

# SCCWRP'S FUNDING MODEL



**Presentation to the SCCWRP Commission**

**Stephen B. Weisberg**

**May 1, 2014**

# FINANCIAL PRINCIPLES

- **SCCWRP's finances are managed on five principles**
  - Some appear in my performance goals
  - Others result from conversations with the Commission
- **Preserve a fund balance equal to 25% of annual expenses**
- **Operate in the black on a three year running average**
- **Maintain a ratio of internal:external funds between 25-50%**
- **Balance funding from regulator and regulated sources**
- **Ensure a diversity of external funding sources**

# GOAL OF THIS SESSION

- **Report on how we are doing in achieving those principles**
- **Review the principles to ensure they are still operative**
- **Develop strategies to ensure we continue to meet those goals into the future**

# WE ARE FINANCIALLY SOUND

- **We have a strong balance sheet**
  - \$2.3M in cash
  - \$3.4M in accounts receivables
  - Only \$410K in accounts payables
- **Future revenue**
  - We have a contract backlog of \$10M
  - We have another \$8M in proposals that we consider likely
- **Good fiscal management**
  - We have not had an audit exception in more than a decade
- **However, it has become increasingly difficult to meet some of our financial goals**
  - We are on the wrong trajectory for several of the goals

# **PRESERVE A FUND BALANCE EQUAL TO 25% OF ANNUAL EXPENSES**

- **Our present fund balance is \$2.8M**
  - Operating expenses for this year are budgeted at \$10.0M
  - Budget for next year will be \$10.2M
- **There have only been three years in my tenure when we did not achieve this cushion**
  - When I first arrived
  - When we moved into this building
  - During the State Board bond freeze four years ago
- **We are doing well by this metric**

# OPERATE IN THE BLACK

- **We have achieved this every year in my 18 year tenure**
- **There are some individual years in which we came close**
  - Construction of this building
  - Investment in new equipment
  - State bond freeze
- **Using the three year average as a goal makes a lot of sense**

# BECOMING INCREASINGLY DIFFICULT TO ACCOMPLISH

- **The member agencies provide \$2M of unencumbered funding that gives us flexibility**
  - To address a member agency need
  - To provide continuity in research direction
  - To retain staff when they don't have external funding
- **Base funding has remained static for five years**
  - Slated to stay the same for three more years
  - Our costs continue to increase
- **It is changing the way we operate**
  - Increased time spent gathering external contracts
  - Increased focus of our senior staff on financial management

# BECOMING INCREASINGLY DIFFICULT TO ACCOMPLISH

	2008 (actual)	2012 (actual)	2013 (projected)	Percent change
Rent	433	493	520	20%
Utilities/phone	69	102	110	59%
Building maintenance	29	62	50	72%
Health insurance	485	691	675	39%
Business insurance	50	70	80	60%
Financial/legal services	31	35	35	13%
Computer software and licensing	89	153	160	80%
Total	\$1,186K	\$1,606K	\$1,630K	37%

- Increased focus of our senior staff on financial management



# RATIO OF INTERNAL TO EXTERNAL FUNDING

- **Goal is for base funding between 25-50% of member dues**
  - More than 50% and we are not providing enough leverage
  - Less than 25% and we are driven by the needs of funders
- **We are no longer meeting our goal**
  - Internal funds are now less than 20% of our budget
- **Even worse, most of the “unencumbered” money is already spoken for**
- **As such, we are losing flexibility to drive our own research agenda**
  - We are slowly becoming a soft-money organization

RA

NG

Internal Activities:		731,000
Commission	154,000	
CTAG	97,000	
SCCWRP Symposium	86,000	
Organizational Review	76,000	
Clean Water Act Document	80,000	
Annual Report	238,000	
Directed Research Projects:		913,000
Bight Regional Monitoring	766,000	
Comparative Mass Emissions	34,000	
Water Quality Compliance	68,000	
Member Agency Support	45,000	
Research Project Match:		228,000
Total:		\$1,872,000

# REGULATOR:REGULATED FUNDING RATIO

- **SCCWRP is effective because we are perceived as a neutral organization**
  - The Commission provides great balance
- **The goal is for our funding to be balanced as well**
  - My performance goal: At least one-third of our revenue comes from both regulator and regulated parties
  - We no longer meet that goal
- **The pendulum has shifted**
  - Twenty years ago, the agency was nearly 100% funded by dischargers
  - Today we are 77% funded by regulators
  - Discharger funds comprise only 22% of total revenue

# DIVERSITY OF FUNDING SOURCES

- **We receive revenue from more than 50 sources**
  - However, 72% are from a single source: The State Water Board
- **Board funds are generally stable, but there are exceptions**
  - Government fiscal crisis led to \$1.5M past due for a year
  - Also led them to suspend work on \$2M in contracts
  - We don't want to be that dependent on a single source
- **75% of State funding derives from Water Bonds**
  - Present bond issues will expire in about three years
  - New bond initiatives under consideration, but there is no guarantee
- **We need to diversify our funding**

# CONTRACTUAL FUNDING SOURCES

## (Over \$100K in the last five years)

Funding Source	Type of Funder	Amount
State Water Resources Control Board	State	28,234,860
U.S. EPA	Federal	2,386,217
County of San Diego	Local Government	1,580,650
California Coastal Conservancy	State	1,011,366
City of Los Angeles	Local Government	639,508
County of Los Angeles	Local Government	548,946
San Francisco Estuary Institute	Non-profit	402,050
David & Lucile Packard Foundation	Non-profit	400,000
Santa Monica Bay Restoration Project	Local Government	396,162
California Dept. of Health Services	State	384,739
NOAA	Federal	377,514
City of San Diego	Local Government	346,005
National Institute of Environmental Health Sciences	Federal	290,504
California Resources Agency	State	215,000
Los Angeles County Sanitation Districts	Local Government	168,439
Orange County Sanitation District	Local Government	133,740
Canadian Government	Federal	114,978
University of Calif., Davis	University	110,957
County of Orange	Local Government	108,337

# SEVERAL POSSIBLE MODELS TO REGAIN THE BALANCE

- **Shrink the organization**
  - Amortize the internal funds over a smaller number of researchers
- **Change the operating rules for the organization**
  - Increase dependency on external funds
  - Become a soft-money organization and let people go when their funding expires
- **Enhance internal funds**
  - More contributions from existing members
  - Add new members

# SHRINK THE ORGANIZATION

- **Fixes the internal:external ratio**
- **Helps fix the regulator:regulated ratio**
- **Decreases dependence on external funds**
- **Biggest downside is we will do less science**
  - Also doesn't solve the science independence issue
- **This is the model we are presently managing towards**
  - Staff size is down 11% from three years ago
  - Anticipate another 10% decline by the end of this JPA

# CHANGE THE OPERATING RULES

- **Aim to become more of a soft-money organization**
  - This is closer to the University model
- **One downside is that we would lose continuity**
  - Staff members who don't maintain funding are let go
  - Would be a radical change in culture, both internally and externally
- **Second downside: Lose control of the scientific agenda**
  - The agenda is set by the staff and/or the funders
  - CTAG will tell you that is already happening
- **Strongly suggest we actively avoid this model**



# **MODIFY THE MEMBER AGENCY FUNDING**

- **Increase base member contributions**
- **Increase the regulated contributions through increased contracting for specific projects**
- **Develop an unbundled model**

# INCREASE BASE MEMBER CONTRIBUTIONS

- **All the challenges go away if base member contributions increase with inflation**
- **There are many models to achieve this**
  - Escalate present dues proportionally
  - Stormwater agency dues increase (they are presently  $\frac{1}{4}$  of full dues)
  - Regulatory agencies begin to pay dues (they don't right now)
  - Bring on new members
- **Such potential changes would most likely occur with the new JPA**
  - That won't take effect for three years
  - Would need an interim strategy

# INCREASE CONTRIBUTIONS THROUGH CONTRACTING FOR SPECIFIC PROJECTS

- **Could solve the regulator:regulated imbalance**
  - It would also solve a perception issue: Regulators have greater control because their money dictates specific projects
- **Would lessen the dependence on a single funding source**
- **Would not solve the independent research agenda issue**

# THE UNBUNDLED MODEL

- **Create defined contributions into different pools**
- **Pool #1: Administration of SCCWRP**
  - e.g., Commission meetings, CTAG meetings, Annual report
- **Pool #2: Science needs collectively defined by the agencies**
  - e.g., Regional monitoring
- **Pool #3: Independent science agenda development**
- **Pool #4: Projects defined by individual member agencies**
- **Challenge will be in assigning dollar requirements for each pool**

# RECOMMENDATION

- **Discuss the issue now to get a feel for Commission sentiment**
  - I have given you a lot to think about
  - No need for a decision today
- **Charge a Committee to work with me toward selecting a future funding model for the organization**
- **Consider that model at a future Commission meeting**
  - Use that model to establish my future performance goals
  - Also use it to structure the next Joint Powers Agreement