

Cities, RWDs might be looking at a once-in-a-lifetime opportunity – thanks to the “Bailout”

Bailout! It’s an awful word. It’s a word that grates on me. I bet it grates on you, too.

I don’t like that we got ourselves into the current economic mess. Actually, I didn’t get myself into a mess. Most of you didn’t either. But many people sure encouraged financial disaster by rather reckless borrowing and lending habits. Now they want (and expect) taxpayers to bail them out. And if we don’t bail them out they might pull everyone else down the tubes with them.

There is a silver lining to this bailout talk. Water, sewer and storm water systems might be looking at a once-in-a-lifetime opportunity to get a big chunk of “free” money. But, if your city or RWD wants a big slice of this bailout pie you better have your plate and fork ready. Perhaps a pie-eating contest would be a better analogy for what may be about to happen.

The finance industry hacked off a lot of people by taking about \$300 billion (at last count) with almost nothing to show anyone for it. Congress and our new President, let’s call them the “check writers,” believe that a large stimulus package is essential to bolstering the U.S. and world economies – but they want to get a bang for the buck and they want to be able to verify it too. When you drop a trillion dollar coin into the slot you are expecting to hit the jackpot. Water related systems could be a strong part of that jackpot, if you are ready.

Readiness to proceed

What is “ready?” Ready, often called “shovel ready” by check writers, means “ready to start building now”. Funding agencies like the term “readiness to proceed.” A city or RWD exhibits readiness to proceed when their project is designed, obtained the necessary reviews, satisfied all the federal and state acquisition requirements and are ready to

bid the project. Except for the fact that the project hasn’t received money, it’s ready to go. As a former employee and friend of mine, Buddy Aycoc, used to say, “Speed is the mainest thing.” In this case, Buddy was right. This stimulus program may well be a sprint, not a marathon.

Who knows what the laws and allocations that eventually pass will look like but expect large dollar amounts and short turn-around times to commit bailout money to recipients.

The check writers will try to put billions of dollars into infrastructure projects including water-related projects. For example, House Resolution 7110, introduced in September 2008, set out \$1.0 billion for the Drinking Water State Revolving Fund (SRF) loan program and \$6.5 billion for the Clean Water SRF. That’s about four times more than the SRF programs have been getting in recent years. The kicker is that to receive these funds the States will have to enter into binding commitments with borrowers within 120 days of receiving the funds from EPA. At the time of this writing (1/1/09), it is anticipated that this bill will be the basis for the new stimulus program.

I expect USDA Rural Development, in concert with the delegated agencies in the states that carry out related programs, will get extra

funds, too. Who knows what the laws and allocations that eventually pass will look like but expect large dollar amounts and short turn-around times to commit bailout money to recipients.

With a few hundred billion dollars worth of water and sewer upgrades needed around the country right now, our water and sewer systems can absorb a lot of cash. Unfortunately, they can’t absorb it all in one gulp. However, the check writers’ investments can be readily verified if put into local government infrastructure so I suspect the check writers will be a little more patient with local utilities.

Beware of a possible riptide after the tsunami of cash passes. If indeed the check writers drop a trillion or so in the next year or two, the check writers may decide to put away their checkbook in subsequent years. If you were hopeful that Congress and the new President would be generous to water and sewer systems, consider the possibility that they may drop the mother lode in the first year or two and there may not be much after that.



Some cities and RWDs have “shovel ready” projects.

Use the money if it makes good sense

Most people will be concerned with the “rightness” of taking bailout money for their local water or wastewater system (and, therefore, the communities served) and running the national debt up that much more. If everyone had that kind of attitude we wouldn’t be in this predicament right now. However, the check writers are going to hand out loads of money. Your system can get it. Or another system will get it. These bailouts, besides hopefully yielding employment and economic recovery in the short run, may set some lucky communities up for cheap water and sewer rates for years to come. In a free-for-all situation you deserve it just as much as anyone else. Take the money if it makes good sense for your system and community.

To get positioned to take the money you need to make some quick plans. Some cities and RWDs have “shovel ready” projects. Put them on the fast track. Position them for bailout money. If you don’t already have a construction permit you might want to apply as soon as possible. If a wave of construction projects starts to roll along, construction permitting could become a bottleneck. The first ones through the bottleneck will get the money. Consider getting on the leading edge of the permitting wave.

If there is a project that your community wants to do but you know you can’t afford it, now may be your time. Start by at least doing a preliminary engineering report or feasibility study. Keep in close contact with your state and federal funding agencies and continue developing the project if funding looks promising. Keep in mind there will be short time frames for getting this money so target projects that you can put together quickly if you hit a time crunch. Building things in the right order is nice for any community but this bailout money is mainly about economic stimulus. The job market doesn’t care if you are building things in the right order. It only cares about the jobs. That will be the over-riding priority of the check writers, too.

If there is a project that you believe you will need to build five or ten years

from now to handle growth, compliance or some other issue, consider moving that project up. Even though you may have to pay higher operating costs for a few more years by doing the project early, getting a load of low-cost funding may make the project financially feasible now.

Some projects, like energy-related upgrades, will actually save operating costs. I know that the Kansas Corporation Commission is responsible for energy issues in Kansas, including grants and loans to qualified projects. KRWA’s 2009 annual conference has a session on this very topic. It’s entitled “Going Green Without Going Into The Red” – and will be presented by Peter Armesto on Thursday, March 26. Check the program and make sure someone from your city or RWD attends! If you can get the funding, change out every electric motor that makes energy efficiency sense. Engineers tell me that includes just about every electric motor over ten years old.

Finally, there is a downside. “Free” money is not always worth accepting. There are strings attached and risks and costs involved. DO NOT jump into a bailout funded project until you determine what the user rates will need to be to

support it. Yes, it would be nice to get a load of “free” money invested in your system. But if the result is markedly higher rates, that will turn free money into a net loss in a few years. You can figure out if free money will be a winner or a loser by doing a comprehensive user charge analysis.

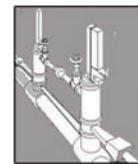
A former employee of mine had a pet phrase. It was, “A boatload of money.” A boatload of money may be headed your way. You may want to catch that boat. Then again, maybe you should wave as it passes. But if you do want to catch that boat, you must be ready.

Bon voyage.

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