**Financial Capability Assessment (FCA) Spreadsheet Tool**

**Review Comments**

**August 14, 2024**

The following comments and questions apply to Ecology’s FCA Excel spreadsheet tool.

**General**

1. Please address how do the proposed metrics and source data accompanying the FCA tool account for the rapid increase in inflation and significant changes in socioeconomic criteria since 2020?

**FCA Tool Indices**

1. Residential Indicator (RI)
   1. Water utility bills typically include drinking water, wastewater, and stormwater. The residential impacts of water utility costs are often not exclusive to just wastewater improvements. Emerging contaminants of concern, such as PFAS and 6-PPD-q are prompting new or developing regulatory limits that could significantly increase required costs for drinking water and storm water infrastructure. Though a wastewater service may be “low impact” per FCA guidance, including other water services can quickly move communities into a “high impact” category as costs easily double when including drinking water and stormwater. Measuring the impacts of wastewater exclusive of drinking water and stormwater is not representative of a “one water” approach that explores the affordability of all water services within a community.   
      This “one water” theme is fundamentally represented when evaluating billing approaches, debt service requirements, bonds, and operations and maintenance expenses. Though a utility bill typically delineates costs between water service types, it does not send separate bills for each water service. Similarly, the proportional share of revenues, debts, and expenses is not always strictly compartmentalized between different water services. It is possible to quantify shares of CIP programs, revenue, debt service, etc. that are dedicated to wastewater, but often bond values and operational and administrative costs are not explicitly divided across water services in annual financial reporting. All water service costs should be included when evaluating the FCA guidance. As an example, the City of Everett’s independent current FCA results (not including projected) for water and sewer are “Medium Impact” but if you combine the services, as they do in their billing approach, the results indicate an overall “High Impact”. An increase in wastewater costs may be perceived as “low impact” per the current guidance, but it may be just enough of an increase in cost to tip the scales for a community with existing high drinking water costs. The FCA tool is not sensitive to the existing cost burden of a combined utility bill that includes wastewater, stormwater, and drinking water. Nor is it sensitive to the same customer base that receives separate utility billings for wastewater and drinking water. In some cases, the O&M and debt service expenses are combined for both drinking water and wastewater/stormwater. This suggests the FCA tool may only account for one half of the total water bill cost burden to customers. This may under-estimate the impact of proposed projects, especially for over-burdened members of the community.
   2. Please address why the Residential Indicator (RI) does not consider current billing rates and projected rate changes on a high level? It appears that there is a benchmark value for acceptable rate increase percentages that could serve as a reference for projected cost impact scoring.
2. Financial Capability Indicator (FCI)
   1. FCA guidance is intended to capture impacts specific to wastewater, but bond values and ratings are typically associated with improvements made for all water services. A “One water” approach should be taken to ensure that the FCI is not misrepresenting “strength” in comparing overall water capability and exclusive wastewater capability. The FCA tool appears to overestimate a community’s strength because it takes the strength of bonds that fund non-wastewater projects and applies that strength exclusively to wastewater. Comparison should be on a par basis such that if bonds include all water costs, the residential indicator (RI) should include all water costs.
   2. The sensitivity of the FCI regarding the *Property Tax Revenue Collection Rate (Line 803)* seems disproportionate. What is the basis for the national, industry, etc. benchmarks if the rate is primarily scored based on a percent range of 94-100%? For example, changing the tax collection rate from 98.00% to 98.01% can shift an overall result from “Low Impact” to “Medium Impact”. EPA Guidance notes this metric as “*The property tax revenue collection rate is an indicator of the efficiency of the tax collection system and the acceptability of tax levels to residents*”. How does the efficiency of the tax collection system and acceptability of tax levels relate to increases in wastewater or other water costs? Is it intended to be representative of utility billing efficacy and rate increase acceptance? More accurate billing-specific data are available that could better represent this indicator. This appears to be a metric that is insensitive with the basis of scoring distributed over 6 out of 100 possible points and is misrepresentative of a rate payer’s acceptance of utility rate increases. Utility bill collection and rate increase data should be used to provide more representative metrics for wastewater.
   3. EPA Guidance states that for the FCI, various financial management indicators “*used to evaluate a permittee’s financial management ability are property tax revenue as a percent of full market value of real property and property tax revenue collection rate*”. Property tax collection rates are not representative of wastewater utility revenue collection rates. Property tax revenues are arguably more associated with populations not experiencing financial hardship. For example, homeowners paying property taxes as compared to burdened rate payers who may be renting a home. Better information is available that is more specific to a permittee to measure and represent utility bill collection rates. The tool uses the capability of existing wealthy populations (who own property and are probably paying their utility bill consistently) to measure the strength of utility bill collection rates. This may be misrepresentative since delinquent rate payers may not be real property owners or permanent residents.
   4. EPA Guidance states that “*Property Tax Revenues as a Percent of Full Market Property Value indicator can be referred to as the “property tax burden” since it indicates the funding capacity available to support debt based on the wealth of the community*”. The “*wealth of the community*” and “*funding capacity available to support debt*” in this case appears to be misrepresentative of the real wealth of the community since it is exclusively measuring the financial capabilities of individuals who are, for example, wealthy enough to own a home and pay the associated property tax. Additionally, the perceived “*funding capacity available to support debt*” assumes property tax revenues relative to full market property value, which can be highly volatile, is representative of funding capacity dynamics for infrastructure improvements that typically do not use property taxes as a funding source. It appears inaccurate to use financial performance indicators of a separate revenue source that doesn’t fund wastewater services to represent wastewater utility financial capabilities. The tool inaccurately assumes property taxes are universally available as a funding source for utilities. It also misrepresents the true debt support availability of a community by evaluating the exclusive population of wealthy property owners and taxpayers.
   5. Generally, the FCI tool appears to use metrics and measures that are not specific to funding and debt dynamics associated with wastewater infrastructure improvements. It appears that enough wastewater specific data is readily available for wastewater specific use in the FCI to evaluate a wastewater utility’s specific billing rate collection success, debt support performance, etc.