NEW JERSEY CLEAN WATER COUNCIL

WATER INFRASTRUCTURE: SUSTAINABLE FUNDING

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PUBLIC HEARING

TRANSCRIPT OF PROCEEDINGS

LOCATION: New Jersey Department of Environmental Protection
401 East State Street
Trenton, New Jersey 08625

DATE: Monday, December 8, 2008

TIME: 9:09 a.m. to 12:01 p.m.

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MR. FURNARI: Good morning. I guess we could get everyone to sit down and we'll start. My name is Russ Furnari. I am the Chair of the New Jersey Clean Water Council, currently serving a two-year term in that position. The Clean Water Council is an advisory body to the DEP on water quality issues, and it is a legislatively established body. There are a number of members from the various state agencies that interact with DEP, and then there are other legislatively identified representatives, as well as representatives of the general public who are part of the makeup of the Council. I am on the Council representing the New Jersey State Chamber of Commerce, and I work for PSEG. And I have been on the Council now for about eight or nine years.

I will ask the other Council Members, starting with Jessica, to introduce themselves and who they represent.

MS. SANCHEZ: Good morning. I'm Jessica Sanchez, I represent the Delaware River Basin Commission.

MR. McCRAKEN: Tony McCraken, I'm a public member. I've been on Council about 23, 24

years.

MR. COSGROVE: I'm Jim Cosgrove. I'm the environmental representing New Jersey Society of Professional Engineers.

MR. VAN ABS: Dan Van Abs. I'm a public member of the Council. I've been on the Council for three years now.

MR. VALENTE: Tony Valente, representing the New Jersey Department of Labor.

MR. NEELY: Lou Neely representing the League of Municipalities.

MR. REQUA: Jim Requa, representing the Department the Community Affairs, Office of Smart Growth.

MR. BRESLIN: Robert Breslin, AFL/CIO.

MS. GOLDSMITH: Amy Goldsmith, public representative from the New Jersey Environmental Federation.

MR. CACH: Stan Cach, the DEP liaison for the Clean Water Council.

MR. FURNARI: Thank you. Just a little background on where we are and why we're here today. First of all, as a part of its mandate, the Council is required to conduct a

public hearing once a year. This fulfills that

requirement.

Last year at this time, we had a public hearing that focused on infrastructure issues on a very broad level. We had quite a number of panelists come and do presentations. And out of that hearing, we came up with a number of issues, but not really a resolution on how to address some of those issues. They raise a lot of questions, they raise a lot of concerns. So what we did was we reported back on what we thought some of the priority issues were to Commissioner Jackson, and we outlined what we thought was a process forward. And that process was to pick a couple of key areas and then look at them in more detail and decide which one was the top priority for this year's hearing.

And what we chose to look at was the issue of financing. That issue has a lot of aspects to it. It's not only the money that is used to finance projects and maintain infrastructure, but it's also the mechanisms that are involved with it, how that financing is available, whether it's a grant or a loan, and also how the money is used by various entities

that get it to maintain their infrastructure,

whether it be municipal organizations or public/private organizations that are operating facilities throughout the State of New Jersey. There are a lot of facilities in New Jersey, there's a huge amount of infrastructure. Much of it is aging. It's been in place for quite some time, both the in-ground and the above-ground equipment.

The Council has looked at it and identified that there need to be some changes in financing if the infrastructure is going to be able to meet the needs of the future. There are a variety of changing things that are going on. There's a change in the type of pollutant load that facilities are dealing with. They're not seeing the types of things they saw 20, 30 years ago. There's a lot of new pollutants that are being identified because of better analytical methodologies. And so because of that, we felt that there needed to be an improved financing system.

At this time, I'd like to ask our first speaker to come up.

And one of the things we did this

year is we reduced to some degree the number of

actual presenter speakers. Our first speaker will speak on behalf of the DEP. He's Gary Sondermeyer. He's currently the Chief of Staff, Director of Operations for the Department. He's a long-term employee. He's been involved in a variety of areas that relate to regulating water and managing water issues, and he has a wealth of experience in the Department, and I ask him to come and bring that today.

MR. SONDERMEYER: Thank you, Russ. And good morning to everyone. Hope you're warm a little bit. I'm little tall, so I have to adjust this thing.

I'm really pleased to have an opportunity to represent Commissioner Moriello and the DEP this morning and really want to start by congratulating the Clean Water Council for picking an incredible topic, could not possibly be more timely, and for assembling what I think is an amazing group of speakers which we're going to hear from in a little while today: Mike Curley who is the Executive Director of the International Center for Environmental Finance. I haven't in my nearly 30 years even become close to getting my

arms around New Jersey. He's dealing with

international issues. And Mike today -- I was speaking to him earlier -- got a five o'clock train from the Baltimore area. And, of course, the train had no heat. And then he got to the Trenton Train Station and had to wait for over an hour. And, of course, the train station had no heat. So hopefully he'll feel a little more comfortable.

MR. CURLEY: I'm getting there.

MR. SONDERMEYER: Good.

Secondly, Jim Halon, Director of EPA's Office of Water. Ask your scope of work and what you do, Jim responds, "I manage water for the United States of America."

That is absolutely incredible, Jim. We are thrilled that you took the time to be with us today. Thank you very much.

And third, an old friend, Ed McManimon, who I've had the pleasure of working with -- should I say how many years -- 20, 25, 30, going back in time when we put the State's solid waste infrastructure in place, which actually is still operating and very successful. One of the most brilliant economic minds and financing minds

in the State of New Jersey.

So between the three of them, I'm really excited about what we're going to hear today. And I'm sure it's going to be very, very enlightening for all of us.

I just have a couple of opening remarks I'd like to give, again, on behalf of the Department. Certainly, from my experience, I don't know if it's ever a right time to look at financing, environmental or any other kind of infrastructure. You know, it seems to be an inherent, kind of a historic conflict almost, if you will, between the cost of trying to keep up with infrastructure and our democratic system. You know, it's very, very difficult, not-in-my-term-of-office kind issues, that's reality. That's no disrespect. Our system is the greatest in the world, but it's very tough to be able to finance infrastructure. And we're at a point right now where, to use a tired cliche, a bit of a perfect storm where the funding for infrastructure has been going down and now we certainly are in absolute unprecedented times, which I think for all of us on a personal level, on a work level, anything that we care about is

nothing short of frightening. So it is a very

difficult time.

I do think and want to say that I believe that the State Revolving Fund Program nationally has been among the most successful, really, in the history of the country. And just for New Jersey alone, over the 20 years we've had the program, we've financed about $4.3 billion in projects, clean water and drinking water, and in total managed about 700 projects all across the State of New Jersey.

I do also want to, in line with that, recognize the outstanding leadership that we've had over time in managing for us the Environmental Infrastructure Trust. I saw Dennis Hart, our Executive Director of the Trust, who does a fantastic job; the Assistant Commissioner Nancy Wittenberg who manages all our efforts; Stan Cach; Jean Shebra (ph); Gautam Patel; Michele Putnam; Phil Royer. I hope all you folks are really proud of the work you do because it's certainly one of the successful programs that we've ever had here at DEP.

If there's good news right now, I think the good news is that because of the degree

of unprecedented economic times, there's a renewed

focus on infrastructure, not just environmental infrastructure, but all infrastructure and the funding of it. And certainly, it's cast in infrastructure and jobs creation. And it sort of feels like, even though I wasn't around at the time, going back to Franklin Delano Roosevelt and the times of the WPA and the CCC and getting major public works projects going out of stimulus from our federal government in getting people to work or back to work.

And I'm sure my colleagues are going to mention the different federal legislation that's right there right now. I'll just very briefly mention S3500 sponsored by our own Senator Lautenberg. He may be getting up there in age, but he's certainly still a tiger and pushing issues for the betterment of the State of New Jersey. S3617 from Senator Boxer of California. And of course, HR7110 which is referred to as the stimulus package.

And I hope everybody in the room has gotten a chance to review the draft of the stimulus package. I think just reading it you come away saying, my, Lord, how daunting is this,

this whole issue. Absolutely daunting. The

issues that we're here to talk about today, I think, make up a page in about a 40-page bill dealing with roads, bridges, tunnels, wastewater treatment plants, water treatment facilities, Medicare, Medicaid, food stamps, dam safety. Absolutely daunting, what the bill is really looking at. And, certainly, we at DEP very much applaud the federal leadership to be looking at these very difficult issues to see what we can do.

I think, looking at the stimulus package, the key issues that we're focused on right now -- that's really what I just want to talk a little bit about, DEP, and what we're trying to do to get a little bit ahead of the curve if that's possible and what might be coming down the pathway very quickly in the form of a stimulus package. Certainly, the amount of money that would be allocated, the time frames to determine project readiness. The draft that I looked at has 120 days. That's pretty quick in a bureaucratic system, 120 days to come up with a binding commitment. And certainly, I think that's going to be significant how that gets defined ultimately, what is a binding commitment. The

threshold to determine readiness, you know, is

that simply a commitment letter, the likes of which we would have in the EIT program, is it something more than that? Whether the money is going to be in the form of loans, principal forgiveness. I guess we're not allowed to say grants anymore. I don't want to get hit by a lightning bolt for mentioning it, but principal forgiveness, loans, some combination of the two, and other strings that come attached that the State would have to look at and deal with through a stimulus package.

To give a snapshot of what we're trying to do in terms of mechanics and the scope of trying to be ahead of any stimulus package, the thing that we have going for us which is a great benefit is the pipeline. We have a very solid system that we go through every year and process. And currently, to look at the dollars, the stimulus package, I believe, is 7.5 billion nationally, 6.5 billion for clean water, 1 billion for drinking water. I know there's some other water-related funding that's in the draft. But for New Jersey, we believe, looking at the EPA allocation formula, that that would amount

$262 million on the clean water end and

$22 million on the drinking water end. And the key for us, it really amounts to trying to get ahead of the curve on, I call it, a strategic prioritization, to look at the pipeline that we have. And that pipeline currently for fiscal year '10 has 87 clean water projects which collectively would amount to about $900 million. A number of 10, I believe, of drinking water projects that would total 55 million. Looking elsewhere outside the scope of the existing pipeline for the EIT, we have 14 coastal lakes that we would love to see improved. The most noted of these each year when we look at beach closures, you know, we have sort of that villain of that pond known as Wreck Pond which really amounts to, I think, almost all of the closures that we have that are in the Spring Lake area mainly for precautionary reasons. We'd love to finally be able to address Wreck Pond. But if you take the 14 lakes and ponds collectively, they probably amount to about $100 million of projects that we could look at to try to improve them. The whole area where the SRF has evolved over time, landfill closures, brownfield remediations, other site remediation

work, certainly dam safety and the projects that

we do through Dave Rosenblatt and John Moyle. The point being from that 64,000 foot kind of a level, if you take a step back, things that we could determine to be either in the pipeline to the EIT now or projects that we might be able to develop quickly in total, they would amount to about a billion dollars just in the little snapshot that I mentioned; hence, the terms strategic prioritization to try to quickly look at that universe and make some sense out of it. To do that, obviously, we need to look at project readiness in terms of permitting. You know, is it strictly a maintenance project that could be quickly permitted, nothing that would be of a concern to us? Or is it a newer activity that would be more complex and have environmental considerations we worry about?

The environmental impact itself, of course, needs to be in our matrix to try to determine what our focus would be on projects. The whole point of a stimulus package is jobs creation. So we need to look at the jobs that would come from these. And fortunately, in the EIT project pipeline now as part the EEO equal

opportunity aspect, we do get an assessment of the

projects that come in on jobs creation. So we sort of have that information to overlay.

And then prioritization. Each year we do a prioritization as it is through the EIT, and every year we modify the criteria that go into it. And here, we think we have basically sitting there for us between looking at the permitting aspects, environmental impact, the jobs creation that we could put together a priority list of what's ready so that if we can have a stimulus package, we have 120 days, we need to jump all over it that we have the ability to do that.

The other thing that we're doing, which I think is very important -- I spoke to Nancy a week or so ago and said, boy, we've got to outreach to the community. We have to be making some calls, get some conference calls, get some meetings together and talk about what is needed in a stimulus package to make sure that we can give input to Congress, and hopefully get something that is very workable.

Just I'll close with a couple of areas of concern that we would have. Somewhat to say the obvious, most of us in the room have spent

a career working in environmental protection, so

certainly we can't look at any degree of environmental backsliding in the rush to move things forward that we don't do the right job in terms of oversight and permitting for environmental protection. So we're certainly not going to do that, but it is an issue that I want to make sure that I mention.

I already said the time frame, you know, what can we do in 120 days. How much do we need to do in those 120 days? What is our legal authority? You know, we try to cross every T, dot every I in the regulatory process. And here, we might be in an ironic situation of a need to really hurry up. And we do, in different programs, have emergency powers, emergency capabilities.

I grew up in the solid waste end. If we have to do something really quick, we can issue a temporary certificate of authority to operate, which we affectionately call a TACO. But in every program you have some kind of a quicker process, and we have a balance. We have to look at the balance of making sure we get it right environmentally and the need to make sure that we

lock in for the best interest of the State to take

maximum advantage of the stimulus process.

Controlling the scope, as I mentioned, just looking at a snapshot of what we have now, it's a billion dollars if in fact we might be eligible for $300 million, we're not going to be looking at brand-new things. So I don't think you're going to be looking at new development activity, because I don't think it's possibly going to be time to deal with that. It's going to be difficult enough to deal with what's already in our pipeline.

Last, I can't stress it enough, is the form of the funding. I think at the national level that it's really going to be tough to look at whether it's loans exclusively, loans with principal forgiveness or, some combination, what kind of a match. I mean, our municipalities are so strapped. If there's any kind of a match requirement, are they going to be able to put up any form of a match? Do they have the bonding capability to do that? These are going to be, I think, really tough issues nationally to look at and are going to have a direct impact on the degree of success of this stimulus package that

goes forward.

So I'm going to stop there. And again, I want to thank and compliment the Council for putting together a great program, thank our speakers for taking the time out of their incredibly busy schedules to be with us today, and really look forward especially to the public input on the five questions that were framed, because that's the core of what this hearing is about, to hear from the public, to get your views, your constructive recommendations to us, and I'm sure it's going to be a great day. Thank you very much for the opportunity to speak with you this morning.

(Applause.)

MR. FURNARI: Thank you, Gary. Okay we are now going to move on to our three primary speakers. And as Gary so adequately introduced them and identified somewhat their backgrounds, I will give you a little bit more information on each as I introduce them.

But just as an overall, one of the things we spoke about as part of the Council in planning this hearing was the need to get perspective from a very broad base of national,

international experience, what's going on from a

standpoint of EPA and our own national government efforts, and then historical perspective and perspective on things that are going on on a local level. So our three speakers are from those varied backgrounds.

The first speaker is Mr. Curley. Mr. Curley is an attorney by training and started out his career, though, shifted quickly into finance. He is a founder and executive director of the International Center for Environmental Finance. He's done a lot of work on infrastructure financing, both in the United States and internationally, in Asia, particularly Soviet Union, Central America, and has a very broad background in those areas. He's also had some local experience in New York State, was President and CEO of the New York Job Development Authority. He's also been Deputy Secretary and General Counsel to the New York State Department of Economic Development. And he's also an author on the issues of water and wastewater system finance, has a textbook that's out that's entitled, "The Handbook of Project Finance for Water and Wastewater Systems."

I'd like to welcome Mr. Curley to

the podium.

(Applause.)

MR. CURLEY: Thank you very much, Mr. Chairman. And it's very nice to be here. It's very nice to be warm. And it's nice -- I spent about the last 10 years working abroad, although based at home, and it's nice to be back in the United States and working with things that work. Working in Kazakhstan, working in Honduras, Malaysia, Indonesia, I can tell you it's very, very nice to be in New Jersey today where we have the pleasure of talking about things like having $6.5 billion facing us. It's like staring at a firehose, knowing it's going to go on at any minute and expecting to drink out of it.

To just put this in perspective, the Congress has waffled back and forth, depending upon good times and bad times, with how much money they put into the clean water SRF. And the biggest year of all was 1996. The stimulus package, the money that's programmed in the stimulus package, is 350 percent more than the money in 1996, which was the single biggest year, and we have to get rid of the money in 120 days.

I mean, this is a big job.

Dennis -- where is Dennis? Yes, there he is. Dennis, I hope that that nice dark hair of yours is still the same color next year. I don't envy you, what you have to do.

But anyways, this is probably the worst time for me to come here and talk to you, because what I try and talk about is the sanity involved in the first two questions on this list, which is funding for urban infrastructure and sustainable pricing and management. With the stimulus package the way it is, and I certainly understand what Gary is saying and I see there's a representative from the League of Cities, the cities are strapped for cash. State governments see their tax receipts going down the drain. The idea of setting up a market rate program with $6.5 billion and attempting people who don't have any money to undertake projects is lunacy, and it's not going to happen. I mean, I think the money that's in HR7110, I think the general thought there was that this could be put out as 0 percent loans. But as you may know, the EIT is constrained by the Clean Water Act. The direct loans are limited to 20 years. So if you take

25 $100 and you divide it by 20, you get 5 percent.

1 So 5 percent has to be paid back. To tell a
2 community that doesn't have any money or to tell a
3 sewer district that's going to have to raise rates
4 in a period of economic decline that they're going
5 to have to raise rates, when a lot of homes there
6 are up for foreclosure and a lot of the people are
7 out of work -- I don't know whether you saw the
8 report, but we've lost in this country 2 million
9 jobs since September. This is just ghastly.
10 So, you know, what's my best guess
11 on this -- and of course, Jim and others know a
12 lot more about this than I do because they're in
13 touch with the Hill every day. But I've got to
14 guess that by the time this comes through, it's
15 going to be a grant program, because if they try
16 and turn the firehose on and tell them that you've
17 got to not only catch the water, but give it back,
18 it's not going to happen. It's just not going to
19 happen. So my best guess is we're going to see
20 about 6 and a half billion dollars worth of grants
21 coming our way.
22 And as I said, my usual speech,
23 which I'm going to get to in about 30 seconds, is
24 fiscal sanity. So just forget anything I'm going

to tell you for the next 10 minutes, forget it

until two years from now when the firehose is off and we're back to struggling with the real world. Let me just give some perspective on this.

When the Clean Water Act was passed in 1972, it only took three years for the Congress to wake up after the Cuyahoga River caught fire in Cleveland, which probably a lot of you remember. That was the single precipitating event. It woke all these sleepers up in the Congress that didn't think there was water pollution. It woke them up to the fact that this was a massive problem, especially in urban areas throughout the United States and that large numbers of nations' waters were impaired.

Now, what did the Congress do? They responded to what they perceived as an emergency with a grant program. The construction grant program gave away $70 billion from 1972 to 1987, about $4.7 billion a year, which is, by the way, lot more generous than the Congress has been with the SFR program.

But anyways, these grants were given out, and they proved to be -- I mean, I always tell the story that when I was a kid, I grew up in

Buffalo. We used to go across the lake to Canada

for the summer, you know, for the day trips and stuff over there. When I was a kid, I could go into the water of Lake Erie up to my neck and look down and see my toes. When I was in law school, I couldn't see my shoulders when I looked down. And now when I go back there to see my family, I can look down from -- again, water up to my neck, I can look down and see my toes again.

What was responsible for that was the Clean Water Act of 1972 and the massive grant program that got people off their duffs and got the political structure of the country moving in the direction of water pollution, which never happened before. And so, you know, the grant -- but the grant program, the good news was is it cleaned up the country's waterways. The bad news is that it brought the most fiscal -- a regime of fiscal irresponsibility and lunacy, and I guess the most important thing I can tell you is because the money was free -- I mean, the sewage treatment plants last 30 years, 40 years, whatever. A prudent person might want to put back little bit of money like some people do when they buy a car, they put back a couple of bucks a year for the

next time they've got to buy a car, which is a few

years down the road. But this did not happen. Nobody started raising their rates for when that sewage treatment plant had to be replaced. It was always mañana, and mañana was never going to come. And that's the problem. And that's the problem right now with this what I believe is going to be 6.5 billion dollars worth of grants. It's going to come in the form of the grants, and we're going to be back to the old lunacy. We're going to be back to encouraging municipalities -- you know, believe me, I have no objection to this. I would certainly vote for it, and I am a hundred percent in favor of it. But in the short run, as the President Elect said the other day, in the short run right thing to do and we have to disregard the long run because we have 2 million people that have lost their jobs since September and we need to do this. But we must always remember that in doing this, we're crazy, because by giving people money, the rates will never be built up.

The second question on this list is sustainable pricing and management. How in the name of God do you get sustainable pricing when your infrastructure is free? I mean, it's just

absolute lunacy.

So as I told you when I started, I'm delighted to see this grant package coming. I think it's going to come. I think it's going to be big. It may even be bigger than 6.5 billion, because we need it; this is a crisis. When the crisis is gone, hear what I have to say.

What do we do? What would do? How do we take what we have, which is a few dollars from Washington every year that go into the Environmental Trust, how do we take this money and how do we turn it into clean waters for the State of New Jersey? In the long run, there are three things that absolutely must be done.

Number 1 is the leverage has to increase. The clean water SRF on a nationwide basis has a 2.2 times leverage. Let me explain what this is. And please, I am an honest man. I write about water and wastewater. I am not a mortgage banker. You know, I do not -- what I'm explaining to you now is sound fiscal policy; it's not these 0 down sub-prime mortgage nonsense. This is standard fiscal policy that's been effect in the United States for 40 years or more. But what I'm suggesting to you is that the leverage

for the clean water SRF has to go up. And

leverage is the amount of money that you have versus the amount of money that you can have. It's -- the best way I can translate this for you is, using the old pre sub-prime mortgage crisis, if you took 33 percent of your monthly income and multiplied that by 12, that's what your mortgage payment should be. That was a sane thing to do, to devote a third what you took home to pay for your home. It was a national standard. That was the Fannie Mae standard before Fannie Mae jumped off the cliff, and also 20 percent down. These were the standard rules.

Okay. Well, if you take that much money, how much was the price of your home? It certainly wasn't anywhere near it. It was probably 30 times, because most people have 30-year mortgages. That's what leverage is. It's taking the money that you have today on a continuing basis, your salary coming in, how much home can you buy. It's a much, much larger number.

So the SRFs, all of the SRFs throughout the United States have had enormous capitalization grants since 1987. As you know,

the definition of an SRF is that they can't make

grants, with the exception of possibly the stimulus package where the rules will be thrown out. But that money has to grow. So what you have, a source of income and you have collateral.

Let me just tell you that you may know that municipal bond insurance is what a lot of people use to lower their rates when cities issue bonds and so forth, and the municipal bond insurance industry got caught up in the debauchery of the sub-prime mortgage crisis and all the financial guaranty insurance companies, all of them, cratered. They all crashed and burned in the last year. Enter the fray Warren Buffet, everybody's favorite uncle who is the smartest man in the world when comes to finance. Warren Buffet started a financial guaranty insurance company when the other ones failed. And he capitalized it with $5 billion. And he offered to buy $800 billion worth of municipal bond guarantees from the insurance companies that were failing with $5 billion. That's the type of leverage that you see in municipal finance. That's 167 to 1.

If the SRFs throughout the United States could leverage the same way Warren Buffet

was going to leverage his 5 billion, the SRFs

could finance $6 trillion worth of projects. But to do that, everybody's got to pay market rates; and for the next year or two, that's out of the question. But I want to begin with the idea. Is there enough money?

Dennis' reports indicate that he's identified about $15 billion worth of water quality problems, new projects in New Jersey that need to be dealt with over the long term. Does the New Jersey Environmental Trust, Infrastructure Trust, have enough money to deal with it? You bet they do. But they have to deal with it by leveraging up. And the entire country is in the same boat.

The second thing is, how do you do this now? Again, getting back to normal times, how do you do this without killing people that are paying for sewers and who are paying for local taxes? Let me give you a couple of numbers here.

If you've got a loan, an unsubsidized loan -- most of the SRF loans are all subsidized loans. If you've got a subsidized loan, for every million dollars you borrowed in today's interest rate environment, you'd pay about

25 $73,000 a year. If you got a -- the national

1 average for the SRF is about half. The subsidy is
2 about half. In other words, if it's 4 percent,
3 the subsidy is, like, half of that. So it's like
4 getting a 2 percent loan. If you got a 2 percent
5 loan instead of a 4 percent loan, instead of
6 paying $73,000, you'd pay 61. And nobody -- if
7 you can pay 61, the political pressure is there
8 and should be there not to pay 72. And everybody
9 understands that.
10 So how do you get more leverage?
11 You have to decrease the subsidies. You have to
12 take the money that the Environmental
13 Infrastructure Trust has and free it up so that it
14 can be used for collateral, like our buddy Warren
15 Buffet was going to do.
16 Now, what do you do about the poor
17 guys, the poor folks that you have to pay for this
18 stuff? You lengthen the term. You lengthen the
19 term. All of the SRFs throughout the United
20 States make direct loans, which are constrained by
21 the Clean Water Act to be 20 years. There is no
22 conceivable reason why you would finance for 20
23 years a sewer treatment plant that's got a useable
24 life of somewhere between 30 and 40.

How many people in this room that

have mortgages on their homes have 15-year mortgages?

A half dozen. The rest of us have 30-year mortgages. Why? Because you're going to live in a house 30 years and it's sense to pay for things in accordance with their use. As matter of fact, that's the rule of fiscal probity. That's the sound financial rule, is to pay for whatever you're going to finance over the term in which you'll enjoy the use of that.

There are two provisions of the Clean Water Act that allow you to go beyond 20 years. One is the purchase of municipal debt, and the other is the guarantee of municipal debt. So instead of Dennis' operation making a direct loan to a water or sewer authority, the water or sewer authority would simply issue a bond and Dennis would buy it and they could go to a 30-year term.

What does that mean? That means that the people -- now, here's the number. The subsidized loan, you remember, was $61,000. The 30-year loan is 57,000 per million. By extending the term from 20 to 30 years, you come up with a number that's lower than the subsidized amount and

you free up the money that's paying for that

subsidy to expand the program. That's how you get from here to there. That's how the $15 billion number in New Jersey that the Environmental Infrastructure Trust is looking at for the long-term problems for water quality here, that's how you get to that number. It's by increasing the leverage. And you can't do that on people's backs. And the way you can avoid doing that on people's backs is to lengthen the term. Lengthen the term. Does that mean that the total project cost will be multiplied by 30 years instead of 20, is it more? Sure. But it's also more if you pay for it -- if you want to pay for it over 10 years, it's more if you pay for it over 20. And the rule of thumb in finance is that you should always pay for things in accordance with the term of their use. And a sewage treatment plant, an urban infrastructure wastewater facility is definitely 30 years.

You heard earlier Russel say that I was with New York State. I was during the wonderful days in the late '70s when New York State almost went into bankruptcy. And the City of New York did go into bankruptcy. And what they

were doing, we found, was that the Board of

Education was financing the purchase the pencils and papers; paper, volume of paper, with a 20-year bond. Stuff that was going to be gone in six weeks, and they were going to pay for it over 20 years. Is that a prescription of bankruptcy? Sure. Sure.

They don't have capital punishment for the people in the Office of Management and Budget, but they ought to.

The last part of this little trilogy here is subsidies. Everybody takes for granted, because -- well, let me just tell you that going around the world, I always have to tell the people at the SRFs when they go over abroad and speak is please don't export sins to these poor people overseas. And the worst sin we have is something that everybody enjoys around here, is that our municipal bonds are tax exempt. Nobody stops to realize that that's a 17 percent subsidy in today's market. It's 17 percent off the top, right? As I told you before, most SRFs compound the problem. They issue bonds which is a 17 percent subsidy and then they cut the rate even further by subsidizing it with the funds that they

have -- the capitalization grants that they used

to subsidize the interest rates, make up those payments.

All of these things are based -- I mean, these subsidies are wildly wasted. There are people in the world who don't need them.

I took my kids to Moscow in the year 2000 for a month, and we rented an apartment over there for which I paid $4,000, but you had to pay that month for what they call an apartment of western standards. And you don't want to know what an apartment that wasn't of western standards in Moscow looked like in those times. But anyway, I happened to ask my landlord, who was a genial, really nice woman, I said, "What's the water bill for the apartment?" And we worked it out, and it was about 45 cents for the month. And I was paying 4,000 for the apartment. Does this make any sense at all? Uh-uh. Does it make any sense that Bill Gates, God bless him, that Bill Gates should have his water subsidized? No. But I'll guarantee you in Washington State that the municipal water service that he uses was paid for with a tax exempt bond, and Bill's getting a 17 percent subsidy. This is nonsense. When times

get hard, the subsidies should go to the people

that need it.

The economists call what we have today supply based subsidies. We need to go to -- and they're supply-based general subsidies. We need to go to demand based target subsidies. Even in areas like when they base it on disadvantage. The disadvantage-ness, if you will, is based on median household income. Those of you who took statistics know absolutely that you just missed half the people because you took the median. Everybody that's on the down slope of that median is in real trouble if you're basing it on the median. You've got to start basing your subsidies somewhere around the lowest quartile or the lowest decile and save the money for those people that really need it. To make long-term sanity out of drinking water, out of wastewater financing, you need to get rid of these demand based subsidies that we all wallow in.

I mean, I've got to tell you through some strange -- I live north of the City of Baltimore. For some strange reason the county gets its water from the City, and I pay $18 a quarter for water. That is just nuts. There are

people up the road that live in a regular water

district that pay about 30 or $40 a month. And I'm sorry, I didn't say this. I think I pay $18 a quarter. They pay more than I do a month, a lot more than I do a month because their pricing is more realistic. The City of Baltimore, everything's subsidized. This type of thing, you have to go to targeting subsidies because so much of this money is being wasted.

So that's my message to ya'll. I have the unfortune of being here at the wrong year and at the wrong time when we're going to see this very desperately needed fiscal stimulus package to get our countrymen back to work. But in the long run, we need to make sure that this country has the clean water that's envisioned in the law and that everybody's looking for, fishable, swimmable waters.

We need to leverage up our clean water SRFs. We need to ease the pain on our ratepayers by increasing the term of these things to a sensible -- you can't finance -- you don't want to finance a truck for 30 years, but you certainly can finance a water treatment plant for 30 years. So we need extend the terms to make

those financings more sensible. And in the final

analysis, we've got to rationalize all these crazy subsidies that we have and get them -- the subsidies need to go to the people that need it.

Thanks very much for listening to me.

(Applause.)

MR. FURNARI: Thank you, Mike. And hopefully, this isn't the wrong year, because I think part of what we're trying to push, from a Council perspective, is finding a way to get that financing mechanism changed. And maybe doing it during a time when we're going grant will enable us to get the legislation done to get it through so it's ready in time for two years from now when we'll need it. We'll see how that goes.

Our next speaker comes to us from the USEPA Office of Water. He is James Hanlon, the Director of the Office of Wastewater Management in the Office of Water. He's a career EPA employee and civil servant and brings some real background in working with wastewater and wastewater treatment infrastructure from the agency's perspective.

Jim.

(Applause.)

MR. HANLON: Thank you. Good morning, all. And thank you to the Clean Water Council for the invitation to spend a couple minutes with you this morning and share a perspective on water infrastructure from a perspective of EPA and the Office of Water.

What I'd like to do to begin is sort of give you a very brief overview in terms of the some of the work that we've done over the last five or six years from the EPA Office of Water perspective in terms of the interaction with water infrastructure managers across the country and then spend a little bit of time at the end in terms of stimulus opportunity that appears to be at our doorstep and some thoughts, both personally from Jim Hanlon's perspective, as well as from the perspective of EPA.

Early in the current administration back in September of 2002, EPA released the GAP Analysis. It's been a widely quoted study authored, again, in the Office of Water EPA and released notably by our administrator at the time, Governor Whitman. In September of 2002, there sort was an assessment in terms of where we were

25 at with water infrastructure across the country,

1 comparing what we thought the needs were and using
2 the need surveys and other needs documentation
3 data sources, but more importantly adding to that
4 what we believed were sort of undocumented,
5 unrealized needs, largely in the areas of
6 underground infrastructure, both wastewater and
7 drinking water across the country. And adding to
8 that, what we thought the O&M needs were for both
9 drinking water and wastewater infrastructure. And
10 then comparing that to what we as a nation were
11 spending on both capital and the O&M side.
12 The conclusions, again, back in
13 September 2002 were that on the clean water side
14 there was a 20-year -- and the period of the study
15 was 20 years, 2000 through 2019. A shortfall on
16 clean water capital of 122 billion, a shortfall
17 for clean water O&M of 148 for a total 271. The
18 drinking water side, a capital shortfall of 102
19 and an O&M shortfall of 161 for a total of 263,
20 rounding up to about $530 billion in projected
21 unmet needs for both O&M and capital over the
22 20-year period.
23 Interesting to note, when you look
24 at the numbers, we all sort of recognize the

25 capital needs; but in both of those sectors, both

1 the drinking water and wastewater sector, the
2 projected O&M shortfall was more than the capital.
3 I think that says something in terms of how we as
4 a nation have managed our in-ground
5 infrastructure.
6 So then building on that, we have
7 created a construct using a four organizing
8 principles or the four colors of sustainable
9 infrastructure over the last five or six years.
10 We talked about infrastructure. And focussing on
11 the demand side, how can we better manage the
12 demand and the management of our in-place
13 infrastructure as we looked forward. And I'll
14 sort of save for a couple minutes a discussion on
15 the capital side.
16 But for the demand side, the first
17 and probably the area where we spent the most time
18 is better management, how do we work with the
19 utility industry in managing the infrastructure
20 that's in place. We have developed, in
21 cooperation with a range of stakeholders, for
22 example, tools using environmental management
23 systems. Environmental management systems are
24 based on the ISO 14001 standard used very

successfully in the private sector in the early

'90s that we, first with pilots and now with sort of larger scale applications, have moved that to the public sector; and the water infrastructure industry, both on the drinking water and wastewater side, have had very positive results. We've added to that within the last year in creating a protocol for a wastewater utility or a water utility to use EMS principles to look -- to do an energy audit, to look at the energy profile of a facility. And we've had very positive feedback with a number of workshops that we've done in New England, in the Midwest. We look to sort of spread those around the country in terms of working with utility managers to better understand and manage their energy profile.

Asset management is a term that, if you go back in the utility management publications 15 years ago, didn't exist. It is a set of tools, largely a pattern natural work done in Australia that is now a sort of common -- if you go to a Water Environmental Federation conference, a Waterworks Association conference, sort of the principles of asset management are moving into the mainstream of utility management. Our office has

sponsored a number of two-day workshops around the

country. I believe we've had some up here in New Jersey. We'll be happy to come back if there's interest. We've probably had the opportunity to interact with about 3,000 water professionals over the last four or five years in terms of introducing concepts of asset management. We've also developed desktop tools where a utility manager can use free of charge, it's a public domain software tools to sort of begin an asset management program at their utility to better understand assets in place and then begin the process of life cycle management in terms of better understanding what are the assets in place and then better be able to address that O&M shortfall that we talked about in the GAP analysis.

Building on that, then, we entered into an agreement with the six professional organizations that run drinking water and wastewater utilities. Again, EPA, we don't have valve turners; we don't have people who are actually sort of on site at drinking water wastewater utilities. And so, again, we reached out to the Water Environment Federation, the

25 American Waterworks Association, the large trade

1 associations that represent the utilities, NAQUA
2 and AMWA, the Association of Metropolitan Water
3 Authorities, American Public Works Association.
4 And then on the drinking water side there are more
5 utilities that are privately owned, so the
6 American National Association of Water Companies
7 was also engaged.
8 And in cooperation with those six
9 professional organizations in May of 2007, I
10 developed what's called the attributes of a
11 well-managed water utility. For the first time
12 ever, sort of the professionals in the industry
13 came together and said, if you're really concerned
14 about managing water infrastructure, here's 10
15 things that you need to focus on. And then a year
16 later in June of this year, again, working with
17 those six organizations, I developed the Handbook
18 of Effective Utility Management that is an
19 introduction, a primer, if you will, in terms of
20 how to take the first steps in better managing
21 that infrastructure. Again, focussing on that O&M
22 gap that's out there, how do we manage -- I don't
23 think any of us would be willing to put a price
24 tag in terms of the water infrastructure in place

25 across the country. But it's loosely in the sort

1 of 3 to 5 trillion dollar range, perhaps more than
2 that. How do we manage that? Because, again, I
3 don't think it's a cost, it's an investment that
4 we all have in our local utility.
5 So that's a quick, sort of, summary
6 of the tool development that we've worked on on
7 the management side. Engaging the public, sort of
8 elevating the issue, as Mike touched on, in terms
9 of what are the issues that affect local water
10 quality, the relationship between that and the
11 rate base, communicating with the local taxpayers,
12 ratepayers is always a challenge. There are two
13 videos that I would commend your attention, one
14 that was done by our local advisory committee, by
15 local elected officials that sit on the committee
16 that advises the EPA. It's about a 15-minute
17 video. It's available free of charge that you can
18 use at local township, local village meetings as
19 you deal with the challenges of water
20 infrastructure. And then recently just this last
21 fall, we worked with and were a sponsor from a
22 material standpoint with Penn State Public
23 Broadcasting in the production of a program called
24 "Liquid Assets" that is now showing on PBS

stations around the country. It's a 90-minute

overview of the challenges of water infrastructure; and many professional organizations, the American Society of Civil Engineers and others, are working with their local affiliations as "Liquid Assets" come to the local public broadcasting station to sort of have discussion sessions with local councils and board members and the public in terms of the challenge that is represented by water infrastructure, again, to elevate that on the public awareness.

We've also, as part of the infrastructure work, focused on water efficiency. We've developed a program based on the water, the Energy Star Program that identified water efficient products practices or fixtures. It's called the Water Sense Program. There are products now on the selves at Lowes, Home Depot, and other plumbing supply houses that deal with high efficiency toilets, faucets. There are more in the pipeline, if you will, that if you're a growing area, basically, if you see a demand curve out there where you're going to have to expand your water infrastructure and you're on the drinking water or wastewater side, water

efficiency at the residential level has been shown

to be able to reduce water demand by 30 percent. So that's a real tool.

There's a JAO report that was done 2003 that predicted 36 states would have non-drought-related water shortages within the next 10 years. So using that overlay, water efficiency, we believe, will be critical.

Full-cost pricing, again, Michael touched on that, pricing for water resources is critical. And only when you're able to fully recognize what the full cost profile is for some of these tools I touched on earlier, environmental management system, asset management, et cetera, can you then sort of price out what you need to do as a utility looking forward.

I'll stop there with the demand side management and turn to the capital side for a minute. The plan that was put in place by this administration back in the 2004 budget identified an end point for both SRFs. Basically, it was another $6.8 billion for the Clean Water State Revolving Fund; I think another 18 billion for the -- I mean, 11 billion for the drinking water SRF, with those capitalization periods ending in

2011 for the clean water SRF; in 2018, I believe,

for the drinking water SRF. And the federal budgets -- the present budget certainly has tracked that plan over the last five years. We began with capitalization levels in the $1.3 billion range early in this administration in the '01-'02 time frame. And the president's budget for 2009 requests a capitalization level of 500 -- which is over $500 million for the clean water SRF.

Building on the history, though, I think it's more important to look at sort of what the SRFs have given us over the last 20 years. On the clean water side for an investment of $26 billion of federal capitalization grants, and there's a required 20 percent match, so the states have put in $5.6 billion, so roughly a total of about 32, the current value in place in the 50 state banks -- we'll get them as banks across the country -- is in excess of $70 billion. So we've taken 32 and we now have 70 out there revolving in the state revolving funds. Funding now on the order of about 2000 projects a year in the 12 months that ended June 30th, the states provided financial assistance for just over 2,030 projects

and made $5.8 billion in low interest loans on the

clean water side.

So that's the model, I guess, that is being used as a target as discussions are occurring on the Hill, at least on the House side for the stimulus bill. We, in our planning process, are using HR7110 as a baseline. That bill moved very quickly through the House back in September. We heard about it on Tuesday, and it passed on Friday. So it was, again, something that was responded to very quickly. Interesting that it's using the state revolving fund as a vehicle, 7110 did a couple things. First of all, it waived the state match. So it said in the spirit of -- in the interest of sort of moving projects forward quickly, the 20 percent state match was not required. But it was also interested in the stimulus quick move project to construction. I saw the President Elect on Meet the Press yesterday. He used a couple times in the interview the term shovel ready, in terms of the perspective of sort move projects quickly to construction that will result in jobs and economic stimulation.

In order to then prepare ourselves

for the potential stimulus bill and what we are

hearing is that the plan is to have the bill ready for signature on January 20th. So the work between now and then will be critical in terms of preparation for that program. We have had a call of the states, Stan and others from New Jersey, were on a call to -- again, using 7110 as a baseline, what do the states see as barriers. Are there issues out there that we should be aware of so that on January 20th if, in fact, the stimulus bill is passed and if it continues to use the state revolving funds as the vehicle, what do we jointly need to do between our office and the headquarters, our regional representatives as well as the state's to move that money in a timely way to local governments, two local utilities and into construction.

We had a webcast last week with the drinking water state revolving funds. We are scheduled to have another call December 10th, Wednesday this week with the states. We're going to follow that up with the associations that represent local governments because, again, there's a lot of energy out there in terms of bear interest in the stimulation bill. And, again,

what we want to do is prepare ourselves so that

we're ready to move forward if in January the potential stimulus bill becomes a reality.

Issues that I see related to the stimulus bill and our ability as EPA and the Office of Water together with the states that manage that is pace. Again, shovel ready is the construct of whether that means a binding commitment of 120 days, whether that means actually beginning construction in six months, nine months, twelve months. We have suggested that clarity be added to the legislation so that the interest of Congress is as clear as possible. I think there are states out there that if the stimulus bill passes in a form like 7110 and there's a tenfold increase in the amount of capitalization grants that are provided to some states, they don't have projects that are ready to go. So I think a system where states that have projects ready to go can benefit from the stimulus funds and if the state is not ready now, no hard feelings, but have the ability to move that money to places where it can be used.

I think substitution is a big issue. Again, the states made loans, provided financial

assistance over the last 12 months, add

$5.8 billion on the clean water side. And that's for a capitalization grants last year that I think were on the order of -- the '07 funding level was a billion dollars, the '08 level was 680. And so there's an huge sort of leverage. The revolving nature of the SRF has really fulfilled its design in terms of making $5.8 billion worth of loans for sort of the new capital that's going in that's on the billion or less level. And so if $6.5 billion were to be made available, does that serve to substitute for money that would -- loans that would otherwise have been made? Right now, 27 states leverage their state revolving fund. That means they take capitalization grant to match, they go to the bond market and they borrow based on that to accelerate or leverage the value of the fund. If stimulus monies only serve the substitute for sort of a leveraged capital, in fact, very little new work will happen. And so I think we need to take a look at that in terms of states like New Jersey that have been very aggressive in managing their fund, that stimulus dollars don't simply provided a substitute for otherwise leverage funds. What we need to look at

25 is from a program management standpoint. We will

1 certainly be asked these questions, is that has
2 there been a net increase in construction by
3 virtue of the stimulus. I think sort of quality
4 projects, the integrity of managing this level of
5 funding will be key. You don't have to go too
6 many occasions deep in the paper every day to look
7 at sort of some of the concerns that are being
8 expressed regarding the Treasury Department and
9 some of the bank financial assistance being
10 provided when it turns to the domestic programs in
11 the stimulus package. We will be getting all
12 those same questions. So I think we need to work
13 today, again, with the states to set up a system
14 to sort of manage those monies and to account for
15 them.
16 Our current model with the states is
17 that we ask for a summary of project information,
18 on sort of an annual basis. We sort of gather
19 information annually. That absolutely will not be
20 enough under stimulus. We will be called once a
21 week, I suspect, maybe twice a week, in terms of
22 how you doing, how many projects, how many jobs,
23 et cetera. So we need to set up a system to
24 account for that today so that, come January,

25 we're ready to go.

1 And, again, as we do that, we need
2 to look at sort of as this capital is put in
3 place, how do we do it better than we have in the
4 past in terms of some of the better management
5 principles I talked about earlier in terms of
6 managing those assets over the long term. There
7 in earlier legislation have been considerations,
8 sort of conditions. You don't get an SRF loan
9 unless you have an asset management program or
10 unless you do this. I don't know if that's the
11 best way of approaching it. I think certainly
12 there needs to be incentives in place to make sure
13 that the assets that we will build with stimulus
14 funding is done and done well and are managed well
15 over the long-term.
16 Clean water is important to all of
17 us as we look forward, are important to urban
18 centers, are important to the recreation
19 opportunities, to business opportunities, to
20 commercial opportunities across the country. And
21 that I think the potential of stimulus funding
22 provides a real opportunity. But again, along
23 with the opportunity comes the real challenges as
24 we look forward over the next year. And from an

25 EPA standpoint, we're looking forward to working

1 with the Council in New Jersey as we manage on the
2 ground our current and future infrastructure.
3 Thank you.
4 (Applause.)
5 MR. FURNARI: Our final speaker this
6 morning is Mr. McManimon. He is going to bring us
7 a more local perspective. He's an attorney and
8 has worked extensively in analyzing and developing
9 and implementing financial plans for the
10 redevelopment areas in New Jersey with a focus on
11 privatization in the public water, waste water,
12 and solid waste systems. He also is a lecturer
13 and has lectured on municipal finance, debt
14 management throughout New Jersey for a variety of
15 organizations, including the New Jersey League of
16 Municipalities.
17 (Applause.)
18 MR. MCMANIMON: Well, I guess we had
19 the international and the national. I'm going to
20 sort of talk from the trenches a little bit,
21 because the practice that our firm is engaged in
22 is representing local governments. And I see Rick
23 Dovey, the Atlantic County Utilities Authority;
24 Joe McIntire, City of Trenton; John Folk from

Jersey City MUA and others.

I asked before I started -- Lou Neely asked me two months ago to come and speak. And I said, I'm not sure I'm really the best person to speak on this because I'm really in a stage where what's going on in government is really almost taking governments off the cliff, not just with debt but with the way they manage their finance. And I know we're here to focus on management of local things. And Lou, when he asked me, he sent me an e-mail. And this was what he said to me: He said, "I told the Council about your talk to the GFOA and the issues we as a state face. I'll send you the draft outline on this hearing. You can have 15 or 20 minutes. We want real talk, not nice words, about how we need to hold hands and get it done.

So I asked Lou if this group had a sense of humor. And he said, well, they often to laugh at stuff he suggests so I probably can't do any worse than Lou.

So, to me, there's a couple of issues here. I really want to send an alarm probably more than focus on what the policy issues are about for today. But because we're in a bad

place with the State, because we generally live in

a sense of unawareness because we live from budget to budget, maybe even month to month or quarter to quarter. And it's not just our debt, it's just our overall way in which government pays for services and ignores what it's actually going to cost them as those numbers accumulate. Because I was listening to the discussion today; we don't have at the local level a finance problem. Some of the issues that are raised here talk about whether we -- you know, is there a rate base for what we want to do. Yeah, we have a rate base. We have no problem with a rate base. It even says we lack a utility structure and a rate base to cover essentially stormwater management; and that's not true, because there's a state law that specifically allows you to do all of those things as part of your water and sewer and wastewater and stormwater. There's a specific law. It's actually called the flood preservation. It's right before the water supply -- in between the Wastewater and the Water Supply Acts. And those Acts are tremendously broad. They have tremendous powers to local governments. They allow you to pay for things through taxes that are general

obligations. They allow you to special assess

them if certain people benefit more than others. They allow you to set up utilities. They allow you to set up authorities. And they allow you to borrow money. And they allow you to leverage the monies that are available from various programs.

And certainly, for the group that's here, we have the best program that's ever existed in the State of New Jersey, New Jersey Environmental Infrastructure Trust Program. Usually these programs at state level, you know, talk in general terms and they tell you they can help you; and that program does. And from a local level, it's almost difficult for a local level not to use that program if they're using the tools that that has available to it, because the cost of borrowing money is significantly lower than anything else you can do. They operate with the understanding what we at the local level face. They actually come in and help. They don't just say, I am here to help you; they actually do that.

So from a financial point of view in terms of leveraging capital and reducing the amount of debt, and if they follow Mike Curley's comment, extend out the period from 20 years to 30

or 40 years, you can leverage more projects by

paying less money in a given cycle. But our State, the State of New Jersey, is structurally and financial challenged. We have a complex state. We have a financial, social, and environmental issues that are completely out of balance with each other.

An article just the other day -- I don't know -- I think it was in the Trenton paper, or not, but it said that the affordable housing rule requirements have to be presented, although I hear that they may be extended, before the water rules are in place.

So people are trying to put affordable housing in, 155,000 units or whatever the State is calling for, with little regard for water and the infrastructure that exists or could even be put in there for wastewater and water could even support it. So we have laudable social goals. It's certainly a laudable social goal, to make sure we put low income housing in. Certainly, the environmental restraints -- it's kind of hard with the environmental people here, to talk about the environmental restraints not always being a good thing.

25 It's interesting, because there's

1 article in the Times or the Wall Street Journal,
2 cities and states are squeezed by municipal
3 market.
4 I did an article for the League that
5 just got published. The point they picked out --
6 as I said, it was called Fiscal and Credit
7 Uncertainty Looms For New Jersey Local
8 Governments. And the part they pick out that sort
9 of highlights it, if businesses and people move
10 elsewhere because of the inevitable spiral of
11 taxes, services and costs of government and the
12 financial footing of New Jersey will fall as
13 rapidly as the financial markets. And that's
14 true.
15 The State of New Jersey doesn't have
16 the money to help out. Urban New Jersey lives off
17 of State aid. The City of Trenton, Jersey City,
18 Camden, Patterson, they get 20, 30, 40, 50 million
19 dollars a year that they get from the State to
20 balance their budget. So what do they do? Well,
21 they find a way to balance it. I'm involved with
22 the current situation involving the sale by the
23 City of Trenton of its outside water system to New
24 Jersey America. And they're going to hold onto

25 the inside water system and sell off the outside

1 system. It's a lot technological issues involved
2 in that. And a large part of the catalyst for
3 that is to produce some funds for the City to help
4 balance its budget. Now, they can't use that
5 money for anything other than debt or debt
6 service. So their ability to use that for other
7 purposes is limited. But these urban towns living
8 in the real world are trying to figure out how to
9 balance their budget. So incurring more debt is
10 almost fine with them because they're going to
11 borrow and pay for it later. But at the same
12 time, they'll take labor contracts and they'll
13 extend labor contracts and they'll pay for them
14 later. We have unfunded, underfunded pension,
15 other post-employment benefits.
16 There was an article in the paper,
17 oh, a year ago that said the State of New Jersey
18 has calculated its unfunded other employment
19 post-benefits as $28 billion. And about a month
20 later Stan Macorski (ph) said it's $78 billion.
21 Because it involves health care, nobody knows how
22 to deal with it. And so we need to get a grip on
23 what it costs to do government.
24 Now, as I said at the beginning of

this, we don't have a -- I don't think we have a

financing problem, because legally -- I'm asked to give a legal perspective. Legally, our statutes are very broad. We don't have to make any changes in our statute to do almost anything that you're talking about here. We have the ability to spend money. We have the ability to borrow money. We have the ability to pay for it over fairly long periods of time. We're only limited to 20 years if we go to the Trust. If we go outside the Trust, they could go up to 40 years. They can do lots of things. And the question is, what makes the most sense? And unless these towns, and the State of New Jersey included, understands better what the cost of everything is -- for instance, when you incur debt, you know exactly what it's cost you for the next 20 years. There's a debt service schedule. The principle and interest, it tells you exactly what it is. You enter into a labor contract and you agree to pay your unions another 3, 4, 5, 6, 8 percent over whatever period a year, and as part of that you give them benefits. Well, nobody calculates what the benefits cost. Well, the benefits are going to bankrupt the State of New Jersey in the next 20

25 years. Absolutely. Nobody pays any attention to

1 it. Nobody wants to talk about it. When I raise
2 it with finance officers, they go, oh, my God, you
3 know, because they're the people who will have
4 make those policies.
5 So what does all that mean for water
6 infrastructure. Well, people think water should
7 be free. They think wastewater should be free.
8 They go buy bottled water, but whatever you do,
9 they want to complain about it. And unless we
10 change the priorities, make people more aware, the
11 infrastructure problems that are raised in just
12 the brief materials that are here are very clear
13 that people just -- you know, they take it for
14 granted. The local governments, people who ask
15 these questions, they take these things for
16 granted. They want to figure out how this cost a
17 little less. Well, maybe they ought to figure how
18 it cost a little more, because if they changed
19 their priorities, if this was more important than
20 it has been to, say, to the post-employment
21 benefits for people from 25 years from now, we
22 could afford these things because this is a higher
23 priority -- at least ought to be a higher priority
24 than people believe it is now, because they just

assume you'll take care of it. So then you go to

the government, and they'll say, well, you'll come up with some solution, right? Yeah, we'll come up with a solution and it defers it and it defers it and defers it, like everything else. And now the Division of Local Government Services, which was always the first responder whenever there was a financial problem, well, they're a first responder, but they don't have any tools. The State doesn't have the money to give them to bail out a lot of the people who need money. And you go to the local government. The local government says, well, we can't afford to raise taxes. We've been used to taking half of our budget and getting it from the State. How can we raise taxes?

And then you say to them, well, we have to do also, if you have a lot of infrastructure problems, you need to fix the infrastructure problems. Well, the State of New Jersey wants to fix the infrastructure problems by selling the turnpike and getting the money and using it for something else.

You know, it's interesting. These questions -- and I'll go to them -- it would a moral sin if a lawyer shut up and sit down. It

says, the first funding of urban infrastructure,

it said the urban areas for development or redevelopment. Well, there isn't any redevelopment going on because of the economy. And you want to grow your tax base to do these kinds of things, well, you need to invite the people to come in and develop. And it's complicated. I'm not saying the environmental constraints that exist cause development to occur, but they complicate it. And it's not that you shouldn't have it, but at some point all these constituents have to rebalance themselves to figure out what's the appropriate balance so that you have the social goals that you can meet with the environmental constraints that you can support and have people come in so that the people stay.

Now, there's a comment about the -- I know all the subsidies that he was talking about. Tax and financing being a subsidy. And, you know, of course, that's like a -- the idea that we can unravel taxes and financing so you gave it to the people who needed it the most as opposed to the others. That's why we have an income tax in some sense. Because income tax is $12,866,000, that's how much of the $33 billion in

revenue that the State of New Jersey has, where it

comes from. Forty percent of that $13 billion comes from 1 percent of the people. That's fine. At some point -- in fact, everything doesn't have to come from that group of people, because what's happening with that is they're leaving. They're not staying in New Jersey. Those people are going to move. And of course, some of them have to move because they lost their jobs in the financial crunch. But there is a -- you know, the idea that the State, you know -- the idea here is that local governments ought to consolidate. There's 566 municipalities, 21 counties, 610 school districts. There's too many of them, and they ought to consolidate. Well, because property tax is too high, and they figure some broad base tax is going save them. And I know there's suggestions here, some broad base tax can support infrastructure for water and wastewater. Well, one-third of the State's budget, one-third of the $32 billion budget goes to local government and school districts already. We have one of the highest income taxes in the country. We have one of the highest sales taxes in the country. About 1 percent of the income tax is going produce another

billion dollars. We have 6 and a half billion of

a $33 billion budget is for services, people who are some of the here. You know, we have 6 and a half billion is what it cost to actually pay for people to operate the budget. And so if you cut 10 percent, that's $650 million. If you cut 20 percent, that's $1.2 billion. Well, the Governor says we may have a $5 billion deficit next year. We can't fix the sales tax. We can't fix the property tax problem because the state of New Jersey doesn't have the money to do it.

And so what is the answer here? I really did want to come and listen more than talk here because in terms of the infrastructure, we have it legally. And we have a base, we have a rate base in Newark. You know, if you want to say you have rate base in Trenton. But can they afford it?

One of the other questions that's raised here that asks for comment is maintains an adequate local reserves. They want to make sure that the money that's raised for water and wastewater and stormwater is used for that as opposed to used for other things.

Now, Trenton is a classic example,

25 just the four towns that Trenton serves, Hamilton,

1 Hopewell, Ewing, and Lawrence are suing Trenton
2 because their water rate has factored into it,
3 money for surplus. The surplus that's generated
4 from them is then anticipated by the City and used
5 as a general revenue for the City's budget. I
6 know a lot of communities do that. Some do not.
7 It's certainly permitted by statute. And people
8 who do it, do it out of desperation because they
9 have no choice. You know, in the real world, you
10 have to make these choices. And I don't know what
11 they're going to do. But there's a -- as I said,
12 I indicated that the stormwater does have a rate
13 base, it does have a statute, it does have an
14 allowance. You can put stormwater in, you pay for
15 it with your regular rates for water and sewer,
16 you can charge it to people who benefit from it
17 more than others if you choose to do that. So
18 we've got the infrastructure legally, and we've
19 got the rate base. The rate base can't afford it.
20 That's the problem, because the priorities are all
21 out of whack. They've got all these expenses that
22 they have incurred, and it's starting literally to
23 become -- they're starting to become more aware of
24 how much money they've incurred for things that

25 are hitting them that were incurred 20 years ago

1 for expenditures. And yet everybody rolls right
2 along, the Legislature, the Council People, and
3 they'll vote all these things to continue. And
4 until they take a harder look at it, they're not
5 going to have the money to fix the things you're
6 talking about you want them to fix on the water.
7 And until you can change the philosophy for them
8 and the culture so that they understand how
9 valuable water is and how valuable the sewer
10 services are that they get and that they are not
11 free and that they cost money and find a way to
12 make sure they appreciate that and make it a
13 higher priority; and when they do that, they've
14 got to make some of these other things a lower
15 priority. And they're going to have to figure out
16 how to not do them any more because they can't
17 provide those services if they're going to provide
18 this. We're out of money. And I know it's not
19 something people here want to hear, but that's a
20 fact.
21 So I'm happy to respond to questions
22 or listen to whatever has to be said and leave it
23 at that. Thank you.
24 (Applause.)

25 MR. FURNARI: Thank you, Ed. And

1 you do raise some hard issues and, actually, many
2 of the ones we as members in the Council have been
3 discussing for quite some time.
4 We are going to move to the public
5 portion of the hearing. Just a couple of
6 guidelines for that. Everyone who comes up,
7 please introduce yourself and who you represent so
8 that that can be recorded for the transcript. And
9 your time limit will be five minutes. And we will
10 work to keep that very strict so we can get
11 everyone a chance to make their comments.
12 Just before I start, I just wanted
13 to review a little bit the five questions that we
14 had proposed, as has been alluded to earlier.
15 They are funding for urban infrastructure,
16 sustainable pricing and management, maintenance of
17 adequate local reserves, financing mechanisms for
18 stormwater management, and financial incentives
19 for innovative technologies.
20 We did have a pre-registration that
21 was available for speakers. And we have a number
22 of folks who requested to speak, so I'm going to
23 start with that list. I believe we also had a
24 signup list outside, which we will get to after we

go through this list.

The first person I have on my list is Ben Spinelli, but I don't see Ben here, so I guess I'll move to the next person on the list, which is Ray Ferrara.

MR. FERRARA: I thank the speakers this morning. They've been very informative.

I'm Ray Ferrara, I'm a principal with Omni Environmental, located in Princeton, New Jersey. We've operated throughout the State of New Jersey for approximately 20 years on a host of water-related matters.

While there are many topics of importance that I can speak to you about today, I'd like to address, given the time constraints, one particular aspect I think deserves this Council's attention. And that is the matter related to the need for a stable, long-term funding for the statewide stream flow and title gauging network maintained by the United States Geological Survey.

I and many others like me in both the public and private sector rely upon the information that's gathered by the GS's infrastructure of gauging stations in many

25 enumerable times, both in research and education

1 and as well as in a consulting context. It's
2 instrumental to the entire regulatory framework.
3 Today, you have heard and will hear
4 more about a number of infrastructure activities
5 which I think you can immediately and easily
6 visualize: Water mains, sewers, water storage
7 tanks, water and wastewater treatment plants.
8 I'll call this the visible infrastructure.
9 What I want to talk to you about is
10 the invisible infrastructure. The aspect of the
11 system that provides the essential elements of
12 information and data that's so essential and
13 cannot be ignored in putting together the entire
14 overall infrastructure system. This invisible
15 infrastructure provides data and information,
16 without which you could not design, construct, and
17 operate the visible infrastructure. Without the
18 invisible infrastructure, we don't have a viable
19 overall infrastructure system.
20 At the present time, the US just
21 maintains over 200 continuous and partial wreckage
22 stream flow gauging stations, more than 50 gauging
23 stations on tidal waterways, plus additional
24 stations at reservoirs and other locations. These

stations are spread throughout New Jersey.

Without the data collected at these stations, you could not permit a wastewater treatment plant, you could not plan for potable water supply facilities, and you could not evaluate and design stormwater management facilities to prevent flooding. Lost would be the ability to provide timely flooding warnings to the public. Lost would be the ability to provide up-to-date observations of drought conditions for the optimum and safe management of water supplies. These data are so essential to all of the water-related infrastructure that without them you would essentially bring all of the water-related infrastructure systems to a screeching halt. In doing that, there is no doubt in my mind that public safety would be in peril. This is a program that begs for a sustainable source of funding.

Specific systems that use the realtime data obtained by a GS include the Passaic Flood Warning System, the Somerset County Flood Information System, the New Jersey Tide Telemetry System, the Rahway River and Pascack Brook Flood Warning Systems, the New Jersey Drought Monitoring

System.

The annual cost to maintain this program is approximately 2 and a half million dollars. That cost has been shared by a host of federal, state, county, and local entities. The USGS itself provides the bulk of the federal funding. And the New Jersey DEP provides the bulk of the non-federal funding. However, this latter constituency is a particular concern to the program. There's no sustained dedicated NJDEP source of funding.

Every year various water-related programs within DEP scramble to chip in, recognizing that the data collected via the statewide gauging network is essential to their own programs. They could not continue their programs without the statewide network. Each year the struggle gets greater than the previous year. A sustainable funding starts at about $1 million per year is needed to replace this perilous situation and provide a stable source of funding for a program that is essential as any other to our water infrastructure. There's no reason that such an essential aspect of our infrastructure should have to exist on a year-to-year basis not

knowing whether there will be sufficient funding

to continue the program in the following year.

We must identify a sustainable source of funding for this program. Thank you for your time.

MR. FURNARI: Our next speaker is Andy Kricun.

MR. KRICUN: Good morning. Thank you very much. I appreciate the invitation to come here and speak.

My name is Andrew Kricun, I'm the Deputy Executive Director of the Camden County Municipal Utilities Authority. We operate a wastewater treatment plant in Camden, New Jersey, and I'm here to discuss sustainable infrastructure. My goal here is to sort of frame the problem from the perspective of wastewater utilities and then propose the potential solutions.

Camden County Municipal Utilities Authority operates an 80 million gallon per day wastewater treatment plant in Camden, New Jersey. Camden City is one of the poorest, if not the poorest cities in the nation. So obviously, the issue of sustainable infrastructure is of a

special interest to us.

Now, first, I want to frame the problem, as I said. Wastewater utilities in general have an important balance to strike. Wastewater utilities, obviously, our purpose or reason for being is to improve water quality to protect the public health and to protect the nation's waterways. However, we have to do that in a manner that is responsive and responsible to our ratepayers. So we have to strike a proper balance between optimizing water quality performance but also minimizing cost. So that's always the case for us. But however, striking that balance has become increasingly more difficult because of recent developments.

First of all, aging infrastructure. Much of the infrastructure constructed by water and wastewater utilities recently was constructed during the Federal Clean Water Act grant era in the 1970s, 35, 40 years ago, which is now coming due and ready for replacement. So aging infrastructure is a problem for our utility, but also nationwide.

Second, increasingly stringent environmental pressures and regulations. The

USEPA and state utilities are, and rightly so,

making environmental regulations more stringent, so that ups the bar for wastewater utilities.

Third, we all know about the increasing economic pressure, so we have even more pressure to try to maintain our rate and hold our costs down.

And lastly, just to complete this perfect storm for wastewater and water utilities, the baby-boomers are all starting to retire and so, therefore, the aging workforce is been a result potentially in the loss of institutional knowledge for the utility.

So the wastewater utility manager has to optimize water quality, improve water quality, sustain its infrastructure, hold its rates, and also replace the workforce and capture institutional knowledge. So how can all this be done? I think I've framed the problem. What are some solutions?

I'll propose two potential solutions that have at least work for utility in Camden City. The twofold approach that we've taken is, number one, to optimize internal efficiency; and second, to take advantage of funding opportunities

that are available to us specifically through the

State Revolving Fund that's maintained by the New Jersey Environmental Infrastructure Trust.

I hope that to hear our very mini case study, any utilities and my colleagues out here will be encouraged to perhaps follow suit you in the same way. First, let me discuss the optimized efficiency and then I'll discuss funding opportunities.

Our utility implemented ISO 14,001 environmental management system that was discussed earlier by Mr. Hanlon as an initiative of the USEPA. We implemented that a few years age. We had amazing results. Our environmental management system -- the purpose of an environmental management system is to take the private sector model of efficiency and harness that toward the public good. So it's sort of like having your cake and eating it too in the sense that you have the private sector model of efficiency married with the public sectors reason for being to help the public good. We had tremendous results from this management system.

First of all, our effluent quality was improved by over 50 percent. We used to

discharge wastewater about 25 to 30 parts per

million. Now we're down to 7 parts per million. So that means our water quality is 50 to 75 percent better than it was before we started this internal efficiency process.

Secondly, we almost rebuilt our entire wastewater treatment plant through the infrastructure from the trust. And in fact, by 2010, the five major process units of our treatment plant will be completely redone and we'll have brand-new plan. That has resulted in reduced operations and maintenance costs. In fact, we've reduced operation and maintenance cost by $5 million per year from 1996 to 1999 and have sustained that. So we've saved our ratepayers over $50 million in the last 10 years. As a consequence, our rate is actually lower today than it was in 1996. We've held our rate for the last 14 years by improving our efficiency and also replacing our capital. That's essential, and I would urge utilities that have to meet this aging infrastructure problem head-on, replace the capital. But that could not be done without the second piece of this improvement formula which I've mentioned. The first was optimizing

efficiency through USEPA's ISO 14,001

Environmental Management System that is mentioned. But second, to take advantage of the funding opportunities that our State Revolving Fund afford.

We have been a very liberal user and very grateful to the New Jersey Environmental Infrastructure Trust. Without their assistance, we could never have accomplished that. Let me illustrate how that's so.

Basically, if you improve underperforming capital and replace it, you're going to reduce your operations and maintenance costs, which is one percentage, obviously, of your annual costs. However, of course, your debt service goes up correspondingly. But with the infrastructure trust offering low-interest loans to utilities, we're able to do that at significantly lower costs, annual costs. So, therefore, what we've been able to do is replace our entire treatment plan and do it such that the annual debt service is lower than a savings in operation of maintenance costs. So operation and maintenance costs savings are greater than the actual debt service that we're paying because of

25 the low interest rates that the Trust affords.

1 That's how we've been able to replace our plan,
2 improve our water quality, and hold our rates
3 constant. And I think that is a solution other
4 utilities would consider adopting.
5 To give you an example, we
6 considered a $20 million capital project or
7 wastewater treatment plan two years ago. And
8 there was a push, despite our great experience
9 with the Trust from a new manager that we had that
10 said, why don't we look at private finance; and we
11 did. And the analysis for a $20 million capital
12 project over 20 years, paying it back through just
13 private financing, would have cost us $100 million
14 over that 20-year period. Going to the Trust
15 would cost us $30 million over the 20 years.
16 That's a $70 million savings that we realized, to
17 go through Infrastructure Trust as opposed to
18 going up through, you know, ordinary private
19 financing. That's almost like a $7 billion grant
20 to the county. And because of that, our debt
21 service instead of being $5 million per year, 100
22 million divided by 20 years, it was only 1 and a
23 half million dollars per year; 30 million divided
24 by 20 years, that's 3 and a half million dollars

to the good in our annual ledger. And that's how

we've been able to replace our plan, improve our water quality, and actually hold our rate and make -- our annual rate is actually lower today than it was in 1996.

One more push for the Infrastructure Trust, as an aside, is that it also helps to fast track permits and approvals. I've heard other utilities say, well, they're concerned that it's more work. Yeah, it's a great rate but it's more work. Actually, the marginal amount of work is really negligible. And the Trust assists the applicants in proceeding with their projects and they actually get fast tracked.

So in summary, what I'd like to say is that utilities have a very serious problem, as you've heard from the speakers before, and increasing pressures to maintain that proper balance between optimizing performance and minimizing cost. I would encourage utilities to consider the idea of optimizing internal efficiency and taking advantage of the funding opportunities that are available to us through the State and perhaps hopefully through the federal government.

Thank you for your attention.

MR. GALLO: Good morning. My name is Steve Gallo. I'm the Executive Director of the Bayonne Municipal Utilities Authority. Last year I got the hook for going over five minutes, so I'm going to brief and then short.

Bayonne Municipal Utilities started as a public water and sewer utility that serves the needs of our community of 61,000 residents. The first and most important point I'd like to make is that the people of this state, and Bayonne in particular, have no money left to give. With record high property taxes and a recession in full swing, the people can't afford to pay any more increased taxes or increased fees. This important fact needs to be on the minds on anyone who would seek to identify funding for major infrastructure projects.

This, of course, in no way changes the fact that we need hundreds of millions of dollars in infrastructure investment immediately.

To this chagrin of many Americans in recent years, much federal money, American money, has been invested in Iraqi infrastructure more than perhaps in American infrastructure. In the

latter part of the 20th century, we were told

first by President Nixon and then by President George H.W. Bush of the peace dividend. The theoretic idea that when the war winds down and defense spending slows, there should be more money available for infrastructure projects. Hopefully, as we wind down our involvement in Iraq, we will reap the benefits of a peace dividend for our infrastructure here at home. What we need how is a marshal plan for America to help us through these difficult economic times.

With regard to funding for urban infrastructure, my hometown's infrastructure is approximately 125 years old. Our old water mains are developing leaks, are breaking, and our sewers are suffering from hydrogen sulfide attack, and our aqueduct is in need of replacement. Bayonne is just the sort of city that we are told should be at center of Smart Growth. Our population is lower than our peak level of 90,000 people. We have open space and brownfields ready for redevelopment. Our infrastructure needs to be upgraded to support Smart Growth objectives. The developers are already facing the burden of the new COAH regulations. And while we have had some

modest success in charging new users new

connection fees, the developers can only afford so much, and sometimes they balk at some of the charges that we levy in accordance with the State regulations.

In New Jersey, we pay people who preserve open space. Well, perhaps it is time for the people in the wide open spaces to help the cities absorb the burden of being the target for new growth.

With regard to sustainable pricing and management, asset management is a commonsense approach to optimizing the use of your resources, but it is certainly not the be all and end all. It also assumes that utilities have the financial wherewithal to fund the improvements when they are identified and scheduled to be cycled out. The definition of reasonable rates is also up for discussion. I can assure you that that discussion happens every time I have a rate hearing when people tell me that my rights are unreasonable.

There might be some benefit to providing some sort of financial incentive to the public utilities to at least prepare an asset management plan to have a starting point, in much

the same way as the BPU is still offering

municipalities money for energy-saving plans. At least then maybe we can get the money to start so that it's in place and then that will tell us what our next steps are.

With regard to the maintenance of adequate local reserves, any authority that has reserves is now subject to having that reserve taken by the local government that they serve. The Legislature is sending us mixed messages when they pass laws permitting the seizure of our reserves at the very time we should be establishing these reserves. I don't know if everyone is aware of that, but our town can take our money if we have something that looks attractive to them.

With regard to financing mechanisms, we're still in water management. It would be helpful if we could establish stormwater utilities. Right now there's no reasonable relationship between what we charge our customers and what we spend on stormwater management. We are obligated to collect, process, and transport stormwater without any way to charge anyone for these services directly. Being a combined sewage

system, stormwater impacts greatly on our overall

treatment costs. But we have large industrial properties that don't use much water and sanitary sewer services, but generate lots of stormwater runoff that we must deal with but don't get paid for.

With regard to financial incentives for innovative technologies, this is an area where we have a real opportunity to use technology to control and reduce our cost. New ideas and fresh approaches are extremely useful, increasing efficiencies and lowering cost. In Bayonne, we strive to stay on the cutting edge of technology. We were the first town in the United States to use the Child Line and sewer rehabilitation system, expanding a repair's useful life from 10 years to 50-plus years. We are pursuing an experimental process to disinfect CSO events quickly and harmlessly at a significantly and reduced cost than was projected in our CSO plans. We are considering the construction of a windmill to power our main pumping station. We're looking at solar power. We're planning on reusing our old primary treatment plant to disinfect CSO overflows. And we are looking at low tech options

of rain roofs and rain barrels to limit costs in

our town. They're also looking at -- and this is my favorite thing if I can get it off the ground. We're looking at using Wi-Fi technology to read meters within our system and then use the associated Wi-Fi mesh network to monitor pump stations, assist with other governmental functions, and provide Wi-Fi services to the community, perhaps generating a fee that we can supplement our cost with. The legislation has been passed that allows utilities authorities to build and market Wi-Fi services.

So in conclusion, please bear in mind that our ratepayers simply can't pay any more. It's nice to get low interest loans, but they have to be paid back, and grants with large matching requirements just incur more debt.

Thank you.

(Applause.)

MR. FURNARI: Our next speaker is Frank Pestanna.

MR. PESTANNA: Good morning. My name is Frank Pestanna. I'm the Executive Director the North Bergen MUA.

A few weeks ago Stan Cach had asked

me if I was interested in speaking, and I agreed

because of all their assistance in projects that we have done in North Bergen. I'm here to talk about the funding for the urban infrastructure.

As an older urban community, North Bergen's infrastructure is in constant need of repair. However, in order to complete these repairs, many millions if not billions of dollars are required, and the community cannot afford to do everything that is required. However, with grant monies and low-interest loans, some of these projects can be accomplished with minimal impact on the taxpayer, as is the case in North Bergen's present project.

Along with a $2.1 million grant and a low-interest loan from the NJDEP, we were able to move forward with our plan to decommission our central treatment plant and send our flow to Jersey City to Passaic Valley Sewage Commission for treatment. The loan is normally 50 percent at 0 percent interest and 50 percent at the current rate. This is a great deal, but North Bergen also being in an urban enterprise zone was able to get a better rate at 75 percent of the loan at 0 percent and 25 percent of the existing rate which

worked out to a blended rate of about just over

1 percent for the life of the loan.

This funding is paying for the rehabilitation of two pump stations in North Bergen, one of which is almost 30 years old, to connect to Jersey City system. At Jersey City, we had to upgrade that pump station in order to accept this flow, so North Bergen was responsible for that as well. And we had additionally pay for a few other smaller projects in Jersey City.

This project not only benefit North Bergen, but Jersey City and the environment because now three rehabilitated pump stations replaced the aging pump stations which had reached their useful lives and now will operate more efficiently in the future.

North Bergen could not have implemented this project without the NJEPA and its help in providing a grant in financing under the infrastructure TUF loan program. As a result of this funding program, we were able to accomplish this project, and giving back to the taxpayers only about 4 to 5 percent increase in annual rates as opposed to a much more drastic impact to the taxpayer had this funding not been available.

We have not conquered all out

challenges yet, however, since we have an old combined sewer system which requires constant rehabilitation, and future CSO regulatory requirements will have additional impacts on the taxpayer. Therefore, it is essential that more grants are made available in the future as well as financing programs so that these future projects can be implemented and the burden to the taxpayer will be eased as much as possible.

Thank you.

MR. FURNARI: Our next speaker is Michael Rogers.

MR. ROGERS: My name is Michael Rogers. I'm Executive Director of Monroe Township Municipal Utilities Authority in Middlesex County and immediate past president of the Association of Environmental Authorities in New Jersey. I want to thank Council for having me come today to speak and, more importantly, to listen to what others are doing.

When I was asked to come and speak, I said, why me? I looked at it, and I said, well, let me see. We represent 43 square miles of water and sewer service area. We haven't raised either

water or sewer rates in 18 years. We've got one

of the lowest combined water and sewer rates in the area. In the process, we've managed to accumulate an unreserved net retained earnings of over $40 million, with an outstanding debt of over 19 million. As I say, our rates are one of the lowest in area, so we've managed to do something right. We're providing grade service. How did we get to that?

First, the principle of pay as you go -- I want to talk about that -- environmental conservation, rate-setting, and finally, value engineering in particular the life cycle cost analysis. All these have helped us.

First, pay as you go. When I was a little guy, my dad told me, "Son" -- he called me son, among other things -- "if you can't afford it, don't buy it. If you want something, save your money."

That principle has been kind of stuck with me for a long time. That's not to say that bonding is a bad thing. We have outstanding debt, but the point is, you've got to set your capital reserves at a level that is reasonable. You don't borrow for everything. Would you send

your kid to college with three or four credit

cards and no guidance as to how to spend with those credit cards? No, you wouldn't do that. There really is nothing to tell you what a reasonable amount is. You're going to listen to different people. But bottom line, we're essentially borrowing too much and not paying as we go. Each bit of interest that you tack on, each bond that you do, adds to your rate. Higher interest equals higher rates.

We've managed to set a rate structure. Because we are a growing community -- had been over the last 20-something years -- where we weaned ourselves off of connection fees. We set our rates through our rents, water and sewer rents, equal to our annual operating cost, and the connection fees in accordance with 40 and 14B-22 have come in as surplus, geared towards our six-year capital projects program.

Towns that aren't growing won't be able to do that. One of the other things you can do -- and we found this almost by accident. The Department's been promoting for a couple of decades now the concept of conservation promoted rates. You'll find in your allocation permits,

they'll make it a requirement. The basic concept

is, get rid of your declining block rate structure where you pay less for every thousand gallons you use and replace it with an inclining rate structure where you pay more for every thousand. We did that and we set it revenue neutral, plus what we needed back in January of '90, and it turned out in actuality not be revenue neutral. It turned out to be way to the plus. The bottom line is that just like cigarettes and gasoline, there's a point at which people will change their habits. And at $2.76 per thousand at our highest rate, it isn't there yet. You might try an inclining rate structure to help stabilize your rates.

Finally, value engineering. In every project that you build, you should be considering a life cycle cost analysis. A simple example is you've got to move water over a hill. Do you build a pumping station and perhaps a lower capital cost, or do you go through that hill with a gravity line at a higher capital cost? EPA and their old facilities planning, which goes back to '72, showed us how to do cost effective analysis. If you apply that principle, you'll find yourself

25 getting away from energy intensive projects.

1 You'll find yourself saving money over the long
2 haul. But please apply life cycle cost analysis
3 to every project you do. It will help keep your
4 cost in line.
5 Thank you.
6 (Applause.)
7 MR. FURNARI: Our next speaker is
8 Deborah Mans.
9 MS. MANS: Hello. My name is Debbie
10 Mans. I'm Baykeeper and Executive Director for
11 New York/New Jersey Baykeeper Environmental
12 Conservation and Advocacy Organization.
13 Although the average water quality
14 in the Hudson-Raritan Estuary has significantly
15 improved over the last few decades, most areas are
16 still unswimmable. One major problem is the
17 region's combined sewer systems, primitive
18 wastewater treatment operations that combine
19 sewage from commercial and residential buildings
20 with dirty stormwater runoff from city streets in
21 the same pipes. Even when it rains just a little
22 in some parts of the estuary, raw sewage and
23 stormwater is diverted into our waterways.
24 The use of low impact development,

25 or LID, treats runoff as a valuable resource

1 rather than waste. LID technologies, such as the
2 use of rain barrels, cisterns, rain gardens, green
3 roofs, and permeable pavements that stop
4 stormwater from ever reaching the sewers during
5 precipitation prevent combined sewage systems from
6 being overwhelmed.
7 LID is a comprehensive development
8 and design technique that strives to preserve or
9 restore predevelopment hydrology and water quality
10 through a series of small-scale, decentralized
11 natural and engineered controls at or near the
12 point where the stormwater is generated. The
13 objective is to disperse LID devices uniformly
14 across the site to maximize runoff and to prevent
15 combined sewer systems from being overwhelmed by
16 stormwater.
17 While end-of-pipe solutions offer no
18 other benefits besides some combined sewer
19 overflow abatement, LID technology offers myriad
20 economic, environmental, and social benefits. LID
21 greens cities, increases property values, and
22 enhances urban quality of life. It supplements
23 cooling for buildings and neighborhoods, reducing
24 the need for air conditioning and cutting

greenhouse gas emissions. It creates habitat for

wildlife and open space for people to enjoy. It also reduces urban flooding.

While LID might not be the end all, be all for complete management of stormwater, the New Jersey Department of Environmental Protection needs to begin encouraging these innovative methods, especially in urban areas of our State. Already, cities like Seattle, Portland, Chicago, and Philadelphia has successfully implemented inexpensive stormwater management systems. LID technology costs less than conventional stormwater management systems to construct and maintain, in part because of fewer pipes, fewer below-ground infrastructure requirements, and less impervious surface.

Just as a side note, our organization's been working quite closely with eDesign and the City of Newark to help implement an LID in the city. And it's been difficult. They have a number of construction projects under way, as you can image. And to now strap in an LID component, whether it's a surface parking lot that will include pervious pavement or swale to help manage the stormwater, it has been challenging.

And I think with a more -- perhaps this is one

way, to get a more top down approach to help encourage these in cities might be useful.

So the Department should expect and recommend LID technologies as a means of long-term source control. Municipalities must be educated that LID options can be effectively used separately from or in addition to end-of-pipe solutions. The Department should level the playing field and allow LID projects to receive the same financing terms and grant opportunities as other more traditional bricks and mortar infrastructure projects. Also, permitting LID projects should be no more difficult than permitting other types of stormwater management projects.

(Applause.)

MR. FURNARI: Our next speaker is Rick Dovey.

MR. DOVEY: Good morning. Thank you for inviting me. My name is Rick Dovey. I'm the Executive Director of the Atlantic Utilities Authority, Atlantic County, New Jersey. We serve the eastern half of Atlantic County, the most populated section, for regional wastewater

treatment services and then the entire county for

solid waste disposal, recycling services.

I was focussing today on the fifth question on financial incentives for innovative technologies. But just before -- I really have just a brief comment about that. Being here this morning at this point in time, I just want to say, it's all these things are coming together at the same time. We have this unprecedented worldwide economic crisis. We had a preexisting economic and budget issue facing the State of New Jersey and many municipalities that Ed talked about earlier. We have the global warming and issues related to energy facing us worldwide and coming together. And we have the reality of what we're discussing here today about clean water in New Jersey and how to finance that. And then we have this unprecedented possibility, probability of this great infusion of monies into solving a problem that there really hasn't been a lot of money to deal with in 30 years, 30 or 40 years since the grant program, the Clean Water Act Grant Program went into place.

Today, at the ACUA we're in the middle of the $2 million trust project,

environmental trust project. And just the other

day as a part of that -- fairly routine stuff, you know, upgrading the assets, and after 30 years they need to be repaired and fixed and replaced -- we found a leak. And the leak is going to cost $250,000 to find and put -- I mean, it's kind of an unprecedented -- everything costs so much money.

The challenge for us, I think, for many of us, is how can we take this whatever share of New Jersey or whatever share of water and wastewater authorities and agencies in New Jersey are going to have through this stimulus bill or whatever comes in the next few months and do that in the most prudent way, that addresses the issues that Ed talked about, making sure -- and that Andy talked about, how to deal with this in a prudent way that we just don't spend money because we have money and address the other larger issues of sustainability, attacking our long-term asset management, dealing with the issues of long-term cost of our employees. Half of replacing our employees is -- we have an interesting chart that we show our employees that how our employee costs have gone down, direct employees now, steadily

25 over the last few years; but our folks that have

1 left, it's another cost that has increased and
2 that we're trying to get across to everybody that,
3 you know what, we're paying for the people that
4 retired five years ago and the people that are
5 going to be retiring and we have a responsibility
6 to them. And also, particularly at this time when
7 folks are saying, you know, I might take early
8 retirement and I don't give a hoot about what goes
9 in the next two months. You know what? You
10 better care how well we manage this because you
11 want those benefits, whether it's your pension,
12 your health benefits, or whatever it might be to
13 be there in 5 or 10 years if you're around. So
14 you have a stake even after you leave that Mike
15 runs his authority well, that Charlie runs his
16 authority well, and that state government runs all
17 of its operations well.
18 Now, speaking of a well-run
19 organization, I want to talk about the
20 Environmental Council. A number talked about it,
21 and it's kind been in our best interest to say
22 nice things here and throughout the year, but this
23 is a program that works and has worked
24 successfully to breach that gap in the last 30

years for many us to do the things that need to be

done environmentally, to do the jobs that we're assigned to, but also do it in a prudent and financially smart way that benefits our ratepayers. And our experience at the ACUA for the mundane and normal expenses, capital expenses of what we do and also the more innovative and new things that we have done and been involved in is that the Environmental Trust and the folks at DEP that support the program have been there to do that and are very flexible, very talented, and have some great ideas and great programs. And I would encourage everybody to seriously consider it, if you haven't been involved with them, is dig a little deeper, call Dennis' office and the other staff members and talk about what you're trying to accomplish. And they're very, very helpful. And most of the times they're able to come up with something that helps you.

Finally, to the reason that I was asked to speak on financial incentives for innovative technologies, the challenge for public agencies like ours is that when you want to do something new and weird, nobody wants to spend any money on it. And so you need a grant. You need

25 some source of money. We would not have a wind

1 farm in Atlantic City at the ACUA if the BPU did
2 not give a grant to the private company to do the
3 upfront engineering design and permitting costs.
4 We would not be on our way to doing two wastewater
5 reuse, beneficial reuse projects in Atlantic
6 County -- one in Atlantic City, one on the
7 mainland -- if the Department of Environmental
8 Protection and the Trust were not willing to go a
9 little further and -- not a little further, a lot
10 further in putting incentives in to do a
11 demonstration project. And I know many other
12 folks who are doing that. So I think that's
13 important. When you want to do something new and
14 it has not been well established, the Trust, the
15 State, the Department should look at that as much
16 as possible and work with permitting, fast-track
17 permitting, and sometimes upfront engineering as a
18 grant also, because upfront engineering is another
19 expense.
20 It's very hard to get board members
21 or elected officials to buy into spending money
22 upfront about something that nobody is sure how it
23 will turn out. But just to bring it back to the
24 one that we're most connected with, is the wind

25 farm. We don't know -- and we didn't pay for it,

1 we just get the benefit -- other than the VPU
2 grant of about $1.6 million.
3 Recently, President Fox of the VPU
4 mentioned to me at the announcement the Governor
5 made on offshore wind where it went from being one
6 offshore wind farm to three. That would never
7 have happened, she said to me, if your project
8 hadn't happened. And I reminded her, it never
9 would have happened at our place if they had not
10 given the initial grant and taken a risk, taken a
11 chance. But the impact of the wind farm has been
12 the fact that it showed New Jerseyans and
13 politicians, most importantly, governors, future
14 governors, legislators, that a wind farm actually
15 wasn't so innovative and unique. There have been
16 wind farms around since Don Quixote and back in
17 the early Dutch years, out on the western
18 prairies. It's not unique. It's just kind of
19 recycled an old idea made more modern and more
20 efficient. So we need that kind of support, and
21 that's what I recommend going forward.
22 Thank you.
23 MR. FURNARI: Our next speaker is
24 Ellen Gulbinsky.

MS. GULBINSKY: Good morning. It's a pleasure to be here today and to follow some of these great speakers this morning. Much of what I'm going to say is pretty much also a reenforcement of some of the concepts that you've heard today.

It's a pleasure to talk with the Council again. I'm very fond of the Council, having served on it for seven years and Charity Council for a while. I'm very pleased to see that you're still functioning to give some advice and counsel to our DEP, but also I think we need to carry your influence here with the ideas in your report on to the Legislature who needs to understand this issue of sustainability a bit better than they seem to at this point.

The Association of Environmental Authorities represents 105 public entities across the State that provide solid waste management, water and wastewater treatment, sewerage and solid waste collection, and distribution of potable water. The Council has placed a number of questions before the public, and I would like to comment on the one about sustainable financing for our infrastructure. And I'm going to speak to the

question of why New Jersey seems to have abandoned

a sound financial policy for that infrastructure financing.

Environmental authorities were established under Title 4014A and B which are now known as the sewage authority statute and the municipality utilities authority statute, respectively. The MUA law provides that the authority can provide water, wastewater, and solid waste management services, but stormwater management service is not allowed by this statute, although you heard Ed say that by another it may very well be possible.

Authorities are the embodiment of shared services. Several towns, counties, or individual municipalities may form authorities to build, operate, and maintain facilities. In the early 1970s, the cost of building secondary wastewater treatment plants and potable water treatment plants was substantial and will use and exceed the entire municipal capital debt percentage allowed by the New Jersey law. And some of those things have been changed now, too, over time.

Local governments formed authorities

to focus on the environmental purposes at hand and

to operate and maintain the facility in good working order for perpetuity by using rates that supported the facility. Wall Street responded positively to this dedicated purpose. The operational reserve and bond reserve required to bond these facilities was considered a very safe investment, and New Jersey bonds were rated highly.

Authorities were required by the bond law to perform regular maintenance on the system and to set aside a percentage of rate fees for replenishment and replacement. Setting funds aside to pay for upgrades was considered sound utility management. Avoiding rate shocks when additional debt was added to the utility budget was also considered sound management. Thus, the very purpose for the local authority law was to provide for the maintenance of the infrastructure and sustainability.

Municipal budgeting does not provide for the same kind of dedication of funds. Funds generated for water and wastewater operation may be transferred within the municipal budget for other purposes. When the federal government

25 established the grant program for water and

1 wastewater, they mandated that grant recipients
2 set aside at least 5 percent of their operating
3 budget for operation and maintenance of the new
4 system. Grant holders had to observe this proviso
5 until the bonds were paid. Most continued it even
6 afterward because it was a sound business
7 practice, and this practice is a keystone of
8 utility management that you heard expressed by
9 several other speakers here today.
10 Continuing this focus on maintaining
11 the integrity of systems in 1995, the Government
12 Accounting Standards Board, GASB, passed a
13 requirement that local authorities had to use --
14 it's called GASB 34 accounting systems, which
15 require authorities with dual facilities, such as
16 water distribution and wastewater treatment, to
17 separate the revenue and expenses for water
18 service and wastewater collection on treatment
19 services. One of the reasons for this was to
20 support a best management practice which requires
21 managers to index the cost of delivery of services
22 and set fees and rates accordingly and to control
23 the ability to have one service support another
24 underfunded one. Now, this prohibited practice

was encouraged for service within the same

regional entity. Obviously, taking capital reserves and applying them to general budget purposes for other units of government for other purposes unrelated to the service would be unthinkable in the eyes of the Government Accounting Service.

GASB 34 further requires management discussion analysis reports in annual audits. These reports require an estimate of the value of assets, the depreciation, estimates of the cost of replacement of whole systems. And if any authority does not provide this proper financial analysis, they may have their credit rating reduced and receive a poor report to potential bond buyers. USEPA reinforced this same business practice with their capacity management, operation, and maintenance system, which you heard Mr. Hanlon describe. And EPA is continuing to expand their encouragement of sustainable funding through those processes by working with the national water and wastewater organizations on a national level to come up with best practices for sustainability.

So I won't speak any more on those.

He did a fine job of explaining all of that to

you.

Bottom line is I'm saying to you that we have had a message. The authorities have had a message from federal and state government, from financial institutions and environmental regulations that we need to maintain a system where we set aside reserves.

Now, what has change the intent of this law and weakened the funding source for New Jersey? As the New Jersey State budget became unbalanced and state funding assistance to local governments stopped, mayors and freeholders asked where they could find funds to cover the ever-growing responsibilities of local government. Whitman administration officials instructed and encouraged local governments to turn to local authorities as sources of extra cash.

In the case of the environmental authorities, the reserve funds were dedicated, as described above, as per bond insurance, bond covenants. The only way to release those funds was to dissolve the authority and have the local government reissue the bonds. This was done in many cases. As time went on, the New Jersey

budget issues worsened and the New Jersey

Legislature decided to make it easier to get these authority funds that were reserved for the replenishment and replacement of the infrastructure. The local government could dissolve the authority and assume the authority debt without re-issuing the bond. And that was Public Law 2001 Chapter 29. Local government could also just ask for the funds from the authorities reserves. And if refused, then dissolve the authority, Public Law 2004, Chapter 87.

These reserve funds were and are raised by the system users who may not be the same group of people as municipal taxpayers. In communities where only portions of the town are connected to the sewer or water system, the local government is taking funds raise by a few to provide a benefit for others. This is a basic inequity. It's happening, as well as compromising other funds used to maintain the reliability of the service. This is a shortsighted economic approach being promoted that says that government should bond all -- there is a shortsighted economic approach being promoted that says that

government should bond all new improvements and not hold any reserves to use toward the improvement cost.

This economic philosophy is not serving us in New Jersey or nationally. With a $15 billion infrastructure need in New Jersey, the cost cannot all be bonded. A reliability fund and a capital improvement fund are not there just in case. They will be needed and used. So we need to return to policies that encourage reliability investment in public water and wastewater systems and encourage reserve funds for replenishing, replacing facilities. This means stating such a policy in our laws and prohibiting utility reserve funds that are collected from ratepayers to maintain the systems from being used in unrelated capacities.

New Jersey's water infrastructure has fallen prey to the past decade of state budget problems. When the State contributions to municipalities reduced, the leadership at DCA appointed mayors to authorities and encouraged them to tap the authorities for funds or to dissolve them to seize the infrastructure reserve. In the past several years, at least 10

25 well-managed authorities have been dissolved by

1 towns just to get the bond reserves and capital
2 reserves that the authorities were required to
3 maintain for system repair and replenishment. Two
4 were dissolved just last week.
5 Both authorities were well managed.
6 Capital reserves were going to be used for other
7 purposes. Most likely, the continued tight
8 budgets will mean that the maintenance reserve
9 built into the rate structure will be siphoned off
10 annually along with the operations and maintenance
11 budget line item, even as they are absorbed into
12 the municipal structure. Municipalities are not
13 going to hold that line for replenishment and
14 replacement; they are going to have to use that.
15 And under these circumstances,
16 routine maintenance of pumps and equipment are
17 likely to be neglected. And this leads to system
18 backups and equipment failures. And that's when
19 ratepayers realize they are not getting what they
20 have a right to expect because that is built into
21 their rate structure, that is the reliability is
22 built in there.
23 This utility rate fund siphoning has
24 been in the press very prominently. A large

25 community siphoned substantial funds from a water

1 rate derived account; and when confronted with
2 large multimillion dollar upgrades that were now
3 essential, the town wanted to sell the lines to a
4 private company in order to make a profit again on
5 the system. This meant the ratepayers would
6 receive a big increase in rates and no return on
7 the equity from their previous contribution.
8 When asked to comment about the
9 propriety of the actions, a spokesperson for the
10 Division of Local Government Services said that
11 it's not an illegal budget practice, which is true
12 according to the way the law is written, but
13 should it be? And that's the question that I put
14 before the Council. Should it be?
15 It could easily be added -- this
16 type of process that's going on here in New Jersey
17 can be added to a host of other national and state
18 financial practices that we have all been reading
19 about that were widespread and have now created
20 irreparable economic damage. Those practices are
21 now being reviewed, and AEA would recommend that
22 this New Jersey public accounting loophole
23 regarding the appropriate use of rate funds be
24 addressed as well.

25 Thank you.

1 (Applause.)

2 MR. FURNARI: Our next speaker is

3 Brian Grant.

4 MR. GRANT: Good morning. I hadn't

5 originally intended to speak today, but I wanted

6 to give a local perspective and follow up on Mr.

7 McManimon's comments. My name is Brian Grant.

8 I'm a city engineer with Asbury Park. We are an

9 urban municipality, and we do have infrastructure

10 constraints, which is why I came here, to really

11 get a flavor with regard to what this dialog can

12 do for us.

13 I can tell you that the first time

14 we used EIT was a couple years ago. We used it to

15 replace our sewers in our central business

16 district. We used it to buy a street sweeper, a

17 jet back truck, and a sewer camera so that we

18 could begin our infrastructure management program.

19 What I really liked hearing was Mr.

20 Curley's comments about leverage. Our reality is

21 it took us -- we borrowed $2 million. That

22 $2 million resulted in a 5 percent increase in our

23 sewer rate. And we only took care of roughly 5

24 percent of the city. We're an urban municipality.

25 Fifty percent of our budget comes from the State,

1 whether it's through a local aid or distressed
2 cities aid. And we do not have any leeway to do
3 independent bonding, to do anything that we need
4 to do for infrastructure. We've recently
5 completed out pavement management plan, but we
6 also need to fund and infrastructure asset
7 management plan, and we don't have the funding
8 identified for that. So we would look to the EIT,
9 we would look to the Council to make funds
10 available for urban municipalities to fund an
11 infrastructure asset management plan where we can
12 lay out a 40-year, 50-year capital improvement
13 program to rebuild the urban infrastructure.
14 That makes sense from our standpoint
15 because one of the key challenges we have in the
16 urban areas is that development costs are not
17 competitive, and we need to attract development in
18 order to increase our ratable base. And a key
19 component of that development cost is
20 infrastructure. In Asbury Park, we're doing the
21 waterfront infrastructure where we had a
22 redevelopment plan for roughly 3100 units. Out of
23 those 3100 units, the infrastructure cost that's
24 being assessed by the master developer is roughly

20 to $30,000 per unit.

When we look on the other side of town, the more depressed side of town, what we would like to do is invite development, but those developers can't afford that infrastructure cost as opposed to that waterfront developer who's selling or trying to sell in this economy high-end condo units.

So what we would like to see is the EIT being able to continue to fund infrastructure programs in urban municipalities, to have the urban municipalities being able to leverage that funding within the EIT, not part of our GO bonding capacity, but within the EIT because, frankly, we don't have much funds to pay that in bonds anyway. So keep that within -- keep the ability to leverage within the program. And prerequisite of that program, we should have that every other municipality must be improving its infrastructure pursuant to an infrastructure asset capital improvement program. That helps us lower the cost of development, it helps us attract developers, and it helps us to achieve our goals, especially in Asbury Park, of providing affordable housing, which is what we're trying to do.

25 In Monmouth County, we have the

1 lowest -- from census data, we have the lowest
2 income levels, we have the lowest percentage of
3 the people who own cars, and we're really
4 struggling providing affordable housing. But when
5 we look at that infrastructure component and our
6 need to, not only replace the infrastructure but
7 upgrade the infrastructure, the cost is really
8 prohibitive and it restricts our ability to
9 develop our community. That's one thing.
10 What I've mentioned is the city
11 engineering side of my job. I'm also the Planning
12 Board engineer and the Zoning Board engineer. And
13 in order to further encourage and incentivize
14 development, one of the things we would like to
15 see is the NJPDES Phase 2 stormwater management
16 plan, which the New Jersey and Municipality have
17 to comply with, stormwater management. I heard a
18 lady mention low-impact development technics to
19 reduce stormwater runoff on developments. One of
20 the things that we would like to see in the urban
21 areas is that we fund that particular -- that sort
22 of stormwater improvement program which may be
23 retention basins, underground retention basins,
24 green roofs, anything that reduces the stormwater

demand on the system, that element of a private

development should be funded, whether through the EIT or somewhere else, because right now it's a cost that the developers have to comply with on the residential side improvement standards. It's an unfunded cost. And again, it increases the challenge of providing affordable housing.

So with respect to Item 5, the financing incentives for innovative technologies, we would really like to see those technologies funded through the EIT. And we can also follow that up with deed restrictions, for example, so if a developer puts in a retention basin that's funded through the EIT, you have a 20-year deed restriction. The residential side improvement standards already have an operations and maintenance component of that stormwater management device. So we can combined both approaches funded through the EIT and force it and administer it through the residential side improvement standards and really, again, lower the cost of development in the open areas to help us achieve our goal of providing affordable housing for our people.

The last thing that I would add is

one of the things that we would like to be able to

do is create a stormwater utility. The challenge for us is we only have a sewer utility in Asbury Park. Until this morning, I was unaware that we could legally create a stormwater utility. And that's something that we need to look at. In the urban environment, most of our infrastructure is built out, but we still need to control stormwater quality. What we intend to do is primarily do that through base savers and other hydrodynamic devices, but those things cost hundreds of thousands of dollars. And right now, that portion of any stormwater infrastructure development that we do would have to be funded on the backs of the taxpayers. So we would really like a set of rules and the clear ability, because I don't think it has been clear, at least from our standpoint, that we could do a stormwater utility and not only fund our stormwater improvement but also assess that cost to non-profits and churches, because another element of urbanism has been that as people have fled to the suburbs and everything, it's been replaced with lots of churches and lots of non-profits who don't pay taxes, who don't contribute their fair share to the stormwater

25 elements of our infrastructure. And by creating

1 this utility, we would now be able to broaden that
2 base and include them, just like how we do it with
3 the sanitary sewer.
4 So that's it. I hope something does
5 come out of this, something concrete. I think,
6 you know, we contributed to global warming, so I
7 hope something does come out of this.
8 Municipalities, especially urban municipalities
9 can use it ASAP.
10 Thank you.
11 (Applause.)
12 MR. FURNARI: Our next speaker is
13 Helen Heinrich.
14 MS. HEINRICH: I'm Helen Heinrich, a
15 Certified Landscape Architect and Professional
16 Planner with a practice specializing in land use
17 planning for rural areas and agricultural
18 communities. And I speak today in behalf of the
19 New Jersey Farm Bureau, membership organization
20 that provide services to support most of the
21 owners, the land, and active agriculture
22 production. We want to address the question about
23 financial incentives for innovative technologies.
24 What I'm hearing today, I hope that

that aspect doesn't get lost as this welcomed

influx of money from the Feds comes along and that the drive to get projects that are ready to start immediately doesn't keep us from looking always for ways of updating or using the newest kinds of technology, as the man from Atlantic County said. It's important to keep up with what is possible because in the long run, you probably save money.

The availability and financial health of wastewater and water infrastructure is critical to the agricultural industry. It is alive and well, despite what some may believe. With over 170,000 acres of permanently preserved farmland and more applicants for funding programs supporting young and beginning farmers than the New Jersey allot of funds can cover, this industry surely has a future in the State. An adequate water supply must continue to be available to raise crops, but the ability to develop and expand wastewater facility capacity also is important to continuing agricultural viability in two ways. So this is a rural area issue as well as an urban and suburban one. There are CSOs in rural areas. And there are certainly towns that have some of the urban problems.

25 First, consumers want to be able to

1 buy locally fresh and processed, value-added
2 fruits and vegetables to support industry while
3 reducing greenhouse gas reduction. Processing
4 typically requires wastewater capacity, but
5 studies shows that fruit and vegetable processing
6 industries have moved out of or not attracted to
7 New Jersey because of the difficulty or inability
8 to secure adequate wastewater treatment. New
9 Jersey farms could save much time and money and
10 reduce their cost if their support industries were
11 located close to their farms. And a consumer
12 could depend on even more a safer level supply and
13 locally to produced food.
14 Second, New Jersey farm viability is
15 threatened today in many parts of the State by
16 large lot zoning on septics that cuts up farmland
17 in smaller pieces and reduces the farmer's ability
18 to provide consolidated farm management. There's
19 a dire need, we hear, for workforce housing and
20 over 110,000 units of affordable housing. But
21 because environmental regulations preclude
22 development on much of the open land in New
23 Jersey, the best farmland is often the only land
24 available for development. It may please some

land owners to tap that equity, but the resulting

fragmentation of farmland can be the death knell for continuing production agriculture.

New Jersey Farm Bureau strongly supports clustering, which would use the minimum amount of farmland and preserve the rest of the farm for permitted agriculture with no cost to the public. To do clustering that truly preserves significant tracts of productive land cannot be done on large lots and septics and requires on-site wastewater treatment so that the new residences can be arranged close together in the same patterns found in the already existing local villages and hamlets. And there are many facility designs already in use in New Jersey and elsewhere that would make such development forms possible, except for persistent myths: Community on-site systems don't work, you can't get DEP approval, there's no way to ensure long-term maintenance, et cetera, et cetera.

Using this type of innovative wastewater treatment can be the vehicle for paying for infrastructure improvements and replacing failing septics or redeveloping a brownfield site while correcting or improving adjacent urban

25 infrastructure in the same project.

1 It seems to us this is a great
2 opportunity for established and new ways to think
3 outside the box of pipelines and centralized
4 treatment plants expansions. We suggest that the
5 day of laying more sewer lines or digging up miles
6 of urban or suburban streets to replace existing
7 lines are behind us. Public utilities can consist
8 of a network of separate functioning on-site
9 systems connected by a unified financing and
10 management structure. And for this kind of
11 system, there are resources available. There's
12 USDA money through the rural development section
13 of USDA for this kind of on-site utility
14 improvement.
15 The speaker from the EPA last year
16 challenged us to educate public decision members,
17 infrastructure providers, and the public to
18 broaden their vision of how do design and finance
19 new infrastructure improvements that we need.
20 State Development and Redevelopment Plan and the
21 Highlands Regional Master Plan are full of
22 policies to encourage and support alternate
23 wastewater technology in order to put growth where
24 growth should go. Farmland owners, especially,

25 are going to resist higher taxes to fix the older

1 urban infrastructure systems, especially if they
2 see no immediate personal benefit for them and
3 their families. Urban communities now needing
4 infrastructure investments could provide in their
5 improvements more opportunities for markets,
6 processing, and packaging that would lead to
7 increased viability for leaders in farms.
8 What may be needed is a series of
9 surgically inserted infrastructure fixes that
10 could be tied to some form of development or
11 redevelopment.
12 Thank you for the opportunity to
13 show you the connection between what may seem to
14 be only an urban or suburban issue to the
15 financial well-being of the world economic sector
16 that manages over half of the remaining land in
17 New Jersey.
18 I think we require concrete
19 meaningful monetary financial incentives for
20 innovative technology, for new forms of wastewater
21 treatment, and this should give extra points or
22 extra money or something from EIT or BPU because
23 it does contribute to Smart Growth and certainly
24 contribute to agricultural viability.

25 Thank you.

1 (Applause.)
2 MR. FURNARI: That's the last person
3 we had registered to speak.
4 Is there anyone else from the public
5 who would like to speak?
6 MS. CAROLAN: Hi. My name is Pam
7 Carolan. I'm the Executive Director of Mount
8 Laurel Municipal Utilities Authority, and I also
9 have the pleasure of serving as the President of
10 the Association of Environmental Authorities of
11 New Jersey.
12 It's apparent by several of the
13 questions raised by the Council that local
14 utilities have long felt financial strain, coupled
15 with the ever increasing need for infrastructure
16 improvements. A practice that must be discouraged
17 is new or additional tax burdens on water
18 utilities, especially when there's no direct
19 benefit to the water infrastructure.
20 A water tax or societal benefits tax
21 is currently proposed in the Legislature, the
22 purpose of which is to fund open space
23 acquisition. This is not to argue the need to
24 fund open space, just the inappropriate placement

of the burden upon water utilities. Not all open

space projects protect water resources; therefore, the benefit to improving water resources is not measurable or quantifiable dollar for dollar. This indirect relationship begs the question of whether it's necessary, appropriate, or fair to consider instituting this expanded tax today when New Jersey's water system infrastructure is aging and in need of investments to replenish and replace equipment and piping. Dollars are needed for reinvestment in water infrastructure.

Recently, the New Jersey section of the American Society of Civil Engineers, which represents over 4,000 civil engineer and professionals, assembled an infrastructure report card to assess the condition of the critical components of the State's infrastructure. The report card investigated water and wastewater systems along with others. They graded drinking water C or mediocre.

Deteriorating distribution infrastructure threatens drinking water quality and wastes water energy through leaks and main breaks. Distribution piping is deteriorating or coming to the end of its useful life. The State's

drinking water infrastructure requires capital and

O&M investments to ensure that drinking water will be distributed at acceptable levels. In 2003, the EPA estimated $6.9 billion in capital investments will be needed over the next 20 years to install, upgrade, and replace drinking water infrastructure. This amount does not account for future needs capital projects undertaken solely to accommodate future growth.

The ASCE graded the critical components of the wastewater sector even more harshly with a D for poor. Our waterways that provide raw source water for drinking water are impacted by a lack of wastewater infrastructure investment.

Based on responses to a 2003 survey, the EPA estimated $6.9 billion in capital investments would be needed over the next 20 years to install, upgrade, and replace New Jersey's drinking water infrastructure. This estimate does not account for the future capital needs project undertaken solely to accommodate future growth.

A method to support rehabilitation or construction of this much needed infrastructure is to set aside the permit fees for water and

wastewater and the penalty funds generated from

enforcement of environmental laws. This money now goes to the general treasury. It should not.

Local water and wastewater utilities cannot become self-sustainable if we continue to view utility revenues as revenue sources for other areas of government. The utility revenues should be dedicated solely for use by the water and wastewater utility systems from which they are were generated.

Thank you.

MR. NORKIS: Thank you for the opportunity for our testimony today. My name is Charles Norkis, and I'm the Executive Director of the Cape May County Municipal Utilities Authority. We operate four wastewater treatment plants in Cape May County, take care of all the regional services. And like Atlantic County, we also take care of the solid waste; we have a landfill and a transfer station, all the recycling facilities.

I really want to talk about a little bit about the financial incentives on innovative technologies. But before that, I just want to make a statement that I've heard some comments from other authorities about how much reserve they

have and, you know, how they're in good shape.

Well, we struggle to keep our rates down to a 4 percent increase every year. We haven't had any additional debt service probably in 15 years. We haven't hired any additional labor, but nevertheless, just escalating cost with fuel and labor, typical labor-type costs, we struggle and we don't have a lot of reserves. So I think we're probably more typical of most of the authorities in the State, without a lot of reserves and struggling just to make sure that we can keep rates within inflation. So it's just a little editorial note that, you know, I don't think everybody is as fortunate as some.

On a microscopic view, I guess maybe down to a local level on specific projects, I want to talk about wastewater reuse a little bit. You know, increasing the quantity of water that's being reused statewide is certainly a goal that should be promoted at the state level, and of course has been, and should be considered by all wastewater treatment plant operators and others. The reuse of water is particularly important to areas where the potable water sources are in short supply, such as Cape May County, and other areas

of the State. All coastal counties have utilized

ocean outfalls for their effluent discharge also represent high priority areas regarding water reuse since the discharge removes water from its naturally residing locations and transfers the total quantity treated into the Atlantic Ocean. So it's just a natural that if you try to reuse the water, it goes back where it came from.

Despite the merits of water reuse, new projects that recycle larger quantities of water are few and far between in the State. The reason for this is really the high costs associated with constructing the necessary wastewater treatment plan improvements and the connecting pipelines to the points of use and/or application.

For example, our Authority is presently constructing a 300,000 gallon a day plan for a nitrification and denitrification system at one of our secondary treatment plants. So a nice innovative project. Reuse the water to irrigate the grounds of the county colleges, the county offices themselves, the county park and zoo, which is a very large public facility, the County Community College, and several acres of

municipally-owned recreational fields in a local

township, Middle Township, it's Middle Township itself, as well as use the water as a source of washdown for the animal cages at the zoo and for flushing the toilets at that public facility.

The actual cost, the actual public bid for the construction of the denitrification filter, the pumps, the storage tanks, the alternate disinfection, all the ancillary facilities and the connecting pipeline to the points of use is $4.1 million.

Considering the seasonal nature of the need for reused water when it's used for irrigation, the cost for providing this product is in access of $11 per thousand gallon. And that's just for the new projects. That doesn't count the old secondary treatment system. That's basically the debt service and the O&M cost going forward for the denitrification, the largest portion being debt service. This per gallon charge is more than double the cost compared to the purchase of potable water from local purveyors. Obviously, the economics of advancing such a project funded solely at the local level aren't very favorable. Fortunately, the MUA has been able to secure a 50

25 percent funding of its construction costs from the

1 State as a demonstration project using 1981 water
2 supply bond proceeds. Even with a 50 percent
3 state funding, the local cost for providing reused
4 water is nearly $7 per thousand gallon. The
5 Township of Middle secured a grant from the United
6 States Department of Agriculture to assist in
7 financing that portion of their construction
8 costs. As a consideration to providing the
9 upfront construction monies, the reused water will
10 be used -- provided to the other three public
11 entities -- there's the county, the County
12 College, and Middle Township itself -- free of
13 charge for a 10-year period. And this is what we
14 have to do to think outside the box and get
15 projects like this going. This innovative
16 approach to solving the funding issue is captured
17 in a very comprehensive four-party
18 intergovernmental agreement.
19 I want to make it very clear,
20 however, that even with that innovative approach
21 to funding local level, the project would have
22 never gotten off the ground, would not have been
23 feasible without the 50 percent provided by the
24 State. And the loan program of the State is very,

very favorable, but we still have to pay it back.

And it would just increase our costs it just would have made the project infeasible from an implemental standpoint.

Reuse projects that require nitrification, denitrification from secondary wastewater plants are simply not cost effective to construct. State grant monies representing at least 50 percent of the construction costs are needed to defray these local costs. If wastewater reuse projects are truly a high priority of the State, then you have to recognize the substantial grant monies must be made available even when the innovative financial approaches are taken at the local level.

And if you remember the construction grants program, we received 75 percent, 65 percent, depending upon if someone will fund it under the construction grants program, for innovative technology we had an initial 10 boost back at that time. So I think we have to recognize if you want innovative projects to move ahead, things are a little different outside the box, you have to fund them in a different way than maybe just trust fund program that's been doing

it. So just an important point.

We talked about -- actually didn't realize the stimulus program was going to be passed by the federal. I felt the same type thing. I think with state unemployment rates rising, I think it's a good time for the State to maybe try stimulating the economy with some very good important public use projects such as wastewater reuse for alternative energy.

That's all I've got to say. Thank you for the opportunity.

(Applause.)

MR. FURNARI: Is there anyone else who would like to speak?

Okay. At this point then we will move to close the public hearing.

MR. NEELY: So moved.

(Second.)

MR. FURNARI: All those in favor.

MEMBERS: Aye.

MR. FURNARI: All those opposed?

Thank you all for coming and we appreciate you coming.

(Hearing concluded at 12:01 p.m.)

C E R T I F I C A T E

I, Lisa C. Bradley, a Certified Court Reporter and Notary Public of the State of New Jersey, do hereby certify that the foregoing is a true and accurate transcript of the testimony as taken stenographically by and before me at the time, place and on the date hereinbefore set forth, to the best of my ability.

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LISA C. BRADLEY, CCR, RPR

CCR NO. 30XI00228700

DATE: January 5, 2009