019	2018	2017	2016	2015	2014	2013	2012 <sup>3</sup>	2011	2010
Maintenance and Operations	244	247	245	259	239	241	231	231	221	221
Engineering <sup>2</sup>	89	85	85	88	90	89	80	63	73	76
Laboratory	30	29	28	29	29	29	30	32	33	33
Source Control	15	15	14	14	14	14	14	14	15	15
Administration <sup>1</sup>	97	100	108	108	108	109	102	114	80	80
<b>Total Employees</b>	<u>475</u>	<u>476</u>	<u>480</u>	<u>498</u>	<u>480</u>	<u>482</u>	<u>457</u>	<u>454</u>	<u>422</u>	<u>425</u>

**Note:** Regional San has no employees; the above reflects County employees working for Regional San.

**Note<sup>1</sup>:** Administration includes Material Support, Plant Administration, Communications & Media, MIS and Office of Finance.

**Note<sup>2</sup>:** In 2013 Bufferlands and Documentation were moved under Engineering.

**Note<sup>3</sup>:** In 2012 the Sanitation District Agency went through re-organization; 33 FTE positions were moved from Sacramento Area Sewer District to Sacramento Regional County Sanitation District.

**Source:** Sacramento Regional County Sanitation District budget documents

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**Operating and Capital Indicators**

**Fiscal Years 2009-2010 through 2018-2019  
Schedule 15**

	Fiscal Year									
	2019	2018	2017	2016	2015	2014	2013	2012 <sup>2</sup>	2011	2010
Miles of sewers	169	169	169	169	169	172	177	177	147	147
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Treatment capacity (MG <sup>1</sup> per day)	181	181	181	181	181	181	181	181	181	181
Gallons treated annually (MG) <sup>1</sup>	45,990	42,340	40,545	40,383	40,515	42,351	44,983	45,990	56,940	52,560
Capacity utilized	70%	64%	61%	61%	61%	64%	68%	70%	86%	80%

**Note**<sup>1</sup>: MG = millions of gallons. Additional operating indicators can be found in Schedules 7-9.

**Note**<sup>2</sup>: Miles of sewers number changed in 2012 to include parallel force main pipes per the 2011 State of Regional San Report

**Source:** Wastewater Treatment Plant







**SACRAMENTO REGIONAL COUNTY  
SANITATION DISTRICT**

*Sacramento, California*

**Bond Disclosure Section**

For the Fiscal Years Ended June 30, 2019 and 2018

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
SANITATION DISTRICT FINANCING AUTHORITY AND  
SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

FOR THE FISCAL YEARS ENDING JUNE 30, 2019 AND 2018

On October 1, 1993, Regional San entered into a Joint Exercise of Powers Agreement with Sacramento Area Sewer District (SASD) to form the Sacramento County Sanitation Districts Financing Authority (the Authority) for the purpose of facilitating the financing of acquisition and/or construction of real and personal property in and for Regional San and SASD. The Board of Directors of Regional San serves as the Authority's governing board. The Financing Authority is a blended component unit of Regional San. For financial reporting purposes, the Master Installment Purchase Contract between Regional San and the Authority has been eliminated.

This section is provided in accordance with the requirements of the:

- "Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Revenue Bonds, Series 2015 (2015 Bonds)"
- Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Revenue Bonds, Series 2014 B (2014 B Bonds)"
- "Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Revenue Bonds, Series 2014 A (2014 A Bonds)"
- "Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Subordinate Lien Variable Rate Refunding Revenue Bonds, 2013B, 2013C and 2013D, (2013 B, 2013C and 2013 D Bonds )"
- "Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Subordinate Lien Variable Rate Refunding Revenue Bonds, Series 2012A, (2012 Bonds)"
- "Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Refunding Revenue Bonds, Series 2011A, (2011 Bonds)"
- "Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Refunding Revenue Bonds, Series 2007A and Series 2007B (2007 Bonds)"
- "Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Revenue Bonds, Series 2006 (2006 Bonds)"
- "Continuing Disclosure Certificate for the Sacramento County Sanitation Districts financing Authority of its Revenue Bonds, Refunding Series 2001 (2001 Bonds)"
- "Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Revenue Bonds Series 2000C (2000 Series C Bonds)"

The material provided under the Certificates is intended to meet or exceed the requirements of Securities and Exchange Commission Rule 15c2-12(b) (5) (the Rule). The data tables provided herein apply equally to the 2000, 2001, 2006, 2007, 2010, 2011, 2012, 2013 B through 2013 D, 2014 A, 2014 B, and 2015 issues.

This Bond Disclosure Section included within Regional San's Comprehensive Annual Financial Report (CAFR) provides the information required by the Continuing Disclosure Certificates. The CAFR, in turn, will be filed with the MSRB's Electronic Municipal Market Access (EMMA) which transmits it to the National Repositories. The CAFR may also be found at [www.regionalsan.com](http://www.regionalsan.com).

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
SANITATION DISTRICT FINANCING AUTHORITY AND  
SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

FOR THE FISCAL YEARS ENDING JUNE 30, 2019 AND 2018

**ANNUAL REPORT**

As required by the Certificates, this annual report is incorporated into the CAFR and includes, by reference, the audited financial statements of Regional San for the prior fiscal year.

The annual report also contains the following five (5) sections that are required in the Certificates:

- (1) A table setting forth the percentage of service charge revenues received from each of the Contributing Agencies for the immediately preceding five (5) fiscal years.
- (2) A table indicating the number of residential/commercial customer accounts (by equivalent single family dwellings or other appropriate measure) and industrial customer accounts, and the percentage of service charge revenues by each of such customer classifications for the immediately preceding five (5) fiscal years.
- (3) A table listing the ten (10) largest industrial customers and the total service charge revenues received from each of such customers for the immediately preceding fiscal year.
- (4) A table providing a comparison of sewer service rates and impact fees for single-family residences for Regional San and the Contributing Agencies.
- (5) A table showing the Revenues, Maintenance and Operation Costs, and Net Revenues (as these three terms are defined in the Installment Purchase Contract), debt service coverage, and certain fund balances of Regional San for the immediately preceding five (5) fiscal years.

**REPORTING OF SIGNIFICANT EVENTS**

No withdrawals were taken from the Rate Stabilization Fund in fiscal year 2018-19 or 2017-18 and Regional San does not project withdrawals will be made from the rate stabilization reserve for the next few years.

As of June 30, 2019, none of the Events listed in Section 5 of the Certificates have occurred for the outstanding bonds issued by the Financing Authority. As of June 30, 2019, there is no knowledge on the part of the Board of Directors, officers, or employees of the Sacramento Regional County Sanitation District of any impending Significant Event that would require disclosure under the provisions of the Certificate.

**ADDITIONAL INFORMATION**

In October 1993, Regional San entered into a Joint Exercise of Powers Agreement organized under Section 6500 et seq. of the California Government Code with the Sacramento Area Sewer District (SASD) to form the Sacramento County Sanitation Districts Financing Authority (Authority) for the purpose of facilitating the financing of acquisition and/or constructing of real and personal property in and for Regional San and SASD. The Board of Directors of Regional San serves as the Authority's governing board. For financial reporting purposes, the Authority and Regional San have a financial and operational relationship which requires that the Authority's financial statements be blended into Regional San's financial statements. Separate financial statements for the Authority are available from Regional San at 10060 Goethe Road, Sacramento Ca, 95827, upon request.

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
SANITATION DISTRICT FINANCING AUTHORITY AND  
SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

FOR THE FISCAL YEARS ENDING JUNE 30, 2019 AND 2018

The table in section 5 represents only the Regional San portion of revenues, maintenance and operations costs, net revenues, debt service coverage, and certain fund balances of Regional San for the immediately preceding five fiscal years.

For all swaps Regional San pursues with respect to each transaction there are two main strategies which are, i) Mitigate fluctuations in variable interest rates and ii) Reduce interest expense resulting from the difference between short and long term rates.

(i) Mitigate the effect of fluctuations in variable interest rates. This is the primary function of the swaps. Regional San pays a fixed rate, and receives a floating rate. In an interest rate environment whose level is generally higher than the rate at which Regional San is fixed, the swap would result in a positive value to Regional San. Correspondingly, a lower rate environment than the fixed rate would result in a negative value to Regional San. The value primarily depends on the overall level of interest rates on the reporting date compared to what Regional San pays. The overall level of long term interest rates from period to period is the primary driver of changes in value recorded from the investment derivatives where Regional San pays fixed and receives a floating rate. Interest rates have trended lower since inception of the pay fixed swaps, therefore, the mark-to-market value is generally more negative to Regional San.

(ii) Reduce interest expense from expected benefit resulting from the difference between short and long term rates. This is the function of a swap where Regional San receives floating amounts based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 5 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which Regional San pays on the variable bonds. Therefore, when shorter term interest rates came close to, or exceeded longer term rates, Regional San entered into swaps whose receipts on the receive floating leg are based on a longer term index that is expected to outperform the payments on Regional Sans variable debt.

Part of the fair value of this swap is determined by the prevailing level of short term versus long term rates, that is, the steepness of the yield curve. The higher the level of long term rates compared to shorter term rates, the higher the expected benefit to Regional San, therefore, the higher the mark-to-market value of the swap. Regional San pays a fixed rate on this swap transaction, therefore the other part of the value of the swap is determined by the prevailing level of interest rates compared to when Regional San entered into the swap transaction.

Since interest rates have trended lower since inception, the mark-to-market value will be more negative to Regional San, even though Regional San may be receiving a net benefit from the receipts based on the 5 Year CMS Index. Since the long term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem the transactions investment instruments.

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
SANITATION DISTRICT FINANCING AUTHORITY AND  
SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

FOR THE FISCAL YEARS ENDING JUNE 30, 2019 AND 2018

**Section (1)** A table setting forth the percentage of service charge revenues received from each of the Contributing Agencies for the immediately preceding five (5) fiscal years.

<b>Percentage of Service Charge Revenues by Contributing Agencies</b>				
<b>Fiscal Year Ended June 30,</b>	<b>SASD</b>	<b>City of Sacramento</b>	<b>City of Folsom</b>	<b>City of West Sacramento</b>
2015	72%	20%	5%	3%
2016	72%	20%	5%	3%
2017	72%	20%	5%	3%
2018	72%	20%	5%	3%
2019	72%	20%	5%	3%

**Section (2)** A table indicating the number of residential/commercial customer accounts (by equivalent single-family dwelling) and industrial customer accounts and the percentage of service charge revenues by each of such customer classifications for the immediately preceding five (5) fiscal years.

**Number of Accounts and Revenues by Customer Class  
for the Fiscal Years Ended June 30**

<b>Residential/Commercial</b>		
<b>Fiscal Year Ended June 30,</b>	<b>Number of Equivalent Single-family Dwelling</b>	<b>Percentage of Service Charge Revenues</b>
2015	586,519	96.2%
2016	586,351	96.7%
2017	588,054	96.1%
2018	592,857	96.0%
2019	598,217	96.1%

<b>Industrial</b>		
<b>Fiscal Year Ended June 30,</b>	<b>Number of Customer Accounts</b>	<b>Percentage of Service Charge Revenues</b>
2015	144	3.8%
2016	127	3.3%
2017	130	3.9%
2018	130	4.0%
2019	131	3.9%

**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
SANITATION DISTRICT FINANCING AUTHORITY AND  
SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

FOR THE FISCAL YEARS ENDING JUNE 30, 2019 AND 2018

**Section (3)** A table listing the ten (10) largest industrial customers and the total service charge revenues received from each of such customers for the immediately preceding fiscal year.

**Largest Industrial Customers of the District  
for the Fiscal Year Ended June 30, 2019**

Largest Industrial Customers	Revenues Received
Procter and Gamble Manufacturing	\$2,651,407
H.P. Hood, LLC	2,460,020
Nor-Cal Beverage Company, Inc.	464,644
Folsom State Prison	453,431
The American Bottling Company	418,028
Mission Linen Supply	413,589
Huhtamaki, Inc.	406,981
Sacramento County Airport System - SIA	321,975
Aramark Uniform Services, Inc.	271,508
Rio Cosumnes Correctional Center	241,509
	<u>\$ 8,103,093</u>

**Section (4)** A table providing a comparison of sewer service rates and impact fees for a single-family residences for Regional San and the Contributing Agencies.

**Sewer Rates and Impact Fees  
for the Fiscal Year Ended June 30, 2019**

Monthly Service Charges	Regional San	Local	Total
Regional San & SASD	\$37.00	\$19.85	\$56.85
Regional San & City of Folsom	37.00	16.15	53.15
Regional San & City of Sacramento	37.00	31.65	68.65
Regional San & City of West Sacramento	37.00	10.38	47.38
Sewer Impact Fees (a)	Regional San	Local	Total
Regional San & SASD ( b )	\$5,827	\$2,957	\$8,784
Regional San & City of Folsom	5,827	1,021	6,848
Regional San & City of Sacramento ( c )	5,827	1,685	7,512
Regional San & City of West Sacramento	5,827	6,368	12,195

(a) Regional San impact fee is based on new area fee. Infill area impact fee is \$3,358.

(b) SASD Fee is based on expansion area. Relief area impact fee is \$661.

(c) Connection fee is based on 4" pipe at \$168.53 per foot. Assumed 10 feet from residence to sewer pipe.



**ANNUAL REPORT FOR THE SACRAMENTO COUNTY  
SANITATION DISTRICT FINANCING AUTHORITY AND  
SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

FOR THE FISCAL YEARS ENDING JUNE 30, 2019 AND 2018

**Section (5) A table showing Regional San's Revenues, Maintenance and Operations Costs, Net Revenues, Debt Service Coverage, and Certain Fund Balances of Regional San for the immediately preceding five (5) fiscal years.**

**Revenues, Maintenance, and Operational Costs,  
Net Revenues, Debt Service Coverage, and Certain Fund Balances of the Regional San <sup>1</sup>  
for the Fiscal Years Ended June 30  
(in thousands)**

<b>Revenue</b>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<b>Operating</b>					
Sewer Service fees	\$ 216,876	\$ 237,034	\$ 261,073	\$ 271,617	\$ 282,338
Sewer Impact fees	10,740	13,618	21,936	25,385	29,510
	<u>\$ 227,616</u>	<u>\$ 250,652</u>	<u>\$ 283,009</u>	<u>\$ 297,002</u>	<u>\$ 311,848</u>
<b>Non-operating</b>					
Interest income	1,552	1,214	4,544	7,442	10,880
Other revenue	14,486	15,381	15,060	14,932	16,039
	<u>16,038</u>	<u>16,595</u>	<u>19,604</u>	<u>22,374</u>	<u>26,919</u>
	<u>\$ 243,654</u>	<u>\$ 267,247</u>	<u>\$ 302,613</u>	<u>\$ 319,376</u>	<u>\$ 338,767</u>
<b>M&amp;O expense</b>					
Total Operating	\$ 149,909	\$ 153,042	\$ 161,073	\$ 169,886	\$ 180,201
Less: Landfill Closure	(389)	(166)	(438)	(588)	(34)
Less: Depreciation and amortization	(48,848)	(49,212)	(49,489)	(50,021)	(50,900)
	<u>\$ 100,672</u>	<u>\$ 103,664</u>	<u>\$ 111,146</u>	<u>\$ 119,277</u>	<u>\$ 129,267</u>
<b>Net Revenue</b>	<u>\$ 142,982</u>	<u>\$ 163,583</u>	<u>\$ 191,467</u>	<u>\$ 200,099</u>	<u>\$ 209,500</u>
<b>Addition/(Deduction) for Rate Stabilization Fund</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Net Revenue for Coverage Test</b>	\$ 142,982	\$ 163,583	\$ 191,467	\$ 200,099	\$ 209,500
<b>Senior lien debt service</b>	\$ 69,142	\$ 77,237	\$ 76,114	\$ 77,787	\$ 79,473
<b>Total lien debt service</b>	\$ 80,974	\$ 86,225	\$ 83,770	\$ 90,444	\$ 88,848
<b>Senior Coverage <sup>(1)</sup></b>	2.07	2.12	2.52	2.57	2.64
<b>Total Coverage <sup>(1)</sup></b>	1.77	1.90	2.29	2.21	2.36
<b>Reserves, end of year <sup>(2)</sup></b>	\$ 174,172	\$ 179,334	\$ 180,701	\$ 184,310	\$ 192,566

(1) As defined in the Installment Purchase Contract which may or may not be on the same basis as Generally Accepted Accounting Principles.

(2) Reserve balance after planned addition/withdraw.

Intentionally Blank

#### ACKNOWLEDGEMENTS

This Comprehensive Annual Financial Report was prepared by the Regional San Finance Section.

Prabhakar Somavarapu  
District Engineer  
Regional San

Joseph T. Maestretti  
Chief Financial Administrative Officer  
Regional San

Glen Iwamura  
Senior Accounting Manager  
Regional San



Sacramento Regional County Sanitation District  
Sacramento, California

