

When is it better to save, spend, or not spend money?

There are different business models for providing water and sewer services to California communities – private utility companies, mutual water companies, and government agencies providing utility services. Private utility companies balance customer service levels with the need to provide a return on investments. Mutual water companies are owned by the water users and are run somewhat like a homeowners association where users fill the governance role. Government enterprises within cities and counties, including legislative enacted and voter approved special districts providing utility services, represent the community interests through its agents. All these business models have a common question they need to answer - when is it better to save, spend or not spend money?

Money is the means to water and sewer services. It is the fuel that keeps the pumps turning and the pipes repaired. It pays people to think and act in the interest of community water and sewer needs. Using money in the most efficient and effective way to accomplish this charge is a common challenge each business model must address. Each must answer the question of saving, spending, or not spending money in a slightly different way.

Whether building cash for reserves or accumulating cash for replacing aging pumps and pipes, saving money has a cost. In today's low yield environment, having money sitting around is expensive. Inflation devalues cash sitting idly in bank accounts. Funds have to be in a secure financial instrument with a low level of risk and that means low returns. Each utility business model has a unique set of considerations when determining the amount of cash reserves to provide a reasonable safety net. The amount of cash on hand will vary within different business models, but ultimately reserves should be sufficient to overcome unforeseen emergencies.

Not spending money comes with its own set of consequences. If money isn't being spent because there are insufficient funds available to operate and maintain the systems within the utility, systems will eventually fail. Typically, the cost of failure is higher than the cost of good program maintenance and planned replacement practices. A better reason utilities do not spend money is because they don't need to; pumps and pipes are within their life-cycle. This is a temporary state because the continued use of these assets over time will eventually take its toll and items will need to be repaired or replaced. For all utility business models, not spending money is, at best, a short-term condition and, at its worst, a condition of bad planning.

The Nipomo Community Services District balances saving, not spending money, and spending money to meet the utilities operating and maintenance needs. The controversy of what is needed is long-running between those who provide service and those who pay for service. At the center of this conversation is the same economic force that drives down the value of money in savings accounts and drives up the cost of providing utility services - inflation. Whether governmental agency, homeowner association, or privately held company, the cost of operating and maintaining utility services will continue to escalate. Service providers can't ask their users to like the inevitable cost of living increases and service users can't ignore and expect the condition to go away. The challenge for those tasked with providing these services is to control costs where possible and communicate to service users why their money is being saved, spent, or not spent.

Until next time...

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The mission of the Nipomo Community Services District is to provide its customers with reliable, quality, and cost-effective services now and in the future.