



Association of
Metropolitan
Sewerage Agencies

TESTIMONY OF

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Presented on behalf of the
ASSOCIATION OF METROPOLITAN SEWERAGE AGENCIES

Submitted to
the
SUBCOMMITTEE ON FISHERIES, WILDLIFE AND WATER
SENATE ENVIRONMENT AND PUBLIC WORKS COMMITTEE

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Introduction

Good morning Chairman Crapo and members of the Subcommittee, my name is Paul Pinault. I am Executive Director of the Narragansett Bay Commission in Providence, Rhode Island and Vice President of the Association of Metropolitan Sewerage Agencies. AMSA represents the interests of more than 260 publicly owned treatment works (POTWs) across the country. AMSA's members treat 18 billion gallons of wastewater every day and provide service to the majority of the United States' sewered population. On behalf of AMSA and the Narragansett Bay Commission, I thank you for this opportunity to address your Subcommittee.

I would like to state at the outset that, historically, AMSA has supported full funding of the Clean Water State Revolving Fund. This year, the President's Fiscal Year 2002 budget would fund the SRF at a total of \$1.3 billion, with \$450 million set aside for a new sanitary sewer overflow (SSO) and combined sewer overflow (CSO) grant program created by the Wet Weather Water Quality Act of 2000 (P.L. 106-554). This budget falls short of Congress' authorization target of \$750 million for the wet weather grants—which also are conditioned on SRF funding of \$1.35 billion. The Senate has already taken an important step to raise the SRF to the critical funding level. Senate budget Amendment 217 would provide \$800 million in additional funding for wastewater infrastructure—\$50 million more for the SRF to trigger the wet weather grants and \$750 million to fully fund the grant program. While we commend the Senate's action, we urge you and your colleagues to increase the 2002 appropriation for water and wastewater infrastructure and begin to close the astounding water infrastructure funding gap that is currently facing our nation's communities.

Adequate financial resources to states, cities, and communities like mine are the most essential element to maintaining our nation's water and wastewater infrastructure. The Clean Water Act (CWA) amendments of 1987 created a new phase of clean water funding by replacing the federal Construction Grants Program with the Clean Water State Revolving Fund Loan Programs (SRF). Since 1980, according to studies by both the U.S. Environmental Protection Agency (EPA) and the private sector, federal contributions have declined by 75 percent in real terms and today represent only about 10 percent of total capital outlays for water and wastewater infrastructure and less than 5 percent of total water and wastewater outlays. Local governments currently assume more than 90 percent of water infrastructure construction costs in the form of expensive bond issuances – municipal debt – and increased water and sewer bills.

America's water and wastewater infrastructure systems are national assets that yield dividends to all citizens in the form of healthy natural ecosystems, citizens free from waterborne disease, and a growing

economy. Every day we rely on clean water for recreation, commercial fishing, and industrial activity. These activities generate billions of dollars in income every year, none of which would be possible without clean water. Inadequate capacity to treat wastewater or supply clean water can cripple local economies, drive out manufacturing, and wipe out tourism. Because water infrastructure supports a strong economy, it is a wise investment, with considerable returns.

There is ample precedent for, and clear economic principal for supporting, a strong federal role in funding water infrastructure. Despite increasing federal mandates for cleaner water, shifts in population that strand wastewater plants in urban core cities with few ways to pay for needed improvements, and the nearly universal need to replace billions of dollars in aging and failing water distribution and wastewater collection systems, current federal funding policies and mechanisms to meet the country's water infrastructure needs are woefully inadequate. As is true of America's highway and airport infrastructure, there is a compelling need and rationale for a long-term, sustainable, and reliable source of federal funding for clean and safe water.

Evolve the SRF into a Comprehensive Financing Program

Every day, the local government agencies that comprise AMSA ensure that the water that flows from millions of American businesses and households into the environment is clean and safe. AMSA can proudly point to decades of public health protection and environmental progress as a direct result of improved municipal wastewater services. The importance of wastewater infrastructure was well understood in the late 1960s as the nation watched the quality of its waters decline precipitously and chose in the 1972 Clean Water Act to spend federal tax dollars to reverse this trend. A large number of publicly-owned treatment works (POTWs) have built their secondary and advanced treatment capabilities as a result of the EPA's Construction Grants Program. According to EPA's 2000 report entitled *Progress in Water Quality*, a total of \$61.1 billion (\$96.5 billion as constant 1995 dollars) was distributed to municipalities through construction grants from 1970 to 1995. State SRFs have received about \$16 billion for the eleven-year period between 1988 and 1999. The wastewater treatment infrastructure funded with this grant and loan money is coming to the end of its useful life. And the SRF, as currently structured and funded, is becoming an out-dated financing mechanism.

As the broad national benefits of improved water services accrue, the number of people served by POTWs is skyrocketing, regulatory mandates are flourishing, ratepayers' bills are continually increasing, and infrastructure is aging. During this same time, available funding options have been narrowed—to loans only—while program eligibilities have been greatly expanded. Local communities need a full range of funding options from an improved EPA water infrastructure financing program. The current state revolving fund program needs to be modernized. As we increasingly approach our water quality challenges on a watershed basis, our financing mechanisms must be consolidated, streamlined and updated to accommodate the most effective and efficient approaches to funding environmental protection.

Some public wastewater treatment agencies, like the Narragansett Bay Commission, have been able to take advantage of the funds to help offset the tremendous costs of upgrading, rehabilitating and replacing their wastewater treatment facilities. Other communities, however, simply cannot afford to pay back a loan. These communities should be afforded a full range of funding options—including grants—to meet their infrastructure needs. AMSA member agencies report different levels of success in dealing with their state-run loan programs. In an effort to assist this Subcommittee, AMSA soon will initiate a survey of our POTWs to gather additional data on the extent to which our agencies utilize the state loan programs, the effectiveness of the programs, and the adequacy of the funds they receive to meet their individual community needs. AMSA will report back to you this summer with the results of our survey.

The Narragansett Bay Commission's SRF Experience

The Narragansett Bay Commission (NBC) has had a positive experience with its state loan program and has made significant use of the monies Congress has appropriated to the SRF. The NBC owns the two largest wastewater treatment facilities in Rhode Island. Field's Point was originally built in 1901, and Bucklin Point in 1952. The NBC assumed ownership and operations of both facilities by order of the Rhode Island General Assembly in 1982 and 1992 respectively.

The NBC has borrowed from the SRF approximately \$72.3 million since the Commission's inception in 1980, enabling us to fund a significant portion of our sewer system projects. The NBC is the largest borrower from the Rhode Island Clean Water Finance Agency, which administers the SRF. Field's Point required over \$100 million in upgrades, a majority of which was funded by statewide general obligation bonds.

In 1986, the NBC's debt service as a percentage of total operating budget was 19 percent; in 2002, it will be 22 percent; and in 2006, it is projected to be 54 percent as a result of \$350 million in planned capital projects over the next five years, including construction start-up costs on the first phase of our three-phase federally mandated CSO project. Phase I is estimated at \$250 million and the total project budgeted at \$550 million over next 20 years. While it is daunting to think that 54 cents of every dollar the NBC receives will go for debt service rather than operations, without the SRF, that number would be much higher.

The NBC has used the SRF to partially fund projects including septage receiving facilities, pump station rehabilitations and repairs, facilities planning, solids handling facilities, and Y2K compliance at the wastewater treatment facilities. Future projects that will require federal funds include a \$60 million upgrade at the Bucklin Point wastewater treatment facility to improve facilities for nutrient removal/reduction and the \$250 million Phase I for CSO controls.

As we plan for future asset management, we believe that the Rhode Island Clean Water Finance Agency will need more money and a greater array of financing mechanisms to meet the NBC's needs as

well as the needs of the other 17 wastewater treatment facilities in the state—the three largest of which face very expensive nutrient removal projects—and the state's drinking water projects. If the SRF is underfunded and unreformed, the NBC will be forced to borrow at daunting market rates to accomplish these important projects.

An important part of the funding equation is the cost that users pay for services. I want to stress to the Committee that NBC's ratepayers have been paying their fair share of the cost of the services provided. However, it is becoming increasingly clear that our ratepayers cannot sustain additional, substantial rate increases. Twenty-two percent of households in the NBC service area fall under the federal poverty line; 15 percent of the NBC's service area population are over 65 years of age and, most likely, on a fixed income; and 65 percent of children at or below the poverty line in Rhode Island live our service area.

In January of this year, the NBC raised its rates by 25 percent. This rate increase was driven primarily by the NBC's need to increase its debt capacity to pay for the CSO project. We will have to apply to the Rhode Island Public Utilities Commission again shortly for additional rate increases to meet growing debt capacity needs. For our demographic group, these increases represent substantial financial hardship—well in excess of the 2 percent median household income affordability levels set by the U.S. Environmental Protection Agency (EPA).

I want to reiterate that the Narragansett Bay Commission has been fortunate in that it has been able to access Rhode Island's state loan fund to help us finance our water infrastructure needs. However, it is clear that based on current and future infrastructure needs, the SRF program is not—and will not be—adequate to ensure continued compliance with our nation's water quality goals.

Our Needs Are Greater than the SRF

The needs of hundreds of communities across the nation are not being met by EPA's current wastewater loan program. I understand from AMSA members in Ohio that a field hearing of this Subcommittee was held three weeks ago in Columbus. Almost unanimously, community leaders testified that their rates were pushed to the limits and their communities in need of additional federal assistance. We face financial challenges in the water infrastructure sector today that far exceed historical investment patterns. In addition, communities must plan to reach multiple environmental programmatic goals simultaneously. We're upgrading and replacing our plants, controlling sewer overflows, protecting wetlands, managing coastal areas, controlling stormwater, upgrading and replacing pipe, dealing with non-point sources and a whole host of other water quality duties. With the limited amount of funds available, we must make certain that our dollars are spent in the most efficient and effective manner possible. In short, Congress must modernize the SRF.

AMSA supports the recommendation contained in the recent *WINow* report by the Water

Infrastructure Network that calls for the next generation of the SRF – state water and wastewater infrastructure financing institutions. In order to effectively manage all of the water quality programs and challenges previously mentioned, communities should not have to deal with more than one SRF. As you are aware, this is not a new idea. Already, 30 states have combined their wastewater and drinking water SRFs. By creating one centralized financing program states can eliminate duplication, streamline government, save money, and gain other efficiencies. By taking this common-sense approach, states will have more money to help fund their communities' needs. The expanded SRFs should have all the necessary financial tools needed by local governments to efficiently and effectively meet their needs. Federal EPA funds should be administered through flexible statewide water and wastewater financing institutions that would use appropriate combinations of grants, loans, loan subsidies and other types of financial assistance instruments.

The evolution to a more modern EPA water infrastructure financing program would also create an opportunity for federal and state government officials to streamline their funding programs. Areas of focus should include federal and/or state paperwork requirements associated with federal funding assistance, simplification of the application processes, reduction of oversight and reporting requirements where they no longer serve the federal or states interests, and flexibility in meeting requirements that do serve federal and state interests.

AMSA's agencies know that change does not come easily, nor is it without some cost. For years, publicly-owned treatment works have been changing the way they do business. By becoming more competitive, we have cut costs and become more effective and more efficient. As States take the next step in streamlining their operations, AMSA supports additional funding for the States to combine and modernize their water infrastructure financing programs.

Solving the Problem through a Fiscal Partnership

EPA's clean water SRF cannot satisfy our current financial and regulatory needs. Both our systems and our watersheds are at a critical juncture in their life cycles. A combination of reduced federal spending and increased federal mandates to meet treatment requirements is taking its toll. The collective aging of our pipes and systems further compounds our ability to meet the objectives of the Clean Water Act. Any additional deferral of the needed investments to repair and renew our systems will lead to greater increases in the costs associated with providing clean and safe water services, threats to public health, and environmental degradation.

The challenge of closing the water infrastructure financing gap can be met, but not without a substantial and concerted effort by the federal government to join with states, local communities and consumers in a fiscal partnership. To bridge the investment gap, the federal government should meet localities halfway by authorizing an average of \$11.5 billion per year in capitalization funds over the next five years. States would receive the funds and, in turn, offer grants and loans to local agencies. AMSA

further supports the following recommendations in the *WINow* report to reform this country's water and wastewater infrastructure financing program:

- ~~✍~~ Create a long-term, sustainable, and reliable source of federal funding for clean and safe water;
- ~~✍~~ Authorize capitalization of the next generation of state financing authorities to distribute funds in fiscally responsible and flexible ways, including grants, loans, loan subsidies, and credit assistance;
- ~~✍~~ Focus on critical “core” water and wastewater infrastructure needs and non-point source pollution;
- ~~✍~~ Streamline federal administration of the funding program and encourage continuous improvement in program administration at both the federal and state levels;
- ~~✍~~ Adequately finance strong state programs to implement the Clean Water Act and the Safe Drinking Water Act;
- ~~✍~~ Establish a new program for clean and safe water technology and management innovation to reduce infrastructure costs, prolong the life of America’s water and wastewater assets, and improve the productivity of utility enterprises; and
- ~~✍~~ Provide expanded, targeted technical assistance to communities most in need.

AMSA and other stakeholders recognize that no single solution addresses the full range of water and wastewater infrastructure funding needs. All levels of government and the private sector must share responsibility for effective, efficient, and fair solutions.

Conclusion

Significant progress has been made in financing the clean up of our nation’s waters over the past 30 years through the Construction Grants Program and the SRF. However, much remains to be done. The fundamental challenge for Congress today is to fund a comprehensive financing program for the 21st century that will allow state and local governments to meet their water and wastewater infrastructure needs without putting unnecessary stresses onto the nation's ratepayers.

Chairman Crapo, we look forward to working with you and the other members of the Subcommittee to develop the right solutions to fund our national water infrastructure needs. I will be happy to answer any questions.