



ASSOCIATION OF ENVIRONMENTAL AUTHORITIES

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Joint Legislative Task Force on Drinking Water Infrastructure Public Hearing, Nov. 30, 2016

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Thank you for the invitation to testify today. I am Peggy Gallos, Executive Director of the Association of Environmental Authorities (AEA), and with me is Dave Harpell, who is executive director of Jackson Township Municipal Utilities Authority in Ocean County. Dave is a member of our Executive Committee and chair of our drinking water committee. Also with me is Pam Carolan, who is executive director of the Mount Laurel MUA. Pam is a past president of AEA, and a member of our drinking water and legislative committees.

AEA would like to continue to be a resource for the Joint Legislative Task Force on Drinking Water, and so I will provide a brief profile of our association, for those who may not be familiar with us. I will discuss the role of public agencies in the drinking water systems of New Jersey and then present our perspective on the matter that brought us here today, how we can continue to ensure adequate and safe drinking water in our State.

The mission of AEA is to deliver information, education and advocacy programs and services that help our member organizations provide excellent service to ratepayers. We also strive to help the public understand and value the work of AEA members. Our members include the public agencies that provide drinking water, wastewater and/or solid waste utility service to millions of people across New Jersey. We have as part of our membership, 23 public agencies, both authorities and municipal systems, in 11 counties, that employ many hundreds of men and women and provide drinking water to about three-quarters of a million people in New Jersey.

Authorities were created in the 1960s and 1970s in response to the Clean Water and Safe Drinking Water acts, when our nation recognized the need to modernize its wastewater and drinking water delivery systems. The authority model is a good one for delivering water services. It leaves management to professionals. It puts the system and perhaps more importantly, its funding, *somewhat* apart from the rest of the local government, and at the same time, allows local officials to exercise oversight. In the case of municipal water, the elected governing body is directly responsible to the ratepayers who use the system. In New Jersey, many hundreds of elected and appointed officials on authority boards, freeholder boards, and/or municipal governing bodies bear the responsibility of overseeing public

systems. This includes approving the budgets, borrowing, and capital spending plans. Quality of service and rates are ultimately their responsibility. In addition, the NJ Department of Community Affairs annually reviews municipal water and sewer utility, as well as authority, budgets. The NJ Department of Environmental Protection and to a lesser extent, the NJ Board of Public Utilities, also have roles in regulating public agencies that provide water.

When it comes to infrastructure, water (and for that matter, sewer systems) are not ever really completed. They expand to meet growing communities; they change to accommodate more efficient technology or evolving water quality regulations. Old pipes need to make way for new ones. Changing climate means sea walls may have to be built or pumping stations elevated.

Public agencies that provide drinking water are investing millions to maintain their systems. Here are some examples:

- Jackson Township MUA has invested \$30 million in its drinking water system in the last ten years.
- Hamilton Township MUA in Atlantic County has invested \$4.5 million for its 10,000 service units.
- Morris County MUA, which serves 50,000, has invested \$5 million in the last five years and expects to invest another \$5M in the next five years.
- Willingboro MUA serves a retail population of 35,000 and has bulk water sales to Mount Laurel Township MUA and Evesham Township MUA. It has invested \$10M in the last five years and expects invest another \$30 million in the next five.
- Monroe Township in Middlesex County invested \$15 million in the last five years, \$2 million this year, and expects to invest \$20 million in the next five years.
- For its 44,000 people, Mount Laurel MUA has invested \$7.4 million in the last five years, is investing \$1.3 million this year, and is planning to spend another \$11.3 million in the next five years.
- Evesham MUA has invested \$14 million in the past five years and plans to invest well over twice than within the next five years.

These types of investments make quality service, protected public health, and economic prosperity possible. But it isn't just the dollars that matter. Public systems that are well-managed have the tools and human resources to help them assess their needs and plan for the future. They are led by professionals who understand how to manage expenditure and debt. They have elected and appointed leaders who value long-term planning and who are partners with the professional staff to explain to ratepayers the connection between ongoing investment and system quality.

The systems I have mentioned have this kind of leadership – leadership that values steady investment, repair and replacement, long-term capital and financial planning, with projects timed to keep rates stable even while maintaining safety, health, and economic well-being.

When it comes to the human side of well-managed systems and infrastructure, we would like to point out two matters of significance:

The first is that in NJ and across the country, many employed in the water utility sector and, to some extent within the community of regulators, are at or near retirement. AEA is working to address succession planning within our member organizations and would be willing to work on this issue in other contexts as well.

The second matter relating to the human side of water system management is the need for well-informed decision makers. Local officials responsible for public systems are key gatekeepers. They make sure the funds collected from ratepayers remain available for the system, and they avoid diverting funds for other uses. Unfortunately, several factors work against this type of leadership. Here are examples:

- Existing statute allows local governments to divert water (and sewer) funds for other purposes, even though those funds have been collected for the purpose of maintaining the infrastructure. In one set of less than 100 New Jersey municipal and authority budgets we studied, we calculated that about \$80 million had been transferred in one three-year period. That's enough to cover the entire budgets of some systems. Some municipalities have become dependent on these annual diversions to supplement other parts of the municipal budget. This is especially problematic in communities where the taxpayers and the ratepayers are not the same group. In that case, a subset of the community, the ratepayers, may be subsidizing the taxpayers.

Funds also disappear when authorities are dissolved. Fund balances, on hand to cover emergencies or to limit borrowing costs, disappear into municipal budgets. In one case, after an authority was dissolved and its emergency funds were absorbed into the municipal budget, the capital spending plummeted. In the three years after the authority was dissolved, the community invested all of \$6,000 in its drinking water system.

- Municipal officials are not being encouraged or educated as well as they could be to abandon shortsighted water system management and decision-making. For example, the 2015/2016 Best Practices Inventory Question Worksheet issued by the DCA included this question:

Does your municipality require its elected officials to attend on an annual basis at least one instructional course covering the responsibilities and obligations of elected officials (for example: ethics, municipal finance, labor relations, risk management, shared services, purchasing, land use administration, personnel, technology etcetera)?

The question endorsed the usefulness of training, even if it did not specifically name continuing education about water systems. AEA would have been happy to see the question revised to include a direct reference that encouraged elected officials to learn about water systems. Unfortunately, it seems that this question was actually among those eliminated in the streamlined version of the Best Practices Inventory Question Worksheet for 2017.

In contrast, appointed planning board and elected board of education members are required to have a baseline orientation to help them understand their vital role in their respective spheres. Similar requirements for appointed and elected county, authority and municipal officials would

be useful. Such new legislation could be modeled on existing requirements for planning board and board of education members – that within the first year of taking office or beginning an appointed term, local officials who will be making decisions about water and sewer funds must attend orientation to introduce them to the basics of operations and best management practices. This baseline knowledge would be useful when making decisions about expenditures, it would promote understanding of the complexities of water supply and quality, and it would assist them with decisions about contract management or sale of a system.

Today seems a good time, as far as we are concerned, to stress the value of a robust, science-based regulatory framework at the State and federal level. This framework creates standards and benchmarks. It provides communities with the support they need to run their systems and if necessary affect changes that protect the public. The New Jersey Environmental Infrastructure Trust, which is supported by State Revolving Fund monies, is an absolutely indispensable and highly successful player in water infrastructure. So is the EPA. According to Water Online, “EPA consent orders now compel \$50 billion of municipal investment over the next 20 years, resulting in construction, jobs, and improved water quality for the communities targeted.”

Affordability is another matter that concerns us. We raise the following two points with regard to this issue:

- To really address lead in water infrastructure, we have to look at homes, where old pipes are located. We believe the Legislature could explore ways of using NJEIT funds to create local low- or no-interest loan programs, modeled on the Clean Energy energy efficiency programs, perhaps. Homeowners could use these loans to remediate plumbing that contains lead.
- Maintaining public ownership/operation of water systems is a way of addressing affordability as well, because public systems can be efficient at lower cost and local officials can keep a weather eye on how they are managed. Rates for public systems in Ocean and Monmouth counties, for example, are considerably lower than rates for investor-owned utilities. A public system customer with a ¾-inch water meter and 24,000 gallons of usage pays on average \$113.05 per quarter. That customer would pay \$229.42 for the same service from the area investor-owned utilities.

Affordability is one of the factors that prompted AEA to oppose the Water Infrastructure Protection Act – WIPA -- which was signed into law last year. WIPA limits the public’s ability to have input when a water system is being considered for sale, and it limits the ability of the Board of Public Utilities to protect ratepayers from unnecessarily high water rates.

This year, AEA is partnering with Jersey Water Works and others on an award for excellence in water infrastructure innovation. It will be called the One Water award. The name reflects that fact that local, county, state and federal officials, regulatory agencies, investor-owned utilities and publicly owned utilities and the public—all work together to address water issues. The name is also a reminder that water, wastewater and storm water systems are connected. Drought affects wastewater systems as well as drinking water supply. Addressing storm water can reduce the costs of operating wastewater

conveyance and treatment systems as well as improving water quality and safety. It is important not to be too “reductionist” about public policy for water.

New Jersey’s public water agencies are great partners. They have the experience, the relationships within their communities, and the know-how to help address emerging issues. Jackson MUA partnered with the local school district to test their drinking water. Authorities are helping to address the storm water. Local public agencies could also help promote a home plumbing remediation program. They are ready and able to help.

Thank you for this opportunity to speak today. We hope the Task Force will continue to see AEA as a resource as it moves ahead with its work.