Undervaluing Water

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I have done a number of rate studies and I find that the cable and cell phone bills are almost always higher than the water and sewer bills. Yet, any time there is a proposed rate increase, local elected officials and the public complain. It’s not like water and sewer services don’t have an excellent record for delivery. Think about the number of times your cable television has gone out, your cell phone service is interrupted, and your internet doesn’t work. And let’s not even talk about power!

Many of these interruptions are not for a second or two. How many water utilities have a track record like that? None. So, we provide great service to the house or business, with basically no interruptions unless there is a main break or you fail to pay your bill, so why all the pushback on needed water and sewer rate increases?

Here are some questions to fathom:
- Is it the perceived benevolence of local utilities, most of which are public entities?
- Is it a perception that water should be free so it’s not important to pay the bill?
- Is it the lack of marketing of an essential product by water utilities?

I’ve heard all these arguments, but I’m thinking the last one may be the most important. Most people know they need to pay their bill, and I don’t really know many people in the United States who think water should be free. Certainly pricing keeps people from wasting a resource that clearly has limits.

Cheap Doesn’t Mean No Value

People are used to cheap water, but operation costs are going up and the deferred maintenance obligations of utilities continue to climb. The transfer of water and sewer funds from the balance to the general fund after the 2008 fiscal crisis hurt us a lot, and many jurisdictions continue that bad fiscal practice. I’m also concerned that the COVID-19 pandemic will lead us to a similar general-fund crisis as state sales tax revenues that are shared with local government general funds fall far short of projections. Few general funds ever pay back the utility funds.

I did a study several years ago that suggested that the net plant asset value of a typical utility should be about 45 percent of the replacement value using a number of assumptions on pipe, pump, and plant life, and costs (note that adjustments to these don’t change the number significantly).

The really concerning part was that less than 25 percent of the utilities surveyed met this goal. A huge number were less than half that amount, which means a major backlog in pipe rehabilitation or replacement, and that means that very large deferred maintenance/replacement costs are looming, increasing risk to service providers—and customers.

Much of historical capital programs could be traced to limitations placed on the utilities by elected officials under stress from the public. Complaining to local elected officials often keeps rates artificially low, which means maintenance and replacement programs get deferred. The U.S. Environmental Protection Agency (EPA), Government Accountability Office (GAO), and other entities regularly report that we have been keeping rates low and deferring capital and maintenance for years to the tune of hundreds of billions of dollars. The American Society of Civil Engineers (ASCE) 2021 report card gives drinking water and sanitary sewer infrastructure a grade of C- and D+ respectively. Ouch!

Tooting Out Own Horn

So what’s the solution? I suggest that, as an industry, we have failed in marketing our product—water. Treatment plants and pump stations are out of the way, and pipes are buried; no one sees them and people assume these facilities will work, but they rarely ask how they work or how long they will work.

They don’t understand the complexity or the regulatory stringency of operating a utility. They don’t understand that the number one priority is public health, and protecting the public health costs money. We have not made people understand this because we do not market our product.

I have taught elected-official classes where the officials tell me public dollars should not be spent on marketing, but they never say why when pressed. Rarely is marketing included in a budget, but if water and sewer is a business, isn’t marketing an important strategy to maintain that business?

We have many means to leverage our product:
- We can use Drinking Water Week, Public Works Week, and our many conferences and contests to highlight what we do.
- We need to make Roy Likins scholarship presentations in person at high schools and colleges.
- Contact the press—they really do like to have a little good news in the newspapers, online, and on television.

We need to make those pipe groundbreakings a bigger deal, and cut ribbons at pump stations. I know, you’re thinking he’s lost his mind with all this silly claptrap, but the press and elected officials love an event where they can be seen. Touting the value of water is a marketing task and we don’t do it very well.

To compare, we have a host of celebrities making big bucks marketing cellphones, which are not required to survive. We have a lot of glitzy cool advertisements for cable service options, but we don’t need cable to live. The power companies send out glossy stuffers in their bills (that no one reads), but they do end up in the papers regularly. While power really does help us survive, we could do without it (although it would be unpleasant), as our forebears did.

No one, however, has ever survived without water. Maybe it’s just too obvious. Maybe because it is so obvious, people are less conscious of it. That needs to change and we need elected officials to participate in the change.

As a private-sector marketing manager would say: You have lost your market share!

We need to get it back.