Small Water Company

Preparing for Challenges with Financial Reserves

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Why Create Financial Reserves?

- Operating profitably is fairly obvious:
  - Operating revenues > operating costS
- Capital replacement costs are not:
  - Pipes, tanks and wells have long lives (25-50+ years)
  - Inflation is Insidious ($100 in 1971 = $661 in 2021)
  - The Future is Uncertain
  - Murphy's Law IS certain!
- Most mutual water companies are not billing enough to cover future repair and replacement
- Financial reserves explicitly deal with this issue

Asset Lives and Today Replacement Costs*

- Wells = 40 years, $100-150K
- Pumps = 20 years, $25K
- Tanks = 50 years, $250K
- Valves = 50 years, $40K total
- Control System = 20 years, $25K total
- Generator = 20 years, $60K
- Meters = 25 years, $500 each
- Water Mains = 70 years, $1M per mile
- Sheds = 50 years, $10K each

**Sourced from several publicly posted water company reserve studies*

Most SSWS in Santa Cruz County were built in the 1960 &70s

The Hard Part

- FACT: Most small mutual water companies don't have adequate reserves
- FACT: Building reserves is politically difficult
- FACT: Inadequate reserves are a ticking timebomb

Tools for Building Reserves

- Higher Monthly Base Meter Fees
- Higher Water Usage Fees
- One-time per user assessment
- Multi-year per user assessment
- New Connection Fees

Tools for Building Reserves

Higher Monthly Base Meter Fees

- Easier to explain for building reserves
- Not volume/conservation dependent
- Good for ongoing reserve building
- Can’t raise enough money to “catch up”

Higher Water Usage Fees

- Easier to explain in a “drought” environment
- Higher Usage Fees often lower use and total $
- Good for ongoing reserve building
- Can’t raise enough money to “catch up”

Tools for Building Reserves

One-time per user Assessment

- Usually a big number and a difficult ask
- Hard to ask if not an “emergency”
- Difficult for low or fixed income users

Multi-year per user Assessment

- Multi-year assessment lowers cost per year
- Somewhat easier for low or fixed income users
- Still a difficult ask
- Leaves reserve assets exposed for longer time

New Connection Rates (i.e. consolidation rates)

- A good reserve analysis helps inform new connection fees
- New connection fees should approximate total asset replacement cost divided by total users
- Example $5.8M replacement cost divided by 140 users = $41K per new user
- These new connection fees seem really high until you understand the true replacement cost of your system

How can SC County help?

- Develop and distribute tools for Reserve Analysis
- Require small water company reserve analysis
- Help fund small water company reserve analysis
- Require minimum reserve % to build over time
- Require itemized reserves allocation in water bills