



Association of
Metropolitan
Sewerage Agencies

**TESTIMONY OF THE
ASSOCIATION OF METROPOLITAN SEWERAGE AGENCIES
(AMSA)**

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Presented by

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**Submitted to
the**

**SUBCOMMITTEE ON WATER RESOURCES AND ENVIRONMENT
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**

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Association of Metropolitan Sewerage Agencies
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Introduction

Good morning Chairman Duncan, Congressman DeFazio, and members of the Subcommittee, my name is Pat Karney. I am Director of the Metropolitan Sewer District of Greater Cincinnati (MSD) and a member of the Association of Metropolitan Sewerage Agencies (AMSA). AMSA represents more than 270 publicly-owned treatment works (POTWs) across the country. AMSA's members treat more than 18 billion gallons of wastewater every day and serve the majority of the U.S. sewered population.

On behalf of AMSA and the MSD, I thank you and your colleagues for your work on the forthcoming introduction of the Water Quality Financing Act of 2002, and for holding this hearing. Like you, AMSA and its members look forward to commemorating this year's 30th Anniversary of the Clean Water Act (CWA) with the passage of a major funding bill for our nation's core wastewater infrastructure.

The House, during hearings last year, laid the foundation necessary for this legislation by documenting the critical need to reinstate a long-standing financial partnership between the federal government, states, and communities. This partnership is essential to achieve our nation's water quality goals and must be a priority for all levels of government.

Local government water quality needs are great for many reasons, including the tremendous infrastructure investments necessary to repair, replace and rehabilitate existing infrastructure and meet current needs associated with combined sewer (CSO) and sanitary sewer (SSO) overflow programs and requirements, not to mention the many other Clean Water Act requirements with which we must comply. MSD alone needs between \$1 and \$3 billion dollars for design and construction to reduce CSOs and SSOs. These figures exclude our regular operations and maintenance costs and the cost of planned infrastructure repairs and rehabilitation. Additionally, as I testified before you on October 10, 2001, we now must make significant investments to upgrade facility security.

I now would like to provide the Subcommittee with AMSA's perspective on several issues anticipated to be in this legislation.

I. Core Infrastructure Funding Provisions

We believe this legislation will take a commendable and meaningful step toward addressing the magnitude of the wastewater infrastructure funding gap and authorize significantly increased funding for the clean water state revolving funds (SRFs). We thank the Subcommittee for its leadership on this issue.

While we believe the funding increase will be substantial, it is unlikely to completely close the gap between what local communities can raise through rates and new efficiencies, and our existing and future wastewater infrastructure needs. Local governments currently spend \$23 billion annually on their core infrastructure needs. Even with an increased federal investment, local governments will still shoulder the great majority of the overall investment in clean water infrastructure. Communities' bonded indebtedness will continue to mount, our rates will continue to rise, and our efficiency ratios will continue to improve. However, a long-term federal commitment to water infrastructure funding is essential to meet our national clean water objectives and goals. Simply put, more needs to be done to fully close the documented water infrastructure funding gap.

The legislation before you today is also anticipated to include several key provisions affecting how new federal funds may be used. I would like to present AMSA's views on three of these provisions.

Subsidization

We were gratified to learn that the legislation will include subsidization and a grant related component. The 30 years of clean water progress we celebrate this year began with a federal grant program that jumpstarted our nation to improve water quality for all Americans. Congressional action demonstrated to the nation the federal government's commitment to clean water and its willingness to take necessary actions to get the job done. Even today, the ongoing local need for direct water infrastructure grants is clearly evidenced in the Fiscal Year 2002 VA-HUD appropriations bill for EPA. In this bill, Congress approved funding to 337 core water infrastructure projects directing nearly \$344 million to municipalities across the country. Grants are, and always have been, a necessary part of a real solution to our local infrastructure needs. We applaud the Committee for recognizing how important this financing tool is to the nation's communities.

It is anticipated that this legislation would give States the discretion to provide up to 30 percent of current and new federal SRF funds in the form of grants and additional subsidization, including principal forgiveness or negative interest loans. We further understand that states would be required to use 25 percent of any federal funds provided above \$1.4 billion for additional subsidization targeted to: 1) municipalities that are economically disadvantaged under the State's affordability criteria; 2) pockets of poverty if

the subsidy will directly benefit disadvantaged ratepayers; or 3) alternative processes and techniques for achieving water quality improvements.

We believe it is essential to ensure that states have the authority to define these affordability criteria broadly, with the result that municipalities with priority projects due to public health risks and environmental impairment — as well as those meeting traditional affordability parameters — are eligible for such funding.

Extended Repayment Terms

It is anticipated that the legislation would extend SRF repayment to communities that meet State affordability criteria up to 30 years, or the design life of the project, to fully amortize a SRF loan. AMSA encourages the Committee to allow all communities to take advantage of these extended repayment terms. Longer repayment periods will add flexibility to the SRF program and further maximize federal SRF monies for all municipalities.

Security and Watershed Projects

We appreciate the bill's recognition of the significant new investments we will be making in facility security by making SRF funds available for these projects. We also support using the SRF to fund watershed projects as authorized in Section 121 of the Wet Weather Water Quality Act of 2000. Making the SRF available for watershed projects will allow local governments to promote holistic methods to achieve regional water quality goals.

II. New State Capitalization Grant Agreement Requirements

We understand that this legislation would amend CWA § 602(b) to require POTWs applying for SRF funds to meet several new conditions under state review. Such requirements may include: conducting a physical and operational analysis of the system proposed for repair, replacement, or expansion; analyzing the cost and effectiveness of alternative management and financing approaches, including rate structures, bond issuance, consolidation, and public-private partnerships; and developing and implementing plans for funding asset maintenance, repair, and replacement.

Recognizing that the SRF funds only 10 percent of most communities' infrastructure needs, these provisions impose a disproportionate burden on both states and SRF applicants. AMSA is concerned that these provisions will only serve as further disincentives for municipalities to access the SRF. While many larger municipalities already provide this information to receive loan funding, smaller communities may lack the resources to do so

and serve to discourage them from taking full advantage of this funding resource. We question whether provisions like these are the best mechanism to encourage municipalities to access the SRF or to undertake the analyses and plans described.

We recommend that the Committee consider an alternative approach to encourage utility efficiency through the establishment of a new institute for technology and management excellence, as recommended by the Water Infrastructure Network (WIN). Such a program would further develop management policies that would reduce infrastructure costs, prolong the life of America's water and wastewater assets, and improve the productivity of utility enterprises.

I would like to specifically address two of these concepts in greater detail.

Physical & Operational Analyses of Systems, Asset Maintenance, Repair, & Replacement Plans

We understand that the legislation would require SRF fund applicants to conduct physical and operational analyses of the systems proposed for funding, and to plan for their future maintenance, repair and replacement. Today, without any federal requirements, public wastewater utilities must continuously plan and optimize the maintenance and replacement cost cycles for their infrastructure assets in order to minimize costs and to maximize performance. POTWs recognize that asset management and long-term planning are an essential part of protecting our nation's water infrastructure investments.

AMSA recently released a comprehensive asset management handbook and has begun to conduct regional workshops to train hundreds of facility managers in asset management techniques. This is in addition to the requirements of Government Accounting Standards Board Statement 34 (GASB 34), which will require cities to plan for and discuss in detail the condition and lifecycle of their major infrastructure assets. For these reasons, we believe that insisting that states require SRF applicants to make these asset management showings may become an overall SRF deterrent, particularly for smaller municipalities.

Rate Structure Analyses

Our understanding of the legislation suggests that states would be required to ensure that SRF applicants analyze the cost and effectiveness of alternative management and financing approaches, including rate structures. Many States currently require SRF applicants to submit such information, making new requirements in this area unnecessary and burdensome. When it comes to rate structures, let me assure you that municipalities across the country are committed to supporting our operations and capital needs through rates.

AMSA's own triennial financial survey documents an increased reliance on user charges as the primary revenue source for rising cost associated with repair and replacement. The Survey also documents overall increased efficiency and improved performance levels at agencies across the nation.

Ratepayers in my service area have been paying the full cost of wastewater collection and treatment since 1968. However, in order for us to reduce SSOs, we will need to raise user rates approximately seven percent a year for the next 15 years – if we stay near the low end of our design and construction budget estimate of \$1 billion. If we spend closer to the high-end of the estimate at \$3 billion, we anticipate rate increases of 21 percent a year over 15 years. In Cincinnati and many other cities, counties and towns across the country, rate increases alone cannot bridge the water infrastructure gap, which is why significant funding increases, including grants, are so essential to meeting our present and future wastewater infrastructure needs.

Public-Private Partnerships

We understand that the legislation would require states to ensure that SRF applicants explore public-private partnerships as part of their cost effectiveness assessments. Again, we believe this approach may discourage applicants from seeking SRF funding. Wastewater treatment providers have a built in incentive to be efficient – they must constantly innovate and modernize to deliver more efficient services and manage the pace of rate increases. Additionally, more agencies are operating plants that are providing higher levels of treatment. To meet these challenges, municipalities regularly explore new ways of doing business, including consolidating management functions or ownership with another facility, and forming public-private partnerships or other cooperative partnerships. Where these partnerships and business structures make sense for a locality, they are pursued. Where they do not make sense, they are not pursued. The federal government, however, should not push local governments in one direction or the other. While public-private partnerships can be beneficial in some instances, they are not appropriate across-the-board. AMSA is currently in the process of updating a “public-private checklist” which will serve as a tool for municipalities as they continue to consider this approach, and we will share this publication with you when it is completed.

III. Conclusion

This legislation represents an important step toward narrowing the significant wastewater infrastructure funding gap and helping states, cities and communities across the country to address seriously their water quality problems. AMSA member agencies are committed to sustaining our investment in clean water and raising our rates as one means to attaining this goal. We are also committed to managing our systems to achieve still greater efficiencies in

the future. Additionally, we are committed to considering alternative approaches, including public-private partnerships, to achieve our clean water objectives. Nevertheless, a renewed investment in national water quality through the federal, state, and local partnership, is essential to helping communities like mine meet the daunting infrastructure challenges before us. Thank you for making that essential investment through this legislation.

In addition to the important strides taken by this legislation, AMSA urges Congress to establish a formal process to evaluate alternatives for, and recommend the structure of, a long-term and sustainable funding financing approach to meet America's wastewater infrastructure needs.

Chairman Duncan, we look forward to working with you to help this legislation become law and plan to provide additional, more detailed comments following a comprehensive review of the legislation as introduced. We thank you for your leadership, and for the opportunity to present AMSA's perspective on the bill. At this time, I will be happy to answer any questions.