



Financial Sustainability for Wastewater Infrastructure Position Statement

Updated by PWEA on December 15, 2022

PWEA Mission Statement

Advancing Pennsylvania's water quality professionals through education and training, promoting sound sustainable water policies, and fostering public stewardship of our water resources.

A most critical issue facing Pennsylvania is the management of our water and wastewater infrastructure at a sustainable level to 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 to bring the system up to acceptable standards.

PWEA believes a well-managed utility will assure long term sustainability of collection and treatment systems. Management through reasonable 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, are all practices for sustainable performance. PWEA also supports the use of effective public-private partnerships to develop cost effective solutions to infrastructure sustainability.

Low interest loans and grants available through regional nonprofits, and State and federal agencies may be necessary for systems in need to address regional inequities and to offset burdensome rate increases. For example, funding may be necessary for systems with aging population and fixed incomes, no growth or development, or systems that are geographically isolated. However, for most systems, the utility agency has the primary responsibility to provide the necessary financial resources 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), we also acknowledge 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 provide for both the operation of the system and 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 to future owners and customers. 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. 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. 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. The projected costs, based on current dollars, are likely much higher. The funding gap is not

just endemic to Pennsylvania. Other recent reports, including ASCE's 2021 Infrastructure Report Card on the state of water and wastewater utilities in the U.S. support a significant need for funding our nation's water and wastewater utilities.

In order to bridge the expected \$42 Billion plus shortfall in Pennsylvania over the next 20 years, water and wastewater agencies need to adopt full cost pricing, and implement cost effective measures to operate and maintain its systems, including asset management, regionalization, right-sizing of systems, maximize non-structural solutions, and implement conservation measures. These are not novel ideas; rather, there are current established models for these practices with utilities nationwide.

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. 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. Utilities should have written financial and accounting policies and procedures, and should also evaluate debt positions to identify the needed revenue, after deducting operating expenses, to cover debt service costs.

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