

FINANCIAL CAPACITY PILOT STUDY



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Financial Capacity Committee Members Include
Personnel from: State Water Board's
Division of Drinking Water and
Division of Financial Assistance

WHY EVALUATE FINANCIAL CAPACITY?

Grand Jury findings in 2018:

“Monthly water rates (\$25 residential and \$50 business) have not increased since [water system] was established in 1984. These revenues are not sufficient to meet governance and operating expenses.”

Grand Jury findings in 2018:

“The Kern County Auditor should perform a detailed audit into questionable accounting practices within the [water system].”



CA'S INFRASTRUCTURE BACKLOG

Exhibit 2.1: State 20-year Need Reported by Project Category (in millions of January 2015 dollars)

State	Transmission and Distribution	Treatment	Storage	Source	Other	Total
Alabama	\$8,942.6	\$1,097.5	\$815.8	\$193.6	\$212.2	\$11,261.9
Arizona	\$5,837.1	\$1,655.2	\$1,042.2	\$393.6	\$202.4	\$9,130.5
Arkansas	\$5,461.2	\$900.0	\$643.4	\$216.5	\$155.7	\$7,376.8
California	\$31,685.9	\$9,199.4	\$6,967.2	\$2,565.4	\$615.2	\$51,033.2
Colorado	\$6,166.4	\$2,722.4	\$924.3	\$228.4	\$147.1	\$10,188.7

OTHER STATES REQUIREMENTS?

Ohio Environmental Protection Agency:

Under Senate Bill (SB) 2, public water systems in Ohio must demonstrate the technical, managerial and financial capability of their system by implementing an asset management program by October 1, 2018.

OTHER STATES REQUIREMENTS? WASHINGTON

Washington State requires either:

- A **Water System Plan (WSP)** – for new systems, systems that serve 1,000 or more service connections or are planning to expand or seek funding.
- A **Small Water System Management Program** is required for ALL other public water systems.
- Washington uses Regional Planners to lead review effort.

WASHINGTON FOCUSES ON “FIVE STEPS”:

1. Develop an operating budget
2. Create and fund an operating cash reserve
3. Create and fund an emergency reserve
4. Create and fund reserves for capital improvements and equipment replacement
5. Periodically review rates



FINANCIAL COMMITTEE GOALS

For regulators, shift mindset towards addressing more of the underlying financial issues and longer-term planning/sustainability

Shift water system mindset from just looking at operation and maintenance (O&M) and start including capital planning in water rates and upgrading infrastructure.

PILOT STUDY

- Assessing water systems for financial capacity during sanitary surveys.
- Pilot a questionnaire to see responses on effectiveness, concerns, vocabulary, etc.
- Regulatory authority may be developed in the future. CHSC already allows creation of regulations per Section 116375(g).

DRAFT SANITARY SURVEY CHECKLIST AND GUIDANCE

Financial Evaluation Questions

Background Information

- 1) What year(s) was the majority of the water system constructed?
- 2) What is the water system's legal business name and type of business entity (corporation, LLC, mutual, non-profit, investor owned utility)?
- 3) If your water system is a private organization, is the water system/legal entity in active standing with the California Secretary of State?
- 4) Have any significant events or development changed the financial or operating status of this system?

Information Management

- 5) Do you have as-built drawings and maps of all water system facilities showing the locations of each water source, treatment facilities, pumping plant(s), storage tanks, water mains, isolation valves, etc.? How often are the schematic drawings and maps updated?
- 6) Do you have written procedures for cataloging, sorting, and storing maps and as-built plans? Are these documents maintained in (i) hard copy, (ii) digital, (iii) both.

Asset Management

- 7) Do you have an asset inventory?
- 8) Do you evaluate your assets for their condition and/or criticality of repair, rehabilitation, or replacement?
- 9) Do you have an asset management plan? How often do you update this plan?

Strategic Plans—Master Plan and Capital Improvement Plan

- 10) Do you have a Master Plan (MP), Capital Improvement Plan (CIP), or another strategic plan? What time-period does this plan cover and how often is it updated?
- 11) What was the last project that you implemented from your MP, CIP or other strategic plan? What time-period does this plan cover and how often is it updated?
- 12) What is your annual budget allocated to the plan? Is it equal or greater than the amount of depreciation of system assets?
- 13) Do you have a staff member with sufficient engineering experience to effectively to carry out the plan? How does this individual report CIP results to the organization?

Reserves Management

- 14) Do you maintain separate reserve funds? If so, what types (debt service, emergency, operational (aka repair and replacement), major capacity-improvement)? How much is deposited annually and what are the established criteria for reserve levels?

- 15) Are there specific criteria and withdrawal guidelines for the maintenance of reserve accounts?
- 16) Do you have any outstanding loans related to the water system? If so, what is the debt, when will it be paid off? Is the water system delinquent or in default on any debt(s)?
- 17) Has the water system had a Federal or State Loan? Can your system borrow money if needed?
- 18) Is the water system utilizing long-term debt to finance operations?

Financial Budgeting

- 19) Is your water system budget maintained separately from other utility or service budgets?
- 20) Does your water system prepare an annual budget document for the upcoming year's operating plan, clearly identifying the revenue requirements?

Financial Planning

- 21) Please describe any long range financial planning efforts including annual operation and maintenance expenses, capital outlays, and adequate working capital and required reserves (example: five-year budget)?
- 22) What percentage of the budget is fixed expenses revenue, what percentage is variable?
- 23) What is the current rate structure? (e.g. minimum charge, no minimum charge, flat rate versus volumetric, etc.)
- 24) Have operational revenues been sufficient to cover expenses over the last 3 years? What is the projected budget for the next five years? Include income, all outstanding debt with terms, cash flow, reserve, salaries, pensions, etc.
 - a. Are total revenues sufficient to cover total expenses (including the debt payment, CIP upgrades, and the costs of emergency maintenance)?
 - b. Are rates high enough to meet short term and long-term needs?
 - c. Is there a formal growth-pays-for-growth policy and is it reflected in the rate structure?
 - d. How often are water rates evaluated?
 - e. When was the last rate increase?
- 25) How are sufficient funds for staff training identified?
- 26) What percentage of customers do not pay their bill on time? What actions does the system take for non-payment? How is non-payment absorbed into the budget?

Financial Accounting

- 27) Does the water system have formal accounting systems and written procedures for financial records?
- 28) Are financial transactions recorded and approved by separate people?

Financial Reporting

- 29) Are financial reports/standard financial statements prepared for review by the governing board/auditor? How often? Are these reports and standards routinely made available to system customers?

FINANCIAL CAPACITY VULNERABILITY INDICATORS BEING CONSIDERED

- Financial Sustainability
 - Asset Management
 - Short and Long Term Strategic Plans
 - Reserve and Debt Management
 - Financial Planning (Rate Structures, Revenues, Expenses, etc.)
 - Fiscal Accountability



PILOT STUDY WATER SYSTEMS

PWS Name	Conn	Pop	County	District	Size	Governance Type
Madera Valley Water Company	1,912	7,067	Madera	District 11-Merced	medium	private, non-profit
City of Whittier	11,385	49,954	Los Angeles	District 07-Hollywood	large	municipal
Saratoga Heights Mutual Water Company	91	255	Santa Clara	District 17-Santa Clara	small	MWC
Seymour's Mutual Water Company	27	26	Trinity	District 01-Klamath	tiny	MWC
Devore WC	503	1636	San Bernardino	District 13-San Bernardino	small-med	MWC
Cal Water Service Co. - Dominguez	32,658	142,857	Los Angeles	District 22-Angeles	large	IOU
Alpaugh Community Services District	391	1026	Tulare	District 12-Visalia	small	CSD
Ballico CSD	73	238	Merced	District 11-Merced	small	CSDs
Suisun-Solano Water Authority	8,436	28,856	Solano	District 04-San Francisco	med-large	JPA
Mountain View	16,246	76,000	Santa Clara	District 17-Santa Clara	large	municipal

PILOT STUDY RESULTS

- Terminology Challenges
- Time Challenges – Length of Evaluation
- Small and Disadvantaged Water Systems Appear to be in More Need of Assistance
- Additional Training and Follow-up Assistance Needed

NEXT STEPS

- Refine Financial Evaluations for Terminology and System Type
- Additional Stakeholder Outreach
- Expand Training and Assistance Resources and Availability
- Tie Financial Evaluation Effort to Defined Expectations for Water Systems
- Demonstrate Benefit of Financial Evaluation of Water Systems
- Incorporate into Sanitary Surveys Statewide
- Prioritized Roll-Out of Financial Evaluations Based on Need



Rope tied to the tree holding up tank.



Thank You!

