SCCWRP’S FUNDING MODEL

Presentation to the SCCWRP Commission

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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

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

- 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
## RATIO OF INTERNAL TO EXTERNAL FUNDING

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### Internal Activities:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission</td>
<td>154,000</td>
</tr>
<tr>
<td>CTAG</td>
<td>97,000</td>
</tr>
<tr>
<td>SCCWRP Symposium</td>
<td>86,000</td>
</tr>
<tr>
<td>Organizational Review</td>
<td>76,000</td>
</tr>
<tr>
<td>Clean Water Act Document</td>
<td>80,000</td>
</tr>
<tr>
<td>Annual Report</td>
<td>238,000</td>
</tr>
</tbody>
</table>

### Directed Research Projects:

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bight Regional Monitoring</td>
<td>766,000</td>
</tr>
<tr>
<td>Comparative Mass Emissions</td>
<td>34,000</td>
</tr>
<tr>
<td>Water Quality Compliance</td>
<td>68,000</td>
</tr>
<tr>
<td>Member Agency Support</td>
<td>45,000</td>
</tr>
</tbody>
</table>

### Research Project Match:

- **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
DIVERSITY OF FUNDING SOURCES

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  - New bond initiatives under consideration, but there is no guarantee

CONTRACTUAL FUNDING SOURCES
(Over $100K in the last five years)

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Type of Funder</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>State Water Resources Control Board</td>
<td>State</td>
<td>28,234,860</td>
</tr>
<tr>
<td>U.S. EPA</td>
<td>Federal</td>
<td>2,386,217</td>
</tr>
<tr>
<td>County of San Diego</td>
<td>Local Government</td>
<td>1,580,650</td>
</tr>
<tr>
<td>California Coastal Conservancy</td>
<td>State</td>
<td>1,011,366</td>
</tr>
<tr>
<td>City of Los Angeles</td>
<td>Local Government</td>
<td>639,508</td>
</tr>
<tr>
<td>County of Los Angeles</td>
<td>Local Government</td>
<td>548,946</td>
</tr>
<tr>
<td>San Francisco Estuary Institute</td>
<td>Non-profit</td>
<td>402,050</td>
</tr>
<tr>
<td>David &amp; Lucile Packard Foundation</td>
<td>Non-profit</td>
<td>400,000</td>
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<tr>
<td>Santa Monica Bay Restoration Project</td>
<td>Local Government</td>
<td>396,162</td>
</tr>
<tr>
<td>California Dept. of Health Services</td>
<td>State</td>
<td>384,739</td>
</tr>
<tr>
<td>NOAA</td>
<td>Federal</td>
<td>377,514</td>
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<tr>
<td>City of San Diego</td>
<td>Local Government</td>
<td>346,005</td>
</tr>
<tr>
<td>National Institute of Environmental Health Sciences</td>
<td>Federal</td>
<td>290,504</td>
</tr>
<tr>
<td>California Resources Agency</td>
<td>State</td>
<td>215,000</td>
</tr>
<tr>
<td>Los Angeles County Sanitation Districts</td>
<td>Local Government</td>
<td>168,439</td>
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<tr>
<td>Orange County Sanitation District</td>
<td>Local Government</td>
<td>133,740</td>
</tr>
<tr>
<td>Canadian Government</td>
<td>Federal</td>
<td>114,978</td>
</tr>
<tr>
<td>University of Calif., Davis</td>
<td>University</td>
<td>110,957</td>
</tr>
<tr>
<td>County of Orange</td>
<td>Local Government</td>
<td>108,337</td>
</tr>
</tbody>
</table>
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 ¼ 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