A Clear Commitment to America's Waters

The Impact of the Economic Downturn on Clean Water Agencies

This briefing document summarizes information in NACWA's recently released white paper, *Impacts of the Current Economy on Public Clean Water Agencies*. Recent economic trends have produced widespread impacts on public wastewater treatment agencies, according to findings in the paper. Four core economic trends—recession, financial crisis, deflation, and likely government responses— pose the biggest challenges for the industry.

- Since the recession began in December 2007, about 3.6 million jobs have been cut, and other impacts are beginning to be felt.
- The financial crisis has significantly hurt the municipal bond market—an important financing tool for public utilities. Municipal bonds are less attractive to investors because they are less liquid than treasury bills; thus there has been a 41-percent drop in their issuance from a year ago.
- The possibility of deflation—the sustained drop in general price levels— means consumers are holding off on purchasing goods because they know the prices are likely to drop, which drives down prices further and makes borrowing unattractive.
- Because state governments are mostly in deficit already, the federal government will have to respond, mostly like through an infrastructure spending program as part of a larger stimulus package that will require the hiring of workers to create solid new jobs.

The economic downturn has had noticeable impacts on revenues, costs, capital projects, and balance sheets. The most immediate impact is the year-long drop in residential and commercial construction spending, which has meant less revenue from water and sewer hook-ups. Cutbacks in production and employment have resulted in decreased water use and effluent discharged from factories, office parks, and homes. Utilities facing lower revenues may be unable to raise rates during tough economic times or, if they do raise rates, may not see an equivalent increase in revenue. Consumers and businesses with tight budgets may delay paying or walk away from their bills altogether. Utilities also face decreases in investment revenue, local government subsidies, and ad valorem rates.

Impact on Costs

The impact of the economy on costs will yield some potential benefits and some challenges. The pluses are that the costs of wages, materials, and vendor services should, which have soared, may stay at current levels or return to more reasonable levels. The prices on many materials and supplies are dropping. While reduced costs will help, overall costs will not drastically decline because so much of a utility's costs, such as depreciation, are fixed.

Capital Projects

How to proceed with capital projects poses a difficult challenge for utilities. Those not mandated by law or regulation require long-term projections of demand growth. In a short, shallow recession, no real change is likely needed. Typically, utilities find it easier to cut back on capital expenditures than to cut back on employees. While employment continued to grow during the 2001 recession, capital expenditures dropped 21 percent in 2002 and continued down for two more years.

This is why the current discussion in Congress and by the Obama administration is focused on the stimulus package, which is looking at adding several billion dollars for wastewater infrastructure projects.

NACWA SURVEY RESULTS

NACWA performed an initial survey of its members in late 2008 about their experiences with the downturn and found that the financial market crisis has caused the some significant problems. Sixty percent of utilities had difficulty obtaining financing. Because long-term debt is seen as hard to come by, 70 percent of utilities have delayed capital projects. For shorter term debt, however, 20 percent of utilities said their conditions are back to pre-crisis terms. The stock market decline has caused 20 percent of utilities to have underfunded pensions.

The recession is expected to pose the next big challenge because gross domestic product (GDP), which had been growing, is now declining, and this will mean decreased revenues. Thirty percent of utilities have already seen connection fees drop dramatically. Another 30 percent expect drops in water usage soon. Of the 60 percent of utilities that have seen or expect to see hook-up fees drop, half already have hiring freezes and are looking to reduce costs. The main challenge is predicting the depth and length of the recession. As we saw from the mild 2001 recession, the industry did not cut enough and had to trim employment for the next several years.

Survey Results

Survey Responses	
Revenues	
Decreased Hook-ups	30%
Decreased Usage Demand	30%
Inability to Raise Prices	50%
Increased Bad Debt	30%
Decreased Interest Income	20%
Decreased Government Support	10%
Costs	
Easing Salaries/Hiring	10%
Decreasing costs from suppliers and vendors	10%
Cutting or freezing payroll	30%
Underfunded Pension Liability	20%
Deferring Maintenance	10%
Capital Projects	
Delaying projects	70%
Balance Sheet	
Difficult to refinance	70%