

Impacts of the Current Economy on Public Waste Water Treatment Agencies

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Agenda

- Challenges from the economy
- Potential impacts for agencies
- State of affairs for members from survey

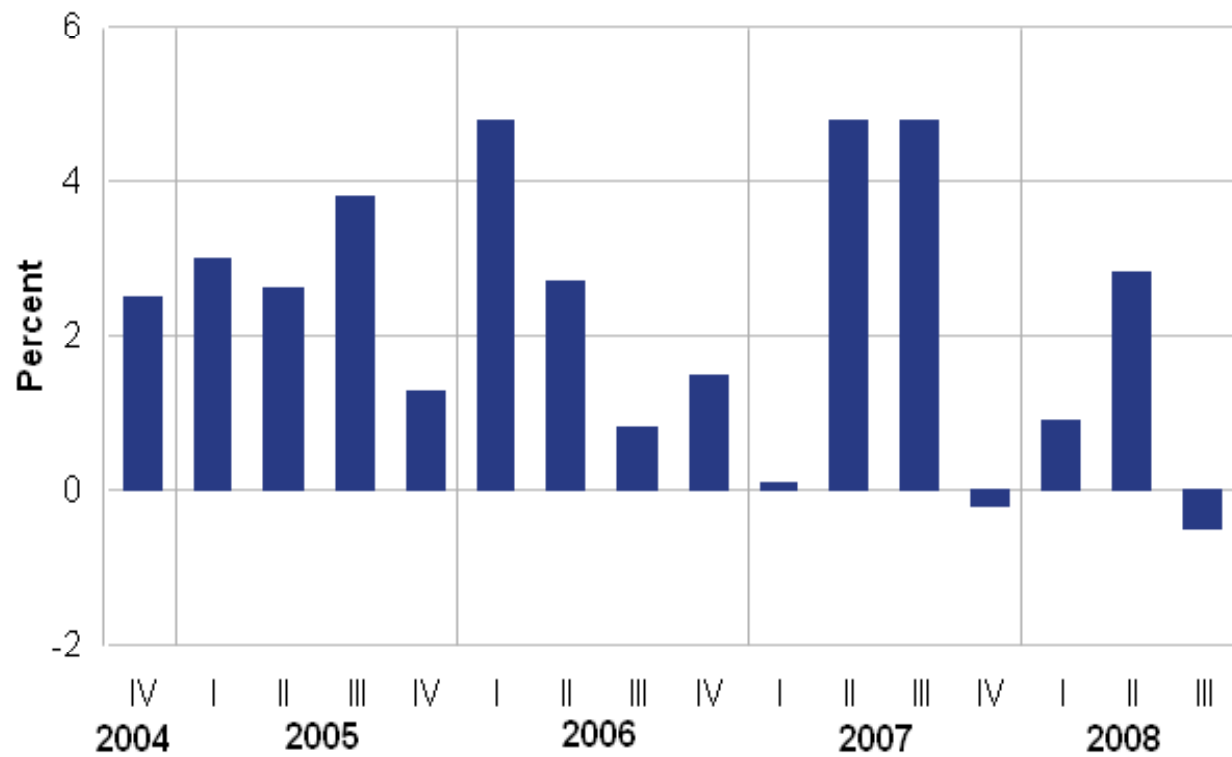
Challenges from the economy

- Recession
- Financial crisis
- Deflation
- Likely government response

Recession

- Although NBER pegged the onset to December, 2007 GDP grew for 2 quarters
 - Payrolls cut by 2 million in last year, more coming
 - Residential construction down 23.6%
 - GDP drop more recent
 - Manufacturing construction up 53.7%
 - Office construction up 8.9%
 - Factory orders down 5.1% in October

Quarter-to-Quarter Growth in Real GDP



Real GDP growth is measured at seasonally adjusted annual rates

Financial Crisis

- Has been more apparent for a longer time
- Credit freeze, lack of liquidity
- Investors seeking safety of treasuries
- Credit quality of munis becoming suspect
 - State tax revenues down 2.6% last quarter
- Muni yields now higher than treasuries
- Muni issuance down 41%

Deflation

- CPI dropped 1% in October
- Good for buyers, bad for sellers

Government response

- Fed and Treasury reducing rates and injecting funds
 - Some thawing at short-term end
- Congress most likely will enact a stimulus package
 - Money for infrastructure projects
 - Usually for additional or new capacity rather than for existing

Impacts

- Revenues
- Costs
- Capital projects
- Financings

Revenues

- Decrease in hook-ups
 - Seen already in residential
 - Manufacturing just starting
- Decrease in demand
 - Can be quick, e.g., Michigan
- Increase in bad debt
- Decrease in investment interest
- Little help from states or cities
- Tough climate to raise rates

Costs

- Some costs will go down
 - Wages, supplies, vendors
- Hard to cut when so much is fixed to capacity and not demand
 - 20% is payroll
 - 40% is depreciation
- Hiring freezes versus layoffs
- Pension underfunding
- Deferred maintenance

Water, Sewage, and Other Systems Employment

Year	Employees	Payroll (1000s)
2000	39,555	\$1,362,126
2001	43,148	\$1,603,457
2002	45,595	\$1,674,162
2003	44,704	\$1,700,636
2004	42,670	\$1,688,606
2005	41,986	\$1,723,170

Capital Expenditures - Utilities

Year	Expenditures (1000s)
2001	\$82,823
2002	\$65,502
2003	\$54,569
2004	\$50,409
2005	\$58,032
2006	\$69,967

Financings

- Increased time, effort and cost in issuing
- Long term debt
 - Shorter terms, higher rates, no insurance
 - Higher debt service costs
- Short term debt
 - Fewer banks and investors
 - Rates may have returned to normal
- People holding off when they can

Survey Results

Survey Responses	Out of 10
Revenues	
Decreased Hook ups	3
Decreased Usage Demand	3
Inability to Raise Prices	5
Increased Bad Debt	3
Decreased Interest Income	2
Decreased Government Support	1
Costs	
Easing Salaries/Hiring	1
Decreasing costs from suppliers and vendors	1
Cutting or freezing payroll	3
Underfunded Pension Liability	2
Deferring Maintenance	1
Capital Projects	
Delaying projects	7
Balance Sheet	
Difficult to refinance	7