



# Tips for Assessing and Improving the Fiscal Health of Small Regulated Water Utilities in Arizona

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Webinar by the Environmental Finance Center Network,  
sponsored by the U.S. Environmental Protection Agency



Smart Management for Small Water Systems



# Tips for Assessing and Improving the Fiscal Health of Small Regulated Water Utilities in Arizona

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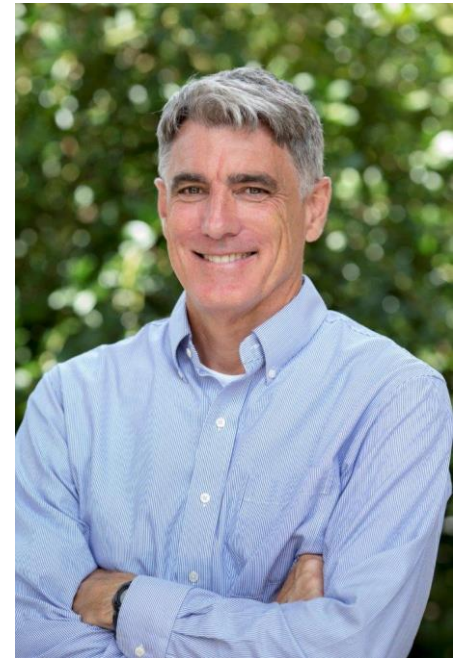
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## At the top right corner of your screen:

Show your control panel to submit questions and see answers

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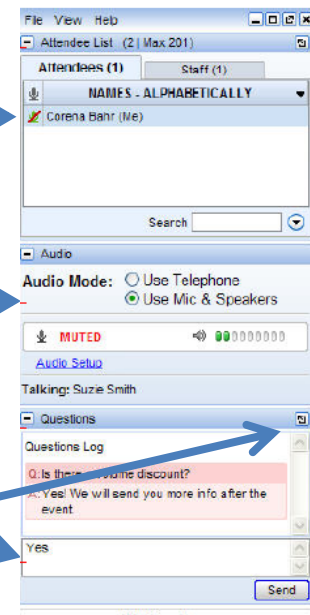


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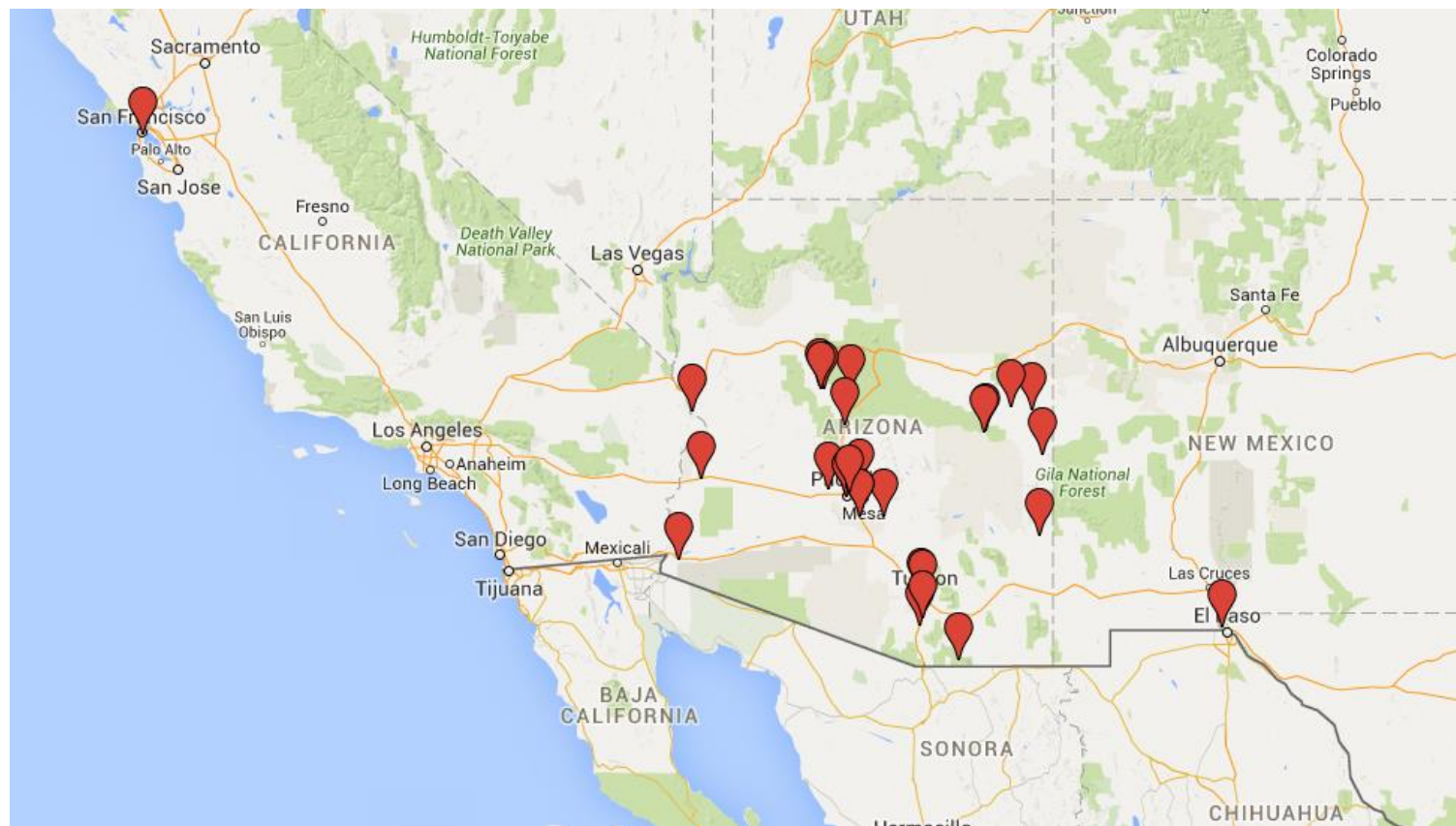
Attendee List

Audio: please choose between speakers and telephone.  
If you do not hear audio right now, please check your speaker volume or enter #[audio pin]# if using phone.

Submit questions in the Questions box at any time, and press [Send]. To undock and increase the size of the box, click on top right corner icon.









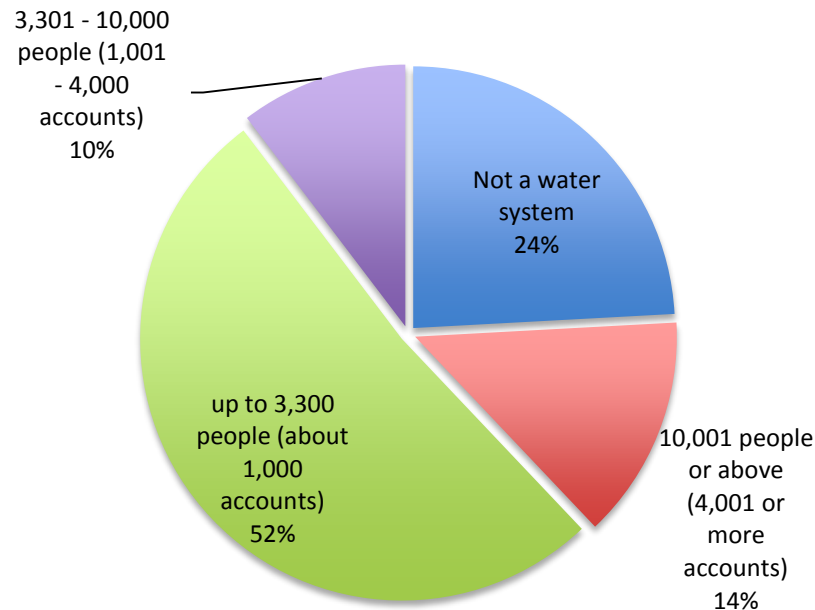
# Session Objectives

1. Overview of key financial issues facing regulated small water systems.
2. Overview of rate adjustment processes and best practices
3. Strategies for improving financial health
4. Resources



# Polling Question #1

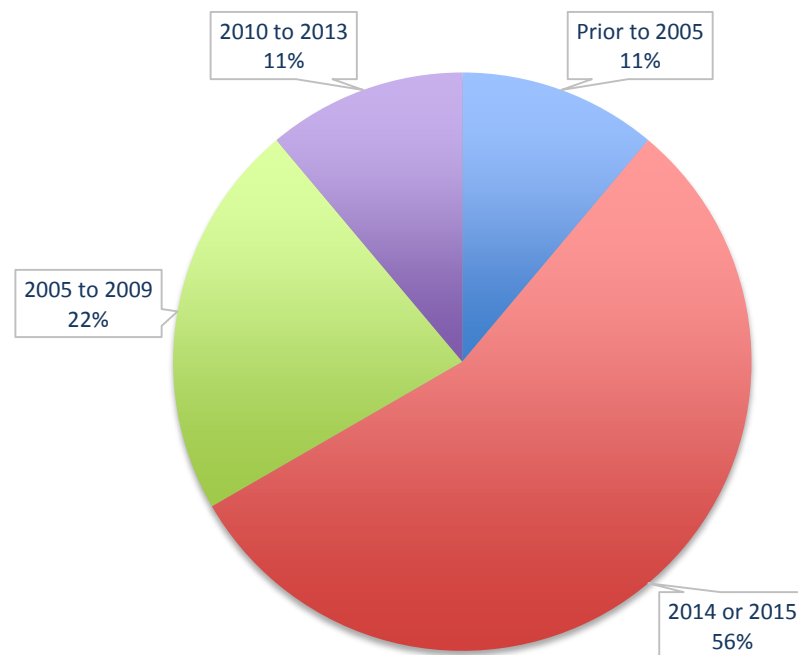
- If you are a utility, what is your service population (estimated number of people)?





## Polling Question #2

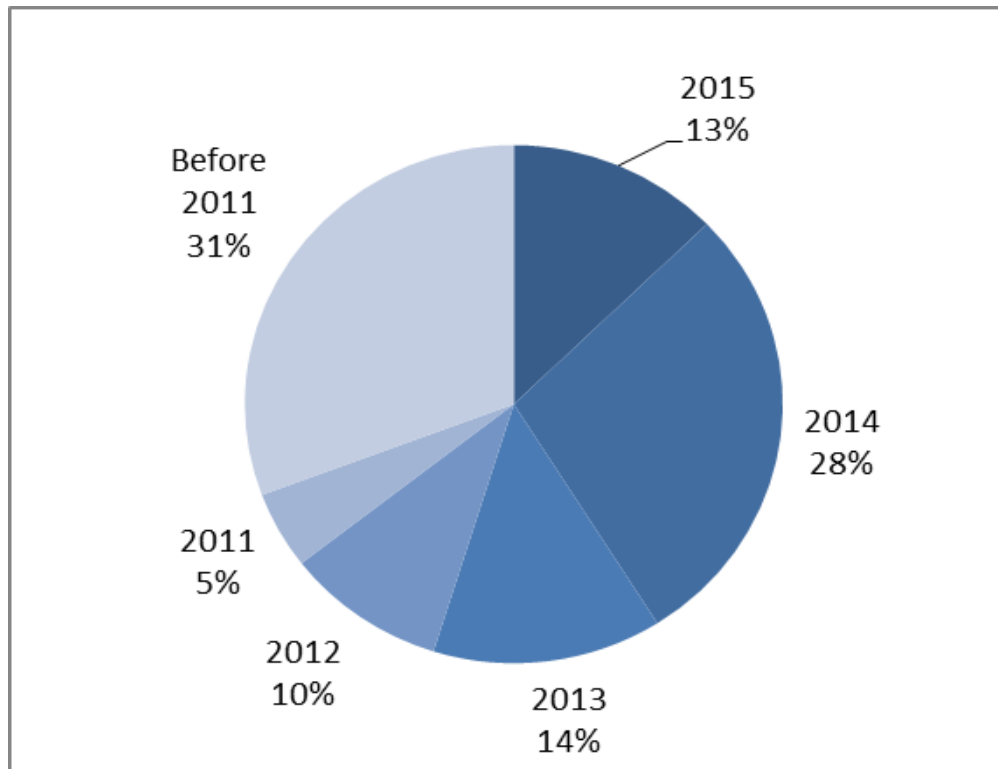
- When was your last rate adjustment?







## In What Calendar Year were the Current (April 2015) Rate Structures First Instated? (n=290)



Source: <http://www.efc.sog.unc.edu/project/arizona-water-and-wastewater-rates-and-rate-structures>

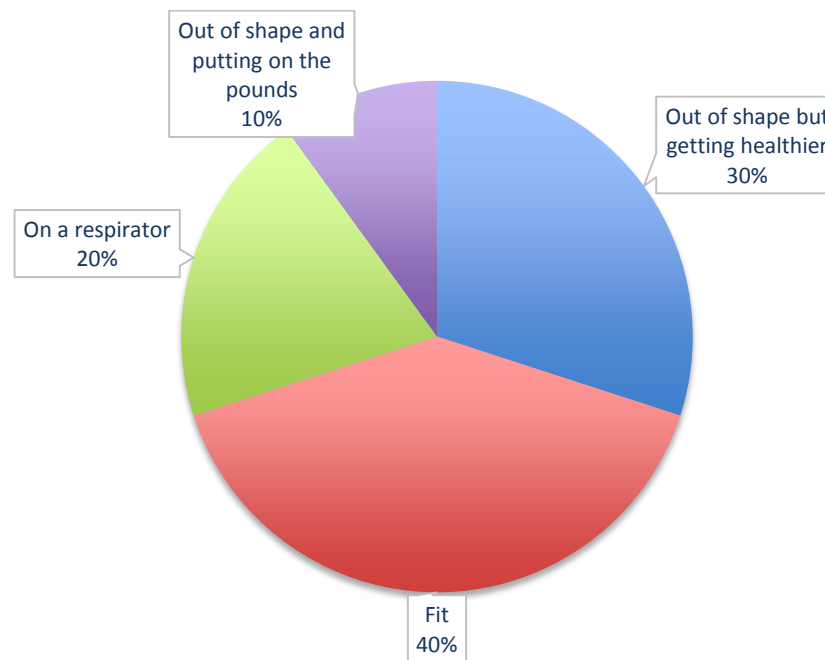
[www.efcnetwork.org](http://www.efcnetwork.org)





## Polling Question #3

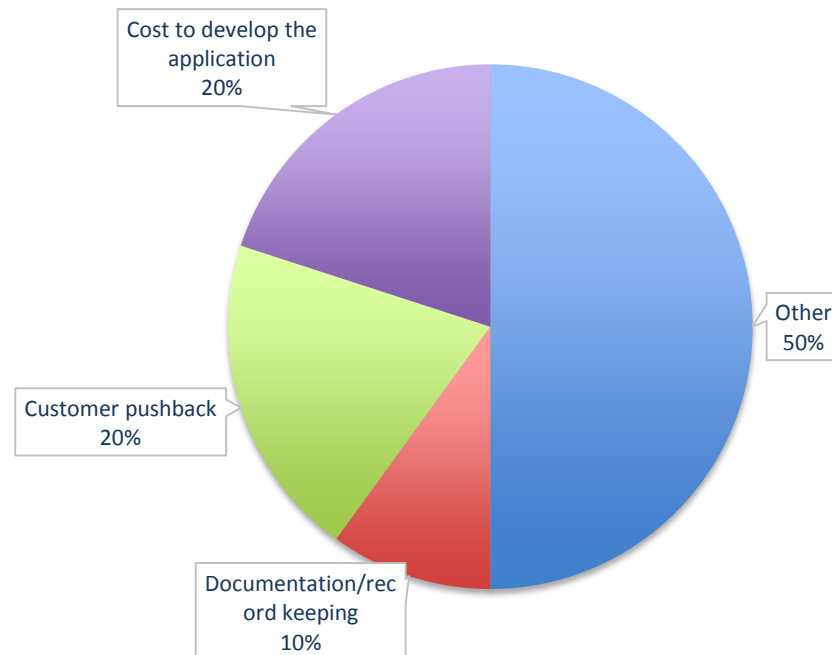
- How would you describe your financial health?



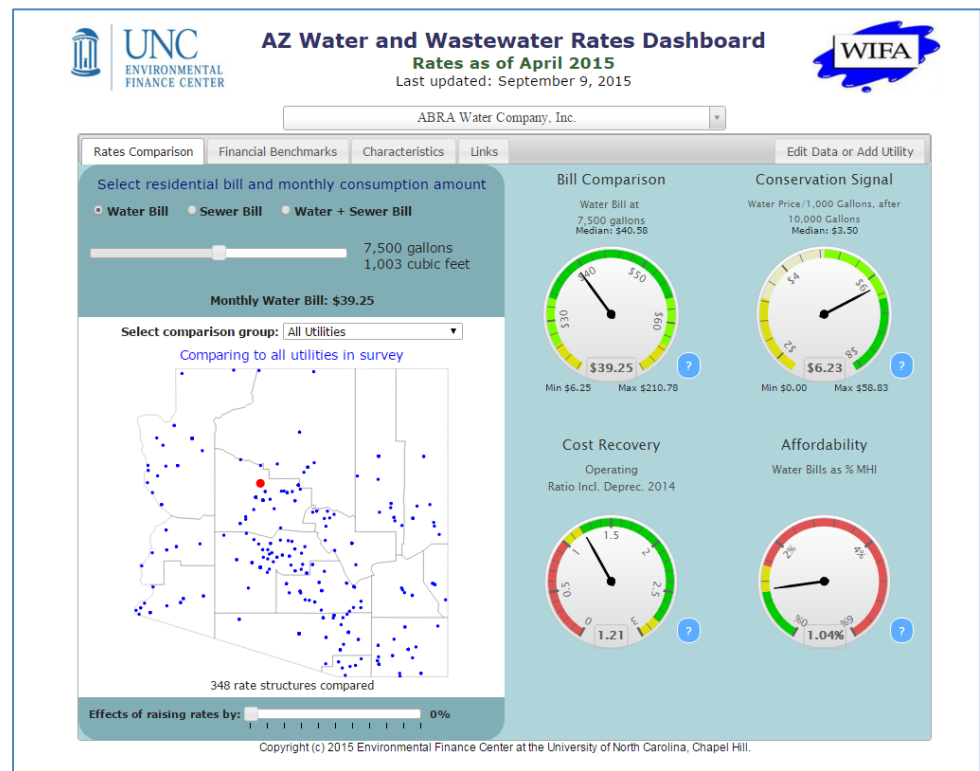
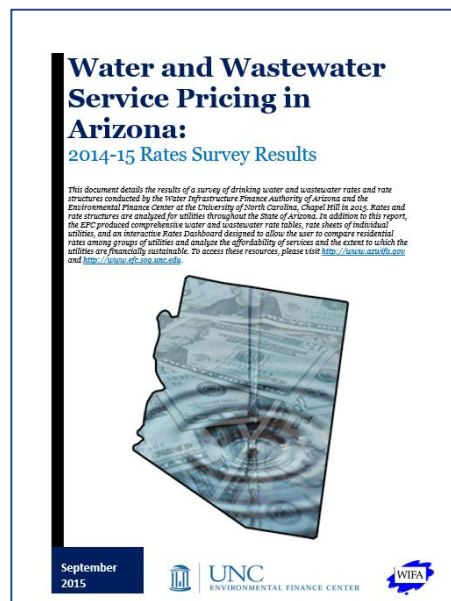


## Polling Question #4

- What is the most challenging part of putting together a rate case?



# Rates Trends In Arizona



Source: <http://www.efc.sog.unc.edu/project/arizona-water-and-wastewater-rates-and-rate-structures>



	Water Rate Structures		Wastewater Rate Structures	
	Total Number of Structures	Median Monthly Bill at 5,000 gal/mo.	Total Number of Structures	Median Monthly Bill at 5,000 gal/mo.
All Rate Structures	349	\$32.25	132	\$33.78
By Service Population*				
1 – 999	159	\$35.80	14	\$33.29
1,000 – 2,499	57	\$31.00	15	\$29.50
2,500 – 4,999	34	\$29.36	13	\$34.00
5,000 – 9,999	22	\$30.50	10	\$33.41
10,000 – 24,999	27	\$28.76	15	\$29.97
25,000+	35	\$24.10	31	\$31.00

Source: <http://www.efc.sog.unc.edu/project/arizona-water-and-wastewater-rates-and-rate-structures>



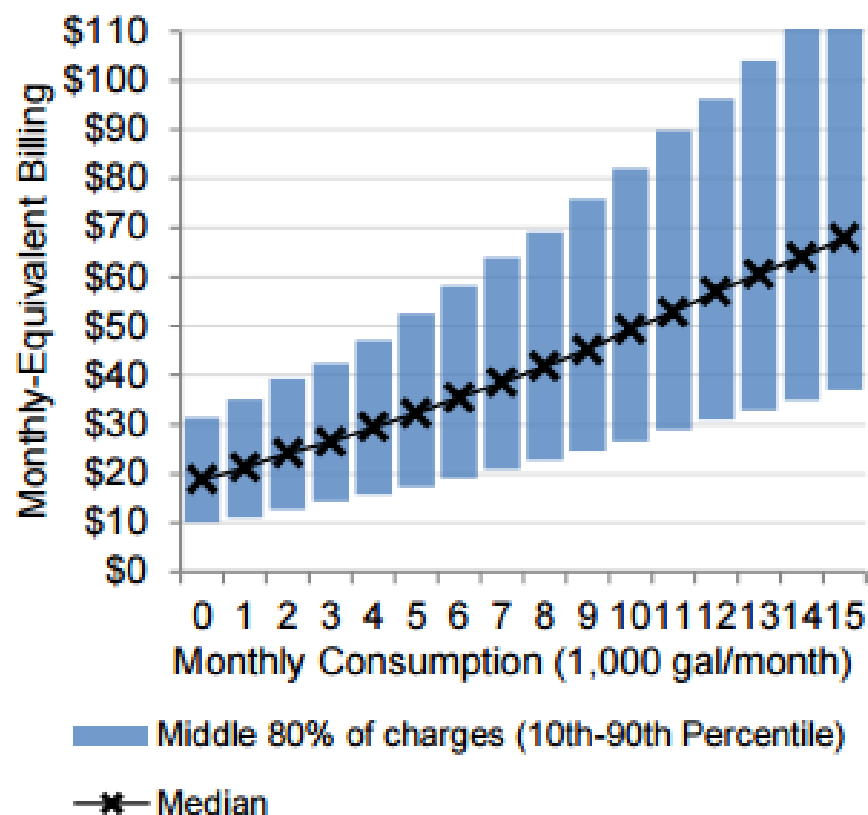


	Water Rate Structures		Wastewater Rate Structures	
	Total Number of Structures	Median Monthly Bill at 5,000 gal/mo.	Total Number of Structures	Median Monthly Bill at 5,000 gal/mo.
All Rate Structures	349	\$32.25	132	\$33.78
By Utility Type				
Municipality	69	\$26.45	73	\$29.50
County/District	43	\$41.13	11	\$37.50
Authority	1	\$28.00	1	\$14.82
Not-For-Profit	19	\$36.35	0	--
For-Profit	217	\$32.50	38	\$42.00
Sanitary District	0	--	9	\$25.00

Source: <http://www.efc.sog.unc.edu/project/arizona-water-and-wastewater-rates-and-rate-structures>



**Figure 10: Monthly-Equivalent Residential Water Bills by Consumption (n=349)**

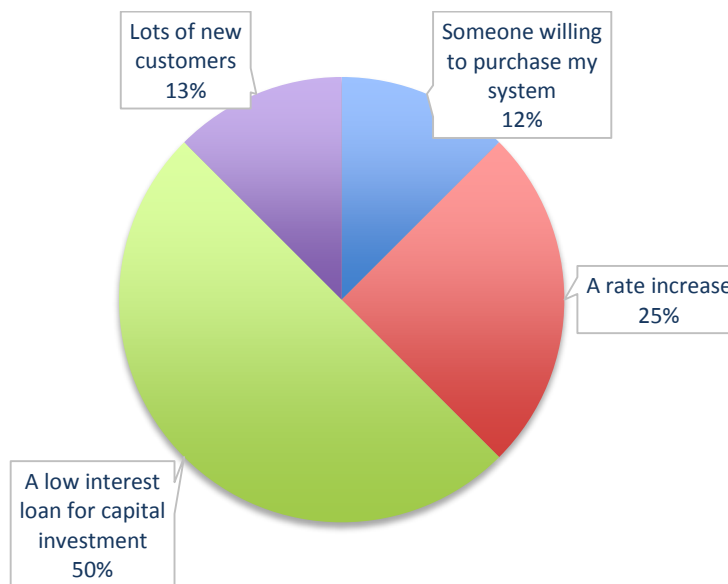


Source: <http://www.efc.sog.unc.edu/project/arizona-water-and-wastewater-rates-and-rate-structures>



## Polling Question #5

- What would you ask Santa to bring you for Christmas to improve your financial condition?





# Tips for Assessing and Improving the Fiscal Health of Small Regulated Water Utilities in Arizona

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# Arizona Corporation Commission

- The ACC has the responsibility for reviewing and approving the structure of rates charged by public service corporations operating in Arizona.
- The ACC also approves financing applications, and CC&N approval requests.
- The ACC also approves financing applications, and CC&N approval requests.
- All filings are reviewed by members of the Finance & Regulatory Analysis Section of the Utilities Division



## ACC Website

- Links to contacts at the ACC and also contains links to many helpful forms that can be utilized by water and wastewater utilities.
- Forms are found under the heading “Utilities Division”
- Forms include: Water and Wastewater Rules, various Rate Application forms, and other helpful information such as Best Management Program templates, and the form for submitting required Annual Reports



<http://www.azcc.gov/divisions/utilities/water.asp>



# Arizona Administrative Code

- Sections applying to rate case filings are found in Title 14, Chapter 2, Section R14-2-103
- Sections applying to Water Utilities are found in R14-2-4
- Sections applying to Wastewater Utilities are found in R14-2-6



# Arizona Corporation Commission

## Utility Classifications

Effective 1/16/2015

	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>	<b>Class D</b>	<b>Class E</b>
<b>Electric and Gas</b>	Exceeding \$10,000,000	\$3,000,000 to \$10,000,000	\$1,000,000 to \$2,999,999	\$250,000 to \$999,999	Less than \$250,000
<b>Water and Sewer</b>	Exceeding \$10,000,000	\$3,000,000 to \$10,000,000	\$1,000,000 to \$2,999,999	\$250,000 to \$999,999	Less than \$250,000
<b>Telephone</b>	Exceeding \$10,000,000	\$3,000,000 to \$10,000,000	\$1,000,000 to \$2,999,999	\$250,000 to \$999,999	Less than \$250,000

## Filing Schedule

From Sufficiency Date (30 Days)

	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>	<b>Class D</b>	<b>Class E</b>
<b>Commission Order</b>	360 days	360 days	270 days	180 days	120 days
<b>Staff Report</b>	180 days	180 days	135 days	75 days	60 days
<b>Review</b>	165 days	165 days	120 days	60 days	45 days
<b>Engineering and Consumer Services</b>	120 days	120 days	90 days	40 days	30 days





# Rate Case Filing Issues

- Developing and processing a full rate case filing can appear to be very challenging and costly.
- Many small ACC-regulated utilities have not filed rate cases in the past 10 or 15 years and these utilities struggle to pay bills and maintain their systems, and face the largest opposition from customers when rates are finally adjusted.
- The Commission encourages small utilities to file for approval of new rates on a periodic basis to promote rate change gradualism, and to help keep small utilities in a position to be able to pay bills and properly maintain their systems.



# Annual Reports reflect accounting shortcomings

- 35% of Annual Reports received from small water and wastewater companies show significant accounting shortcomings.
- Generating complete and accurate Annual Reports is the key to developing and processing rate case filings since much of the information in the annual reports can be used to support rate increase requests.



## Rate Case Filings - Expenditure Documentation

- Maintaining good documentation is a must.
- Being positioned to provide Staff with support for incurred costs is a must.
- Anticipating what Staff is going to want to see during the processing of a rate case is a must.



# Processing Rate Case Filings to Success

- You will receive data requests from Staff.
- Responding to such requests for information is your opportunity to support the reasonableness of your rate increase request.
- Staff will work with you if you do not understand some questions or you are not sure how to respond.
- If you need to retain the services of a ratemaking expert, a reasonable level of such costs can be recovered in the structure of your new rates.





# Water Utilities Association of Arizona (WUAA)

Ray L. Jones, P.E.  
Executive Director  
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# WUAA

- Arizona's largest association of investor-owned water and wastewater utilities
  - Members range from very small to the largest in Arizona
- Mission
  - Member education on regulatory issues
    - ACC, ADWR, ADEQ, CAP, CAGRD
  - Regulatory Support for Members
  - Regulatory Improvement and Reform



# WUAA's Small Water Company Priorities

- Rate Design (Revenue Stability)
- Small Company Risk (Higher ROE or Operating Margin)
- Rate Case Process (Simplification/Settlements)
- Regulatory Lag (Adjustor Mechanisms)



# Industry Perspective - Rate Case

- Agree with ACC Staff
  - Rate cases are challenging – but necessary
  - More often is better – but not always possible
  - Accurate accounting records and accurate Annual Reports = Successful Rate Case
  - Documentation is vital (contracts/invoices/etc.)
    - Capital Expenditures – Back to last rate case
    - Operational Expenditures – Last 3 to 4 years
    - Ops Data – Pumping/Sales/Customer Counts
    - Accurate and complete billing records





# Industry Perspective – Rate Case

- Short Form Application
  - Allowed up to \$999,999 in revenue
  - Simplified filing that can be done without using a consultant
  - However, not everything you need to know about your filing is determined with the Short Form Application
- Long Form Application
  - Almost always requires a consultant



# Do I Need a Consultant?

- Do I have all required accounting records and documentation?
- Can I determine –
  - my company's rate base?
  - my company's rate of return on rate base?
  - my company's operating margin?
- Do I know – **with certainty** –
  - that my revenue matches my customer billings?
  - that my accumulated depreciation balance is correct?
  - that I have correctly accounted for and amortized developer funds (AIAC & CIAC)?



# Special Circumstances that may Require a Consultant

- Does my water company share facilities, personnel or expenses with another of my businesses?
  - Particularly problematic if regulated water company shares with nonregulated businesses or pays for use of owner's personal assets.
- Does my water company pay any of my personal expenses or other nonutility expenses?
- Does anyone get paid for other than hours worked at market rates?



# Additional Strategies for Improving Financial Condition

- Cost reduction
  - Water purchases
  - Energy purchases
- Financial Planning/Forecasting
  - Predicting water sales
  - Incorporating future capital needs
- Consolidation
  - Understanding and increasing the value of your utility
- Strategic capital investment/access to capital





## All Roads Seem to Lead to Rates...

# Excerpt from WIFA Capability Review and Financial Assistance Requirements for Non-Governmental Entities

**Section 2: Historical Performance** – WIFA shall review at least a three-year history of revenues and expenses related to the source of revenue pledged for repayment of financial assistance. WIFA shall evaluate historical performance including revenues, expenses, assets, liabilities, and equity to measure trends relative to, but not limited to, the following variables:

### **Financial Measures**

- Gross Revenues
- Operating and Maintenance Expenses
- Revenues Available for Debt Service
- Net Fixed Assets
- Net Working Capital

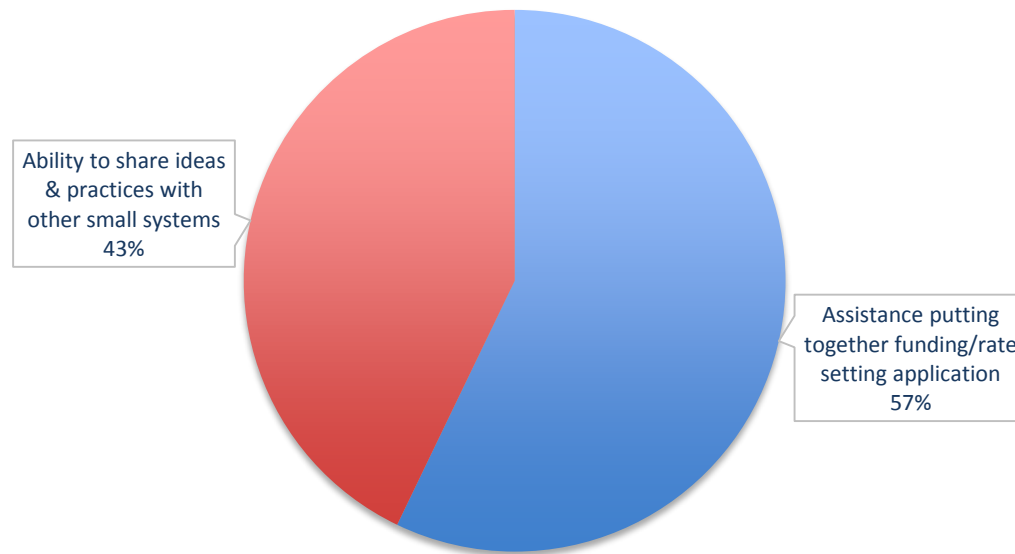
### **Ratios**

- Operating Ratio
- Operating Efficiency (Net Take-Down)
- Interest Coverage
- Debt Service Coverage
- Debt Service Safety Margin
- Current Ratio
- Debt Ratio



## Polling Question #6

- Which of the following types of assistance would be most helpful?





# Resources

- WUAA
- ACC
- WIFA
- DEQ
- EPA
- EFCN Small Systems

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**Mission Statement**  
 We work to enhance the ability of governments and other organizations to provide environmental programs and services in fair, effective and financially sustainable ways.

**Project Tools**  
**Arizona Water and Wastewater Rates Dashboard**  
 Dashboard, 08/11/2015 (.3 Mb)  
 The Arizona Water and Wastewater Rates Dashboard has a new look and new functions for 2015! This interactive dashboard is designed to assist users in comparing utility rates against multiple characteristics, and includes rate data from 354 Arizona utilities. New features include the ability to...

**Project Publications**  
**Annual Report of Water and Wastewater Service Pricing in Arizona 2015**  
  
 Water Infrastructure Finance Authority of Arizona (WIFA), Environmental Finance Center (EFC)  
 Report, 09/24/2015  
 This annual report details the state of rates and rate structures from a statewide survey of drinking water and wastewater rates and rate structures of local government and other categories of utilities in the state of Arizona. This report answers frequently asked questions about what utilities...

**Tables of Water and Sewer Rates and Rate Structures in Arizona as of April 2015**  
  
 Water Infrastructure Finance Authority of Arizona (WIFA), Environmental Finance Center (EFC)  
 Tables, 08/12/2015  
 Data tables that list details on residential and non-residential water and wastewater rate structures and the computed monthly-equivalent bills at different consumption levels for hundreds of utilities in Arizona.

**PROJECT**  
**ARIZONA WATER AND WASTEWATER RATES AND RATE STRUCTURES**

The Environmental Finance Center and the Water Infrastructure Finance Authority of Arizona have conducted a water and wastewater rates survey of nearly all local government and other categories of utilities (domestic water/wastewater improvement districts, non-profits, for-profits, etc.) in the State of Arizona since 2014. Utilities across the state participated in the survey.

All related publications and tools are shown in boxes to the left. Shortcut to:
 

- Description of the Arizona Water and Wastewater Rates Survey
- View Your Utility's Water and Wastewater Rate Sheet(s)
- Report, Tables and Dashboard of the Arizona Water and Wastewater Rates and Rate Structures
- Webinar: 10-11 AM Arizona Std. Time, Sept. 24, 2015 (Plus 2014 Archived Slides and Video Recording)

**Description of the Arizona Water and Wastewater Rates Survey**  
 The Water Infrastructure Finance Authority of Arizona (WIFA) contracted in 2014 and 2015 with the Environmental Finance Center (EFC) to conduct a water and wastewater rates survey based on the successful rates survey process used for several years in North Carolina and Georgia, collecting rate sheets and annual financial reports from utilities in the State of Arizona. The sampled utilities serve over 94 percent of all customers who are directly billed for their water or wastewater use by utilities in the state. The selected data from these source documents into a database. The sampled utilities account for the large majority of all customers served by public community water and wastewater systems. The rate sheets specify how much the utilities charge for different volumes of water and wastewater billed and the annual financial reports (which illustrate key financial performance indicators for the utilities, such as operating revenues and operating expenses for the water and/or wastewater operations of the rate sheets are used to determine what residential and commercial customers of these utilities are billed for their drinking water and wastewater service at various consumption levels. Information on rates and rate structures across the state, as well as financial key performance indicators, have been compiled into a summary report, rates and rate structures of the Arizona Water & Wastewater Rates Dashboard. These tools and resources are intended to be used by utility managers and boards, finance directors, WIFA, and other stakeholders involved in water and wastewater rates and rate structures. This information allows for comparison and benchmarking of water rates and rate structures across the state.

<http://www.efc.sog.unc.edu/project/arizona-water-and-wastewater-rates-and-rate-structures>



# Questions/Comments???