

COVID Impacts on Municipal Water Utilities and Future Infrastructure Improvements

VINYL 360
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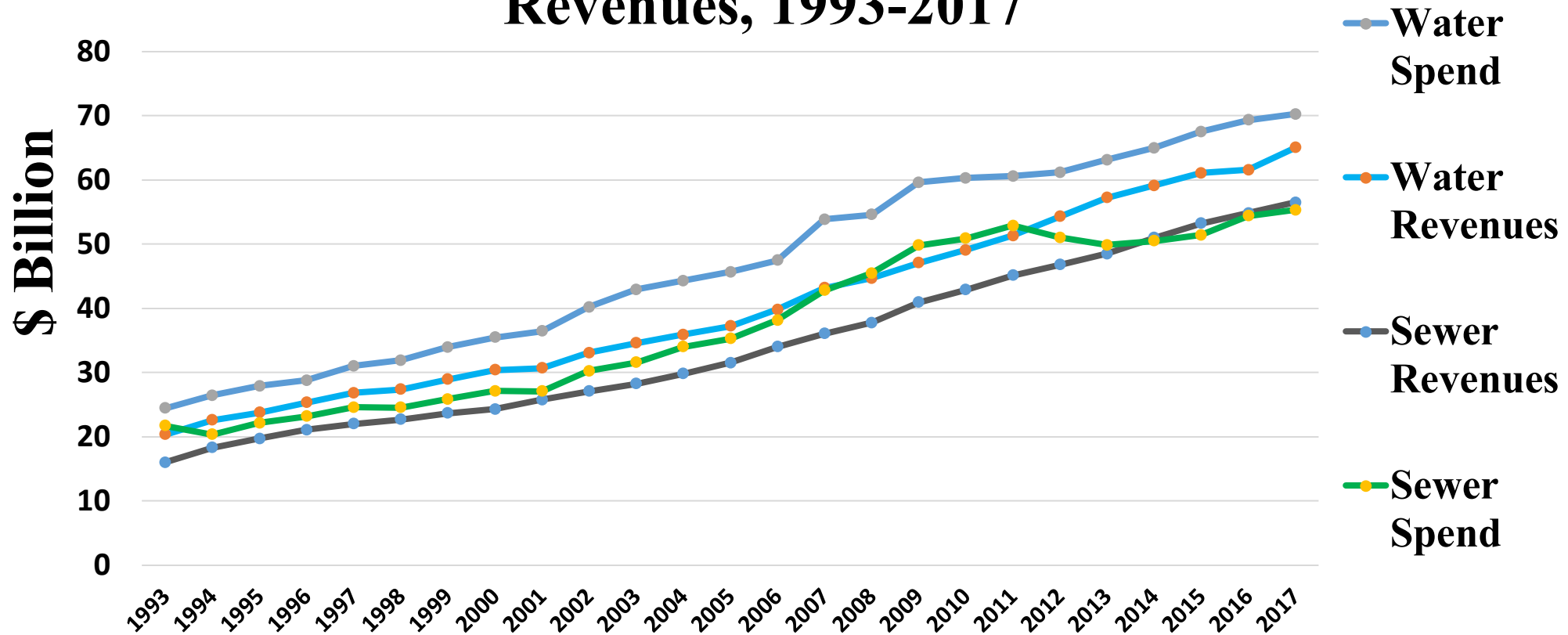
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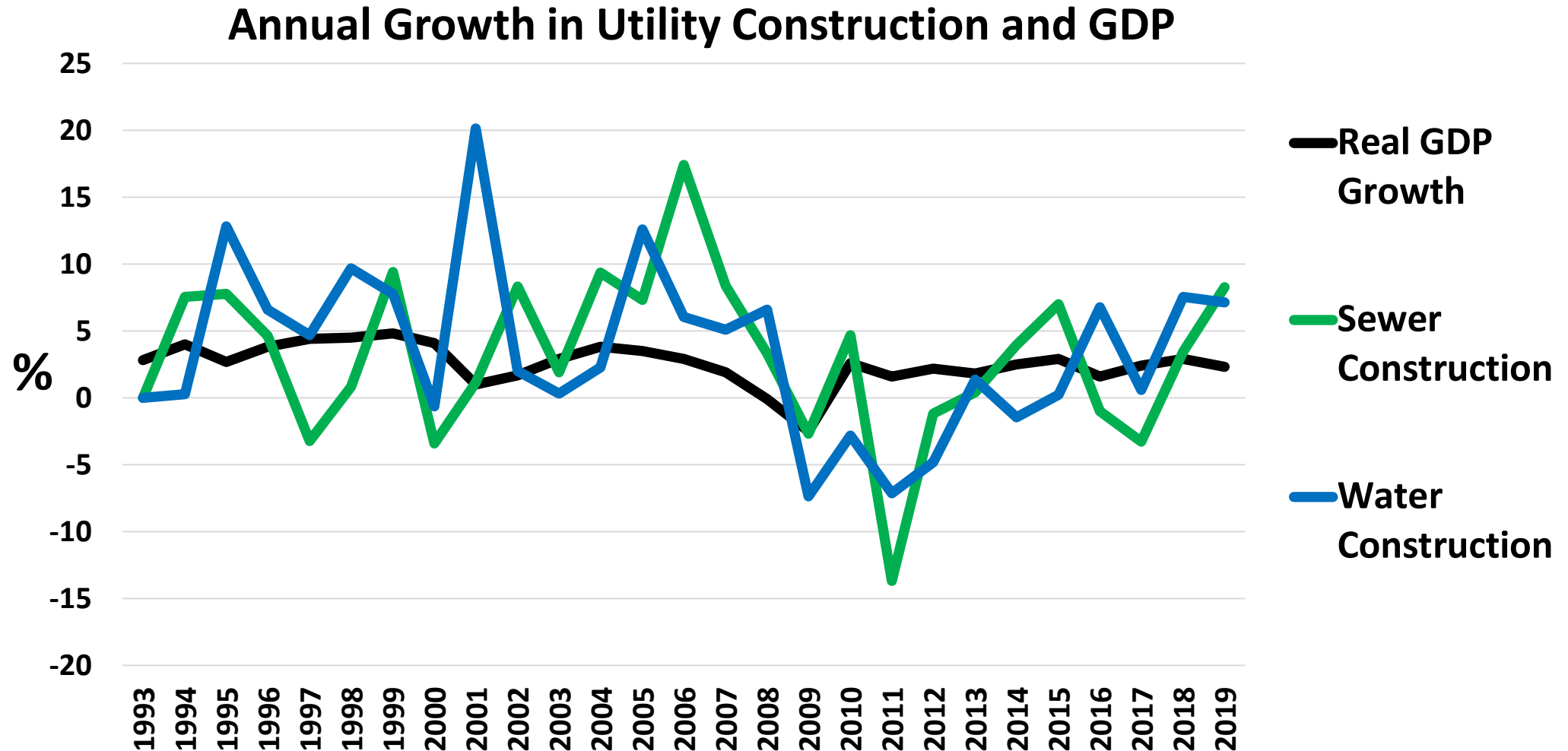
Washington, DC

Revenues Remain Positive – Spending Sputters

Local Government Utility Spending and Revenues, 1993-2017



Once Well Above GDP Now Struggling to Match It

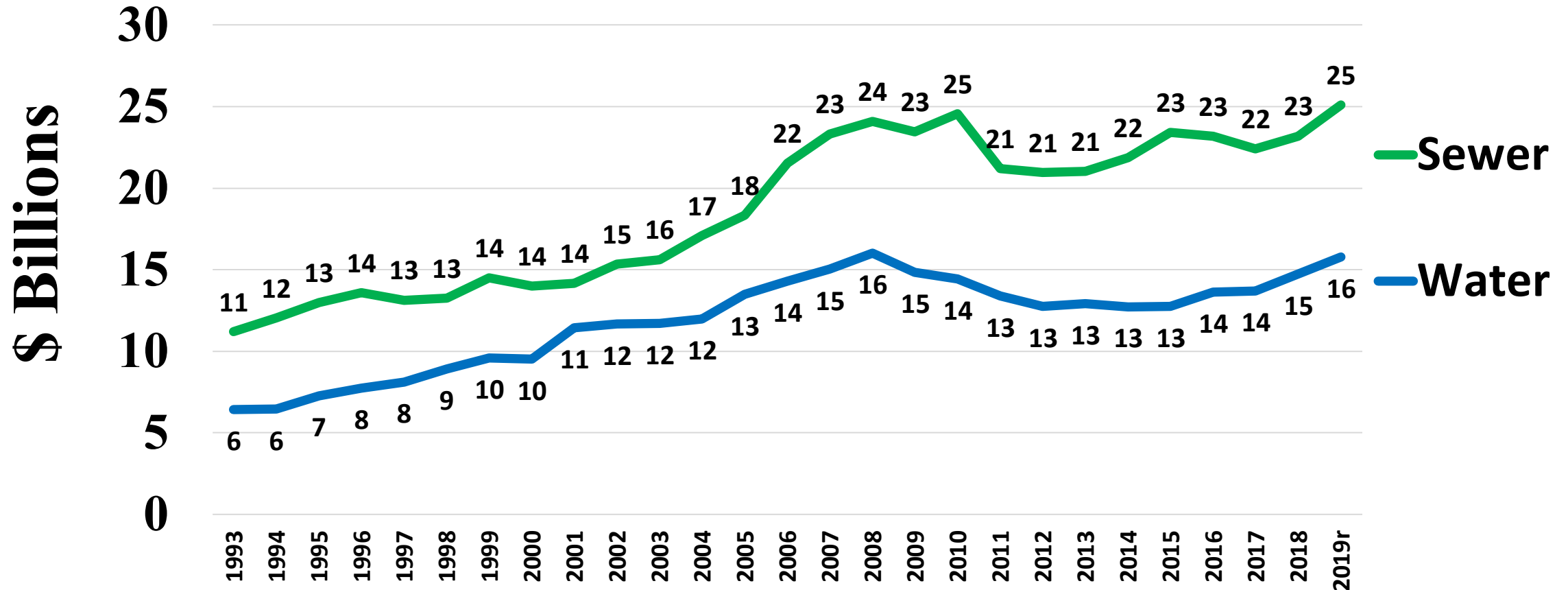


Growth in Annual Utility Spending Cut In Half

Average Growth in Annual Utility Spending		
Utility Sector	1993-2008	2009-2017
	Pre-Recession	Post-Recession
Water	5.5%	2.8%
Sewer	5.2%	2.2%
Real GDP	3.04%	1.68%

Recession Years Reveal a Clear Spending Trough

Local Utility Construction Spending, 1993-2019

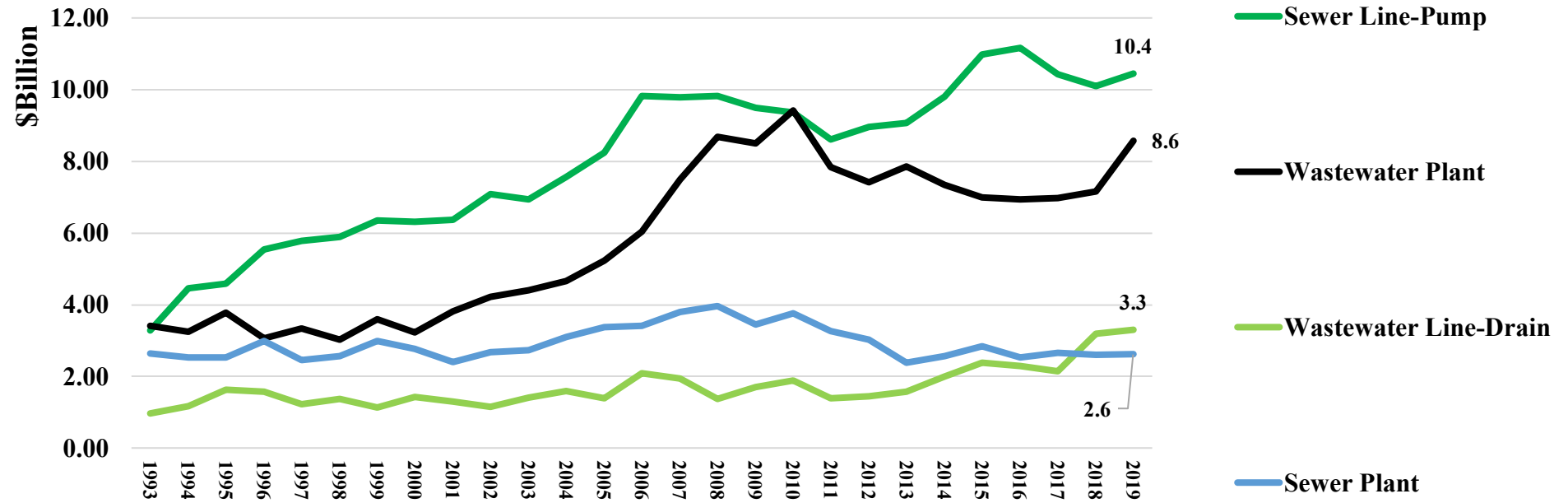


Growth in Construction Spending Down Over 90% +

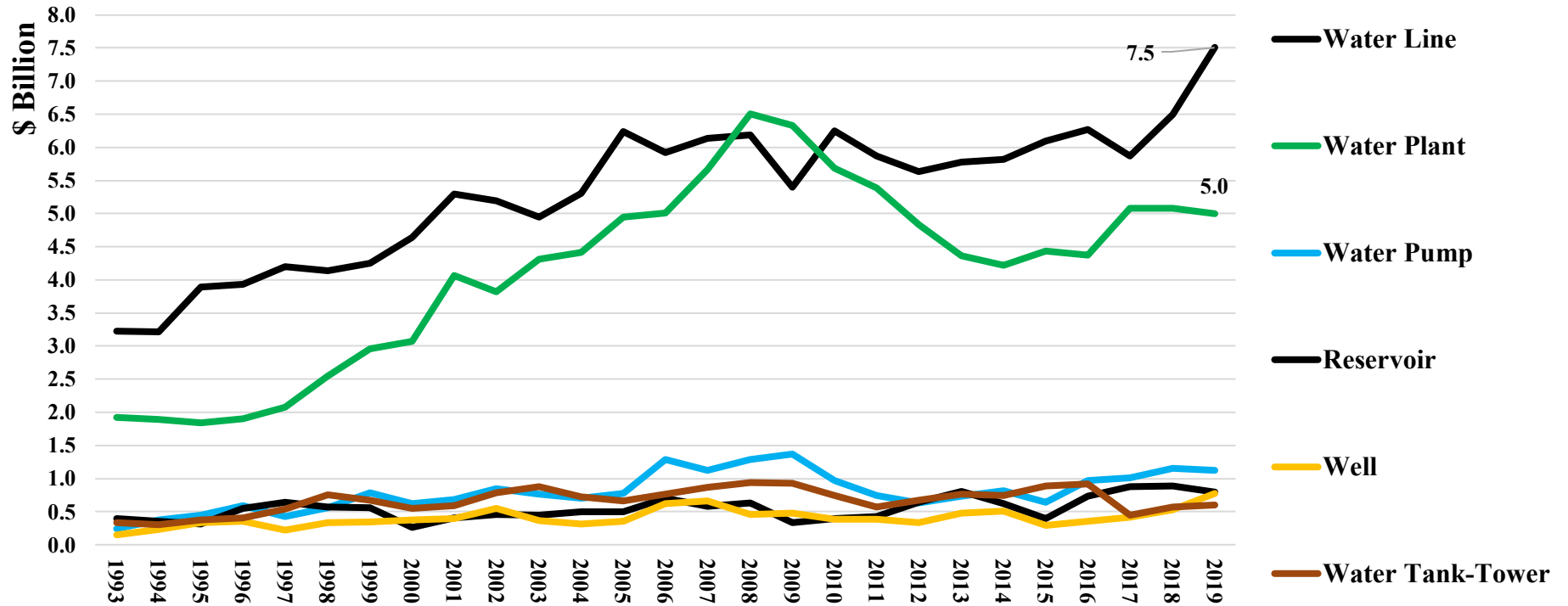
Average Growth in Annual Construction

Utility Sector	1993-2008	2009-2019
	Pre-Recession	Post-Recession
Water	6.4%	0.003%
Sewer	5.4%	0.55%
GDP	3.04%	1.68%

Local Sewer/Wastewater Construction Spending, 1993-2019



Local Water Supply Construction Spending, 1993-2019



IMPLICATIONS FOR THE COVID-19 PANDEMIC INDUCED RECESSION

KEY FACTORS IN COMMON

UNEMPLOYMENT

GOVERNMENT FISCAL INTERVENTION

IMPLICATIONS FOR THE COVID-19 PANDEMIC INDUCED RECESSION

The Great Recession lasted for 19 months and hit peak unemployment four months after the recession ended

- **10 % October 2009.**

The covid-19 spike in unemployment has been immediate and unusually high by comparison.

2019

- **3.6% March 2019**

2020

- **4.4% March 2020**
- **14.7% April 2020**
- **13.3% May 2020**
- **11.1% June 2020**
- **10.2% July**
- **8.4% August**
- **7.9% September**
- **?% October**

When the consumer hits the benefits cliff

When government intervention programs end the consumer will face a mounting financial challenge to maintain current living standard:

Moratoria, mandated or voluntary, on housing evictions and utility shut-offs for non payment will have to be reckoned with.

What is the most likely outcome, and what would be an extreme outcome?

When the consumer hits the benefits cliff

- Utility budgets will emphasize primary mission of continuity of operations to provide life support and public health.
- Labor freeze favoring, attrition, buyouts, furloughs or layoffs.
- Prioritize (reprioritize?) capital projects and construction.

A Most Likely Outcome

- Sustained construction investment at the \$40 billion plus annually
- Growth in construction spending will again take a haircut -
How bad?
- The Covid-19 recession could add another 10-15 years of stunted growth in utility construction spending making the combined effect of the Great Recession result in a lost generation of utility infrastructure investment that could exceed \$200 billion at a time when current assessments suggest an additional \$700 billion investment is needed for water and sewer to comply with current law.

An Outlier Outcome

- What signals the way to the Outlier?
- When government support programs for individuals end (the cliff), and if local utilities lose revenues at a level that impedes repayment of debt the financial consequences could be severe because advance refunding of muni bonds was prohibited in the last tax reform act.
- If the local government holds a state/federal revolving loan the repayment issue can be more easily dealt with by: forbearance; Capital forgiveness; extension of repayment period; or a grant from the state

What Makes the Difference Between Likely and Outlier Outcomes?

- Government Intervention – More Spending and Debt or More Taxes
- Relief Assistance – Covid related and revenue shortfalls
- Recovery Assistance - Infrastructure