



**Testimony
Of**

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**On behalf of
The United States Conference of Mayors**

**Before the Senate Subcommittee on Transportation Safety,
Infrastructure Security, and Water Quality**

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Mr. Chairman and Members of the Committee

My name is Douglas H. Palmer. I am the Mayor of Trenton, NJ and President of The U.S. Conference of Mayors.

I would like to thank the members of the Committee for inviting me to testify here today.

The Conference of Mayors is a national nonpartisan organization that represents cities with populations of 30,000 or more of which there are over 1,200 in the United States.

As President of the Conference of Mayors, my responsibility is to represent the mayors of the United States on priorities for our cities and our nation. In January we gathered together to outline our priorities for the new Congress. We created a 10-Point Plan entitled “Strong Cities...Strong Families...for a Strong America.”

One of our 10 points reemphasized a point that Mayors have been focusing on for years - improving our nation’s infrastructure which includes our water and wastewater systems. In our plan we call for tax incentives, bonds, and other measures to support local and state efforts and stimulate private sector participation to improve our nation’s infrastructure. These incentives and bonds would help create hundreds of thousands of jobs and revitalize critical infrastructure that is necessary to keep the United States competitive.

In my past role at the Conference, I also served as a Chair of the Mayors Water Council (MWC) which was created to focus on water resources issues, particularly on water and wastewater infrastructure development, financing, and most recently on water supply, conservation issues, and climate change adaptation.

The Mayors Water Council has also conducted numerous surveys and reports regarding water issues that face our cities. We have asked cities what are their most critical water issues, the financing tools they use to pay for water and wastewater infrastructure, and research on how much money is being spent.

I would like to outline some of the highlights of these findings and recommendations and submit the rest of my testimony into the official record.

National City Water Survey

The MWC conducted a survey of the nation's largest cities in 2005 that, for the first time ever, asked cities to identify the most important water resources issues they face. The three most important water priorities facing the nation's cities are:

- (1) Rehabilitating aging water and wastewater infrastructure (60.6 %);
- (2) Security/Protection of Water Resources Infrastructure (54.6 %);
- and
- (3) Water Supply Availability (46.5 %)

In 2007 we did follow research and determined how much money is being spent by local governments on water and sewers.

In Fiscal Year 2005 alone, local government spent \$82 billion to provide sewer and water services along with infrastructure, up from \$45 billion in FY 1992. This translates that local government share of spending on sewer is over 95 percent and the state share is just under 5 percent. The local government share on spending on water supply is over 99 percent. Total spending on sewer and water from 1991-2005 was \$841 billion.

The trend is for even greater spending levels. Factors contributing to the increased need for investment include: population growth and land use development; an aging water infrastructure that needs constant maintenance; changing environmental mandates; and climate change impacts that threaten water supplies from drought; reduced snow-pack; salt water intrusion on coastal aquifers; and increased storms, hurricanes and flooding that will require infrastructure hardening.

Local financing of water and wastewater infrastructure varies, but is limited to a few general approaches, (see Table 1). The columns in this Table do not add to 100 % because cities typically use more than one financing source for major capital investments. The "Other" category, however, stands out because it is comprised of "pay-as-you-go" finance approaches. It is commonplace for cities identifying this approach to raise user fees and rates to finance new construction, replacement construction and rehabilitation of existing water infrastructure.

Other important findings from the survey indicate that:

- Revenue bonds are the second most frequently used form of financing after “pay-as-you-go”
- Private Activity Bonds are seldom used (primarily due to the state volume caps limiting such use)
- Slightly more than a third of cities use the CWSRF as a financing tool

Table 1
Frequency of Multiple-Source Financing
Of Major Capital Investments in Water Infrastructure

Type of Financing	2000 – 2004 (% of Cities)	2005 – 2009 (% of Cities)*
General Obligation Bonds	28.8	28.0
Revenue Bonds	46.1	50.8
Private Activity Bonds	0.8	1.4
State Revolving Fund	38.3	38.6
Other	51.7	53.5

* Planned major capital investments in water infrastructure.

The 38 % of cities that use the SRF do so because they have no other means of financing needed water infrastructure improvements, or would have to delay investments until financing capabilities match demand for investment.

City Practices and Attitudes Concerning the State Revolving Fund Loan Program

The MWC prepared a report in July 2006 on city attitudes about the Clean Water State Revolving Fund loan Program (CWSRF) and the Safe Drinking

Water State Revolving Fund loan Program (DWSRF). This Report sheds light on why cities do or do not prefer to use the SRF financing approach. The summary findings indicate:

- Cities generally prefer to use municipal bonds - revenue and general obligation bonds (35.2 percent of cities); and, Pay-As-You-Go - cash (26.0 percent of cities) rather than SRF loans. The primary reason for this is because it is more cost-efficient due to better finance terms and the greater time-certainty in the finance process. This preference also reveals that cities with healthy bond ratings and user fees and charges that anticipate the need for reinvestment in water infrastructure play a strong role in finance decisions.
- Red Tape, burdensome paperwork and SRF loan conditions and strings were identified by 15.1 percent of the survey cities as the critical reason why they did not turn to the SRF program for water projects.
- Another 11 percent of survey cities indicated that they applied for an SRF loan but were either rejected or did not receive a response to their application; or, they did not apply because they had knowledge that they would not qualify either because of the type of water project involved or because the state priorities would not favor their applications.
- A small percentage of survey cities (5 percent) stated that they prefer to seek grants over the use of SRF loans.
- A small percentage of cities (6.8 percent) indicated that they had used the SRF loan program in the past, and they “might” or “will” consider using it for water projects scheduled between 2005 and 2009.
- About 10 percent of the survey cities stated that they did not investigate the use of the SRF loan program for water projects; or that they did not need to use the SRF; or that they were not responsible for capital investments in water infrastructure (3.2 percent for this latter group).

Federal Financial Assistance and Municipal Water Infrastructure Investments

If two-thirds of the nation's principal cities are not attempting to use the SRF loan program because they have other viable financial resources for water projects, why is the water infrastructure "Needs Gap" growing instead of closing?

The transfer of financial responsibility for water infrastructure investments from federal and state governments to local government is firmly entrenched. Simultaneously, major capital investments have shifted from federal and state grants to local lending by way of municipal bonds, user charges and low interest SRF loans. The U.S. Bureau of the Census reports that combined municipal expenditures for water and wastewater infrastructure are second only to educational expenditures. We are experiencing enormous investment, but a growing or, at best, stable water infrastructure investment "Needs Gap".

As municipal spending on water infrastructure has increased over the last two decades so has the number of unfunded federal mandates. The "Needs Gap" itself is measured in terms of what it will take to comply over a 20 year term with existing law. As new environmental requirements are set for water quality the cost to reach or maintain the compliance point is adjusted upward.

Local government also cannot completely satisfy spending requirements in this area because the costs will continue to grow along with competing needs for public capital. Mayors face the daily challenge of balancing the multitude of needs in the community for worthy public-purpose spending with limited financial resources. And we, unlike the federal government, are required to balance our budgets every year.

The U.S. Conference of Mayors Water Infrastructure Policy Priorities

The Conference of Mayors and the Water Council has passed numerous policies, recommendations, and encouraged best practices that will enhance city efforts to provide and pay for clean and safe water for our citizens while protecting our water supplies.

In the area of financing, we continue to encourage cities to conduct full cost accounting and utilize asset management techniques to determine the true cost of providing and maintaining water systems as well as educating the public on the true cost of water. But as I mentioned before, with the ever

growing needs, cities can not do it alone and therefore we need additional financing tools to assist us with our efforts.

The Mayors Water Council has identified some basic approaches including: grants; 30-year no-interest loans; and, greater use of Private Activity Bonds (PABs).

- Providing grants to municipalities, either directly or through states, for water and wastewater infrastructure where there is an affordability issue or when a community faces severe environmental problems including communities that have combined sewer overflow problems;
- Expanding some portion of the current 20-year loan category to include a 30-year no-interest loan category, or a 30-year low-interest loan payback period, under the State Revolving Fund loan program for water and wastewater infrastructure investment; and
- Modifying current tax law by removing Private Activity Bonds (PABs) used for water and wastewater infrastructure from state volume caps. The increased use of private activity bonds for public water infrastructure can boost aggregate spending on water infrastructure and help cities make progress in closing the “Needs Gap”.

In our opinion, these approaches are necessary to help us meet our water infrastructure needs.

Increased Funding and Flexibility of the SRF:

Regarding the traditional SRF programs, the Conference of Mayors resolution adopted in June 2006 calls for Congress to annually approve recapitalization authorization to the CWSRF at \$1.355 billion or more, and the DWSRF at \$850 million or more. The resolution “...*strongly urges the Congress to approve legislation to substantially increase the authorized levels for both Funds to help reverse the continuing decline of the federal share of financing these federally mandated improvements.*”

The Conference of Mayors water resources policy supports reauthorization and recapitalization of the CWSRF. While the CWSRF is not perfect, it has proven to be a valuable financing resource to the nation’s cities. The state SRF programs and the U.S. EPA have much experience with this program,

and the Conference of Mayors would rather improve on the current program than implement a new initiative.

Some additional improvements that we would recommend based on the results of our 2005 National City Water Survey results would be to extend eligible SRF activities to include replacement or major rehabilitation would be a step in the right direction. Similarly, the Conference of Mayors adopted policy in June of 2005 calling on Congress “...to approve legislation that would complement the Drinking Water State Revolving Fund and the Clean Water State Revolving Fund by providing more targeted and direct federal resources to help the nation’s communities deal with other water infrastructure-related issues, including \$50.6 billion for combined sewer overflows, and \$88.5 billion for sanitary sewer overflows and stormwater management;”.

Other eligible activities that could be funded under the SRF include: development of a conservation and management plan, implementation of lake protection programs, programs to reduce municipal stormwater runoff, and watershed protection including the encouragement of green infrastructure programs. We would like to see even greater encouragement to fund such comprehensive efforts to improve water quality.

The Conference of Mayors is supportive of legislation that includes a program, even if it began as demonstration program, for water quality enhancement and management. One of the most difficult problems cities face involves achieving state water quality objectives and total maximum daily loads (TMDLs) in the face of the virtually unregulated nonpoint pollution sources that are usually outside our jurisdictions.

The U.S. Environmental Protection Agency (EPA) has recognized that agricultural and livestock land uses contribute a major portion of nonpoint source pollution in many areas. Many of our cities are engaged in watershed management efforts to deal with nonpoint sources (including urban runoff). Yet there is a critical lack of regulatory drivers forcing the agricultural and livestock land users to contribute to the solution. In some cases, the timing of pending TMDL requirements will force cities to pay for water treatment caused in large part by the upstream, non-urban land users. EPA’s Water Quality Trading Policy requires the non-urban polluter to voluntarily participate in a trading scheme.

The Conference of Mayors adopted an action plan for sustainable watershed management nearly 10 years ago. One of the five principles of that plan is to focus on non-urban, nonpoint source water pollution, and pursue public policy that would assign responsibility to pay for the treatment of polluted water commensurate with the contribution of the pollutant loadings. The action plan also clearly calls for allowing the agricultural and livestock land users to employ best practices and least cost approaches that are effective in lieu of stringent and costly regulations. Mayors fully recognize that these land users, although they may or may not be part of our cities, are important contributors to our regional economies. While we prefer to use the powers of persuasion to convince them to participate in the water pollution solutions, such as the Water Quality Trading Policy approach, we have begun to experience failure in cooperative efforts.

The Conference of Mayors also adopted a comprehensive watershed organics management policy in 2002. This policy calls for Mayors to take an active, and leading, role in watershed planning to control organics and their nutrients which pollute streams and lakes, that subsequently require more costly treatment at water facilities.

Demonstration project could provide some of the appropriate financial incentives necessary to bring voluntary cooperative efforts to bear to solve the water quality designation/TMDL problems that we are facing. The Conference of Mayors supports this type of innovative approach and we would encourage this sub-committee to consider this approach.

Analyzing and encouraging the cost and effectiveness of alternative management and financing approaches:

The Conference of Mayors supports encouraging but not mandating SRF applicants to explore cost-effective measures in their wastewater infrastructure solutions. Congress should encourage communities to consider regional alternatives, consolidation and public-private partnerships. It has been our experience that alternative approaches to planning, financing and operating wastewater facilities can yield significant public benefits for the amount of money invested. While choosing a public-private partnership approach should not be prescriptive, but it should be made possible for those cities that want to take advantage of such an approach.

A number of case studies were prepared by the Mayors Water Council on long-term Operations & Maintenance agreements between cities and private water companies. These projects have been able to produce cost-savings of 10 to 30 percent, as well as provide additional public benefits.

The ability of private water companies to competitively bid for “design, build and operate” (DBO) projects in wastewater is another important dimension to explore. The Conference of Mayors adopted policy encourages competition in the design-build-operate phases of new and refurbished water and wastewater infrastructure. This policy was adopted once it was determined that competition can lead to less costly projects than the traditional design-build methods employed in the past.

Conclusion

On behalf of the Conference of Mayors and the Mayors Water Council I wish to thank you again for this opportunity to speak before this sub-committee. We look forward to working with you as you move forward on important water resources legislation.