

PWEA Position Statement

Financial Sustainability for Wastewater Infrastructure

Adopted by PWEA on October 24, 2013



PWEA Mission Statement

Enhance the knowledge and abilities of Pennsylvania's water quality professionals, promote sound sustainable water policies, and promote public awareness of the need to protect water resources.

One of the most critical issues facing Pennsylvania is how to maintain and improve its water and wastewater infrastructure so that we can continue to enjoy the health, economic and social benefits that clean and safe water provide. This infrastructure is critical to protect public health, the environment, and to promote the economic vitality of the Commonwealth. Yet many of the systems have been left to deteriorate, resulting in a need for expensive repairs or replacement.

PWEA believes it takes a well-managed utility to assure the long term sustainability of collection and treatment systems, through full-cost pricing of services, strong and knowledgeable professional staff, performance measures, asset management, long term finance and capital planning, and a culture of continuous improvement and innovation to assure efficient and effective resource allocation. PWEA also supports the use of effective public-private partnerships to develop cost effective solutions to infrastructure sustainability.

State and federal funding and grants are sometimes necessary for systems in need, to address regional inequities and to offset rate increases, for example systems with aging population and fixed incomes, no growth or development, or systems that are geographically isolated. However, for most systems it is the primary responsibility of the wastewater agency to provide the necessary funding to assure that these systems are maintained or replaced over the long term. Most funding is usually provided through customer fees for service (sewer bills), although revenues can also be generated through investment income or services such as trucked waste treatment. Although PWEA encourages member facilities to optimize sources of income other than their customer fees (to mitigate rate increases), it also acknowledges that it is the sewer bill that usually generates the majority of the income for operation and maintenance and capital improvements necessary to assure long term sustainability. The rates charged to customers need to be high enough to provide for not only the operation of the system but for the continued maintenance and rehabilitation or replacement of the system components as they age. We agree that it is not fair or ethical to defer maintenance and replacement costs. We cannot allow the current generation to enjoy the benefit of both low sewer bills and good infrastructure, but to defer to the next generation high sewer bills to replace a system that was not maintained.

The Governor's Water Infrastructure Task Force in 2008 determined that there is a staggering cost for operation, maintenance, and capital improvements for the Commonwealth's water and wastewater systems over the next 20 years. The total projected cost of operating, maintaining, and upgrading our water and wastewater systems in the State over the next 20 years is about \$114 Billion, including \$36.5 Billion alone for capital repairs. Based on current and anticipated future sewer bills and grants, the projected income over the same 20 years is only \$72 Billion, resulting in a "gap" or shortfall of nearly \$42 Billion.

In order to bridge the expected \$42 Billion shortfall over the next 20 years, water and wastewater agencies need to adopt full cost pricing, along with implementing cost effective measures to operate and maintain its systems, including asset management, regionalization and right-sizing of systems, maximization of non-structural solutions and implementation of conservation measures.

PWEA supports revisions to the current State procurement requirements placed on municipal wastewater operations that include the Separations Act and Prevailing Wage Act, which increase the cost of system improvements and ultimately increase customer rates. And while PWEA supports reasonable and fact-based regulatory requirements that protect the environment and the public health, we also support streamlining of permitting and other regulatory requirements which do not add to the protection of the

environment or public health but can add to the cost of operation. We also support the requirement that any new state statute, regulation or policy be accompanied by a comprehensive cost/benefit analysis to identify environmental benefits, economic impacts and funding sources.

We encourage wastewater agencies to create dedicated capital reserve funds for the renovation or replacement of critical infrastructure as part of a comprehensive financial plan that includes borrowing over time to address the 20-year needs consistent with an asset management plan.

It is important that the wastewater agency financial processes and procedures assure long term financial success. PWEA recommends that agencies manage their budgets by utilizing long term calculations such as life cycle cost analysis (LCCA), and by providing internal control processes to ensure a high level of financial integrity. Written controls are critical to addressing these risk-prone areas of your financial operations. These controls should require both internal and external (independent third party) testing. You should also have written financial and accounting policies and procedures. You should also evaluate your debt position to determine if you have sufficient revenue after deducting operating expenses to cover your debt service costs.

Finally, we need to educate the public and public officials about the value of water, and the need for sustainable systems and full cost pricing of rates.