

**Sustainable Water Infrastructure Task Force
May 28, 2008 Hearing
Bethlehem, PA
Testimony of Aurel A. Arndt, General Manager
On behalf of
Lehigh County Authority**

Good afternoon, I am Aurel Arndt, General Manager of Lehigh County Authority (LCA), on whose behalf I am testifying today. Thank you for this opportunity to present our thoughts on sustainable water infrastructure.

LCA is a municipality authority providing water and wastewater service to over 19,000 customers in southern, western, and northern Lehigh County and northern Northampton County. In general, our infrastructure is relatively new, with an average life of between 15 and 20 years. At the moment our biggest infrastructure need is developing new water supply and wastewater treatment capacity. Our current capital plan calls for infrastructure investments of almost \$100 million during the next decade. That estimate is in 2007 dollars and thus the actual investment is likely to be much greater. We currently have over \$140 million in fixed assets under our management.

As you can see, we have a significant stake in infrastructure development. My comments today do not address all of the Task Force (TF) questions, but rather focus on a few areas. Before getting to those specifics, however, I would like to raise an important underlying concept of our comments.

Change vs. Funding

While funding is vital, we are convinced that there will never be enough money for infrastructure unless we also make significant changes in how the Commonwealth and water systems approach our water infrastructure. Thus changing the way we address water infrastructure is as important as the funding.

The following illustrate several possibilities:

Elimination of one size fits all regulations;

Development and constant update of Best Management Practices (BMPs) to guide system operations and investments rather than through prescriptive and inflexible regulation;

Elimination of restrictive and archaic provisions in municipal codes; and

Incentives for modernization, new tools and techniques.

While each of these approaches may only generate incremental change, they nonetheless present the potential for saving hundreds of millions of dollars in the face of a \$20 billion plus infrastructure need.

On to the Task Force Questions:

Financial Sustainability

Consolidation

About 15 years ago the Executive Director of AWWA opined that any system with less than 50,000 customers (not population) would be unsustainable in the future because it would be unable to afford the necessary technical, managerial and financial resources to be successful. When you look across the Lehigh Valley there is no single system, not even its large cities, that meets that criteria. The 200,000 drinking water customers in the Lehigh Valley are divided among over 20 community water systems and even more small individual development systems.

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At the same time, water and wastewater utilities face significant infrastructure replacement needs, the retirement of a large part of our industry workforce and the growth of new regulatory requirements.

Unfortunately, sharing facilities and capacity among systems has not worked well. Often the “sharing” doesn’t happen; negotiating the arrangements is torturous and costly and when it does happen, the arrangements often become the basis of dispute and litigation. Facility planning and decisions do not optimize the benefits to the region, but rather the benefits to the decision maker.

To optimize drinking water supply and wastewater treatment, we believe we need to restructure and consolidate our systems into a few larger, more sustainable units. The primary benefit will be to consolidate all the decisions—operational, investment, technical and financial—into a single entity where the focus is the needs of the entirety of its service area or region, not just those who happen to be located within a municipality. Along the way, duplication of effort will be eliminated, professionalism enhanced, economies of scale realized and adaptation to new workforce pressures achieved.

To demonstrate this, I'd like to make you aware of a current study on regionalization of water and wastewater service in the Lehigh Valley conducted by the American Water Works Association Research Foundation and funded in part by Renew LV.

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The Commonwealth can promote this restructuring by providing incentives and providing leadership in water and wastewater consolidation. For example, PennVest could promote consolidation by providing an interest rate reduction on projects that result in a consolidation. In addition, any Commonwealth funding could require a finding that the service or facility is not available on an equal or more affordable basis from a neighboring utility or through consolidation with another utility.

Over the last 30 years, LCA has acquired 32 water and wastewater systems, mostly small systems. In every case, LCA has upgraded service, sometimes interconnected systems with other nearby service areas and, in some cases, reduced rates. We believe our experience provides a good model for dealing with the acute challenges faced by the multitude of small systems across Pennsylvania.

Similarly, LCA's service area has grown from 4 municipalities to 16 municipalities today. This has been accomplished through municipal service agreements and outreach to municipalities needing service but having no water service history or capability. LCA service in those communities avoided the need to develop new infrastructure, hire new staff and purchase equipment already in hand, among other benefits.

Full Cost Pricing

The American Water Works Association (AWWA) has long maintained that the customers of a drinking water system should bear the full cost of that service, barring a significant hardship. Under Full Cost Pricing, customers will make better use decisions, managers and owners will make better investment decisions and service will be more efficient. If governmental assistance is provided under this regimen, that assistance should normally be in the form of a loan, such as a revolving loan fund, not as a grant. Properly managed water systems of all sizes should be able to bear the cost of infrastructure debt service and still provide affordable drinking water to their customers.

I should point out that this principle does not apply to wastewater systems because of the significant societal benefits derived from that service. For example, effective waste treatment serves to maintain good water quality, protect aquatic life, provide source water protection for downstream users, and allows use of our waterways for recreational activity. Therefore, grant funding should be available for wastewater systems as they provide service to a broader community that may not be affordable through user rates alone.

Legislation and Regulation

Procurement

In line with my earlier comments, I would urge the Task Force to support H.B. 2016 introduced by Rep. Jennifer Mann to establish a model procurement code for municipal authorities, like the one the Commonwealth adopted some years ago. The Pennsylvania Municipal Authority Association and LCA believe this will achieve significant procurement economies, reduce disputes and litigation and enhance accountability. Through this measure we will be able to realize cost savings and thus have more funds to invest in infrastructure.

Regulatory Review and Permitting

Given workforce changes, and the inflationary increases on projects cost as time elapses, we believe that regulatory review and permitting practices needs to be streamlined. The turnaround time for permits has already lengthened substantially. And looking to the future, experts tell us that workforce shortages, particularly in technical positions, will become the norm. At a time when material prices are escalating at double digit rates, the impact of even one extra month could have a significant impact on the affordability of a project. On a Commonwealth-wide basis a one-time, 1% change in costs will increase the funding need over the next 20 years by over \$200,000,000.

How do we streamline the process? First, establish general permits for every established technology, equipment or process. Second, other than first time use of a new technology, a Professional Engineers seal should be accepted as a certification of compliance with regulatory requirements. DEP could audit a sample of projects each year to promote compliance, and if deficiencies were found, correction of those deficiencies would be the permittee's responsibility.

By way of example, water suppliers do not currently apply for permits for each main extension. A summary listing is reported to DEP at the end of each year. The absence of regulatory review of individual extensions has not led to problems, certainly has avoided project delays and, I believe, has established clear accountability.

In closing, I thank the Task Force for the opportunity to present our thoughts and suggestions on how Pennsylvania can better fund and preserve our water infrastructure.

Aurel M. Arndt
aurelarndt@lehighcountyauthority.org
610-398-2503
Lehigh County Authority
P.O. Box 3348
1053 Spruce Street
Allentown, PA 18106-0348