



# PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

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Testimony by:

PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

Informational Hearing

House and Senate Local Government Committees

Presented by:

Sandra Bartosiewicz, PMAA President

Finance and Budget Officer, Wyoming Valley Sanitary Authority

Michael A. Schober, PMAA 2<sup>nd</sup> Vice President

Board Member, Columbia Municipal Authority

March 12, 2009

Harrisburg, Pennsylvania

Testimony by:

Sandra Bartosiewicz, PMAA President

Finance and Budget Officer, Wyoming Valley Sanitary Authority (Luzerne County)

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Good morning House and Senate members of the Local Government Committees. I am Sandra Bartosiewicz, the current President of the Pennsylvania Municipal Authorities Association. PMAA represents 700 municipal authorities throughout the Commonwealth, providing water, sewer and solid waste services to over six million Pennsylvanians.

I am also the Finance and Budget Officer of the Wyoming Valley Sanitary Authority. For the past 26 years, I have helped to manage our sewer authority, which currently serves over 200,000 residents in 37 municipalities. Our authority is impacted by both the Chesapeake Bay nutrient reduction requirements and treatment requirements for Marcellus Shale wastewater. We have been approached to treat gas drilling operation wastewater and then turn around and sell the treated wastewater back to the drilling operation for the high pressure fracturing process. Neither of these two issues was on our radar screen five years ago. One is very costly, the other might be financially beneficial, but each requires significant engineering and design study, possible upgrades, and review and permitting by DEP.

My educational background is a bachelor's degree in Business Administration from King's College and a Master's in Human Resource Management from the University of Scranton. Little did I know how important that background would be in the financial management of an \$18 million a year operation.

I think it may surprise you a little by suggesting that we are not here today with hands out solely to request state funding to undertake infrastructure projects or programs considered imperative to municipal authorities. That is not to say that we do not see critical issues for compliance that will require your continued fiscal attention in the future.

For example, the most recent needs survey by the United States Environmental Protection Agency projects that nearly \$20 billion will be needed over the next 10-20 years just to replace and upgrade aged or failing water and sewer infrastructure in the Commonwealth. The recent Sustainable Water Infrastructure Task Force formed by Governor Rendell estimated that when the EPA numbers, which include only capital costs, are added to annual O&M (operation and maintenance), debt reduction and anticipated new regulatory standards, the water and sewer cost balloons to \$113 billion for the next 20

years<sup>1</sup>. The influx of state funding from Acts 63 and 64 of 2008 and federal money from the Stimulus Package are a great start, but the expected \$1.5 billion from these sources will only address 1% of our future need.

However, there are other ways for us to also address cost issues. There are several areas, in our opinion, in which a legislative or regulatory fix would give authorities the opportunity to operate more efficiently and economically, using management and financial tools presently not available to them. In fact, the Sustainable Water Infrastructure Task Force report provides recommendations and cost effective, long-term solutions to maximize management of these systems. Various components of the report will be introduced as legislation in the next several months including addressing procurement and bid limit issues for infrastructure projects.

I would like to focus my time with you today on several areas and I respectfully offer the following for your consideration and support:

- The adoption of a procurement code for local governments, including authorities, would increase the bid limit for construction, supplies, and services from \$10,000.00 to \$25,000.00, enable us to do both electronic advertising and bidding, and use the design/build concept for our projects among other things. The \$25,000 threshold should also include an automatic index for inflation. PMAA has helped to draft both a proposed Local Government Unit Procurement Code and Municipal Authority Procurement Code, both modeled after the State Procurement Code. We had the latter document introduced last session in the House (HB 2016), but it did not move out of the House. This proposal would facilitate more cost effective procurement and more flexibility using modern practices and procedures.

In addition, SB 323 (Ferlo) has been introduced and referred to the Senate Local Government committee raising the bid limit threshold for authorities from \$10,000 to \$25,000 with an automatic escalator. We request your support of this important legislation and thank you, Senator Ferlo, for reintroducing it this session.

- We ask that you consider including authorities in state aid pension reimbursements from the existing 2% tax on fire and casualty insurance premiums written in Pennsylvania by insurance companies domiciled outside the Commonwealth. Currently, cities, boroughs and townships

<sup>1</sup> The report cites at least \$36.5 billion in capital repairs and upgrades and \$77.1 billion for operation, maintenance, and debt service. The breakdown of the total of \$113.6 billion between water and sewer is as follows: drinking water is \$38.9 billion and sewer is \$74.7 billion.



enjoy this benefit but it has not included authorities since inception, though we are bound by the reporting requirements of this program. A benefit of inclusion in a pension reimbursement program would enable authorities to use these offset funds to leverage more capital investment in infrastructure, with no cost to the state.

- We are hopeful that the influx of infrastructure funding provided by the state and also from the federal stimulus package can be turned around quickly from Pennvest and the CFA (Commonwealth Financing Authority). There are strong concerns among our members that the review times for projects will be longer due to the short-staffed offices at DEP in particular. Between retirements, vacancies being frozen, and the same staff in some offices also handling Marcellus Shale permits, there may be significant delays in review time.
- Finally, I would like to add our concern about the upcoming expiration of the electricity rate caps in Pennsylvania. Since the purchase of electricity is typically the third largest expenditure by water and sewer utilities after payroll and debt service, the projected rate increases of 25-50% would have a profound impact on rates for our ratepayers. I would respectfully request that the legislature consider the financial impact of the expiration of rate caps and that all due resources of the state be afforded to water and sewer utilities for energy audits, low interest loans for the replacement of inefficient and aged pumps, building retrofits, etc.

On a personal note, I would like to thank my Senator, Senator Musto, in particular for his support of our authority, and in general for his support of Pennsylvania's environment during his tenure in the Capitol. Thank you for your attention and consideration and I will now turn our comments over to Michael A. Schober of the Columbia Municipal Authority.

Testimony by:

Michael A. Schober, PMAA 2<sup>nd</sup> Vice President

Board Member, Columbia Municipal Authority (Lancaster County)

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Good morning, ladies and gentleman of the House and Senate Local Government Committees. Thank you for allowing Sandy and myself to address you this morning on behalf of PMAA.

My name is Mike Schober, Board Member of the Columbia Municipal Authority, PMAA's 2<sup>nd</sup> Vice President and a full-time professional engineer with Bucharth Horn. I received my engineering degree from Villanova University. My background has offered me the opportunity to view environmental and regulatory aspects of authority operations from an engineering as well as a financial perspective. The Columbia Municipal Authority serves 10,000 people, and like many of other authorities in central PA, we are impacted by the new requirements for the Chesapeake Bay program.

I echo Sandy's remarks that the ability to adopt administrative changes will streamline our processes and save dollars that we can put to other uses. In addition to the procurement proposal already mentioned, all of the associations have been working for the past four years to try and move amended bid limit bills through both chambers. The ability to simply raise bid limits from \$10,000 to \$25,000 for supplies and projects would save money on the development of bid specs and legal advertising and allow a quicker completion of small projects or purchases. In the case of authorities, we can rarely put a shovel in the ground for a repair or replacement for under \$25,000, so the \$10,000 limit really causes unnecessary paperwork and delays for our projects.

I would like to offer my thoughts regarding some issues currently confronting authorities and how these impact our ratepayers. We have recently seen several unfunded mandates which have created a burden on operational costs for both water and sewer authorities in the Commonwealth. Just to mention a few:

- New TMDL limits (total maximum daily load of pollutants from all sources for a receiving stream) on waterways for phosphorus and nitrogen, which, incidentally, will be much more stringent than those applied to the Chesapeake Bay, increased security for drinking water systems, education and certification of operators, and accreditation of onsite labs. All of these and others such as the pending amended public notification rule for drinking water systems place an additional significant monetary requirement on management that is intent on operating efficiently and economically. We feel that all new regulatory initiatives must be coupled with some type of accompanying funding sources.

For instance, the new Chesapeake Bay nutrient mandates, for the largest 184 sewer plants in central PA, are expected to cost \$1.4 billion, a number released in the fall of 2008 after a Senate-commissioned study undertaken by Metcalf and Eddy. Similar costs in Maryland and Virginia are being underwritten by significant state funding. Maryland in particular is providing 100% grants for their most recent round of upgrades, about \$750 million. We were not able to get any dedicated funding for sewer plants doing Bay upgrade projects in the infrastructure money from Acts 63 and 64 of 2008. Unfortunately, these projects will compete with all other water, sewer, stormwater, flood control and dam projects in the state. Therefore, we can expect many of those Chesapeake Bay upgrades to be funded through local rate increases. Additionally, the lack of a viable trading program from DEP for the purchase of nutrient credits continues to thwart the savings they said would occur if this approach were used.

- I also believe that our day-to-day interaction with DEP must be improved. All too often, it seems that we are viewed in an adversarial role, with our expertise and knowledge about the profession we have spent our careers in constantly challenged or questioned. It appears to me that the level of trust, cooperation and communication between DEP and our member authorities has eroded over the years. I welcome your continued participation on how to improve that relationship.
- In that regard, I would like to compliment the members of both chambers of the legislature for creating in 2005 a legislative task force on sewage as a first step toward better communication and resolution of issues with DEP. Senator Musto has been an active member of this task force and we thank him for his efforts. The task force has succeeded in bringing DEP officials to the table with managers and engineers from our industry. We have been able to discuss with them the need for environmentally protective procedures or equipment such as blending and the use of Actiflow units at our wastewater plants during significant precipitation events, techniques which have been approved in other states. In light of the budget constraints that we see at all levels of government, these innovative operational procedures and new technologies (usually at less cost than traditional treatment) need to be permitted in Pennsylvania. Hopefully this task force will be reconvened this session to further address these and other issues.
- An additional environmental management concern, expressed in one of our recent PMAA resolutions, requests the legislature to ensure that DEP conducts a comprehensive cost/benefit analysis that identifies environmental benefits and economic impacts associated with new laws, regulations or policies. This would have been a very useful provision during the Chesapeake Bay debate. The requirement to identify dedicated funding sources for these initiatives should also be created within the authorizing agency or budgetary legislation associated with the initiative.

- With the economic downturn, hiring freeze, and possible furloughs, permit reviews from DEP and other state agencies will continue to experience setbacks and delays. More than ever, streamlining permit reviews is essential when resources are limited. PMAA strongly recommends, as part of standard policy, that DEP and other state agencies reviewing permits expedite their practices and procedures. This will result in time efficiencies for the state as well as reduce costs for authorities, local governments, businesses and developers by minimizing delays in construction, financing, etc.

One suggestion we have to accomplish this is for DEP to develop more permits-by-rule, and allow the seal of third party professionals (e.g., professional engineers) to garner more weight for a quicker final approval of projects. This will remove some of the burden to DEP staff while maintaining environmental protection and expediting the review process saving all of us time and money.

In closing, I would like to make the point that we, like you, and the other local government associations present, represent the citizens of Pennsylvania as public servants. We try to provide the best service at the best cost while protecting the health and welfare of our citizens as well as the environment in which we live. Hopefully you will allow us to work with you to more fully explore the tools and solutions that will make this more beneficial for all of us and ultimately the public we serve. Thank you. Sandy and I would be happy to answer any questions you may have.