As we all know, the Florida Water Resource Conference will not occur in 2021—because of COVID-19 and the slow roll-out of vaccines. We need vendor participation at conferences, and if people won’t attend the event, vendors are unable to connect with customers—and vendors are the major sponsors of the conference.

So, the question is how long will conferences be affected? We assume (hope?) that the state and federal governments figure out the vaccine distribution and we are all good to go in November with respect to the vaccines, as the Florida Section AWWA Fall Conference is planned to be an in-person event.

But what COVID-19 limitations might remain in place for, say, the barbecue or the exhibit floor? And how many people will come to Orlando to attend? We are already hearing that local governments have restricted travel in 2021 for budget reasons.

Utility Budgeting

Travel is the tip of a larger budget problem we need to talk about. The budget issue is associated with the fact that sale-tax revenues, shared among state and local governments, are significantly lower than expected, which has led to a proposal to cut education funding in the state. Lower revenues to local governments means belt-tightening for local officials. But should utilities be affected by that belt-tightening?

As a former city manager who inherited this type a problem, the question is: What to do? Friends who are city or county managers have used the “fairness” argument (everyone should feel the pain) and the political argument (the commission will not differentiate funds) as reasons to apply the same limitations to the utility system as the general fund. That’s the easy way out, but it represents the “bad manager syndrome” in action.

I’m using the following example from my infrastructure management book to illustrate the fallacy of this approach.

Budgeting in Business

Assume you were the chief executive officer in charge at Ford Motor Company. Let’s further assume, for simplicity, that the company makes only two vehicles: the F150 pickup (the largest selling vehicle in the United States for nearly 30 years by a wide margin), which has a high profit margin; and a passenger vehicle, which does not have a high profit margin and does not sell nearly as well.

If you’re faced with the same situation as local government managers, whereby your overall revenues have decreased as a result of the economy, where do you make cuts, especially since the F150 demand is relatively inelastic? In industry, the answer is obvious: cutting costs and reducing production of the passenger vehicle might actually maintain or improve Ford’s profit margin. So, that manager looks like a brilliant leader when that decision is made.

Let’s now assume you get hired at a city because of your success at Ford. The city of course has a revenue shortfall, so what do you do? This is far more difficult. The city has police, fire, parks and recreation, planning, etc., so where do you make cuts? Fire, police, parks? None of these are profit centers; they are all services that cost money, the value of which cannot easily be measured. You could evaluate the risk of higher losses if you cut the fire department, but that creates other issues. It’s the same with police.

If you have reserves, you can manage the challenge, but if not, the easy answer is to cut all services by the same amount—sharing the pain because there is no means to measure the impact of success of cutting costs.

Every government employee recognizes this method most commonly used to meet budget limitations. It’s easy, but not fair, or in many cases, appropriate.

Business Principles for Utilities

Compare how such a decision would have worked out back at Ford. Cutting back
on the F150 and the passenger vehicle the same percent would likely make the overall situation worse, not better. A Ford executive making that type of decision would be roundly criticized and likely dismissed, but would that same person be viewed as a successful manager in the public sector? The pattern persists because it's easy—no hard decisions have to be made.

Utilities are like the F150; unless there is a major loss of population or industry, utility revenues are relatively inelastic. Many utility managers I have talked to have suggested that, during the past year, their revenues are up (although there are certainly places where they're not—generally high tourism-based utilities). So why curtail travel for utilities? For that matter, why curtail anything? Look at this as an opportunity to get more bang for your buck, since interest rates, job costs, etc., are likely lower in troubling economic times.

Since public officials are going to have to deal with tough issues, like rebuilding deteriorating infrastructure, leaky sewers, stressed water supplies, and a more demanding electorate—in addition to energy and climate concerns—why not use the economic challenges today to start the process?

Our economy grew in the 20th century due to our investments in infrastructure, and innovations like automobiles, airplanes, computers, and cheap energy. Innovations and investments continue, but infrastructure lags, as the American Society of Civil Engineers report card shows us every four years.

The need to fix the infrastructure that made our economy strong should be a priority, but many things are a higher priority in Washington, D.C., and unfortunately, at the local and state levels as well. Perhaps this is the time to restart the argument that the utility budget should not be cut, and in fact, that some of our planned improvements should be accelerated to take advantage of the economic distress and lower costs and interest rates, while helping to improve our systems and being part of the solution at the same time.

Infrastructure investment equals jobs—so you're putting people to work! That's a positive for the local community, and our industry as a whole.

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