FINANCIAL CAPACITY PILOT STUDY

Karen Nishimoto, P.E.
Metropolitan District
State Water Board, Division of Drinking Water

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)

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

Drinking Water Infrastructure Needs Survey and Assessment, Sixth Report to Congress, March 2018
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.
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).
Financial Evaluation Questions

Section 2: Operations
1. What is the current management structure of the entity? (Name, Title, Contact Information)
2. What is the entity’s legal status and type of business entity (corporation, LLC, tribal entity, etc.)?
3. Is the entity’s management legally able to make decisions related to the business?
4. Do any significant events or changes affect the financial performance of the organization?
5. Do you have written procedures for financial reporting, working capital, and management of financial assets and liabilities?

Section 3: Financial Condition
1. What is the total balance of all accounts receivable, accounts payable, and any other loans or debt?
2. Is the entity’s financial condition adequate to meet its obligations?

Section 4: Financial Performance
1. What are the entity’s financial performance indicators (e.g., profitability, cash flow, growth)?

Section 5: Future Planning
1. What is the entity’s long-term strategic plan for growth and development?
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

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

Rope tied to the tree holding up tank.