

Bailout

By Carl Brown

Bailout – an awful word. A word that grates on me. I bet it grates on you, too.

I don't like that we got ourselves into this mess. Actually, I didn't get myself into a mess. Most of you didn't, either. But a small group of people got themselves into a mess. Now they want us to bail them out. And if we don't bail them out they might pull us 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 you want 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 is 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 us for it. Congress and our new President, let's call them the "check writers," still want to get a giant wad of cash out the door 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 can be a strong part of that jackpot, if you're ready.

What is "ready?" Ready, often called "shovel ready" by check writers, is ready to start building now. Funding agencies like the term "readiness to proceed." You exhibit readiness to proceed when you have designed the project, gotten your construction permit, satisfied all the federal and state acquisition requirements and maybe bid the project. Except for the fact that you haven't received money yet, you are ready to go. As a former employee and friend of mine, Buddy Aycock used to say, "Speed is the mainest thing." In this case, Buddy was right. This will be a sprint, not a marathon.

Buddy Aycock: "Speed is the mainest thing."

The check writers will try to put billions of dollars into infrastructure projects including water related projects. For example, House Resolution 7110, passed 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.

I expect Rural Development and Economic 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 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 you all.

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 for the next several years. If you were hopeful that our new President would be generous to water and sewer systems, consider the possibility that he may drop the mother lode in the first year or two and there may not be much after that.

Most of you, like me, are concerned with the “rightness” of taking bailout money for your system (and, therefore, your community) 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.

Swallow your pride and take the money if it makes good sense for your system and community.

A few of you have (almost) 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 is going to be 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 you want 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 and cut down almost immediately if you hit a time crunch. Building things in the right order is nice for your system 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 figure you will need to build five or 10 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 free funding may make the project financially feasible now.

Some projects, like energy-related upgrades will actually save operating costs. Your state has an agency responsible for energy issues, including grants and loans. If not, the U.S. Department of Energy handles these things for your state. Contact your energy office about grants and low interest loans. 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.

The book “How to Get Great Rates” covers rate setting issues. Visit <http://carlbrownconsulting.com/> and click on the “How to Get Great Rates” link to learn more about the book and how to order it.

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 – 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.

Author Bio and Contact Information

Carl Brown is President of Carl Brown Consulting, LLC, specializing in water, sewer and storm water system rate analysis, asset management and training nationwide. He is also President of GettingGreatRates.com, soon to be home of the do-it-yourself rate calculation program GettingGreatRatesNow©. Mr. Brown may be contacted at: Phone (573) 619-3411, E-mail carlbrown@mchsi.com, Web site www.carlbrownconsulting.com.

