

Resilience

By Carl Brown

Over the last decade the federal government has been reducing its water and sewer grant footprint, replacing some of that funding with State Revolving Fund (SRF) loans. More recently SRF loan volume has been going down, too. Overall, federal spending on water and sewer has been on a downward trend until 2009. If this reduction has not affected your system, it is the rare exception.

In response to the recession of 2008-09 the federal government stepped up water and sewer grants and loans to spur economic recovery. That extraordinary spending will end soon. When it does the federal government will almost certainly pull back on other spending, as well.

While the federal government could pull back on Medicare, Medicaid, Social Security, national defense and other large and growing obligations, politically, substantial cuts in these programs are not likely. Water and sewer are prime candidates for cuts.

Cuts to water and sewer could actually benefit the sector. Why? Lower outside funding could force systems to become more resilient.

The federal government sends mixed messages, but it has been trying to wean water and sewer systems from financial dependence for years. Consider EPA's notion of the four pillars of sustainable infrastructure: better management, efficient water use, watershed approaches and FULL-COST PRICING. Full-cost pricing just means that the system must pay its full cost to exist. USDA Rural Development's mission is a bit different from EPA's, but even that agency is in favor of infrastructure asset management. A major tenet of asset management is full-cost pricing.

It is good strategy to use the federal government as a funding tool for as long as that tool is useful. But if that tool becomes a crutch, the system will be at risk. Many U.S. water and sewer systems are now dependent, not resilient.

When ratepayers must pay the full cost of everything, including capital improvements, they become very interested in what leaders propose to build, the service they receive and what that service costs. When system leaders hire a consulting engineer, a grant writer and other assistance providers, they will not task those service providers with doing whatever it takes to pull down as much grant money as possible. Instead, leaders will task them with delivering the most appropriate improvements at the best expectable long-term cost to the system. That would be the most economically efficient strategy.

That strategy (and the results it will yield) is far different from the "maximize federal grants" strategy. For some systems that will mean higher costs will be paid by ratepayers. However, it is more efficient to keep dollars and decisions local rather than filter them through the federal government, so most ratepayers who are also tax payers will see a net drop in total outlay. At least, that is the expectation.



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Systems serving small, rural, declining communities are still likely to get federal help. Some of those will end up failing despite the help. Most communities are destined to prosper because local businesses and people want them to. Such communities will be served best by resilient utilities.

How then can a community or system pursue resilience? There are many components to resilience – decision-making, operational, capital improvements execution, staffing and succession, and the like. Reading a short article will not get you there. Your system might benefit from outside professional help for some of this but you cannot "sub out" most of this. Resilience is something YOU must figure out and do yourself. The best starting place for most systems is to develop adequate and dependable funding. Even non-resilient systems need to get this task right.

Adequate and dependable funding comes primarily as a result of smart rate setting. To achieve that you must calculate rates well. If do-it-yourself is not practical for you or your system's situation at this time, get the right rate analyst and have them calculate rates well. (During most years, do-it-yourself rate adjustments are the best way to get this task done.) Present the rate adjustment (increase) message well. Readjust rates on a regular basis. These tasks are reasonably easy to accomplish once you get the cycle in motion.

There are lots of programs, tools, workshops, assistance providers and more out there related to rate setting. Many give bad results and advice but you must sort through them anyway. Talk with your trade association to get guidance and help. Ask your trade association to provide or sponsor training on rate setting. One good starting place for do-it-yourselfers is GettingGreatRates.com. This site (operated by the author; therefore, he is biased) includes articles, a rate setting book, spreadsheets and programs for rate calculation, equipment replacement scheduling and more. Most items are free. Fees are charged for the most powerful items and services.

The bottom line is this: You must start the rate examination and adjustment cycle and keep it going. Good rate setting and budgeting will pave the way to any destination you desire. But, "resilient" is where your system should be headed.

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