



**Testimony
Of**

**The Honorable Michael Sullivan
Mayor of Holyoke**

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

**Before the House Subcommittee on Water Resources
and the Environment**

**On
The Water Quality Financing Act of 2002**

March 19, 2003

Mr. Chairman and Members of the Committee.

My name is Michael Sullivan. I am the Mayor of Holyoke and a member of the Conference of Mayors' and its Urban Water Council. I would like to thank the members of the Committee for introducing the "Water Quality Financing Act of 2002" last year, and for inviting me to testify.

The Conference of Mayors is a national nonpartisan organization that represents cities with populations of 30,000 or more.

Water and wastewater infrastructure is critical to our nation. As a mayor, I know it's essential to provide my citizens with a clean, healthy, and cost efficient water and wastewater system.

Local/Regional Water Infrastructure Problems

I would like to start off with telling you a little about the city and the area that I represent. Holyoke is a city of about 40,000 people. In 1874 we became the first planned industrial city created in the nation. The sewer system that was created, over 125 years ago, was designed to assist our industries in getting rid of their byproducts.

Like many other former industrial towns, Holyoke is suffering severe economic hardship. Those industries I mentioned have long since moved out, unemployment is close to 6.8% compared to the national average of 5.7%, and the average per capita income is just \$11,108. Our median household income is just under \$32,000 which is similar to communities such as Sumpter, Illinois, Fort Ashby, West Virginia, and Stonewall, Texas compared to the national average of \$42,000. Twenty-six percent (26%) of the city's residents live below the poverty level.

Like so many other Northeast communities, Holyoke is facing a severe CSO problem. Below the Holyoke Dam, there are more than a hundred combined sewer overflows in the communities along the Connecticut, Chicopee, and Westfield Rivers. The federal government has been pushing eight western Massachusetts communities, including Holyoke, for the better part of a decade to eliminate these CSOs – at a collective cost of more than a quarter of a billion dollars.

The City of Springfield is facing a total CSO cost of \$110 - \$140 million. The City of Chicopee is facing a CSO cost of \$258 million. And the City of Hartford will need over \$100 million in funds.

Holyoke's estimated costs to take care of its own CSO problem is between \$44-\$78 million dollars. Officials have estimated that it will cost every sewer-using customer in my city \$833, up from \$200, per year to foot the bill.

That is just an example of the problem that my city is facing. My counterparts all across the nation are facing similar problems.

We do, however, recognize that there is not enough local, state or federal money available to satisfy all the water infrastructure needs in the country.

The U.S. Conference of Mayors' Urban Water Council

The Urban Water Council was created to focus on these issues. Its purpose is to assist local governments in providing high quality water resources in a cost-effective manner.

Similar to last year's testimony, the Urban Water Council has identified three basic approaches to help cities finance the water and wastewater infrastructure development necessary to comply with clean and safe drinking water laws. These include: 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;
- Expanding some portion of the current 20-year loan category to include a 30-year no-interest loan category 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.

In our opinion, these approaches are the best means to meet our water infrastructure needs.

The UWC Supports Provisions of the 2002 Legislation

Your bill is an important step in assisting local communities meet their water infrastructure needs.

Increased Funding of the SRF:

It is my understanding that you will authorize an increase over previously appropriated funds for the SRF categories under the Federal Water Pollution Control Act. The SRF authorizations fall far short of providing the financing necessary to adequately address all of the unmet needs, but we commend the members of this Committee for demonstrating the willingness to commit financial support. We also urge you to work with your fellow colleagues to assure full funding of your authorization.

Generally speaking, the SRF is an important source of financial support for water infrastructure. It is, however, more important to some cities than others. I would like to remind the committee that municipal bonds/revenue bonds continue to be the primary source of financing public water infrastructure in this nation. The committee should remember that local government, not the SRF, provides the highest level of water infrastructure investment. We seek alternative financing approaches because we recognize that municipal bonds and the SRF, combined, still do not provide enough money to meet compliance with clean water law and regulation.

On behalf of my fellow Mayors who participate in the Urban Water Council, I want to thank you for including Title III Tax Provisions that would exempt water and sewage facilities from the volume cap on private activity bonds in the 2002 bill. Although this provision was struck from the bill we want to reiterate that it would have been the most meaningful advance in providing additional financing alternatives that could make a significant difference in meeting the needs gap for water infrastructure. We are grateful to the committee for taking a leadership role in identifying this financing mechanism and bringing attention to its important role as one solution to the water infrastructure problem.

As my colleagues, Trenton Mayor Doug Palmer and Augusta Mayor Bob Young have told Congress in the past, changing the tax code and exempting water and sewage facilities from the volume cap could potentially be one of

the most fruitful financial incentives the Congress can provide. It potentially could bring billions of dollars of additional, much needed, investment to our facilities over and above what can be accomplished through the use of SRF loans.

Analyze the cost and effectiveness of alternative management and financing approaches : Section 122 C (13) (c)-

The provisions that ask SRF applicants to explore cost-effective measures are a positive step and should be encouraged, especially regional alternatives, consolidation and public-private partnerships. It has been our experience that alternative approaches to planning, financing and operating water and wastewater projects can yield greater public benefits for the amount of money invested. While choosing a public-private partnership approach should not be prescriptive and while it is not the answer for every community, it should be made possible for those cities that want to take advantage of such an approach.

The experience our Mayors have shared is that public-private partnerships can offer substantial help in dealing with water quality and water supply. A number of case studies were prepared by the Urban Water Council (UWC) 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” projects in wastewater and drinking water is another important dimension to explore. The Conference of Mayors adopted policy in 2001 to encourage 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 for both surface and sub-surface infrastructure projects can lead to less costly projects than the traditional design-build methods employed in the past.

The Lynn, Massachusetts experience is an example of what can be achieved by using competitive approaches to design, build and operate water infrastructure that is intended to achieve compliance with the zero discharge requirement for CSO’s. In that example, the City was required to eliminate overflows and traditional design-build-operate planning anticipated a \$400 million (plus) solution. A competitive bid process, however, anticipating a

public-private partnership approach yielded a zero discharge solution that cost less than one-quarter of the traditional approach. Hence, it is possible through competition to achieve compliance with water quality goals at a cheaper price.

As I mentioned to you before, the estimate to take care of Holyoke's CSO problem will cost between \$44-78 million dollars. These costs were based on using the traditional approach to solve this problem. We are now considering doing a public-private partnership to address this situation. The current estimate for this approach is around \$32 million, a considerable savings. In my opinion, this is the best solution, short of outright grants, I have available. By doing a public-private partnership, we can save money, bring additional private sector resources, and share the risks together with the private sector. That is a very valuable tool to utilize to help us solve this tremendous problem.

Eligible Activities: Section 123-

Other positive aspects of your bill include the wide variety of eligible activities to be funded under the SRF. Activities such as development of a conservation and management plan, implementation of lake protection programs, programs to reduce municipal stormwater runoff, and watershed protection are all very worthwhile endeavors. We would like to see even greater encouragement of the states to fund such comprehensive efforts to improve water quality.

We also support the Committee's provisions addressing clarification of the state intended use and priority projects lists. It is important to the cities we represent to ensure that states fully understand the close relationship between water quality and watershed management, and that the SRF program can play a critical role if states prioritize solutions that focus on the other, non-urban land uses in the watershed that contribute to impacts on streams, lakes and estuaries.

The 2002 bill, unlike last year's Senate version, contains no demonstration programs 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 part by the upstream, non-urban land users.

The Conference of Mayors adopted an action plan for sustainable watershed management in 1998. 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, we have begun to experience failure in cooperative efforts, and have in some instances resorted to legal actions.

The Conference of Mayors 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 constituent nutrients, such as phosphorous and nitrogen which pollute streams and lakes, that subsequently require more costly treatment at water facilities.

A demonstration project provision in your bill 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 Committee to consider including this initiative.

We support the committee's insertion of language that allows "measures to increase the security of publicly owned treatment works" to be included as an eligible activity under the SRF program. Given the tremendous need of

communities with new security plans being developed and implemented, additional resources are essential. However, a potential way to improve upon this bill would be to allow “security measures” to fall under its own categories with perhaps, a separate funding source.

The UWC is Concerned About Some Provisions of the 2002 Legislation

Affordability and Loan Repayment Length-

The bill specifies that only communities that meet “affordability” requirements can receive SRF loans with a 30- year repayment term.

The Conference of Mayors would like to see a similar 30-year repayment term for other communities as well. A 30-year, no-interest loan program administered under the SRF program would provide a financial incentive that many local elected officials would welcome. It obviously would make new infrastructure investment more affordable than the traditional 20-year loan period. It also has the potential to increase aggregate water infrastructure investment because local government now has to make difficult choices on where to spend limited financial resources.

Asset management Provision-

We also support, (with some caveats), the proposed requirement for recipients of an SRF loan to develop and submit asset management plans that specify how water and wastewater facilities will be properly maintained over time. Asset management is critical to the preservation of infrastructure.

At the local level, we have a long history of experience with using asset management planning. We would like to mention that formalizing such a requirement as a condition of receiving SRF funding should be integrated into the loan program with caution. The focus of our efforts at the local government level should remain principally with ensuring the proper treatment of drinking water and wastewater for public health, local economy and environmental protection reasons. The asset management plan is important, but the current proposal on what is acceptable is not entirely clear. We have a concern that aggressive federal and state intrusion could prove counter-productive. We would be happy to work with the Committee to explore what an appropriate scope and details of an asset management plan should be.

The Need for an Urban Water Conservation Eligibility Category-

While the U.S.G.S. has reported significant water conservation gains in the agricultural and industrial sectors (roughly 20% reductions), the municipal water consumption sector has experienced almost a 24% increase per capita. It is not clear why per capita consumption continues to increase. It may be a combination of urban population growth and shift, along with the “metropolitan” urban growth sometimes described as urban sprawl.

The Urban Water council suggests that the committee consider setting-aside money for a Report to Congress on urban water conservation, and either an SRF set-aside or a separate appropriation to provide cities with water conservation planning grants. Common sense suggests that conserving water in urban areas will help the overall economics of clean water and water supply. Cities need water conservation plans tailored to both their urban geographies and urban economics. Only special studies on the trends in per capita consumption in urban areas and what can be done to turn this around will be helpful.

The Need for Study of Alternative Water Supplies-

Another area of inquiry (Report to Congress) that the committee should consider funding is the new economics of water desalination. It is commonly known that a significant portion of the U.S. population is both urbanized and close to the Atlantic and Pacific Oceans. The combination of record droughts and ground water drawdown recently experienced in eastern as well as western communities are an indicator that catastrophic water shortages can occur. Using ocean water in an environmentally responsible way is now becoming economically realizable. A recent project underway by the Tampa Bay Water Authority is a “best practice” example.

The committee should be made aware that ocean water desalination can be an economically, environmentally and politically acceptable solution to some of our nation’s largest city’s water problems. The so-called potable water budget need not be a fixed budget if the ocean water resources are taken into account as a “new” source.

Conclusion

On behalf of the Conference of Mayors and the Urban Water Council I wish to thank you again for this opportunity to speak before this committee. We

look forward to working with you as you move forward on this very important piece of legislation.