Capital Planning

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With the economy still in a slump and government spending at an all time high, something is going to have to give. Current spending levels cannot be maintained for any length of time without producing a severe backlash in the future. Many water systems are currently being funded for infrastructure repair and replacement projects with abnormal amounts of grant or loan forgiveness. Not only is it likely that this practice will need to end in the near future, but one of the results of the current deficit in federal spending could be a reduced amount of grant funding available and even higher interest rates on loans.

It is likely that water systems will be required to pay more of the cost for system improvements in the future and rely less on government loans and grants. There are two ways a system can accomplish this task, by letting current users pay for replacing the system they are wearing out, or letting future users pay for the system they will be using. The system can also use a combination of these methods by allowing for current users to build up a down payment and having future users pay the rest. A water tower can be expected to last for 30 years or more, and if the system starts setting aside reserves when the tower is new, they will have a substantial amount of the revenue needed on hand when it comes time to replace it. Private sector utilities, such as phone and cable TV understand this principle and set their user rates accordingly. It is time for all municipal utilities to realize that infrastructure wears out and it is not the responsibility of the federal or state government to replace it when that happens.

In addition to infrastructure wearing out, systems also need to plan for new regulations and other factors that could require new system equipment. New contaminants being regulated by the EPA or a slowly increasing amount of a currently regulated contaminant could require a system to install a new treatment plant to continue to supply safe drinking water to their customers. When an existing water system is required to install a treatment plant, they will soon discover that the operation and maintenance of the treatment plant

is another new cost they will need to fund. If water rates have been set in the past with an eye toward looming regulatory issues, the burden will be lessened when the treatment plant is built. Otherwise, a water rate increase of 100% or more may be required to build and operate the necessary treatment plant.

It is important for utilities to realize that the unending source of governmental money to build, repair and replace system infrastructure can not last forever. It will someday be the responsibility of all utilities to pay their own way. Full cost pricing of the utility, whether it be water, sewer, gas, electric, etc., will allow for depreciation of system equipment and infrastructure and will start funding replacement of these items before they actually need to be replaced. It may be a tough decision to make now, but it will help keep the system from making much tougher decisions in the future.