COMMONWEALTH OF PENNSYLVANIA

DEPARTMENT OF

ENVIRONMENTAL PROTECTION

* * * * * * * * *

IN RE: WATER INFRASTRUCTURE

PUBLIC HEARING

* * * * * * * * *

BEFORE: Senator Raphael Musto, Chair
Craig Brooks, Member
Tony Guerrierri, Member
Marcus Kohl, Member
Dana Aunkst, Member

HEARING: Tuesday, May 27, 2008
1:21 p.m.

LOCATION: 1073 Oak Street
Pittston, PA 18640

WITNESSES: Dana Aunkst, Tom Quinnan, Bernard R. Biga, Christopher Carsia, Thomas Lawson, Michael Gallagher, Thomas Mertz, Yvette R. Austin Smith, Eugene Barrett, Walter A. Nicholson, Matthew Ehrhart

Reporter: Gregory Jones

A P P E A R A N C E S

TONY M. GUERRIERI
Research Analyst
Joint Legislative Air and Water Pollution
Control and Conservation Committee
Finance Building, Room 408
House of Representatives
House Box 202254
Harrisburg, PA 17120-2254
Present for Joint Legislative Air and Water
Pollution Control and Conservation Committee

CRAIG D. BROOKS
Executive Director
Joint Legislative Air and Water Pollution
Control and Conservation Committee
Finance Building, Room 408
House of Representatives
House Box 202254
Harrisburg, PA 17120-2254
Present for Joint Legislative Air and Water
Pollution Control and Conservation Committee

I N D E X

I N D E X (cont.)

E X H I B I T S

Number	Description	Page Offered
One	Yvette Austin Smith statement	--
Two	Thomas Lawson statement	--
Three	Bernard R. Biga statement	--
Four	Walter Nicholson statement	--
Five	Eugene Barrett statement	--

P R O C E E D I N G S

CHAIR:

Good afternoon. The hearing for Governor Rendell's Sustainable Water Infrastructure Task Force will now come to order. I am Senator Ray Musto of the 14th Senatorial District and a member of the task force and I will chair today's hearing. I'm also Chairman of the Senate Environmental Resources and Energy Committee. And I certainly welcome you all.

I'm pleased that the Governor's task

force has come here to Northeastern Pennsylvania to listen to concerns and recommendations of local citizens to regard our water infrastructure. Harrisburg is many miles away from here but every part of the state shares the same water infrastructure issues. It is important that all parts of the state have the opportunity to speak on those issues. So I proudly welcome the task force here to my home district.

And the task force faces a tough assignment, submitting a final report to Governor Rendell by October 1st that more clearly outlines the magnitude of Pennsylvania's water infrastructure needs and offers recommendations on how to achieve

sustainable infrastructure goals. As most of you know, the estimated cost of our state's needs in regards to drinking water, wastewater and stormwater infrastructure is at least $22 billion and the problem is very significant. Cities like Wilkes-Barre and Scranton, Hazleton are now spending millions of dollars to address their water and wastewater infrastructure problems. And we will hear about some of them today.

Funding for those needs is critical and the state can play a significant part in solving our problem. And that's the reason why I introduce legislation Senate Bill 1341 that would invest significant funding for the improvement of

Pennsylvania's infrastructure. The legislation provides for voter referendum to authorize $1 billion bond for the construction, rehabilitation and improvement of our drinking supplies and wastewater treatment systems. This is an investment we must make. And as time goes on our already aging systems, both large and small, continue to deteriorate. Pennsylvania, its municipalities both large and small, will be faced with mounting expenses and meeting funding needs.

Our quest is an important one and I thank

all of you here today for your willingness to serve and participate in exchanging ideas and plans to address Pennsylvania's water infrastructure needs. And because of our lengthy schedule, we certainly do want to hear from everyone, I would ask that each of our participants limit their remarks to a maximum of 15 minutes. And after the hearing today, the record will remain open. If there's any additional testimony, or testimony that we have not received today, you can certainly feel free to send in your testimony to Craig Brooks. And he is the Executive Director for our Joint Legislative Air and Water Pollution Control Committee, as I serve this term as Vice-Chairman.

With that being said, let us hear a brief presentation on sustainable infrastructure, Dana

Aunkst, of PA Department of Environmental Protection. Dana?

MR. AUNKST:

We're kicking these meetings off with this presentation as we go around the state. And it's more for the Department to present to you how we got to where we are now and why we're doing what we're doing and then to give you our pitch for what we call sustainable infrastructure.

Last October we got a call from the Governor's office at that time, indicating that they were seriously considering, in proposing this year's budget, including a water infrastructure funding initiative. And we were asked to start working on the ground work for that, how much money we would need, how many people we would need to implement such a program. And we spent a lot of time through October and November and up until Christmas putting all these numbers together.

In January, I think the Governor's office got a little bit possibly sticker shocked when they saw the numbers that we came up with and realized that we couldn't bite this all off in one budget year. So you'll note that this year's proposed budget includes funding programs for high-hazard dams, state-owned high-hazard dams, a thousand bridges, PennDOT bridges, and some flood-control projects that are desperately needed in some communities. That proposal includes a

funding program with it and staffing for the Department and other agencies to get some of that up to speed and running.

The issue of drinking water and wastewater infrastructure was kind of put off until consideration for next year's budget. As a result,

the Governor signed Executive Order 2008-02 that created this Sustainable Water Infrastructure Task Force. That task force has 30 members from various stakeholder groups. The Chairs of all of the local government committees and environmental committees and both the Senate and the House are also represented. That task force was given a specific set of issues that they were to address.

First, identify the gap, meaning the difference between funding available currently from existing programs and infrastructure needs. That's a gap. The task force was also given the responsibility to identify cost-savings measures that might be able to be achieved through non-structural alternatives. One example that I can give you is, in the Chesapeake Bay Watershed, the Department has developed a nutrient trading program to try to offset or reduce some of the cost of compliance with nutrient reductions. Those types of non-structural or innovative approaches that can result in reducing the overall need are to be investigated.

The task force is to look at the actual cost of providing sewer service or water service. The range of rates that we see across the Commonwealth range from lows in the single digits per month, $8 or

$9 a month in some cases for sewer service, to recent projects approved I believe in this region, for PENNVEST with the resulting user fee approaching a hundred dollars a month. And the residents of that community were so grateful to get the sewer service that they were willing to pay that kind of rate. But given that range of rates, one of the things that the task force has been given to figure out is, what is the real cost of providing service.

And finally, recommendations for promoting sustainable infrastructure. Now, what is sustainable infrastructure? I'll get to that in a minute, but let's put it in very quick and easy terms. It's asset management and long-term budgeting. The Infrastructure Task Force has met twice. The first meeting was organizational in nature. They created five working groups. There was a tremendous interest expressed by a whole lot of people to serve on the task force. And there was a desire to keep the task force to some manageable level. Thirty (30) people is still rather large, if you think about a committee of 30 people. But given the number of people and the number of organizations that expressed interest, the task force has created these five working groups to

give just about anybody who has expressed a desire to

participate an opportunity to do so on one of these workgroups.

Of the five workgroups, three are data collection in nature. The first data collection workgroup is needs' assessment. This workgroup is charged with finding --- researching and providing findings, conclusions, recommendations on the overall infrastructure need for water and wastewater. This group is also the group, the workgroup, that's going to look at the user-rate structures and what does it really cost to provide these services.

There's a workgroup on innovative measures, investigating those non-structural and innovative ways to achieve compliance, improve water quality, improve drinking water without necessarily building bricks and mortar infrastructure projects. Cost savings associated with those types of approaches are also to be investigated.

There's a group to investigate financial resources available to infrastructure owners out there right now. What are the resources that are available currently and make recommendations for any increases or any new programs.

There are two workgroups that are implementation in nature. The first of those is the

group on financial sustainability. The financial sustainability group is to look at these existing funding programs and things like their eligibility criteria. Are we targeting the limited resources available to the right systems and to the right situations?

And finally the last workgroup is legislative and regulatory issues. And it is just that. The group is going to take a look at those existing statutes and regulations that may create roadblocks to infrastructure programs and sustainability, also recommend any new statutes that may or may not have to be introduced. And throughout all these workgroups there's a core component, education and outreach.

One of the things that is very critical in sustainable infrastructure terms is the need to teach users what they have, what their system provides for them, what they're paying for that. The example that you hear all of the time is, people are more than willing to pay $120 a month for Comcast Triple Play, if you know what I mean, and they're not willing to pay $20 a month for sewer service. Now which is the one that's more necessary?

Sustainable infrastructure actually is a

term that EPA coined a few years ago. They started on this concept. If you remember in the '70s, EPA funded up to 75 percent of wastewater treatment plant

upgrades through their construction grant program. If you were using an innovative technology, you could have got 85 percent funding. And they were grants. The local systems were only responsible for coming up with their own share, 25 percent. That quickly was very successful but it was also realized, after 20 plus years of running that program, that the federal government had shallow pockets. They couldn't continue to come in and offer that kind of money. In the 30 years that Pennsylvania facilities benefited from construction grants, they received $2.4 billion dollars. That concept was phased out in the early and mid '80s and it kind of evolved into the state revolving fund programs, where EPA would seed state programs that would loan money at low-interest rates, subsidized rates, for infrastructure improvement. And that program has been working very well. Conversely, the 30 years of construction grants program in Pennsylvania $2.4 billion in the first 18, 19 years of the PENNVEST program, they're pushing 4 billion in loans and grants.

So I mean, it's been very successful, but

they've been able to bite little pieces of the apple at about $200 million a year or $250 million a year on wastewater/drinking water that has not really overtaken the increasing infrastructure needs that are mounting.

So EPA's latest approach is called sustainable infrastructure. They want to encourage systems to be able to sustain themselves so they're not coming back to the government every 20 years for the next new project. Charge user rates that include long-term budgeting for replacement of the components as they end their useful life, those types of things.

EPA defines their sustainability concept by --- and this is EPA typical, four pillars. Four pillars holding up the roof. And the four pillars are better management, low-cost pricing, water-use efficiency and a watershed approach. Now, we at DEP have been working on our own sustainability concepts. We don't use those terms exactly but the concepts are essentially the same. Under better management, things that we do at DEP that our programs we've been trying to develop and improve, our operator certification ---. Workforce development, critical, critical issue. Seventy (70) percent of our wastewater and drinking water treatment certified

operators are 55 years or older. So in the next ten years we're going to have a significant turnover in the workforce and we're not seeing the younger people getting into this industry or this business in this day and age. And one of the things we're trying to do is create a workforce development, part of our operator certification program to encourage that kind of thought and that kind of effort at the community

college level to convince people that this is truly a professional career. It's not something that should be looked down upon like it is in a lot of cases.

Under system efficiency, again, we look at the same issues, workforce development. And in the drinking water side we have what we call a Capability Enhancement Program. We're actually out there working with systems directly. We have circuit riders that work with our staff that go around to help troubled systems, drinking water systems now, and improve their own capability to manage their treatment and their finances.

Under water use efficiency, conservation of not only water is important but energy conservation is going to be the next big thing that you're going to hear. We hear and read in news a lot about the electricity rate caps and their expiration in the next

couple of years, and how that's going to jump everybody's user rates 30 to 50 --- whatever you read --- percent.

One of the things that's critical here is that in wastewater treatment and drinking water treatment there's a lot of electricity used to move water around. Water is pumped in the wastewater side, we got big blowers to provide the air for the treatment process. These systems are extremely energy consumptive. And that cost itself is going to become

critical over the next few years.

Under the infrastructure financing issue, that's why we're here. That's the purpose of the task force. And finally, under a watershed approach, some of the things we're working on, many of you may be familiar, we're finishing up our work on the state water plan. And a lot of those individual plans for the specific watershed is to be released this fall. We're starting to get into green infrastructure. And where that comes into play in a lot of cases is, infiltrating the stormwater where's it's generated and not letting it get into, for example, your combined system. And there are rain gardens, rain barrels those types of things that are innovative in nature but they're referred to as green infrastructure.

And finally, the concept of regionalization. And for some people this kind of creates a little bit of an anxiety attack. I'm not talking about the past concept of regionalization where we build a big treatment plant and we run the water lines, the sewer lines, miles and miles and miles to pick up these customers. That's just not cost-effective, number one. But in those terms it's not sustainable either. You don't have enough customers paying the rates to support that kind of infrastructure. Regionalization in this context means right side. In some places that big regional system might still make sense, in other places, a series of

satellite facilities may be managed by the same umbrella organization would be a better fit. Right sizing. And those are the types of watershed concepts we're working on.

So in summary that's how we got to where we're at now. I also wanted to give you a pitch for the sustainability concepts we're working on at the Department. Thank you.

CHAIR:

Thank you very much. We are joined this afternoon by Kathy Pape who is also a member of the Sustainable Water Infrastructure Task Force. Kathy,

would you like to join me, please?

MS. PAPE:

Just to say hello. I'll sit out here with the group. That's fine.

CHAIR:

Very good. Thank you for being here. Our next presenter is Tom Quinnan from the Pennsylvania Utility Contractors Association. Tom.

MR. QUINNAN:

Good afternoon. My name is Tom Quinnan. I'm a board member of the Pennsylvania Utility Contractors Association, referred to as PUCA, representing the northeast district. PUCA is an organization which represents sewer and water contractors and suppliers throughout the State of

Pennsylvania. I'm also Vice-President of Leeward Construction and ER Linde Construction. We are a pipeline and site form contractor. We perform water and sanitary sewer line construction as well as pump station and wastewater treatment plant construction throughout Northeastern Pennsylvania.

Leeward is currently in our 16th year of business. We employ over 200 people. We have completed over $250 million worth of construction through the end of 2007.

I appreciate this opportunity to offer testimony on Pennsylvania's critical need to find a solution for its water and wastewater infrastructure needs. I'd also like to mention that other members of our organization, PUCA, have offered testimony on this matter.

On May 8th, Bruce Hottle testified in Harrisburg. On May 22nd, Tim Greenland testified in DuBois. I will concur with their testimonies and appear here today in support of them.

System requirements and finance. Many wastewater systems that are in operation in Pennsylvania today are operating well beyond their intended useful life as community sewer systems were patched together to meet local needs without a lot of consideration as to how they would be maintained and replaced in the future. These systems were never designed to be in use today.

When first constructed these systems were state of the art using the best materials available at the time. The designers and contractors who built these systems never envisioned that these systems would still be in use at the end of the 20th century. The old systems were built of clay pipe, worked together at the joints with cement and manholes were

built of brick and wood. Over time the cement in the joints got cracked and washed away causing infiltration problems we see today, especially when the extended periods of wet weather hit our state.

With the age of many of our systems, Pennsylvania is particularly hard hit with this problem. Many municipalities outdate their systems. In fact, U.S. Environmental Protection Agency's 2004 Clean Water Needs Survey report to Congress, documents a 20 year capital investment need to Pennsylvania's publicly owned wastewater infrastructure at more than $20 billion. You can figure this equates to about $30 billion today at the rate of inflation and the cost of construction, materials, labor and healthcare and diesel fuel.

The Federal Water Pollution Control Act commonly known as the Clean Water Act is one of the nation's most successful environmental statutes. The vital part of the Act's success is the Clean Water State Revolving Fund better known as SRF (sic), which

provides federal financing to wastewater collection and treatment projects at the state level. This funding is distributed in Pennsylvania by the Pennsylvania Infrastructure Investment Authority, better known as PENNVEST. Matching funds in return

for principal and interest. There was going to be 320 million in loans and grants for water and wastewater infrastructure maintenance, construction at the beginning of Governor Rendell's term. The amount of the money today is at $262 million in loans and grants. Even so, the snowball effect has continued to grow a lot of money but not nearly enough to keep up with Pennsylvania's infrastructure maintenance. Despite the enormous needs and despite the Clean Water SRF outstanding track record, the Bush Administration continues to cause massive cuts each fiscal year.

Each state loses under this proposal. Pennsylvania needs to recognize that federal dollars have another attack on the taxpayers and this trend is expected to continue. Pennsylvania needs to take legislative action to support our infrastructure needs. Very few systems across the Commonwealth have the ability to raise funds required to solve these problems by themselves. Those systems operate on a budget designed to cover operating costs at a small profit. The main concern is to pay all debts and still keep the cost low to the community. Small communities in particular have a truly difficult task

keeping services affordable and still meet their obligations.

Sources of funding are limited to the Rural Utility Service or RUS, direct grants and aid with the Corps of Engineers, and borrowing from PENNVEST, or raising money for local bond issues. RUS funding comes at a rate of four percent for a long period of 40 years. The only grant money available is to bring the local user fee down to a rate of $45 per household ---. Direct grants from the Corp of Engineers are very rare and only a few survive the current budget-cutting climate of Washington D.C.

Borrowing from PENNVEST is a much better solution, however PENNVEST has a limited budget. It's difficult to believe, but many communities in Pennsylvania still have raw sewage in the storm sewers that are flowing into the waterways of our state.

PENNVEST's current budget of $252 billion a year for loans and $10 billion a year for grants is a start but nowhere near what it will take to get the job done. The Wastewater Treatment Association projects that water and wastewater need nationwide is 300 to 350 billion. Pennsylvania's needs will fall between 20 and 50 billion of that amount.

Finally, many communities simply lack the financial needs and experience to float their own bond issues. What's truly needed is a dedicated source of

revenue that is stable and constant and dedicated to the water and wastewater needs of the people of the Commonwealth of Pennsylvania. PUCA has proposed legislation to provide an additional $240 million annually to the Clean Water Fund. These funds will be distributed by PENNVEST using new criteria, provide one-stop financing for the municipalities.

This means that a new bureaucracy is not created. A lot of municipalities believe they can institute their own fee without evolvement of the state government. In reality their portion is nothing more than a downpayment on the system.

Let me explain. Like the various concepts of a home mortgage. Every new couple is trying to purchase their first home and struggles to save the downpayment for their home. Nevertheless they still need to go to the bank to borrow the balance for that home. The Clean Water Trust Fund would be the bank. The municipalities can go to this bank to borrow the money to build the entire system. Given EPA studies that project billions of dollars' need within the Commonwealth the 180 million worth of funding PENNVEST has available is inadequate at best. Coupled with the antiquated guidelines, that process seems almost hopeless for some municipalities.

It is for that reason we put forth and we are certainly recommending that Pennsylvania step into

the forefront and be a leader of the nation and create its own Pennsylvania Clean Water Act. This all would be created --- or would be crafted to create a permanent solution to our water and wastewater problems by the creation of a user fee for all public water and wastewater systems at a rate of 20 cents per thousand gallons, which would only mean $2 per household per month. This user fee would create $240 million per year for capital improvements throughout the state.

The funds would be channeled in three ways. The first third will remain with the collecting authority or municipality and act as a piggy bank so as to develop startup or downpayment necessary for solving clean water problems that we know exist. The other two-thirds would go to a trust fund for the distribution to PENNVEST for such problems. Half of which, or one-third of the total, would be given out and grants to all, so that all communities large and small, rural and suburban, will be able to bring their construction costs to a level that is affordable for the residents. The final third of the funds collected will be placed into revolving funds, which would grow

by repayments as a snowball would grow as it rolls down --- the snowball effect. It makes the pot of money large enough to meet the needs of the Pennsylvania communities.

Lastly and more importantly we would avoid the cumbersome, and at times unworkable guidelines mandated by the federal government. I'd like to think that this process is similar to that of my parents and how they saved money, little as it may have been, and carefully making their decisions so they might be able to provide for those things that were necessary for maintaining a wholesome household. This unique concept of saving money in advance, each municipal organization with their downpayment on projects for the development of a meaningful grant program to make projects everywhere feasible, and the development of a revolving loan such as a bank, is to fill the gap into the future. It's something that we should be all proud of a part of creating. That is what I'm asking of you today.

In fact, there's an effort on the national level to develop a trust fund similar to the proposed legislation for fortifying PUCA, Clean Water Coalition. It's comprised of many industry stakeholders. They meet regularly in Washington D.C.

and their current topic is creating a mutual trust fund. I urge you to take a serious look at the Pennsylvania Utility Contractors proposal, Clean Water Trust Fund. It has the force necessary to correct the neglect of the past and bring Pennsylvania to the 21st century, the most advanced environmental funding of each state in the United States.

In addition to this, we came up with some cost-saving measures which would help save money and therefore increase funds that we'd have available. First of all the procurement code change. Last year, House Bill 652 on the 2005-2006 session was introduced. This bill amends the procurement code and provides for 15 cost-saving measures. These measures include financing plans, retaining standardization, monthly payment, accounts payment and value engineering. This is a huge issue. I don't think we want to spend a large amount of time in this venue discussing this bill, but it is important in the cost savings to all.

The second item is standardization specifications. Each of the many hundreds of owners along with the engineering firms around the state have taken their own road with respect to designing materials, procedures and construction and bidding

process. These take their own way approaches have created thousands of different and unique specifications and designs for a contractor to try to understand staying competitive at bid pricing and to assimilate in bidding an item and following budgets that are available.

Clearly standard specifications in very large utility construction industry would bring about very huge savings. By virtue of more competitive

bids, those contractors would be doing things routinely rather than wording it all new, instead of risking it each time a bid is submitted.

A good example of standard specifications is the present PennDOT waterway standards. The single book of specifications was created in cooperation with PennDOT, engineering firms and contractors throughout the Commonwealth. It is easy to understand the simplification of only one specification book throughout Pennsylvania. It's much easier to understand and creates for less confusion, impact, charges and claims, and more competitive bids. I would urge the task force to devote at least some time in its efforts to help stimulate and bring about the preparation and adoption of standard specifications for this industry.

The third item is service utility engineering. PA One Call System, U.S. DOC and the national One Call best practice survey recommend the use of subsurface utility engineering to locate utilities prior to the design phase. The excavation process which is required --- which is the required way in most cases. Also one of the most costly problems is the existing underground utilities, and more importantly the exact location of these underground utilities in the bidding construction process. Not having the accurate information creates a requirement for a contractor to put in his bid

reserves which would cover the cost of delays and changes, which are almost guaranteed to occur during expedition process.

Additionally, there can be and usually is a large amount of additional charges to the owner for this lack of accurate utility information and the problems that it causes during construction, especially in sewer lines.

Currently within the utility-locating industry, definitely the design process, the information and technology to provide exact locations is not available. This void is accurate data. This void of accurate data can easily be solved by advance

in testing of subsurface utility engineering. This process includes the soft dig or potholing or excavating of the existing utilities with accurate measuring and plotting both the location and depth. Once the information is gathered and then accurately incorporated into a utility construction plan so as to avoid conflict with the existing utilities when it is not necessary and --- when it is necessary in developing accurate plans for the co-existence within the construction project.

This advance subsurface engineering process will better prepare construction, drawing of any specification that a contractor can depend upon to be clear for the unknown costs associated, thereby

reducing his bid price. It would also insulate owners from additional costs currently assessed upon them during construction when precise locations of utilities cannot be provided in advance.

Studies have shown that dollars invested in this process will return in savings in construction costs of 10 to 17 times above invested dollars, depending on the utility density involved in a construction project. These savings should be pursued as every dollar we can save in the construction process will put us closer to completing our tasks.

Item four, criteria guidelines. The well meaning but complicated process for qualification of well recipients was revised with 10-year-old statistics and economic values. Unfortunately, in using this process in today's world, a low-income utility with higher household earnings, most of the communities in need of such loans cannot rate high and are not qualified at all to receive funds. Or in some cases only qualified for a partial loan, which means they must spend additional monies with local funding agencies, RUS, PENNVEST, local banks, funds or others. Certainly, these criteria guidelines should be reviewed and new guidelines devised to distribute the Clean Water Trust Fund monies in an equitable manner, as equitable manner as needed.

Item five, disadvantaged business solicitation. The EPA requires solicitation for

certain public projects. While it is imposed to provide the opportunities for DBE where a legitimate DBE business exists, however many DBEs are simply paper entities and adding five to ten percent profit on the manufacturer's quote, backs the quote with their profit margin tacked on. The DBE solicitation process is time consuming and costly as both municipality and the contractor must each perform

extensive research, solicitation, documentation requirements before the project can be bid or awarded. For the current system it takes an additional staff order from the contractor and the engineering group. Multiply this by number of contractors and engineering firms to determine the labor costs of this program.

The DBE program does nothing to educate the DBE, DBE firm, to the public bidding process. For contractors it's required to provide all bidding information to the DBE program. DBE firms are, therefore, not responsible to retrieve bidding information on their own and are relying on the contractors.

PUCA believes that the DBE program would be much better served by the mentoring program. And after five to seven years, the DBE firm will graduate from that mentoring property.

Item number six, acid management. Wastewater utilities should incorporate acid

management guidelines in their policies, cataloging every aspect of a sewer system to determine longevity and the need of rehabilitation on a routine basis as a mandatory best practice. That needs to be mandated for each and every wastewater and water treatment infrastructure system.

A long-term plan to operate or approve the system as regulatory or legislative changes occur is an integral part of a well-run retention system. Water and wastewater systems need to ensure that local rates cover the full cost of service, including capital asset maintenance and replacement for system longevity and liability.

Item seven, regionalization. The task force should consider investigating the possibility of regionalizing some of the wastewater systems for an obvious cost savings.

Item eight. The last item, will be education. Over the years I've seen many municipal authority members with a lack of knowledge about construction funding, failed financing, bid loss, payment terms, case law, responsibility as a utility owner, DEP data selection and the difference between performance and maintenance funds. An educational program for these officials would be highly beneficial. It should reduce local court cases due to inexperience and misconceptions.

In closing, bidders of the Pennsylvania

Utility Contractor Association working in a construction industry day in and day out, we believe that our suggestions are real solutions to the ever-

growing need. The time is now of the legislation to take meaningful action to protect our environments for the future generations.

Health risks are rising every minute that we wait to remedy these infrastructure programs. From our firsthand knowledge, a comprehensive plan to address the entire infrastructure need in Pennsylvania is imperative. We offer assistance to this committee as you proceed with your legislative recommendation to the Senate and House of Representatives. We understand that a healthy and environmentally-sound commonwealth is an economically sound commonwealth. Pennsylvania is where we live and work. This is where our children will live and work. Thank you.

CHAIR:

Thank you for your testimony. Next on the agenda is Bernard Biga, Director of Operation, from Wyoming Valley Sanitary Authority. Bernie.

MR. BIGA:

Thank you, Senator. I'd like to thank the Senator and members of the task force for this opportunity. There are hard copies. I don't know if you picked them up when you came in. The date --- May 8 is the correct date. I gave this previously.

As I said, my name is Bernie Biga. I'm

the Director of Operations for the Wyoming Valley Sanitary Authority. And as such within our organization I am responsible to the day-to-day operations, and the presentation will speak from that perspective. Can everyone see? It's okay with the lights.

Well, we're in Northeastern Pennsylvania, so most of us know where we are. Our plant is located about 13 miles from here. Wastewater, I believe, is a little --- we'll eventually get there. This is about one end of our service area, over 200 square miles.

A little overview background about Wyoming Valley Sanitary Authority. We were incorporated in 1962 and it was seven years later when we went online as a primary treatment facility in 1969. It was almost 20 years later, in 1987, when we were upgraded to secondary treatment.

There are 36 communities which we serve. There are 14 founding or charter members, 22 additional communities. We have about 94,000 EDU's, which have a population of a quarter of a million people.

Our operating budget for this year is about $17.8 million. The plant operation maintenance is a little over ten and our pumping station is almost

2,000,000. So of that 17.8 million, about 10.2

million goes to the actual operation and maintenance of the plant and the pump station.

We also have a capital budget of about 2.7 million. You know, Dana spoke earlier about trying to sustain your infrastructure. Well, we've been trying to do it all along. We earmarked somewhere between 2.5 and $3 million a year to do smaller capital projects. An example is the Regional motor control centers in three of our pump stations, we have already upgraded this year. We have air lines. We have four separate treatment trains, I'll talk about it a little later but we're replacing the air lines. The contract started actually today as we speak. That's a little over $300,000, maybe $330,000.

We are going to be replacing all of the below-waterline components. And in that we spent over $300,000 just for the equipment. We will be installing that with our own forces, in-house. So, right there is you know, 700 --- about $700,000 that we will be funding, again, by ourselves through our operating measures.

We also carry an inventory of about $2.5 million in spare parts. And that's just because we run 24 hours a day every day of the year. If there's

a holiday, well, we will work. We all know that.

Why do we do that? Well, one of our pump stations, we ordered the pump on March 3rd and

expected shipping date is August 8, so obviously we couldn't go that long without having parts like that.

Quickly, we are a relatively large facility, with 50,000,000 gallons a day. We have dry weather flow of 32,000,000 gallons a day, meaning the three driest consecutive months. If the average exceeded 32,000,000, we would be hydraulically overloaded. The five-year average right now is about 26,000,000 gallons a day. We put about --- again, in closing, I'll explain, it's about 40,000 pounds a day.

You may have heard this in Harrisburg. Every picture tells a story. This slide tells two stories. One, if you look around most of the day on April 12th of this year, the low flow was about 30,000,000 gallons a day. Typically in July and August that will be as low as 10,000,000 to 12,000,000. So right there it shows an infiltration problem of getting ---. Ground water, we all know in this area we had a very wet spring. And then a thunderstorm about 4:15 a.m. moved through the area and the flow went from 30,000,000 to 60,000,000 in about a half hour and then eventually hit 80,000,000

within two hours. So that's an inflow problem. That's all the wet weather, whether it's runoff or, you know ice, it melts, snow melts, getting into the system.

That's just a quick aerial of our facility. We have four treatment trains, which

basically are four individual treatment plants. They can be anywhere. They are independent of one another. I can't see from here, the flag's in the way, but one of the treatment --- basically in the middle to the right you'll see, that's one of the trains we had off line for service at the time.

Your hard copy does not mirror the slide show. I tried to cut down ---. Secretary McGinty gave us eight minutes in Harrisburg, so I cut a couple slides out. But that's okay. Well, thank you.

Part of our major plant components are a main pump house, the headworks. As I said, we have a four-section area, activated sludge treatment trains, biological treatment we use. And we have solids and the centrifuge for sludge dewatering and a fluid-activated incinerator for the volume induction of that sludge.

Out-plants, major. We have 56 pumping stations and 56 diversion chambers. We also have 35

miles of pipe. And I'll talk a little bit about this later. It doesn't seem like much for the size of our plant, but a lot of its in the service area, the towns own those collection lines, we don't. We have 20 miles of gravity sewers and 15 miles of force main.

Now, what does it mean now? What are we talking about? It means that the cost to the Wyoming Valley Sanitary Authority ratepayers will increase

significantly. Why? Well, all of a sudden we have to meet the Chesapeake Bay Strategy's nutrient limits. We're doing that as we speak. It's under design. The CSO requires infrastructure upgrades.

The Chesapeake Bay Strategy. I guess we're all in the Susquehanna Watershed, so we know what that's about. We have to meet the mandated cap loads for nitrogen and phosphorous. And we have to do it now. Our estimated cost is wrong up there, it's $6.2 million. Within the last two weeks there was an upgrade of $14.7 million. And the first compliance year ends 30 September 2011. And that's actually a lower cost that a lot of people are going to have to pay to meet the base strategy. But fortunately 20 plus years ago our Board selected a process that has in there BNR removal, biological nutrients. And right now maybe 2.2 million pounds of total nitrogen

entered our facility and we put out 700,000 pounds plus right now. So we have to get it down to about 584,000. So we do ---. Now, it's easier to get the first part out, the second part is a little harder, but that's all right, they're working on it now.

Another bigger or --- definitely money-wise, is the combined sewer overflows. We have 56 diversion chambers. And these are points where combined sewers, where you have sanitary and storm in a single pipe, exceeds the hydraulic capacity of the system and those flows are diverted. Through the 14

surrounding towns, 55 pipes, that's shown on the screen from the top to the bottom, that's a combined sewer that was existing. We built that square structure around it. We called it a conversion chamber, a CSO, or something of that nature.

We took a pipe and carried the dry weather flow into the Wyoming Sanitary Water Authority. The profile, we looked how it goes to Weir, getting that line and the flow gets to Weir, it's directed to Wyoming Valley Sanitary Authority. When the flow exceeds its capacity to our pump station, in that case the flow goes over the Weir and it's directly discharged into a receiving stream, mostly perhaps the Susquehanna River.

Costs to eliminate from the system. A 2002 engineering study placed the cost at $90 million. That was to meet the regulations that were in place at the time. In today's dollars that's already up to $113 million. But as I said, that includes like treatment heaters, concentrators or bar screens to remove the settable and floatables and then disinfect that site and then discharge. We aren't sure that's going to be allowed by the time we get around to doing it.

To eliminate the combined sewer problem would be the separation of all the combined sewers in our service area and that comes to about $400 million.

Currently, we have a CSO project under way at the Ross Street Diversion Chamber in Wilkes-Barre. It's two phases. Phase one, we're almost --- we're going to go on phase two this year. The total cost is $7.4 million. The good thing about this, we got some EPA money to do it. We got 55 percent and then 45 percent. I believe, I'm not exactly sure, that we shared with the state maybe 22-and-a-half percent apiece.

And, again, because of the help we got from the state, you know, we do support Senator Musto's bill for the authorization of a billion

dollars. You know, and a billion dollars is a whole lot of money, there's a lot of zeroes there. But in Harrisburg a couple of weeks ago, I know that the Greater Pittsburgh area is looking at $4 to $4.5 billion themselves for their CSOs. I don't know what Philadelphia's looking at, it's a little longer. As I said, for us to really separate and get rid of them all, we're looking at about $400 million.

We have 56 pumping stations, 25 original. And then along --- several years ago, maybe 15 or so years ago, we went and took over smaller pump stations in the charter towns, 31 additional. They're getting old. They're all getting old. Upgrade to 25 original stations and it's estimated to be about $15 million. And about $10 million for 31 stations. Now they're smaller, therefore, the price is a little bit lower.

But we're looking at, you know, $25 million with the pump station included.

Our plant equipment needs. The recognized useful life in this industry is about 20 to 25 years. Our solids-handling equipment is approaching that. If we replace our centrifuge and its ancillary equipment, our fluidized-bed incinerator and its ancillary equipment, we're looking at about $9 million. And the total cost of all the sizeable

projects, which you can see right now ---. Again I say sizeable ---. The bottom line, you know, if you take that again, 2.25 or 2.75 million over 15 years, you know, we're talking $35 to $40 million that we have to submit ourselves through our ratepayers again. But it's tough to know. Chesapeake Bays mandates now 14.7 million dollars. The CSOs range anywhere from $114 million to $400 million. The pump station upgrade is 25, the centrifuge and incinerator is 9 million for a total cost of somewhere between 131 and 440 million dollars.

There is a disclaimer. The current charge of the transmission and treatment of the wastewater. We do not know the age nor the condition of more than 800 miles of pipe in the collection systems of the service towns. That is the responsibility of the town. We don't own them. And some of them I know for a fact were installed in the

1800s. And over 400 miles of those pipes are combined sewer systems. And the real cost is unknown. The estimates are running in the hundreds of millions of dollars.

And that ends my presentation. I think you guys have a hard copy of two more slides. That's just a force main title, a 30-inch force main we

repaired last year, 18 feet. It cost about $300,000.

CHAIR:

Well, thank you very much, Bernie. And again, pipe line costs --- I see so many heads shaking. We certainly do know the cost following our CSO problem. But the longer it goes without solutions in place, the costlier it gets. And that's the reason why we're conducting hearings throughout the state, to get as much information as we possibly can in order for us to come up with solutions.

Next on the agenda, Christopher Carsia. He's Director of Operations at the Greater Hazleton Joint Sewer Authority.

MR. CARSIA:

Senator, and the task force, first I wanted to inform you that I'll be going off the copy here, less informal, but I've done the best --- I hope that these facts are well taken. I am going to begin giving you a little background on our structure. The Sewer Authority --- the Greater Hazleton Joint Sewer Authority serves approximately 22,000 customers. Up

to 22,000 customers are served in the Greater Hazleton area, which is comprised of Hazle Township, City of Hazleton and West Hazleton Borough ---.

Like most other municipal entities,

wastewater treatment plants that are on the Susquehanna River, we --- our permit that was just released requires BNR upgrade. The sewer authority just secured $38 million in bonds. No PENNVEST money, we're not eligible for it. Obviously, it's not available. We are maxed out as far as our borrowing power goes. We were rated on Wall Street with Moody's and we got a B-plus rate. But as it stands now, moving forward, it's not likely with our revenues that we're going to achieve any additional bonding of that magnitude for those feats. We were secured in at 4.6 percent, which is an attractive rate. In comparison to PENNVEST, you know, one and a half, two percent or less, it's not too rosy in that picture, but like I said, we were very fortunate that we could get the 4.6 percent.

In this $38 million upgrade, BNR is the driving force behind it, but we're also incorporating hydraulic capacity. And we're also addressing our pump stations.

Our treatment plant was incorporated in 1961. In 1987 we went through a $5.5 million upgrade, hydraulic upgrade. Because of the I&I coming into the

system, it was determined at that time that was not cost-effective to develop and address that I&I because

the preliminary numbers that we got at that time were well over a hundred million dollars to separate the systems.

Now, I remind all of you folks that my testimony is similar in nature to Bernie Biga's of Wyoming Valley Sanitary. They just happen to be 4.5 times the size water treatment plant. We have CSOs, we have 15 of them. We have capital improvement projects similar to what they have. We do not own a collection system like they don't own a collection system.

But what the Greater Hazleton area is entertaining at this time is regionalization. It should enhance our borrowing power. It should give us control that we can go under one umbrella and we can address the areas of concern that we feel is most important. In other words, we want to get the most bang for the dollar. That's what our goal is. And the only way we can do that is if we control lines within our municipal authority.

So with all that being said --- there are some other considerations, in fact, capital costs ---. Our normal expenses are going up just like every other service in this region, probably tripled by the price of oil. I don't think that that should

be a major factor. I do think that the committee should be aware that the more we invest in our infrastructure, the more likely it is that those costs are going to stabilize or perhaps go down, modern technology. The older your system is it probably costs more to maintain. That's what it appears with the Greater Hazleton treatment facility.

Affordability. Our rates historically have been one of the lowest in the state with communities of 25,000 or more. That came back to bite us, so to speak. We used to boast about having the lowest rates, but it doesn't appear like we were investing in infrastructure like we should have been. So perhaps this $38 million that we're going to be spending in the next two years, permit required, perhaps that could have been curtailed. We don't know that, but what we do know right now is that we did raise our rates substantially, a 50-percent increase. And obviously I heard from the general public on that. And we're going up again in 2009 and that's the only way that we can pay for this $30 million bond. And that's a sizable increase, so we're going up another 50 percent in 2009. That's a hundred percent a three-year period. Prior to that it was 15 years before the increase.

Innovative measures. It came to my attention, through an engineering firm, I believe it's

based near State College, that they have a subsidiary that they had requested DEP's regional office a water reuse. I found this very intriguing because we have 15 CSOs that currently we're spending 1.3 million to address one of them. Now, we can get PENNVEST money for that one, that's aside from our BNR upgrade. In any event, that was one of our smaller CSO selections, the 20 force lines ---. We have 96 in-plants, 60 throughout the service area.

So what that means to me is this presentation is we have to spend tens of millions or hundreds of millions of dollars to put these satellite treatment plants on our CSOs, or the alternative, we spend approximately $200 million --- and this is going on the estimate from two decades ago --- to separate the lines. Well, that doesn't seem to be cost-effective.

So the pitch from this engineering firm is they reuse the water, reuse the CSO water. And I like that concept, but I didn't know if it was cost-effective. And obviously the central office, the regional office has to consider that as they go through the permit process. What makes it attractive

is if we could send the water to the CSOs, remove some of the heavy debris. And then this output can go and, as they claim --- use of water through the limestone banks and put it back into the tunnel, which is ultimately going to a receiving waterway, in our case

the Susquehanna. That's water reuse. I certainly think that's the direction that we have to go in the future. And I hope that the regulators put that thought into consideration. Obviously, if it's a private enterprise and they're going to be looking for funding and help from the government.

The sewer authority, the Greater Hazleton Joint Sewer Authority currently brings the bulk of their solids 100 miles one way into a landfill out in State College. With the price of fuel hovering around $4.50 a gallon, you know, my question every day, is it cost-effective. Well, what they're doing is they're using our solids to fill the voids to enhance the production of methane gas. And supposedly, from what the landfill personnel told me, there's a steel mill out there and they're selling the gas to the steel mill and generating a profit of approximately $75 million a year. So they're the types of innovative technology that I think that all the municipal entities of water and wastewater need to look to the

future.

I do have something else here. On the local level, our user rates right now are about a half a percent of the annual leading rate ---.

Now, I bring to your attention that the Sewer Authority of Hazleton did participate in the fact finding for this submission with DEP and we

received the follow-up report last month. And the number came up to approximately 34,000. So the target for an annual sewer rate, not including the collection system, is approximately $345. We're sitting at $180, plus the transmission fee is about $182 in the City of Hazleton. And it varies throughout the township and the borough. We will be up to about $250 to $300 by 2010.

But affordability, you know, we have to question it. And here's where I'm heading. When I'm getting flack when we raise the rates for the average citizen is, police tend to be the priority. We're like every other small urban area, the crime rate is going up and the dollars are to be spent with the police force. And outlying areas, primarily Hazle Township, they don't have a police force. I ask you folks to be cognizant of that, a big problem on the police force. How can you channel the dollars going

towards police and fire protection and now we're screaming, so to speak, why we need it for water and wastewater? So I think everything has to be done with definitive direction that it's affordable.

Training. I'm a certified operator, I've been for 20-plus years. I believe it was Veronica Casey that headed the Operator Certification Act and I think it was a good Act because it enforces all the operators to go through these sessions where they're required to get 30 contact hours through their cycle.

So with all that being said, I'm heading out to State College for my hours for my license. And acid management has been a topic of conversation for the last six months to a year. I think we need to bring acid management to the board members that we all answer to, the decision makers. Acid management is probably the wave of the future.

Example, we had a system that most of the sewer lines are 40-plus years old. Why wait for one of them to break and spend emergency funding and pay top dollars. Improving acid management, well, do analysis of the system and identify these areas that are more apt to have a break, so we could spend a lot less money and use that money towards infrastructure.

I also became aware of House Bill 2441.

We're installing about 750 million on behalf of the Sewer Authority. We certainly are large proponents of supporting that bill. If I'm correct with my numbers, 500 million of those dollars are for the water and wastewater infrastructure. 250 million towards the farmers for their nutrient reduction. I certainly hope that bill passes. In addition to that, Senator, I've been a big proponent of your bill that you've been working on for quite some time.

And in closing, CSO, BNR, they are issues of concern, but also if I could ask the task force if any of us will be cognizant. Rising costs on all

fronts. Everywhere we turn it's going up, fuel surcharge here, chemicals there, so as long as everybody is cognizant, then we can move in a direction that's fair and good for the entire community. Thank you.

CHAIR:

Thank you very much, Chris. Thank you for a good job. You know when you're asking ratepayers for an increase, some of them do not understand because they don't see the problem.

MR. CARSIA:

Absolutely.

CHAIR:

The problem is underground and just so many it doesn't exist. Well, it's there and it's real and it's getting more costly every day. Next is Tom Lawson of Borten-Lawson Engineering. Afternoon, Tom.

MR. LAWSON:

Good afternoon. I'd like to echo a lot of comments previously made. They come from the contractor, the treatment sites, the City of Hazleton folks, but I'm a design engineer. Water infrastructure is not my expertise. I think the Senator will tell you it's transportation. And we're in a similar dilemma with the revenue funding. In studying this issue in the last couple months, because it's important to our regional economy, and our state economy, and of course our national economy, I've seen

some similar problems, and that is the education of the public. As to what the issues are, why we're in them right now and what we can do about the revenue sources that we need, in addition to all the other social services, et cetera.

This is a monumental task and I want to commend the task force for attacking the issue because it's going to take a lot of education and leadership from our Senate and the House and the Governor. So I want to say I support the recent bill for the 750

million and your bill, Senator Musto, for a billion in bonding to address the needs.

And if we can go down the list here of the needs, assessing the needs to me cannot be done with the fragment of oversight we now have. Some communities don't even know what they have. They don't have records of their sewer systems. So the need assessment is going to be extremely difficult.

We need to consider non-capital costs, such as studies to determine that need. And we're talking about this money as a way to fund capital improvements, but I noticed in some of your questions you said what else do we need to do? We need to look at the studies and opportunities for project management of the many systems to create the efficiencies and proper technical approaches to solutions. The fragmented approaches we have now with

every community, especially small communities trying to maintain their systems, if we could do it on more of a regional basis, and we hear that word coming up all the time, even in transportation now, we could apply the proper expertise to even the smaller communities. And, again, regionalization doesn't mean you go to one plant for Northeastern Pennsylvania. I think it means more than that and if you could have a

good management team such as the Wyoming Valley Sanitary Authority that now only treats and really conveys through the interceptive sewer system but all individual communities can have their own sewer systems. They don't have the expertise to analyze their own sewer system and stay on top of the game.

And one example I would like to give you, a recent land development subdivision we did. We asked for approval for the sewage discharges into the local system, got it readily from WVS ---. And their answer was, we think we have a major issue with our system, there's flooding all over the place. And so my client had to spend $10,000 to investigate their system. And we found out that the flooding was due to a barrel stuck in the sewer at one time and that's why it flooded. But they couldn't even tell us where the sewers were. And this is a community of 13,000 people. So they don't have the expertise to oversee this, and that's where I see regionalization as playing a huge part, because we have an ever-shrinking

base of expertise. Even when I try to hire people for my firm, I have had to recently go to Michigan, Florida, New Jersey, West Virginia, to hire people. And I've had to do a tough recruiting tour of those states to find the right people with the right

expertise to address what I consider to be a growing community in Northeast Pennsylvania.

So if you have technical expertise, use it efficiently, while addressing a multitude of the regions' customers, et cetera. And then, nobody has to lose their job because there's a place for everyone. There's a shortage of manpower. And I know some communities say, well, we had people who have been out of work for 20 years, you could use them in the regional approach very efficiently.

So I think affordability has to be considered part of the equation, but only if it's a part of the smart-policy approach which should include financing and revenue-generating policies which disperse the financial burden, this burden across the broader region to level the playing field. We have the haves and we have the have nots. And we have communities that can afford to do some of this work, we have communities that don't have a dime to do it. So I think we have to do regionalizing of the revenue generation so that the projects can be prioritized for the broader good of the region.

And some communities will say, well, why should we give up our money so that we can do work down the road? Well, it just so happens that not

everything is fair in life. Not everything was built up from an infrastructure standpoint, was built out at the same time. The cities in our area, Pittston, Scranton and Wilkes-Barre, Hazleton, they've had infrastructure built a hundred years ago and now it's taking in a lot of flows from outside their communities. And then when the cities have the major problems from those increase flows, they have to pay to fix it. And the other communities upstream have all this new development and I think you know where a couple of those may be, they say, it's not our problem, it's yours. Well, it is all of our problem because those communities are then burdened to the point where they just can't afford to do anything and then we fix it when it breaks and it creates a huge sinkhole at the next home, et cetera.

And I'm from the City of Wilkes-Barre originally, so I know a lot of the issues because I worked there after the flood, saw all the old sewers and went through them. And I've been there. 1972, I'll never forget it.

But the proper identification of problem areas is going to take some work. And that's why I think we can't just be talking about capital money here, we need to talk about some engineering money.

You're going to say I'm blowing my own horn, but that's what I know. I know that there's not enough research and not enough engineering investigations being done to find out where the priorities should be. So I think that that has to be considered in the future funding alternatives.

And let's just use some commonsense as to what area should be done first. And it's not always based on thoughts, it's based on the system being really saddled with an issue. Even if it's a lot of more fallacy, that one bottleneck may prove to be a disaster and cause many more issues when the CSO carries it.

Innovative measures. By the way, I just put this together this morning, because I found out when I signed up I was a speaker. I didn't know I was a speaker.

CHAIR:

You're doing a great job.

MR. LAWSON:

Innovative measures. Certainly conservation, we all talk about that. It's a difficult one because we have an old infrastructure system. But I think providing the changeups to conservation-based fixtures, and especially in newer

homes or in buildings where a lot of that can be done

easily, then that's where expertise comes in. And ensure adequate well-trained staff, DEP and other regulatory agencies.

What we're facing now with PennDOT, DEP, et cetera, we've had a large exodus of those baby boomers with the expertise. And that's one thing I'm fighting in my own firm. I'm sort of the baby boomer in our firm. Having started the firm 20 years ago, I'm on the verge of looking to those trips, you know, vacation in my retirement years. But we do have to make sure that DEP, PennDOT, DCNR, all those agencies have adequate, well-trained staff.

And if you utilize a consulting community as a partner, that can easily be done, I think. And we should be collaborating on ideas, design philosophies, et cetera, and working as a team, not as adversaries as sometimes in the past. I think it's getting a lot better. But we have to work as teams to fight common problems. But form business/government partnerships to flush out the permitting issues, streamline review and project delivery time frame.

Again, PennDOT, we've done that through the partnerships we formed on major construction projects, anything over I think 10 million and we had

to sit down for three days and hash out how we could do it better, more efficiently. I think that can be done with infrastructure projects, such as DEP and others ---. And reduce cost of improvements and try

design --- build best value competition. I think that certain products could be designed with 30 percent completion, put it out for a contractor consultant, innovative concepts. And they'll bring the latest technologies and solutions to that project, therefore, reducing the costs. I think you'll reduce the time frame for delivery in that.

The recent flooding a couple years ago, we lost a lot of bridges. We delivered some bridges took them out and replaced them in three months. You do that through the normal process, it could be three or four, five years. So I always say, why can't we do that as a way to save time and, therefore, money.

Identify best practices where possible. And, you know, I'm sure the task force is looking at that right now.

And try to --- and this is something that I mentioned to the Senator myself, not too long ago and he was on top of it. He was already thinking about it. But as a regional infrastructure district, if you could identify the watershed area or

communities with common issues, et cetera, why can't we establish a regional infrastructure district? It could then be overseen by a logical entity authority, whatever, raise revenues across that district for the better good of the communities involved, prioritizing the most urgent needs. And that's going to be hard to

swallow for some people because their town is fine. Well, some aren't. And as those communities go, our region suffers. And so I think to tackle this we need to look at that type of approach.

Financial resources. I'm sort of stuck on that one. I couldn't come up with one in the short time I had to think about it.

The financial sustainability. The regional approach, to spread financial resources across political boundaries. Those that don't regionalize, it's a tough thing to say to ---. And I'm not in your seat, but I say, well, they don't participate in the way that others do. And this is tough love for tough problems. And certainly we're sitting down together to form partnerships. I think those are resolved through logical reasoning, recognizing the issue facing our citizens and doing the right thing for them. Regionalization may be easier in the management arena, not the treatment,

because we have segmented communities. We don't all flow in the same direction. So if we could have one authority manage several or five or six systems because of their expertise, centralized expertise, and that's what I'm really shooting at here because, again, baby boomers, a lot of the people with 25 years experience are not going to be here any longer unless we get them down to two or three days a week, like they're trying to do with me.

But I think we need to be thinking that way. And you don't have to give up anything here. We're going to need every single person still be a part of the overall team. And the demographics will require training of younger staff. I forget whether the first gentlemen mentioned that. We have some education to do with our younger people and they don't want to do this work. They don't want to do some of the work that I have, in an engineering company that has air conditioning, and a wealth of benefits. And I say, what do you mean you don't want ---. I used to climb through sewers on my stomach because my boss told me to do that. Of course when you get smart --- but I was a young kid. So I think that's the challenge that we all face. We have to find how to get people into this industry and do a good job and

find it can be a rewarding experience.

Grants for small-type developments should be discouraged. Certainly there will be times when economically that's the right thing to do for future economic opportunities. But the dollars should be spent on saving our vast in-place infrastructure that if it's not replaced shortly it's going to be a nightmare. And in a short time --- let me tell you, some of the sewers that they dig up, they think we should go further. We've got to replace more but we're told to stop here. That's going to be the

problem next year, what we need to replace. And I know some seven or eight-foot diameter sewers where I used to live in Wilkes-Barre fail regularly. They're attached and attaching will finally not work. And they get faced with a multi-million dollar emergency which will shut down the street for months.

Those are the kinds of issues I think we've identified and plan for in the engineering surveys that any number of firms can do. And I think that's a good investment, go through comprehensive review of regulatory issues, listen to providers who are the people that run the systems that do the maintenance. These are very good people, especially in this industry. You'll find out that everybody in

this industry is very, very dedicated. They have to be to stay in it, it's tough. Many of the engineers that work for me in this area say it's a tougher area. There's not enough money, et cetera. But they hang in there because they see the public needs them. My first boss ever from the Corps of Engineers says you're a public servant, remember that. We serve the public first. And I always tell them, we aren't in private industry, we are public servants.

The legislative regulatory issues. I think we should put some teeth into the bi-county plan now, be prepared for losing our Lackawanna County, first in the state, for two counties to get together in proper land use planning to avoid some of these

issues in the future. Don't build these developments way up that you have to build them and eight-inch water main three miles just to get there. Try to encourage the reuse of brownfields. The urban centers are going to be key for the future. They're going to be a place to live because of the cost of energy is not going to go back to two dollars a gallon. If anything, it's going to keep going up.

I've already looked at a little car to drag around. I never thought I would do that, but I want 35 to the gallon. I was happy with my pickup

truck before this. But the urban centers are going to be the new residential districts of choice and building centers, et cetera. But that's where the infrastructure is the poorest. You're going to have to redo some of that infrastructure for the kind of flows you're going to experience it.

The CSOs, more important than ever. High-energy cuts will change where people live. I discovered that --- Senator Musto said recently in an article, the CSOs are a serious problem when they're an expensive fix. The urban areas have the oldest systems with the most expensive repairs and they are the least able to pay for it. We've got to get over that hurdle somehow.

Erase all political boundaries. Most issues are watershed or a regional issue. Half the

counties are understaffed to deal with it. A lot of our counties, people go to the county and say, help us, please. And yet when you look at county staff, it's not there either. I think the Luzerne County Planning Commission has three or four people in it. They used to have many, many more people. These are the people that know what's happening. They know the needs, et cetera. So I think we have to stay on top of that. The staffing, DEP, again, critical issue.

We lost a lot of expertise.

Recognize the need to educate the public. I think this is the end of my short comments, but I think any time you face issues like this, I go to the public and as long as you educate them, they come right along. Because they know if we don't do something, their future, their children's future, et cetera, et cetera, is not going to be what it can be. If you drive down the highway and a bridge collapses or a pothole causes a bad accident, you and one of your family members ---. I don't mean to scare people, but a bridge collapsed in Minnesota because it wasn't being taken care of properly. The money wasn't being spent. The same thing can happen to our nation's infrastructure system below ground. It's the least thing that's on anyone's mind because it's underground. And they don't understand why it's such an expensive issue, but believe me, a number of years were spent rehabbing this valley after Hurricane Agnes

and I saw the need then and it's still --- it's worse now. And I think we have to have a series of educational forums. Just like Focus 81, when I helped start Focus 81, it was to advise the public that we had a one-and-a-half billion dollar problem on 81. We don't have the money, so what can we do to manage 81

in a way that we can increase the safety, not have so many accidents and still have commerce flow through our area for our benefit and the northeast border's benefit. So Focus 81, going along with that. And sometimes I think we need other organizations that will keep focusing for the next 20 years on educating the public about how old our system is. It's been relatively less expensive than it should have been to maintain it because we just didn't have the money, but we're going to have to because otherwise we could reach failure. And failure won't be acceptable when you have to walk around and ---. Can I just state an example, Senator? I think I'm going over my time frame.

One example is Holbrook. Holbrook is a stream up by the Wyoming Valley Mall. We designed a fix for it because there was a flooding problem down in Wilkes-Barre and it was a street that was violated by mining years ago. It had no home. It went underground. It went into mines, still does. That's where the Target store is up by the arena. And so we

came up with a recommended design, but the design was a little more expensive than what we wanted because the downstream communities said, wait this is not our problem and we're not going to share locally in the

cost because it was created by those people up on the hill with all the stores they put in. So we had to go down a state highway, increase the cost tremendously. Senator Musto helped us to get the PENNVEST funding.

The project fell apart, it never happened because the costs were a factor, the cooperation between the municipalities. That was under different leadership, by the way. The current leadership in the community is different, so the previous leadership just said, I don't want to have anything to do with this.

So now it's still the stream that it was. It still creates a lot of damage up by the mall and you read about it in the paper. You hear about it in the news. If we attacked that project from a regional issue or a watershed-based approach, that could have been done under proper legislation.

The other one is downtown Wilkes-Barre, a partnership, now they're trying to get the downtown revitalized. And one of the issues that CSOs are talking about here today, when you walk around the public square, sometimes you can't stand the odor because the inlets are tied into the sanitary sewers.

And I've been trying to figure out a way to conquer

that without much expense because it's just offensive. And I don't want to lose customers downtown because they notice this horrible odor. So that's one other issue. I have three examples here. My age is catching up with me. I'm almost forgetting --- I probably do forget the third one. Yeah, I do forget the third one, so my apologies.

But you see I'm passionate about this. We need passionate people involved. The state is doing a great job now by recognizing the issue. I'm not sure if the other states are tackling it so head on but I commend the task force. I commend all you people for being here today. I think we can work together and solve this issue. It's still going to be a funding issue for long term. It's going to be tough to get all of those dollars we're talking about for CSOs, upgrading the plant, et cetera, in Hazleton and all the other communities. But thank you very much, I appreciate it.

CHAIR:

Thank you, Tom. Any of your recommendations will be certainly given full consideration by the task force. Joe Shacky (phonetic). Joe, you're up.

OFF RECORD DISCUSSION

CHAIR:

We'll call on our next presenter, Michael Gallagher from PENNVEST.

MR. GALLAGHER:

Thank you, Senator and members of the committee. First of all, I need to make a disclaimer. Comments I'm making this afternoon are those reflecting my own experience, do not reflect my employer, okay?

As the framework for our discussion, I'd like to suggest that pollution elimination, and I chose that word elimination, needs to be a national and an international effort. I hope that the committee, part of their recommendation will conclude that sentiment conveyed to our national representatives, our Governor who serves on the Infrastructure Committee, our U.S. Congressman and Representatives. We cannot do this by ourselves, okay. We need to bring their capabilities and resources.

We do have some resources ourselves and I suggest there are seven in nature. They include land use planning and regulations, improve technology, conservation, cost-effective management, cost-effective operation and maintenance, effective and

efficient regulations, wise use of tax dollars. That's probably a universe of possibilities, okay? But let's examine some of those and let me share some

possibilities.

Land use planning and regulations. We need to tie together the municipality's planning code, the MPC, with the Act 537 regulations and Act 167, along with highway and transportation planning. The state subsidizes most of these programs, most of these efforts separately, but it would seem to make much more sense for a municipality to undertake all of them as one data pool.

Speaking about planning, land use planning. Twenty (20) years ago legislation required the preparation of a statewide water plan. Several years ago additional legislation required the same thing, water plan. We have it maybe today that's looking into the water. In addition, DEP has undertaken a survey to identify the wastewater needs of the state.

It is scary to me to realize that we don't know what our needs are. Think about it. We're dependant on these facilities yet we don't know what our needs are. What do we do about it? Hold on to your hat. Maybe this is time to have a statewide

planning agency. They don't exist. At least consideration should be given to having all state agencies have the same regional service areas.

Improve technology. I had a comment to that. Including openness to new methods, national and

internationally there had been a great deal of research and innovations. The state even sponsors some research. The difficulty seems to be becoming informed about the new technologies and a willingness to implement such technology. There's a great hesitation to actually implement new technology. Thus, consideration should be given to identifying and communicating new technologies. There's worldwide research, national research, state research. The design community needs to better understand what's available.

Now, I know that some of this new technology may fail and has failed. Therefore, perhaps consideration should be made to the establishment of an insurance fund to partially protect systems which use new technology.

Moving along to conservation. Well, the value of water has not been fully realized in the east. In many communities it is well underpriced. There's no money for replacement and even for repairs.

Systems frequently are understaffed with unattractive salaries. Money gets people's attention. With proper pricing, the consumer will be empowered to make a choice and conservation will be enhanced.

Cost-effective management. Many of the problems associated with inefficient and underfunded water and wastewater systems stem from limited resources, especially associated small systems. Thus,

county-wide or watershed-wide authorities should be facilitated with priority for all financial assistance and employer-employee guidelines. These authorities may not have physical interconnection but can provide administrative procurement and financial enhancement to physically-distinct systems.

As I sign them, I've noted with concern, frustration, the fact that there are treatment systems that do not maintain collection systems. I understand there are reasons for that, but the end result is that no one maintains the collection system. It all comes down to the treatment facility. I'm talking about wastewater in particular. So consideration may be given to require treatment facilities to ensure that there is a maintenance program for their associated collection system, whether it's owned or not.

Cost-effective operations and

maintenance. We have great programs in the state. PA American Water Works has a great program in terms of their partnership thing. DEP has a great outreach program. PA World Water, these agencies all have great programs. I just suggest that these need to be facilitated, funded and coordinated

Efficient and effective regulations. Time is money. Processing a permit should not require six months or more. Time is money, and thus each long processing time escalates the project cost. Delays

have been reported at all levels. The River Basin Commissions, the conservation districts and DEP, these agencies need to be staffed at the appropriate level and the regulations need to be evaluated on cost-benefit basis. It should not cost the community library, $14,000 just for the design of a stormwater management plan to pave their stone parking lot. Nor should it cost a homeowner $60,000 for stormwater management facilities. Nor should it cost the residents of the township like half their annual household income to meet state sewage treatment requirements.

Some of these other issues, as a side note, relate to the procurement limitations the state has imposed. We're reluctant to utilize design build

in Pennsylvania. There's no clear-cut legal distinction stating whether we can or can't. One or two systems have used it and others are reluctant to do so, yet nationwide when one reads the professional and industrial literature and procurement, design build seems to offer substantial savings in many systems.

Also, we have something in Pennsylvania called the Separations Act. This makes responsibility for overall construction of a project unknown. Unknown. Who's responsible for the project when you have four different contractors building it? The answer is no one.

Let's talk about money. Money, we all know, is limited. And I'm glad to see the committee recognizes their options other than money. We need to find ways of using it effectively and efficiently. All financial aid, all financial aid should be in the form of a revolving loan. That's right, no breaks, guys. We need to find the means of funding improvements in the future for our kids. I think the National Government started this process with a revolving loan program. We need to continue it and not fall backwards.

All state funding should only be an

implementation of a component of a comprehensive land use plan and a system approved asset management plan. The Authorities Act should be amended so as to limit the use of residual funds after dissolution by the grading government to the use of the utility. Let me reword that. That is the borrower, or township, to have to use the authority funds collected for the purpose for which it was originally collected. The municipalities should not be able to sweep clean an authority, the authority's funds, and use it for other purposes.

If you're looking at other funding sources, other funding programs, I hold PENNVEST out as a model, not perfect, not perfect by any stretch of the imagination but improving. Improving in terms of

we're now approaching electronic processing for the application, for funds' disbursement and for loan closing. All of these issues in the past have been time consuming and problematic. But the PENNVEST program has made great strides. I recognize that the legislation establishing PENNVEST may have some limits. I suggest that PENNVEST could be contracted if the regulations can not be changed to provide administrative services for funding.

I guess in conclusion, I know it's

getting late, I thank you, Senator, for the opportunity of sharing. I thank the committee for their time and effort. And in conclusion, we don't have to recreate the wheel, just improve communications and coordination. And we need to keep God in mind as we go through this process. Thank you.

CHAIR:

Thank you, Michael, for your very informative testimony. Of course most of us here know Mike Gallagher over the years. He moved to PENNVEST since its inception. Mike, am I correct?

MR. GALLAGHER:

Yes, sir. Well, a couple months late, a couple months late.

CHAIR:

Thank you for your good work. Thomas Mertz, Mahoning Township Authority. Thomas.

MR. MERTZ:

Thank you, Senator, and the Committee. I recognize and I look at and hear some of these war stories.

CHAIR:

You have a couple of your own.

MR. MERTZ:

Yes. I will present to you --- I will

keep it brief. My name is Thomas Mertz. I've been involved since 1970 with Mahoning Township Authority Water and Sewer, Montour County. In 1971, I implemented efficiency. The mission statement says who pays, we should not pay. We implemented that mission statement almost to its fullest content. In 1971, I looked at it, see their debt. We have not borrowed since 1971. We further implemented tap-in fees. In the early 70s, all items were paid, there is no debt, and we had surplus funds.

We developed standard specs, regulations, developers' agreements, and they could not go on our system until they paid 100 percent. Otherwise it wouldn't have been advantageous for the authority to look at a reinvestment of tap-in fees for the growth of the community. We have GPS, we have GIs. We know where everything is, we do I&I spies. And under the Municipal Authorities Act, O&M plus ten percent is all you're allowed, O&M plus ten percent, and that's what we do. Our rates are $16.01 for sewer, $17.01 for

water.

Now, we're tied up with Danville Borough. They put a plant in, in 1951. In 1951 it was the primary treatment ---. With age we developed our own sewer collection and distribution system and retained

capacity at both plants. There are some roadblocks, and they were put in, in PSAT (phonetic) testimony. Anyone in your committee who has that first letter of the mission statement and also anybody on the committee, every one of us sat for the testimony for the PSAT. And some of those are in my notes here. And the most important asset is the infrastructure. We manage it in our distribution systems, collections, and reserve capacity.

I heard a statement of source of income. Everybody says we have a source of income, the ratepayer. The ratepayer in our area can hardly stand it and --- when they spot 30 to 35 million to do the upgrades to those plants ---. We did the needs' assessment, moving on 40 years. All our needs were in that capacity for those plants were water and sewer on developed areas, land development plans.

The word reasonable still gives me a little problem, what is reasonable to who? You know, it depends on who you're talking to. The other part of it is, one day I heard the statement on the Pennsylvania Cable Network or the PSAT, they said no engineer left behind. Well, there's no attorney left

behind, there's no investment banker left behind. And the biggest problem we have is prevailing wage, but it

cost one-third more to do all these projects and they're not left behind either in this process.

I'll cross over from the authority portion of this. The township has less than one mil tax. I have here, it's three point --- real estate taxes is .00384, and the fire is 002.04. That's our tax for real estate and fire. We are 59 percent tax-free, which includes the Geisinger Medical Center, that's the State Hospital, and many others. I don't know if I put that in there for you, the copy, but I'll give it to you. They are the sources. So when we have all of these, we still overcome, the township has revenue. We're in the process of updating our 537 and there are some areas we're having sewer replacement. We will not have to borrow the money to do it.

Now, based on Montour County's 20,000 people, Danville, Riverside, Mahoning Township is only --- say 12,000. Nothing compared to your war stories I've been hearing out there. But we find a lot of communities take their revenue and they use the revenue for the town, we do not. We have the CP fund for reinvestment.

I note an example where the excess interest out of the sewer fund was to offset their

taxes. Totally, under the Municipal Authorities Act, illegal. They do it, they do it all over. The next thing they do, they do not charge tap-in fees. Now, our tap-in fees, you'll see my standard specs of rates, rules, and agreements and all the other data that's given to the developer. You want to develop here, we have one thing, we have reserve capacity for water and sewer, we have infrastructure. We have it. We must manage those assets. It works. I've been doing it since 1971.

So there are other factors, what the state legislature gives away, tax exemption. I mean, it's a nightmare for us. The tax exemption, under the Charities Act, it is a nightmare for Mahoning. I'm sure you read it. Some of the stories and lawsuits and stuff under UCC. Here's a typical --- under the UCC. These are all indirect or direct effects on a municipality. UCC was enacted and developers or builders normally understate the value of the permits. It's commonsense, don't do it, but they get away with whatever they can. They don't like it, don't care. Independent --- been in business since 1961, retired. I devote full time to it as a volunteer.

One day a very large project came in and said, project, 16 million. People came through, the

UCC, Zoning. It backed in at 18. Now you can read in the paper that there's a lot of people over there

as the opening, now's it's 21 million. So it was really understated. And by the way, on this particular development --- I don't mean to pick on it, --- they did not have to ---. You have the language of the Uniform Construction Code. I picked up the telephone, I called Harrisburg. I don't remember, I think Bolson (phonetic), the head of it, Bolson? The head of the UCC? How did this miracle happen? So he started to tell me. If you had engaged architects prior to the enactment, it was --- it's in. So I said, how many of these wonderful programs are going to come out the chute? Well, he said they did know that there was a lot of school districts that was being built or in the process, had architectural designs and they would be exempt. I said, oh, that's wonderful, where the hell are all of these places? Fantasyland, I believe. And I was like this is ridiculous.

But if you look at the testimony from January in Pennsylvania Township News and people moving here from New Jersey and New York wherever, tell the Mahoning Township, the streets that used to be cow paths, now they're streets. But we put the

infrastructure in, we paid for it. We have a police department, water and sewer, we have the fire protection. And with that millage and 59 percent. And somebody put legislation, if you were 17

percent ---. We do collect payment --- taxes. The one very large pair reduced it but the shell game starts. What happens if you look --- well, I'll show you that. They were going to increase their tax exemption under the Purely (sic) Charities Act by $9 million from one year to the next. So in essence, when you total it all up, Mahoning --- and that's what, about 50 percent, the county gets 20, and the school district gets 20 percent. That's what they're receiving.

What I had done, I tried to retain the best engineers and the best attorney because I'm not an attorney and I'm not engineer, but I do know numbers. So that's what we had done. And when we developed these, then when they come in to want to put in a development ---. And we're developing, we're putting $700,000 and $800,000 homes ---. Lots are going for $150,000. The cost of one new home which got under way, to complete it for the infrastructure, it was almost $3 million. They're selling the lots. It's unbelievable. But it's management of dollars and

the mission statement. Most of that had been put into place.

There's still improvement. We're always changing and upgrading for the simple reason, if we had a good attorney, they had a good attorney. If we retain them ---. I'll mention the name, a lot of you will know him, George Aman. I've known George for

many years. And I'll pass on he was the Solicitor for the Pennsylvania Municipal Authorities Association. He helped write some of the legislation for the Act. So we retained him.

So that is a brief story. I have given you a copy of all those --- what we implemented, how we implemented them, and stats rates with the regulations, we give the cheat sheet, the responsibility of the developer. We do not subsidize development. We make them pay. They want water and sewer, yeah, go ahead, there's water and sewer available, then pay. Very small scale compared to everybody else but it's just a matter of a couple more zeros or more what they'll pay.

CHAIR:

Tom, what you have submitted will certainly be included in the record; okay?

MR. MERTZ:

Thank you very much.

CHAIR:

Thank you. Jim Razine (phonetic) is not present this afternoon, is he? Jim?

All right. We call upon Yvette Austin Smith. CRA International. Welcome.

MS. AUSTIN SMITH:

Thank you. Good afternoon. I am Yvette Austin Smith with CRA. I know it's getting late this

afternoon, so I'll try to keep my remarks fairly brief. I'll describe CRA just a moment for those of you that aren't familiar. But first I just wanted to say thank you for the opportunity to present, both to Senator and to the other members of the task force. And also just briefly to commend the Governor and the Commonwealth for really taking such a proactive stand on the challenges of water and wastewater infrastructure. Someone had remarked earlier, they weren't sure if other states were being as proactive, and I would say that simply based on our experience this is a commendable level of effort and achievement in looking at this issue.

So just very quickly, CRA, also Charles River Associates, in a 40-year-old business and economics consulting firm. We have approximately 750

professionals in 26 offices around the world. We specialize in advising companies, investors and public-sector entities in industries that tend to be characterized by heavy regulation that are asset intensive and that tend to have some significant exposure to underlying commodities markets.

Of particular relevance for this meeting and for this effort, CRA has advised on sales, privatizations, modernizations and restructuring of water and wastewater assets and utilities in the U.S. the Middle East, Asia and in Europe. As I mentioned in the start of my statement, sir, I'm the managing

director with CRA International. I'm with their New York office and I head the Corporate Finance Advisory practice.

As CRA understands it, there are five key areas on which the task force is focused in order to provide its findings to the Governor. We heard earlier from the DEP that these areas are needs' assessment, innovative measures, financial resources, financial sustainability and legal and regulatory issues. For the remainder of my remarks, I hope to provide the task force with a few productive suggestions and ideas based on CRA's experience in water and wastewater, and ideas that hopefully are

productive and helpful in meeting the mandated task force.

The theme of my remarks will really be focused on one key topic, which is increasing private-sector investment in water and wastewater assets in the U.S. There are varying manifestations of private-sector involvement in water and wastewater assets around the globe. If you were to display a few examples along a continuum, in the middle of that continuum you might find Europe, particularly Western Europe, in which a significant portion of the water and wastewater assets are owned by private-sector entities. These assets contend to have been built and managed for some period of time by a public-sector

entity before being purchased by a private-sector agency, but now are solely in the hands of the folks like Macquarie Bank, in the instance it Thames Water, and most recently Southern Water was just purchased by a consortium of investors, infrastructure investors, that was headed by JPMorganChase.

If you go to another end of the continuum, you might find arrangements that are more common in developing or emerging economy in which the public sector may lack some combination of the financial resources, the technical resources, or in

some cases just the political incentives to create a modern water or wastewater system. In these instances you have the private sector really stepping in and building and operating the systems of the utility. In many cases, the government is the sole customer and didn't take responsibility for distributing out water, distributing those services throughout the population. And then after some period of time, usually a period of time that coincides with the investment horizon for the private sector at a time sufficient to earn a return, the facilities may be turned back over to the public sector.

At the other end of the continuum, and certainly what is much more common here in the United States, are long and medium-term operations and maintenance, O&M contracts. I'm sure many of you in this room are familiar with those contracts. And that

tends to be what people are referring to when they talk about public/private partnerships in the United States when it pertains to water and wastewater. There are some different correlations of PPP's when we move into transportation and other sectors. But in war, people tend to be talking about O&M contracts. You know, assuming that the two largest players in this state and in the U.S., and then particularly in

this part of the country being Veolia and CH2MHill or you have investor-owned utilities like York Water, all of whom are managing and operating a municipally-owned system. That is particularly relevant for this conversation.

And although many of those arrangements would include a capital asset management program, the assets themselves continue to be owned by a municipality. And there has been a reluctance in the U.S. to move towards more direct ownership of the water and wastewater assets by the private sector. And while I would say up front it certainly is not a solution that is appropriate for every circumstance in every situation, I will say that at CRA at least what we feel is that the initial reluctance to explore that, at least in some instances, takes off the table what could be a viable alternative for some municipalities, including some in private/public sector and the Commonwealth.

So first just to talk a little bit about what some of the potential benefits of a more continual public/private partnership, and let's call it private ownership of the assets, what some of those benefits might be. So there are four main benefits. The first is that such a transaction, whether

structured as an asset sale or as concession agreement that leads to an eventual asset sale, would involve mutually a significant upfront payment to the municipality or to the public sector. And then they all have a structure that maybe a large upfront payment followed by a schedule of future payments.

A second specific benefit is that these arrangements transfer risk from the public sector to the private sector. And the reason why that tends to be sort of commercially viable is because often the private sector had a greater amount of flexibility for properly absorbing that risk. Whether it's through risk-sharing arrangements with other private partners in an investment consortium or the use of financial --- transactions of financial structures that are just left available to the public sector in part because you may need some scale of transactions and scale of size in order to really take advantage of that.

Third, many of these arrangements in which waste --- well, water and wastewater assets are actually sold to the private sector, they included an arrangement upfront whereby the rates are specified.

The rate or the increase in rates are specified, at least over an initial investment horizon. And so the third benefit is that these arrangements can actually

provide some greater level of certainty and transparency for system rates a little bit at the current time and go on for some period of time.

Finally, the private sector. You accessing the private sector and bringing the private sector involved in this instance is no different than that O&M contract, is that the public sector is often able to access technological expertise that would be difficult, particularly for a medium or small-sized system, to obtain and be obtained efficiently on their own. And so the benefits of private-sector ownership, asset ownership, can be substantial. But it is important for the public sector to really understand when and under what circumstances, you know, such benefits are likely to be realized. When does it make sense to think about a more traditional public/private partnership --- or private ownership of the assets, pardon me.

So, you know, fundamentally, a public/private-sector involvement is a viable option if the private sector partner can assist a public sector in meeting a need that the public sector either cannot or simply cannot efficiently meet. And examples of inefficiency would either mean obviously

just actual costs in excess of the project benefit or

opportunity costs in excess of the project benefit. Which is to say that the public sector might be in a position or perhaps should be in a position to direct those funds elsewhere for the benefit of the relevant society as a whole.

It's important for the public sector to be able to accurately identify the population's both current and anticipated water needs in order to begin to assess a private sector proposal. Now, let me pause me for a minute because when we talk about needs here, infrastructure needs, it's a little bit different than some of the concepts I believe that have been talked about today. At CRA really our approach is to understand, in a sophisticated way, the demand for water. And by water I mean both water and wastewater services and not the infrastructure needs to those anticipated demands. So that an assessment of need does not necessarily begin by categorizing and listing out the infrastructure assets and focusing on sort of a place for those assets that are in need of replacement but rather looking at the demands for water over time and matching the infrastructure needs to be consistent with that demand.

And so just to talk a little bit about how we look at demand for water services. The demand

for water and wastewater services should be stratified

by use. And simplified categories of use just for the sake of discussion would be residential, commercial, industrial. In an actual demand study it would be necessary to create more specific categories of use. And the use categories are important because it allows you to begin to identify parameters such as volume, water quality and volatility of demand, that is peak and non-peak demand, amongst different segments of population.

Further, the stratified demand functions for water and wastewater services should be understood under various but likely demographic, economic and climate scenarios. And so, depending on the locale, depending on the geography, some of those factors might be more important than others. So for example in the Commonwealth, it may be important to better understand the demand for water and wastewater services due to the state's population shift from urban centers to outlying residential community. So what does that mean in terms of not only what are the chronic demands or what have been the demands in industry, but really looking forward because the line would be backed up to the wall, what is the anticipated demand likely to be and matching the

infrastructure needs, and really identifying the infrastructure needs on the basis of that demand.

You know, to some of you I'm sure this

may sound a little like commonsense, it may sound quite obvious, but I will tell you that, you know, CRA often found that such demand data, particularly the forward-looking data is just simply not available. The reasons may not be surprising. It can be a resource-intensive issue, particularly when individual small municipalities take it on themselves. And it's simply exacerbated by the fact of the heavily-fragmented nature of water and wastewater services in the U.S. and in the Commonwealth as well.

Jumping ahead a bit, you know, let's assume that a municipality or a region has determined that its resources are inadequate to meet the system demand. They understand what the demands are, they understand what the infrastructure needs are to meet those needs and there just simply aren't sufficient resources to meet those. And certainly, that's one of the reasons why we're having this discussion today and why this task force has obviously been formed.

I'm also going to skip another point which is important certainly in the state of actual analysis but just for the sake of time today. Let's

also assume that the municipality has exhausted opportunities and these sort of innovative opportunities for increasing revenue or reducing costs. Clearly a very important step and clearly any step that we would counsel a public-sector entity to fully explore, probably even before seriously seeking

out a private-sector partner. Because in some instances, you know, the economic benefit that the private sector is going to realize by an act of ownership strategy is, in fact, implementing some of these innovative measures that at least some municipalities, some public-sector entity have a capability to implement in full or in part themselves.

But if we assume for a moment that we have gone through both the traditional and also non-traditional sources of resources and funds and I've found those to be inadequate, then the question might arise, you know what types of projects would be good projects, or could be good projects for a private-sector investment? So just a few key considerations. It's certainly impossible to catalog an entire list. And there is no one size fits all solution. So it is important to think through these issues carefully and for each location of the municipality.

But there are a couple of overriding

things. So one is that the project must be of sufficient size to drive economies of scale. And so in practice it's extended to an even large urban system for consolidation of smaller systems. You know, the latter may be particularly interesting to the Commonwealth given that, you know, that greater regionalization has been identified as a possible solution and has certainly been discussed today.

Another possibility to provide a larger scale investment opportunity for the private sector would be to consider private-sector investment in PENNVEST or something --- or a similar kind of program. Now, I'm obviously --- I'm not addressing the regulatory and legislative framework of those programs, but I'm really talking about the idea, the concept. You know, for suitable opportunity, a private-sector participant may be able to provide incremental debt or equity financing that could be combined with admittedly lower cost but limit debt financing of the existing PENNVEST program. This will allow the private-sector participant to allocate risks across multiple water or wastewater projects, thereby mitigating the overall risk that the investor faces. The end result being that the financing costs would be lower.

One of the consumers of the private sector in investing into the sphere is an ability to mitigate risk. And you mitigate risk either by investing in a number of projects and buying a portfolio investment, some of which are winners in the portfolio from a financial perspective, some of which are losers in the portfolio from a financial perspective, but certainly across the board it provides an acceptable level of risk and acceptable level of return. And there may be a way to structure the PENNVEST-type program in which you could encourage

private-sector involvement not to crowd out the existing program by any means, but to offer that program more --- additional funds ---.

A second key point that arises in terms of thinking about projects in which private-sector involvement could be profitable and could be successful is that the public-sector sponsor, whether that be a municipality or region, needs to be able to demonstrate the political commitment to successfully pursuing private-sector investment. The support can be in various forms, some forms of which already exist in a Commonwealth, enabling legislation, policy statement, the establishment of certain tax incentives, including active tax-advantage debt

financing or a transparent-regulatory regime.

Let me farther also say that in some cases --- and I don't think this is in all cases. In some cases there may be a need to reconsider the regulatory regime to make sure that it's providing like incentives.

There are certainly instances that we have seen in this country where the result of the regulatory regime, even if it was not the intent, is that there's sometimes not enough incentive to operate the system efficiently. And so certainly that's something that may need to be looked at in the case of the increasing and encroaching private-sector

investment. You know, as many of you know, infrastructure transactions, particularly involving private sector party participants, can increase substantial political backlash. Similar protest has derailed a previous effort to increase private-sector investment in water and wastewater assets. And I contrast that with the fact that it's extremely expensive, both in dollar cost and in time, for the private sector to conduct the necessary pre-transaction marketing and due diligence to decide whether to invest in opportunities. And so as a result, the private sector has demonstrated that it's

really only willing to make such an investment when there's assurance that the project at least is politically supported.

You know, given the Governor's support of public/private partnerships, most notably in the transportation industry, Pennsylvania Turnpike, you know, the Commonwealth should be well-positioned to really attract high quality private investors. I mean, I just, you know, point to the example of Illinois. And once they made a commitment to the public/private partnership ---. Although certainly not everyone agrees with all of the sectors in all of the areas in which the state has ruled out public/private partnerships, one thing the state has to be able to do is to really attract bid teams that have the financial wherewithal and the technical

expertise to really form a robust process.

The last sort of --- well, the third sort of key point that I will point out is just the assurance of identifying projects for which private-sector investment is likely to be more successful is that the project should consist of discrete and identifiable cash flows without the existence of cross-project subsidies. You know, the cash flows may be linked to a specific asset or a set of assets,

specific geographic boundary or a specific scope of operation. And the needs' assessment that I was speaking about earlier, the demands or the needs' assessment, can really help a public sector appropriately identify a scope in which the private sector would find attractive for investment and in which the public sector would benefit from that private sector.

Just one final observation I want to make, just based on what we saw and what we've seen, what is still an emerging area, that being private-sector investment and asset ownership in water and wastewater. You know, the U.S. has seen a different private-sector appetite for water versus wastewater. Wastewater has generated greater interest. We think it's because of four key reasons. One, the ownership of wastewater systems in many areas is actually less fragmented than that of a water system. The

regulatory framework is more straightforward. It's a bit easier for I mean --- quite frankly, it's a bit easier for the private sector to understand. Three, there has traditionally been less political sensitivity to private-sector investment in wastewater versus water. People are much less concerned with the water leaving their home then they are with the water

coming into their home. And lastly, you know, wastewater and its byproducts are increasingly being recycled to create assets of --- new assets of economic value. And so there's certainly an attraction there from the private sector taking a, what was considered frankly to be a non-asset in many faces and literally turning it into an asset that actually generates revenue.

I mean, those are really my comments and my remarks. I just wanted to encourage the task force to think about increasing the private-sector involvement in the state. And think about when and how that can be a solution in meeting some of the challenges of the Commonwealth. Thank you again for the opportunity.

CHAIR:

Well, thank you very much, Yvette. Eugene Barrett, Executive Director, Scranton Sewer Authority. Gene, you're up.

MR. BARRETT:

Senator Musto and members of the

committee, my name is Eugene Barrett. I'm the Executive Director of the Scranton Sewer Authority, which also includes the Borough of Dunmore. I'm pleased to be here today on behalf of the City of

Scranton, the Sewer Authority and, again, the Borough of Dunmore, and the Board of Director for the Scranton Sewer Authority and Honorable Mayor Christopher Doherty.

I've given you a document, I think it's roughly 11 or 12-pages long with exhibits on. I have a highlighted version here. And considering the time, I think I'll just --- certainly, I'm just going to give you some highlights of the Scranton system. You have a history there of how the Scranton system started, where we've gotten over the last, you know, 40 or so years, and where we are now. And the current dilemma that we're facing regarding the Combined Sewer Overflow Policy and the biological nutrient reduction caps that have just been recently --- we received in our permit that was issued by DEP in March of 2008.

The Scranton Sewer Authority owns the wastewater and collection conveyance and treatment system. It serves the City of Scranton, the Borough of Dunmore. The adjacent portion of Lackawanna Valley Sanitary Authority and the Lackawanna River Basin Sewer Authority are also served by the Scranton Sewer Authority. These areas include parts of the Borough

of Taylor within the Lackawanna River Basin service area, the SSA services the Siniawa sewer system along

U.S. Route 6 in the Borough of Dickson City and the Montage Sewer District in the Borough of Moosic. We serve a residential population of approximately 87,000, about 30,000 accounts of residential, plus approximately 1,800 commercial accounts.

Effectively, there's three other small entities that we serve, they're mentioned, I just mentioned Dickson City, Taylor and the Montage Sewer District. Geographically, when these areas were developing, it was much easier for them to connect into our system than, you know, what they had to do in order to let's say connect to the Lower Lackawanna or Lackawanna sewer system.

We have approximately 275 miles of collection system. There are seven pumping stations and approximately 62 percent is our combined sewers. We have 80 combined sewer overflow points on the system. Similar to what we just mentioned here recently, Wyoming, Wyoming Valley, we just rebuilt the seven pumping stations within the last couple of years at a cost of about $2 million. So listening to the problem of Wyoming Valley, that $15 million or so in today's dollars is about what it would cost to rebuild the pumping stations.

Our current operating budget is

approximately $16 million. Of this amount, 84 percent is for operation, maintenance and administration, 16 percent related to debt service on our loans and bond issues.

The first bond indenture was in 1968 and the term of that was up April 1st of 2008, 40 years. And in 40 years, up until September of 2007, there was not another bond issue, we relied solely on the funds of the ratepayers. There were very few rate increases over the years, although recently we found ourselves --- I'll get into that in a few minutes --- rate increases in the last couple years and more to come.

But in September of 2007 we closed on a bond issue of approximately $17 million. And that money is used for current capital programs that are underway. And also it's going to pay for most of our --- first several years of the nutrient reduction program. I can't say --- Michael Gallagher is here, we have been able to take advantage the last five or so years of substantial assistance from PENNVEST. Currently, a capital project is underway right now. We applied for $9 million and received I think half, Michael, right, of our request.

We did find that when we went in to PENNVEST approximately five or six years ago, we got

just everything we asked for, but it just seems to last us several years. It seems like a lot of, you

know, entities, municipalities, authorities, whatever have discovered PENNVEST and now it's become much more difficult. But regarding that, we'll get into what we're here for today. Obviously, we recognize the purpose of the task force, identifying the capital needs facing water and sewer facilities in the Commonwealth, and innovative or sustainable needs of accomplishing the projects, securing the financing and/or managing resources.

Today I will address some of the current and historic financial technical and management mechanisms we have used in Scranton. I will provide you with a summary of our capital improvement history and future needs, we'll touch on some of the key points. We have our capital program. We've never not had the capital program going on at all times. We've been able to afford the capital program. Our system, just like everybody else's, our plant and collection system, a good part of it is 40 years old, but prior to the early 70s, the rest of it is approximately 100 years old. The plant itself, being 40 years old, is tired and it's worn out.

We're spending approximately $2 million

on a collection system every year. And were it not for the Combined Sewer Overflow Policy that was mandated to address --- and also the BNR issue with the state and Chesapeake Bay initiative, we would probably be okay with the way we've been going for the

last 40 years or so. But regardless of that, those particular issues with Scranton, we were able to avail ourselves of some funds from the Army Corps of Engineers. Approximately two years or so ago we completed a study, $150,000, $160,000, that outlined what the Scranton Sewer Authority had to do as far as the BNR program is concerned. Our cost, approximately, $30 million at this point, depending on the technologies that we use.

We also have availed ourselves of money from --- well, Lackawanna County is managed by a group called Lackawanna Watershed 2000, they were the conduit for funds from the EPA. We participated in a car-sharing arrangement with Watershed 2000 in Lackawanna County. Forty-five (45) percent of the funds we provided. That was our local share and 55 percent came from EPA funds in developing a long term control plan in response to the combined sewer overflow requirement. That plan cost approximately $3.5 million, of which we paid for approximately 45

percent.

The plan requires us to separate 15 combined sewer overflow points of the approximately 80 that are out there currently. Also, a high-rate clarification facility at the plant, overall cost in today's dollars for that is about $120 million. So combined between the BNR reduction and the combined

sewer overflow, which are like many others are hitting us simultaneously, for the two of them, close to $160 million over the next 20 years.

The document I provided you with today, there are two exhibits there. You'll see our project schedule and also budget schedule. The numbers are there. We have the benefit of very recent topical information from an engineering standpoint. Everything that we have is basically less than one to two years old, at the very most.

One issue that was mentioned earlier, it came from the fellow from Hazleton, and why they're having a problem with their ability to get other funding. We completed, if I can find it here, the reference. But we just completed recently a financial capability assessment, financial capability assessment. It's part of the guidance documents and requirements under the development of a long term

control plan and the Combined Sewer Overflow Policy allocated by the EPA. And basically it's social and economic indicators that tell us the status of your community and the affordability of your community to pay for the mandated requirements. Where it really comes into play is the term that you arrive at when you negotiate a term with the EPA as far as how long they will allow you to take to complete your projects.

But anyway, in our case, I'm going to read this. I'll read it to you. The recognized major

economic burden to our residential customers is the percentage of community and household income that is used to pay sewer service charges. Currently, our customers are paying on an average of over one percent of their income on sewer service, which is considered by EPA to be in the mid range of affordability. However, with the projected capital needs, our ratepayers would be facing over two percent of their income devoted to the sewer service. According to EPA, this will place our ratepayers in a high-burden category. So what that means is, while we will attempt to negotiate with EPA on the term of the implementation our long term control plan, we're hoping for at least a 18 to 20-year plan.

Where we have developed an issue right

now at this point with EPA, when we --- early on when we were involved with EPA and Lackawanna Watershed 2000 and the task force that was working on Scranton's project and the Lackawanna River Basin Sewer Authority Project, we chose, under the guidance documents, what's called a 85 percent capture. So with that 85 percent capture means on a wet-weather day, and if there's day-to-day use ---. I think in our case there was some rain event that occurred let's say in 1982 or whatever. It's kind of like an encompassment of statistical data that they start at. But anyway, we chose the 85 percent capture rate and that's how the

plan was developed.

The plan was published with 85 percent capture. Substantial improvements at the treatment plant itself, as I mentioned earlier, the high-rate clarification facility, and also elimination of 15 combined sewer overflow points. But even with that, the plans still included a substantial amount of events on an annual basis. In other words, discharges on an annual basis, more than what's accepted by EPA. So we're in the middle of I would have to say a very strong negotiation at this point. And it is, you know, it's probably now to this point that Scranton we're not just with the EPA, we're also with the

Department of Justice and the Enforcements Act.

So we have kind of somewhat of a tough road ahead of us, and we're working on that. But it is going to cost substantially the ratepayers of Scranton and Dunmore. And we just --- we raised our rates a few years ago and we just raised our rates in 2007 another 50, 60 percent. And, again, we're looking at additional rate increases going forward.

As I said a few minutes ago, we have tried to avail ourselves as much as we could of PENNVEST funds. I would recommend to the task force that --- and I see in the legislation and I think the task force is head in this direction, let PENNVEST be that entity or body that's substantially involved. And if their --- even their interest can be broadened

somehow, I think that would be a wise thing to do.

That is our story. I would have to say that, you know, we're not too much different. We're one of the 62 or 63 point-source dischargers that are under the BNR reduction effort, as far the Chesapeake Bay Strategy is concerned. We haven't received our permit. We did put in an appeal in our permit at the same time, just in language within the permit, that we wanted it to be clarified, we wanted to protect our interest, so we do file the appeal.

Scranton Sewer Authority is committed and will not shirk responsibilities on either the Combined Sewer Overflow Policy that we're required --- nor the nutrient reductions.

We basically know at this point effectively the direction we're going in. We have a 20-year plan laid out. We know our budget and we have a pretty good idea from an engineering standpoint what we need to do. Those costs, we have an idea, a pretty good idea of how we're going to raise the rates. But at the same time if there's any way that the state --- and I know the federal government is mentioned here before, but we're here before the state ---. But we certainly need all of the help that we can get out of this community and our community and all the others, in the form of grants, loans, however you see fit. But we need your help and we need it desperately.

Thank you.

CHAIR:

Thank you very much, Eugene. Walter Nicholson. Director of Operation for the Williamsport Sanitary Authority.

MR. NICHOLSON:

Senator Musto, committee, thank you. My name is Walter Nicholson. I'm the Director of

Operations for Williamsport Sanitary Authority and Williamsport Municipal Water Authority. I'm thankful to be given this opportunity to present testimony on behalf of our authorities. In addition to testimony today, we'll submit a more complete testimony, including both water and wastewater infrastructure issues. The most important current issue that echoes Wyoming Valley, Scranton Sanitary Authority, is the impact of the Chesapeake Bay Cleanup Program on our sanitary authority customers. Unless the Commonwealth of Pennsylvania steps forward to help fund the program and address questions which concern the regulating communities, there may be drastic unfortunate economic consequences for our local communities and the economy of the Central Pennsylvania region.

Our authority recognizes the importance of a clean environment to our community and region and for over 50 years we've been instrumental in maintaining the high water quality of the West Branch of the Susquehanna River. Our treatment plants serve

over 51,000 people and hundreds of businesses and industries in Williamsport and six surrounding municipalities. We treat an average of about 12,000,000 gallons of wastewater each day. And that represents about 80 percent of the point-source

discharges from Lycoming County. The current value of our treatment plants is over $60 million, including a recent $15 million renovation at our West wastewater treatment plant that was completed in 2002.

Our authority, the City of Williamsport, and the tributary communities, which include seven other municipalities, have been working together since 2001 to determine how to cost-effectively address the two major environmental regulatory programs from the Pennsylvania Department of Environmental Protection and the U.S. Environmental Protection Agency, namely the Chesapeake Bay Cleanup Program and the wet weather sewer overflow reduction initiatives.

As a result of the planning process which is now nearing completion --- and again these are fairly current numbers, it has been determined the capital cost necessary to meet DEPs, MPDES permit cap loads for total nitrogen and total phosphorous required by the Bay Program for their treatment plants within the next five years, will be about $70 million. In addition, the plants will require an additional $22,500,000 in improvements to handle additional flows

to reduce the wet-weather overflows and to do other planned upgrades that our plants need at this time.

Our primary plants were built in 1955,

secondary in about 1974. Our authority will also need to spend about $7.6 million on combined sewer overflow control facilities in the next four years within the City of Williamsport, plus ongoing costs of about a quarter of a million dollars per year in sewer system improvements into the future. And the tributary communities are estimating over $41 million in sewer system and customer lateral improvements to abate their sanitary sewer overflows, the SSOs. Total price tag for all these sewer and treatment system upgrades for our authority and its partnering municipalities over the next five years to ten years will be over $140 million.

These upgrades will result in rate increases which would triple the rates our customers currently pay for sewer service. That would put us very close to the two percent benchmark that Mr. Barrett was talking about, which would be in the high-impact area. There are also currently no significant sources of funding assistance from the Commonwealth or the federal government to help defray regulatory burden. Unlike Virginia and Maryland, Pennsylvania has not established significant statewide funding programs to help its municipal treatment systems to deal with the high cost of these cleanup goals.

Also, the removal of the Act 339 operating cost subsidy by the Commonwealth has further reduced our ability to absorb operating costs which will increase significantly due to the nutrient removal requirement. Our authority has lost over a quarter of a million dollars in annual subsidies since that program was discontinued.

While the authority and the municipalities recognize our commitment to help provide a clean environment and protection of our local streams, the economic impact that these unfunded mandates are placing on the community would be enormous.

The extensive level of nitrogen reduction treatment required by the DEP strategy is reflected in our NPDES discharge permit cap loads, results in the need to employ much more extensive levels of technology to treat nitrogen than is economically efficient. The high level of treatment is more than double the estimated capital cost of the project or its cost-effective point, i.e., a curve point, and results in much less benefit, meaning low marginal return for the dollars spent. If the DEP has determined that nitrogen reduction is far beyond the most cost-effective point required, then the

Commonwealth and not our ratepayers should fund the

cost of that additional level of treatment.

Our authority is working with Lycoming County and considering the option of purchasing trading credits for a portion of the required total nitrogen reductions, but the use of trading credits as a significant part of our compliance strategy is not currently viable because --- on a large scale, because of the large number of credits required, rigid schedule required by our NPDES permits and major issues of uncertainty surrounding the trading credit program and the ramifications of possible future in-stream or TNDL nutrient standards.

We're willing to do our fair share of the nutrient reduction improvements, which are reasonable and cost-effective, however we do not believe that it's fair and reasonable to the ratepayers in our community to pay the full cost of the levels of treatment technology beyond the most cost-effective point. And it's not appropriate for our ratepayers, as customers of large sewer systems, to assume the cost and responsibility for farmers or manure haulers to practice environmentally-responsible practices. The state and federal governments need to step forward to help finance the higher levels of required

wastewater treatment technologies and additional non-point improvements and farming practices that are necessary to meet the goal of improving the Chesapeake Bay. Because the benefits of the program will occur

beyond our local area and our city, the burden of the funding should be shared both on a statewide and national level.

In fairness to our ratepayers and with concern for the drastic impact of these estimated costs on our local economy, we'll continue to seek the cooperation and commitment of all local, state and federal elected officials and organizations concerned with the local and Central Pennsylvania economy to work for effective legislative and supplemental funding to reduce the burden on our ratepayers.

While we welcome the effort to look at the long range infrastructure needs, and we encourage the Governor and the legislature to make sure that funding mechanisms to meet current needs are addressed and implemented soon, we support legislative initiatives, such as The Fair Share for Clean Water Funding Plan proposed by the PMAA, Pennsylvania Farm Bureau, Pennsylvania Builders' Association, Pennsylvania Association of Conservation Districts and the Chesapeake Bay Foundation. More specifically, we

support the adoption of legislation, such as your bill, Senator Musto, and Representative Perry's House Bill 2441, which would furnish 50 percent matching grant funding for the Chesapeake Bay-related wastewater treatment facility improvements, as well as helping to fund farm programs to reduce the non-point

nutrient discharges, make improvements in the nutrient credit trading program to make it more predictable, reliable and cost-effective, and to address the concerns relative to municipal bidding law requirements.

So with that, thank you for your time. And thank you, Senator Musto.

CHAIR:

Thank you, Walter, for your testimony. And now we hear from Matt Ehrhart. He's the Executive Director for the Pennsylvania office, Chesapeake Bay Foundation. Welcome.

MR. EHRHART:

Thank you. In the interest of time, I'll be brief. I do want to thank Senator Musto for his stalwart support of infrastructure issues. Although we really can't talk about this issue honestly without being in a million dollar category, and that scares away the legislature and the Governor, I also want to

thank the task force for tackling an issue that has really gone unaddressed for far too long. It tends to be invisible and people would rather not deal with it given the cost. I'd also like to thank Dana for his involvement over years and years of these discussions of various issues.

Some of these issues I'd like to call your attention to, and as had been mentioned here repeatedly, are not things we can put off any longer

and as a reality, the cost will be borne now. The only question we face right now for the cost related to the Chesapeake Bay issue is, how are we going to distribute those costs among ratepayers, local government, and the state? I wish I could throw the federal government in there but I think that would be totally optimistic at this point. And based on the Clean Water Act Compliance issues with the Chesapeake Bay impairment, as has been noted, about 63 wastewater treatment plants have already received permit limits. About 121 will come up over the next several years, and they need to exist right now to start the planning, designing and construction process, with the total price tag of over a billion dollars.

The last time we had this sort of proposed construction of treatment facilities across

the state was in the early days of the Water Act construction and most of those costs were borne with the 75 percent federal cost share.

The interesting corollary to that, and perhaps it would be the expensive corollary is, we're starting to see TNBL ---. Outside of the Bay Watershed, I think there are six facilities right now looking at nutrient based limits based on local water quality impairments. Pretty much in the Southeast, in Pittsburgh, Harrisburg, I forget where the final one is, but those treatment limits are even lower than

what's being requested in the Chesapeake Bay permits. And it should be noted that such as the level of treatment required by maintenance of the cap load for nitrogen and phosphorous. I think any time we're looking at Clean Water Act driven limits based on nutrients, we can't avoid the linkage to the non-point source sector. Whether that's agriculture or suburban and urban runoff, Chesapeake Bay Watershed funds are being asked to implement many new BMGs with green infrastructure, if you will. And the reality is that if we don't achieve these ag reductions, we're going to create more problems for ourselves in terms of future growth and economic development. We have to move the whole picture forward together, not just our

treatment plants, not just agriculture, not just stormwater but all of these infrastructure issues together.

We really have to prioritize. I was going to say allocate, but it's really a matter of prioritization.

We have a $28 billion state budget. This is a need that's not going to go away and it's only going to get more expensive as fuel cost and energy cost, construction material costs increase. We can't put it off another year. Many of these communities, as you've heard, are already increasing their rate. They need the assistance now.

The Pennsylvania Builders' Association,

the Municipal Authorities Association, the Farm Bureau, Pennsylvania Association of Conservation Districts, have joined together an alliance of sort of unlikely bedfellows and are having a very rapidly expanding coalition. And I think still a number of groups are now up to about two dozen of proposed Pennsylvania Fair Share for Clean Water Plan, sending forth $890 million spending every seven years and 50/50 cost-share grants and programs to both wastewater treatment plants and agricultural infrastructure issues.

I'd like to note that Representative Perry, as we mentioned before, has introduced House Bill 2441, which addresses many of these issues. Senator Musto's bill is out there on the CSO issue. Recently Senate Bill 02 has been introduced, which is another infrastructure bill based on, I think, a $750 million bond issue paid for with gambling revenues.

I guess to summarize, given the overall infrastructure needs we face here, we just can't afford to set precedent of starting a fund of a hundred percent on local citizens and local municipalities. The state has always tried to address some of these issues equitable, whether it's roads, mass transit, wastewater. There's a role for both the state government and the local government and the local citizens in these issues. I think that needs to

continue. And in order to address the issues that are being driven by the permit limits right now, we need to start money flowing in this budget year and look at that as a downpayment in the market infrastructure issue.

I'll wrap up. I know everybody's been here a long time.

CHAIR:

Well, thank you very much, Matt. That

concludes testimony for today. And if there's anyone present who would like to submit additional testimony or any testimony, feel free to do so. The record will continue to be open and you can forward the testimony or request to myself or to Greg at the Joint Air and Water Conservation and Pollution Committee. Yes?

MR. EHRHART:

Senator, what's the time length on the task force for wrapping everything up, the theories and ---?

CHAIR:

October. We need to have a report to Governor Rendell on October 1st or before October 1st. And that is quite a timetable. We certainly have to move along very well. And, you know, we did receive some great testimony today, very informative. Recommendations were very good and the task force will be looking at them. What we must keep in mind, we heard testimony today from sanitary authorities that

are really working very hard to correct infrastructure problems and especially CSOs and testimony we heard today hundreds of millions of dollars are to be spent and yet, the total problem for CSOs is not solved with the amount of money so far that is being permitted. So we do have an awful lot of work to do in that area,

no question about it? Craig, you wanted ---?

MR. BROOKS:

Well, no, I just want to remind everybody, the deadline for submitting testimony is actually June 1st; correct? June 1.

CHAIR:

And if you have it after June 1st?

MR. BROOKS:

We'll take it.

CHAIR:

Well, thank you very much. The hearing is now concluded. And we have the opportunity for additional hearings in other areas between now and probably July or August. I did not introduce a very outstanding gentleman, the former Secretary of Environmental Protection. Dave Guss is with us today and through our whole hearing and testimony. Well, thank you very much.

* * * * * * * *

HEARING CONCLUDED AT 4:15 P.M.

* * * * * * * *