



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

December 17, 2015

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

Jeff Hughes

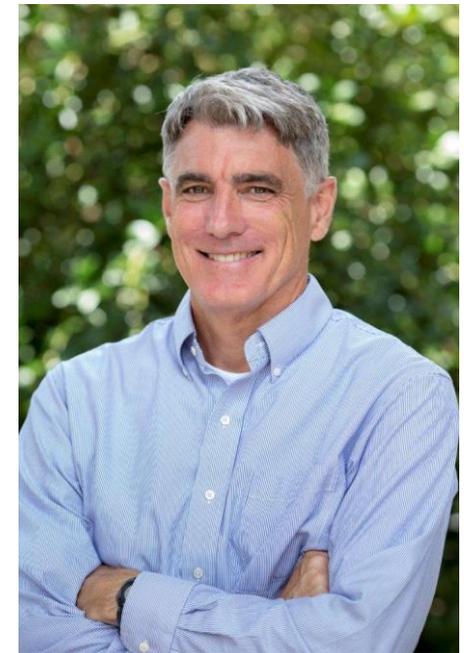
Environmental Finance Center

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At the top right corner of your screen:

Show your control panel to submit questions and see answers

All phones/microphones are muted for the duration of the webinar.

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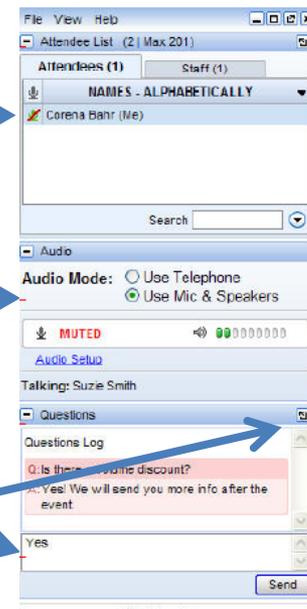
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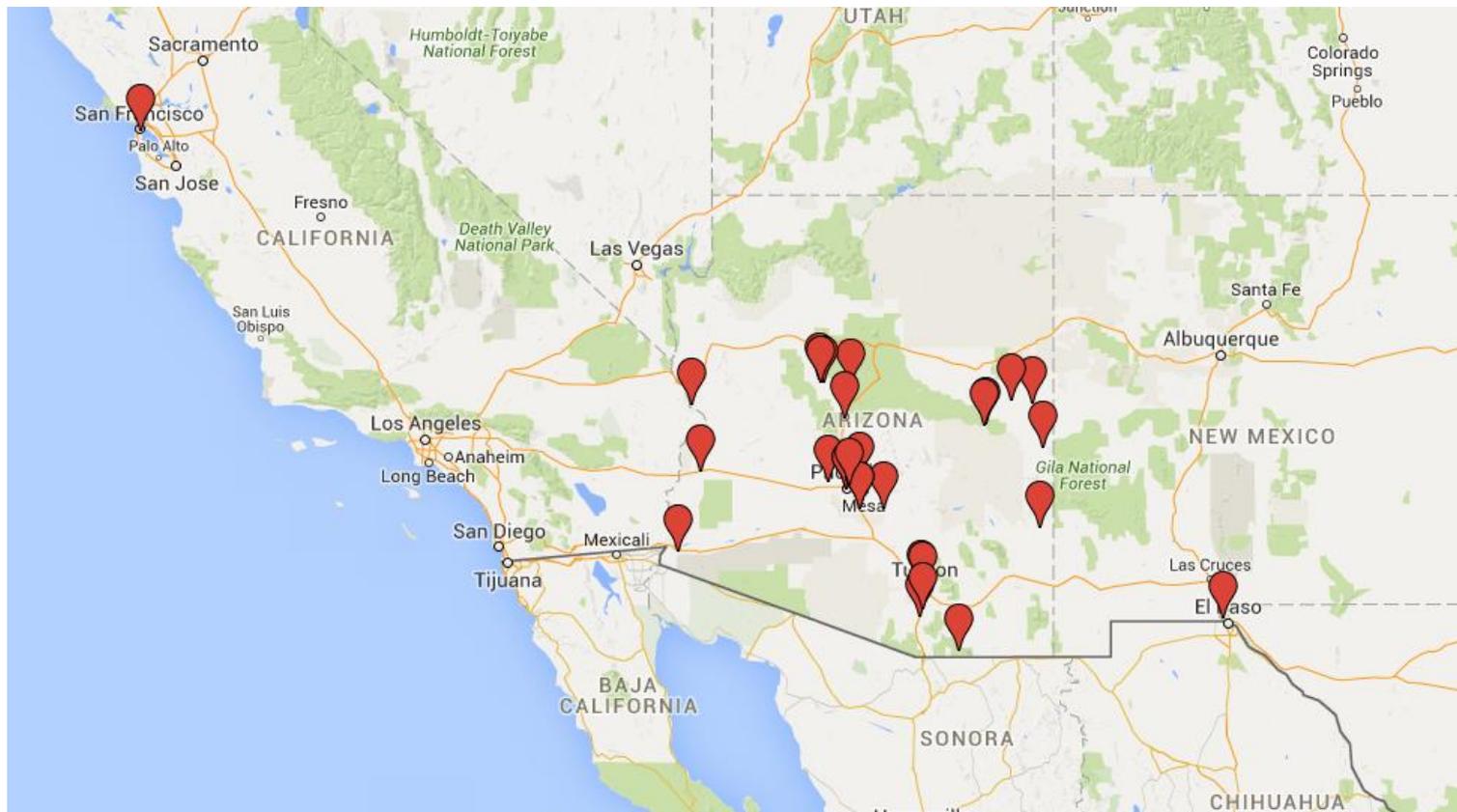
Attendee List

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.







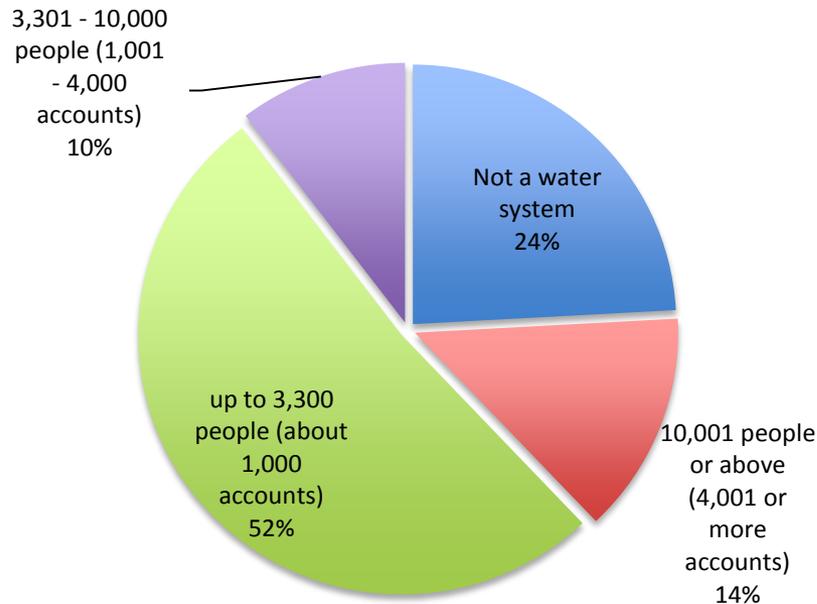
Session Objectives

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

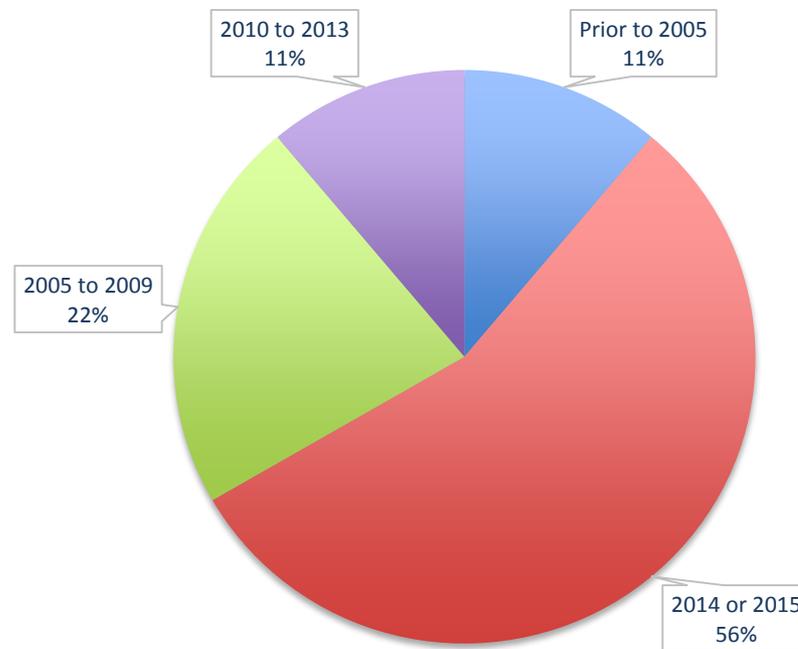
- If you are a utility, what is your service population (estimated number of people)?





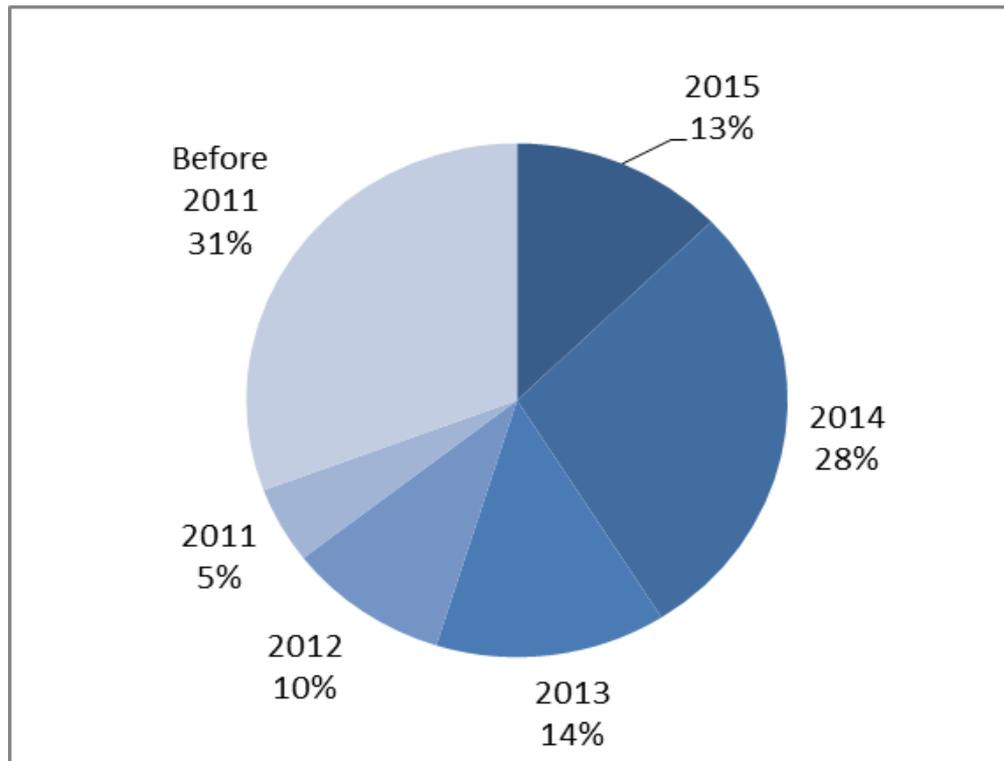
Polling Question #2

- When was your last rate adjustment?





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



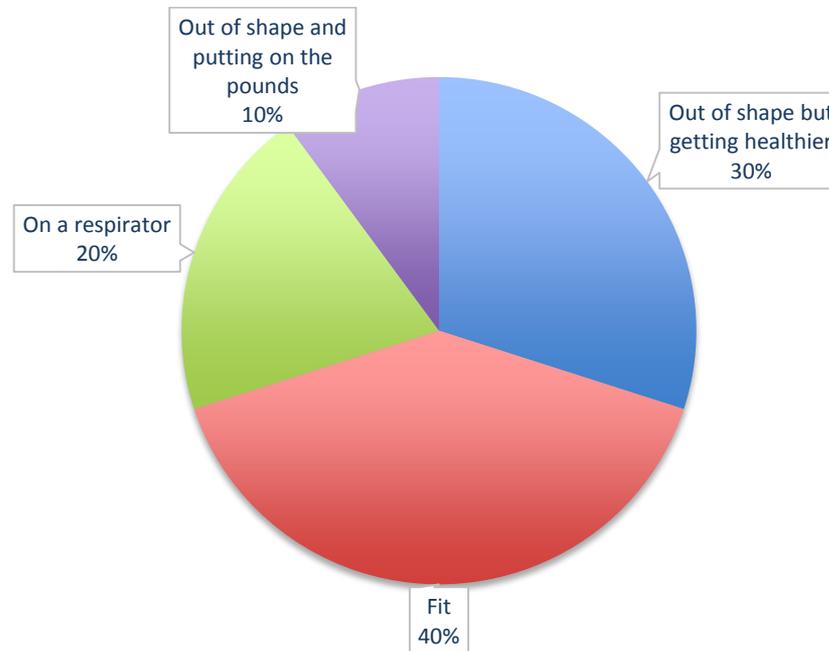
Source: <http://www.efc.sog.unc.edu/project/arizona-water-and-wastewater-rates-and-rate-structures>

www.efcnetwork.org



Polling Question #3

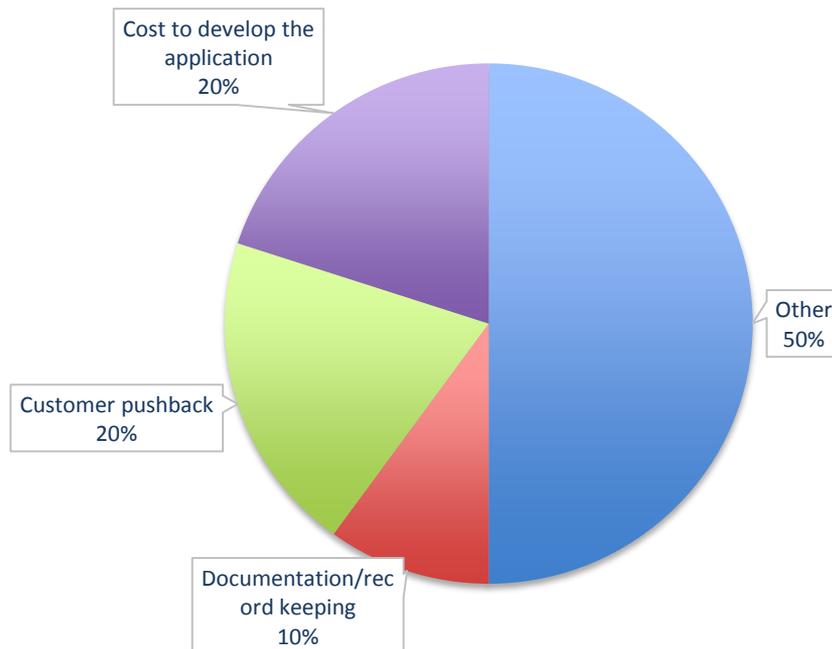
- How would you describe your financial health?





Polling Question #4

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



Rates Trends In Arizona

Water and Wastewater Service Pricing in Arizona:
2014-15 Rates Survey Results

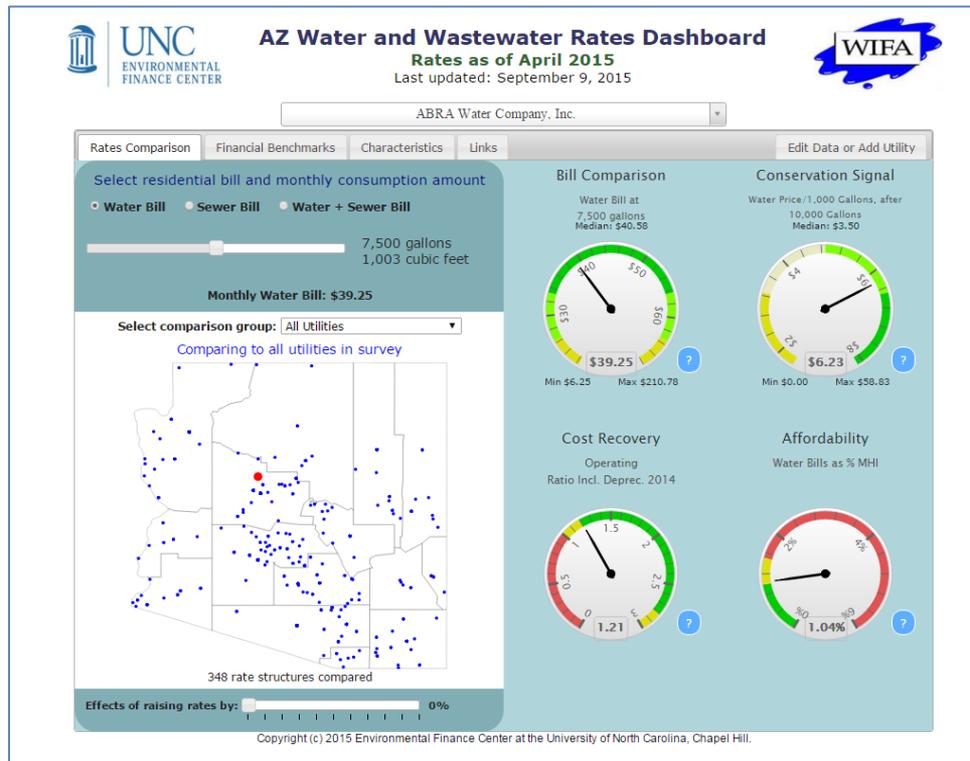
This document details the results of a survey of drinking water and wastewater rates and rate structures conducted by the Water Infrastructure Finance Authority of Arizona and the Environmental Finance Center at the University of North Carolina, Chapel Hill in 2014. Rates and rate structures are analyzed for utilities throughout the state of Arizona. In addition to this report, the EFC produced comprehensive water and wastewater rate tables, rate sheets for individual utilities, and an interactive Rates Dashboard designed to allow the user to compare residential rates among groups of utilities and analyze the affordability of services and the extent to which the utilities are financially sustainable. To access these resources, please visit <http://www.wifa.org> and <http://www.efc.sog.unc.edu>.



September 2015

UNC ENVIRONMENTAL FINANCE CENTER

WIFA



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>

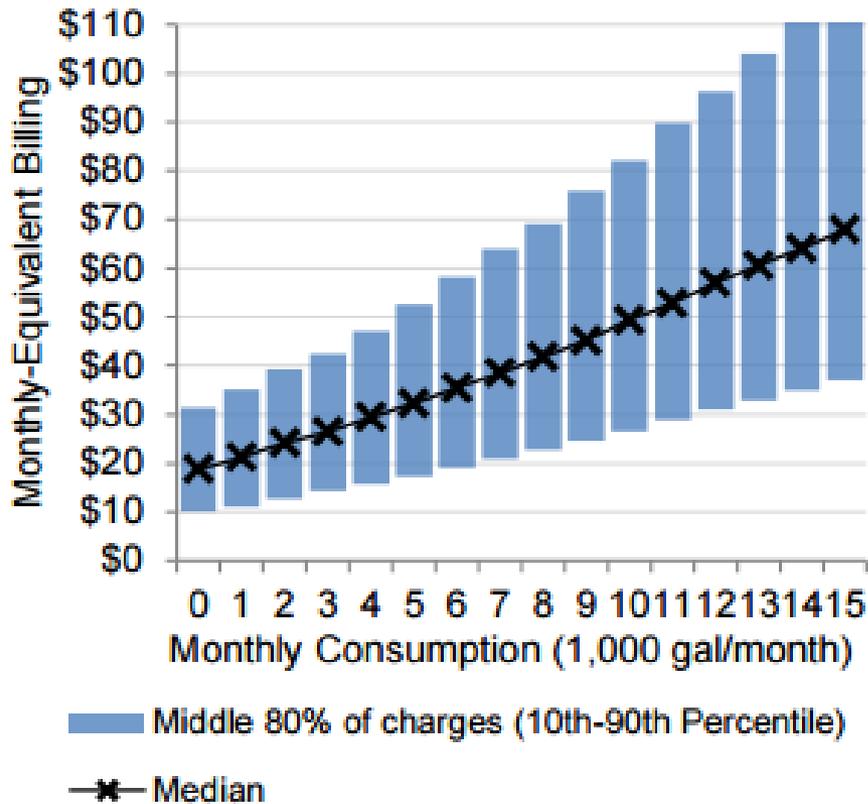


	Water Rate Structures		Wastewater Rate Structures	
	Total Number of Structures	Median Monthly Bill at 5,000 gal/mo.	Total Number of Structures	Median Monthly Bill at 5,000 gal/mo.
All Rate Structures	349	\$32.25	132	\$33.78
By Utility Type				
Municipality	69	\$26.45	73	\$29.50
County/District	43	\$41.13	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)

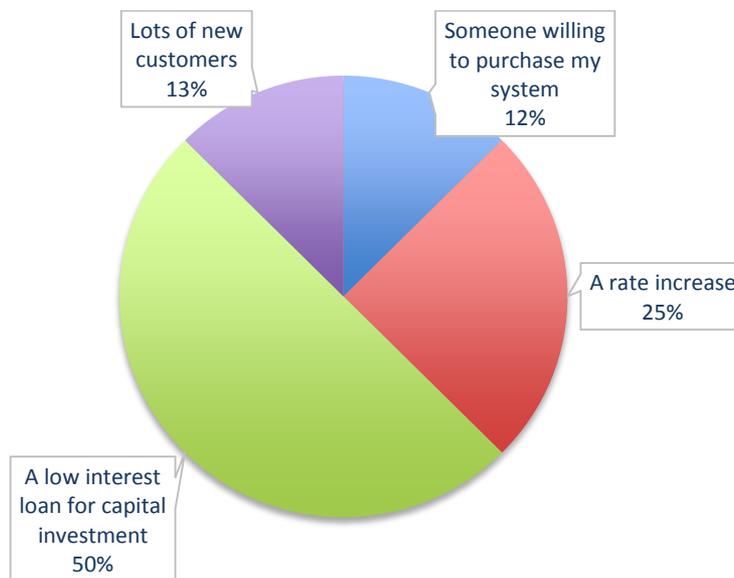


Source: <http://www.efc.sog.unc.edu/project/arizona-water-and-wastewater-rates-and-rate-structures>



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.
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- 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

	Class A	Class B	Class C	Class D	Class E
Electric and Gas	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
Water and Sewer	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
Telephone	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)

	Class A	Class B	Class C	Class D	Class E
Commission Order	360 days	360 days	270 days	180 days	120 days
Staff Report	180 days	180 days	135 days	75 days	60 days
Review	165 days	165 days	120 days	60 days	45 days
Engineering and Consumer Services	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)

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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

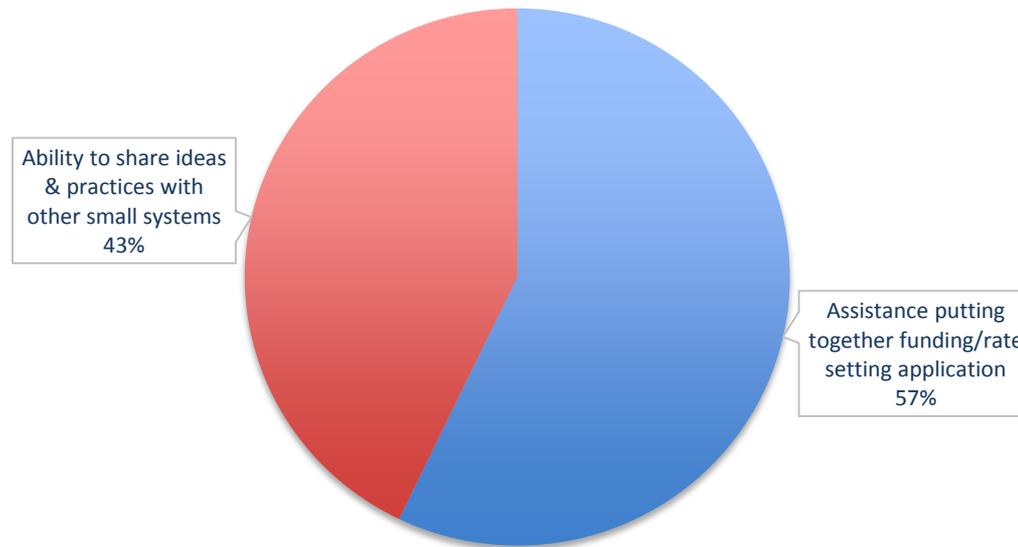
Ratios

- 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

The screenshot shows the website header with the UNC Environmental Finance Center logo and navigation links (About, Services, Program). The main heading is 'PROJECT ARIZONA WATER AND WASTEWATER RATES AND RATE STRUCTURES'. Below this, there are sections for 'Mission Statement', 'Project Tools' (including the 'Arizona Water and Wastewater Rates Dashboard'), and 'Project Publications' (including 'Annual Report of Water and Wastewater Service Pricing in Arizona 2015' and 'Tables of Water and Sewer Rates and Rate Structures in Arizona as of April 2015'). A 'PROJECT' banner features the WIFA logo and a description of the survey. A list of related publications and tools is provided, including a description of the survey, a view of utility rate sheets, and a report on tables and dashboards. A detailed description of the survey is also included, mentioning the survey process and the data collected.

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





Questions/Comments???