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Association of
Metropolitan
Sewerage Agencies

TESTIMONY OF

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Presented on behalf of the
ASSOCIATION OF METROPOLITAN SEWERAGE AGENCIES

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the
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Introduction

Mr. Chairman, Congressman DeFazio, and members of the Subcommittee, my name is Pat Karney. I am Director of the Metropolitan Sewer District of Greater Cincinnati and a member of the Association of Metropolitan Sewerage Agencies (AMSA). AMSA represents the interests of more than 250 publicly-owned treatment works (POTWs). 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 Metropolitan Sewer District of Greater Cincinnati, I want to thank you for providing me this opportunity to address your committee.

Last week, over a million consumers were plunged into darkness in California as the nation's energy crisis deepened. As rolling blackouts crippled homes and businesses, officials begged citizens to reduce their demands. Imagine what will happen when the nation's water and wastewater systems begin to fail. As the Director of Cincinnati's sewer district, can I ask our consumers to tolerate untreated or unsafe water? Like California's electric utilities, the nation's wastewater systems are facing an infrastructure crisis. Unlike power providers, the failure of wastewater systems could create a public health emergency, cause widespread environmental degradation, and lead to an erosion of our local economies.

America needs to spend an additional $23 billion a year for the next 20 years to repair and replace aging pipes and to meet current and future water quality regulations. Is that an outrageous amount? No — not if you consider the investment we already have made in our water and wastewater systems and the fact this is the first big replacement cycle our country has had to face in the water and wastewater utility sector.

America's water and wastewater infrastructure systems are national assets that yield dividends to all citizens in the form of healthy natural ecosystems, healthy people free from waterborne disease, and a healthy and growing economy. The public trust in clean and safe water is unwavering. Every day, Americans rely on clean water for recreation, commercial fishing, and a wide range of 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 a local economy, drive manufacturing out of communities, and wipe out tourism.

We face financial challenges in the water sectors today that far exceed historical investment patterns. While national resolve to improve the economy, public health, and environmental integrity are at an all-time high, one of our most successful strategies to accomplish these goals — adequate and efficient wastewater systems for all Americans — is at risk of failure because of

inadequate investment. Water and wastewater systems are the heart and soul of every American community. Would we have built roads, bridges, and airports in communities that could not provide clean and safe water? The answer is simply... no. The documented needs of the water and wastewater community cannot — and should not — be disputed.

Studies performed and released by the U.S. Environmental Protection Agency (EPA) and the private sector have reached the same conclusion: the needs of our cities, counties, and towns exceed the financial capacity of our local governments and ratepayers. They simply cannot bear the financial burden alone. Today, we're asking Congress once again to make water infrastructure funding a national priority.

Public Investment Needs and Achievements

As documented in *Clean and Safe Water for the 21st Century: A Renewed National Commitment to Water and Wastewater Infrastructure*, published in April 2000 by the Water Infrastructure Network (WIN), America's water and wastewater systems face an estimated funding gap of $23 billion a year between current investments in infrastructure and the investments that will be needed annually over the next 20 years to replace aging and failing pipes and to meet the mandates of the Clean Water Act (CWA) and Safe Drinking Water Act. This unprecedented level of investment will face significant competition within local budgets from operating and maintenance costs that are escalating by 6 percent a year above the rate of inflation. Current federal contributions cannot help since they have declined by 75 percent in real terms since 1980 and today represent only about 10 percent of total outlays for water and wastewater infrastructure and less than 5 percent of total water and wastewater outlays.

Our needs are great because our systems 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. Seventy-five percent of the nation's capital investment in wastewater and drinking water infrastructure is buried underground. The useful life of these pipes is coming to an end. Any additional deferral of the needed investments to repair and renew these systems will lead to greater increases in the costs associated with providing clean and safe water services.

About a trillion dollars of the public's money was spent on capital expenditures and on the operation and maintenance of the nation's drinking water and wastewater systems during the period between 1956 and 1992. The gains in water quality realized by this investment have been significant. Effluent discharges have fallen by half since 1970, despite the fact that waste loads grew by more than a third due to population growth and an expanding economy. However, these environmental achievements are now at risk. According to a U.S. EPA report entitled *Progress in Water Quality* (June 2000), "without continued improvements in wastewater treatment infrastructure, future population growth will erode away many of the CWA achievements in effluent loading reduction." By the year 2016, the report projects that biological oxygen demand loading rates could rise to the same levels that existed in the mid-1970s, only a few years after

the CWA was passed.

Cincinnati and Hamilton County, Ohio Needs

In 1987, the Metropolitan Sewer District of Greater Cincinnati (MSD) of Greater Cincinnati initiated county-wide studies to identify solutions to combined sewer overflow (CSO) problems. The studies resulted in system capacity increases and constructed solutions, and have been expanded to include sanitary sewer overflows (SSO). Last year, MSD performed an in-house estimate of the costs involved in addressing its current collection system needs. The figures so alarmed District management that MSD officials elected to engage a consulting engineering firm to perform an independent analysis of the needs. Remarkably, the two studies arrived at very similar conclusions and provided municipal officials with a high degree of confidence in their accuracy.

Exclusive of normal operations and maintenance costs and the routine/planned rehabilitation efforts of an aging system, which the community now supports, the new design/construction necessary to alleviate the CSO and SSO problems amount to somewhere between1 and 3 billion dollars.

Currently, the user charges in affect for MSD are in the middle of the pricing range when compared to those of the surrounding 67 utilities. However, in order to meet the obligations currently imposed upon it by the federal government, MSD will be forced to increase its user charge rate by approximately 7 percent per year for each of the next 15 years, assuming the problem can be solved with one billion dollars worth of design and construction. This would multiply the existing rate by nearly three fold (276%).

Taking a more conservative view of how the pending SSO regulations might impact the utility, costs may rise to three billion dollars for design and construction. That would result in rate increases of 21 percent per year for 15 years. This would multiply the current rates seventeen times (1,750%).

It is important to note that MSD's ratepayers have been paying the full cost of service since 1968. Like nearly all major wastewater utilities, MSD is a stand-alone enterprise that does not receive subsidies from other governmental units via property tax contributions or payments whose source is a different taxing authority. Hamilton County ratepayers pay the true cost of wastewater collection and treatment in their quarterly bills.

In 2000, MSD of Greater Cincinnati's rates were increased by 9.5 percent. In 2001, Hamilton county enacted another MSD rate increase of seven percent. Hamilton County Commissioners are preparing to consider yet another 7 percent rate hike for the coming year.

When our Commissioners find that they can no longer raise fees at this alarming rate, the U.S. EPA will begin imposing fines on Hamilton County for water quality rule violations. The monies which might have been spent improving environmental quality and protecting public

health will go, instead, to the Treasury Department. We then can expect the U.S. Justice Department to intervene and initiate civil and criminal proceedings against local jurisdictions and officials for violations of the Clean Water Act. Without additional assistance, the enormous rate increases cited earlier will be imposed on city and county users. The magnitude of the increases is expected to cause economic distress in all sectors of the County. Especially hard hit will be lower income households. We also anticipate a loss of jobs and revenue as businesses flee to localities with lower rates. As the population shrinks, MSD will lose revenue, forcing rates even higher.

It is a fact that the use of traditional user fees to fund capital improvements to replace aging infrastructure and meet additional treatment requirements will be severely constrained. MSD is just one of tens of thousands of cities, counties and towns that are facing a financial need of crisis-proportion. Every older Northeast and Midwest city has aging infrastructure and faces the challenge of eliminating CSOs and SSOs. Every major U.S. city, including those without combined sewers, are quantifying the size and costs of their rehabilitation needs.

New Efficiencies through Competitiveness

Public water and wastewater utilities have provided Americans with some of the best water service in the world. There is little disagreement that public investments in water and wastewater systems pay substantial dividends to the environment, public health, and the economy. However, the provision of water supply and wastewater treatment services is highly capital intensive, significantly outpacing telephone, gas and electric services. Local control of such an essential service as wastewater treatment is of great value to the nation's consumers. So city and town mayors and councils have empowered us as water and wastewater managers to innovate and modernize in order to deliver more efficient service. By reinventing ourselves through efficiency initiatives such as improved maintenance, better technology, and new labor-management partnerships, we have achieved efficiency gains at least as dramatic as anything offered by the private sector.

Public utilities must be able to plan and optimize the maintenance and replacement cost cycles for their infrastructure assets in order to minimize costs and maximize performance. Added incentive for a shift to a more measured planning approach can be found in the June 1999 changes to financial accounting and reporting standards issued by the Governmental Accounting Standards Board for State and local governments (known as GASB 34). These sweeping changes require governments to soon begin reporting depreciation of their assets *or* to implement an asset management system. Under the standards, any asset management system utilized by a government must result in an up-to-date inventory of infrastructure assets, the undertaking of condition assessments of assets, the development of annual estimates of the funds necessary to maintain the assets and provide documentation that assets are being preserved.

Implementation of asset management practices and programs at public water and wastewater

utilities carries with it numerous benefits. The initiation of such a program serves to highlight the economic importance of infrastructure, to increase the recognition of the costs of infrastructure and enables a community to control and potentially reduce the costs of assets required to meet service objectives. Some estimates suggest that the potential exists for a 20 percent savings when the current capital investment approach is abandoned and an asset management approach is implemented. This 20 percent savings has been factored into WIN's estimates in both the *Clean and Safe Water* and *Water Infrastructure Now: Recommendations for Clean and Safe Water in the 21st Century (WINow)* reports.

Solving the Problem through a Fiscal Partnership

Elected officials, businesses, and residents of our nation's communities agree that local revenues are insufficient to address current and future problems. The financial impact of replacing the underground system of collection pipes and updating treatment systems with 100-year old components dating back to the early 1800s is staggering. Even though our wastewater infrastructure is 'out of sight,' it no longer can stay 'out of mind.'

Local utility managers have faced the growing pressure to plan for future needs for years. But only now is the water infrastructure crisis creeping into national consciousness. Why the delay? The size of the problem was not quantified earlier. We, and our predecessors, knew the cost would be large. As we began to individually quantify our needs, they were so enormous that very few of us were willing to discuss them in public, much less engage a national debate on how to fund such enormous needs.

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 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. The *WINow* report, released last month, and endorsed by over 30 nationally-recognized organizations recommends that Congress pass and the President budget for and sign legislation that would:

- 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

Although significant progress has been made in cleaning up the nation's polluted waters over the past 30 years, much remains to be done. This debate is about preserving public health, environmental progress and the economic viability of our nation's communities.

This debate is also a financial one...about how to fund a new, comprehensive financing program for the 21st century that will allow state and local governments to address water and wastewater problems on a watershed basis. In an era of unprecedented federal surpluses, I can't think of a better investment than the health of our citizens, the integrity of our environment and the economic well-being of our communities. I agree with President Bush...our citizens deserve a refund. It's time that some of our hard-earned federal tax dollars — just a small portion of the federal surplus — be reinvested in the water and wastewater systems in our local communities.

Thank you for listening to me today. As part of AMSA's written testimony, you have received an attachment of commonly-asked questions and answers. Among other things, it provides the source of the needs figures presented in the WIN report, explains the differences between EPA's needs survey and the WIN report, addresses rates, and grants and O&M costs. You also have been provided a copy of the *WINow* report.

Chairman Duncan, we look forward to working with you and the rest of the committee in finding solutions to our national water infrastructure crisis. I will be happy to answer any questions.