



STEPHANIE
RAWLINGS-BLAKE
MAYOR

STATEMENT OF

THE HONORABLE STEPHANIE RAWLINGS-BLAKE
MAYOR OF THE CITY OF BALTIMORE

ON
THE CHALLENGES OF FINANCING
WATER INFRASTRUCTURE

BEFORE THE
SENATE SUBCOMMITTEE ON
WATER & WILDLIFE

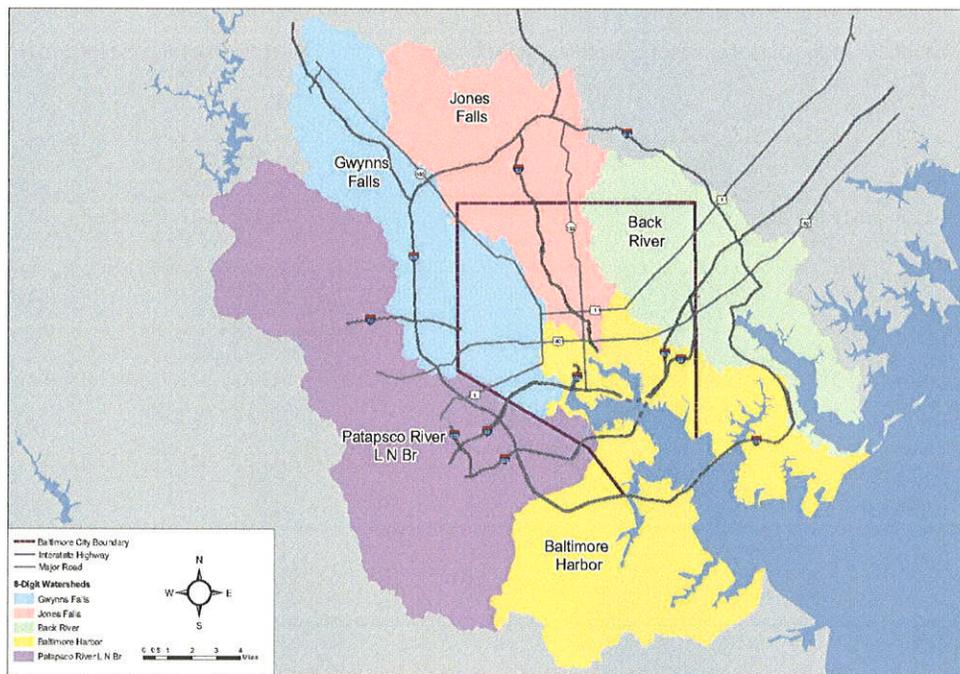
FEBRUARY 28, 2012
WASHINGTON, D.C.

Good morning Mr. Chairman and Members of the Subcommittee on Water and Wildlife.

My name is Stephanie Rawlings-Blake and I am the Mayor of the City of Baltimore, Maryland. On behalf of my citizens, I thank you for the opportunity to speak to you about the challenges cities such as Baltimore face in operating and managing water and wastewater systems in today's climate of unfunded federal mandates and a struggling economy. I believe that targeted investing in our aging water infrastructure will deliver a terrific return in the quality of our environment, the state of our economy, and the quality of life for our people.

Baltimore is one of 24 jurisdictions in the State of Maryland. Incorporated in 1797, Baltimore grew because of its beneficial location on a productive harbor. Second only to New York as a point of immigration, we embraced waves of immigrants who helped build and create the communities that exist today. We are home to approximately 627,000 people of many races, backgrounds and incomes; have institutions of learning making great advances in the health and biotechnological fields; and are enriched with a vibrant cultural and arts heritage. Baltimore is also gaining a reputation for our growing sustainable and green movement and we sit at the confluence of a vital port, highway and rail transport system that supports our national commerce.

Baltimore's Major Watersheds



But we are also an older urban center facing many of the challenges of other East Coast cities; transitioning from an industrialized to a more service-oriented economy, working

to become a more technologically savvy city, while finding ways to support these changes with an aging infrastructure built to support a much different way of life.

Baltimore’s water and wastewater systems grew out of a need to combat the devastating effects of water borne diseases in the 1800s and the emerging field of sanitary engineering, the prerequisite for improving public health. Today, we have a regional water and wastewater system that serves nearly two million people living and working in Baltimore and the surrounding counties. This metropolitan system is built on a foundation of extensive planning and foresight, which is why we enjoy an abundant water supply and high quality treatment systems. But a lot has happened since sanitary engineering first began shaping our water infrastructure. We know much more about the effects we humans and our activities have on our waterways, and we know we must address these water quality issues if we are to continue to grow while fostering a healthy and sustainable environment.

City of Baltimore – Water Infrastructure

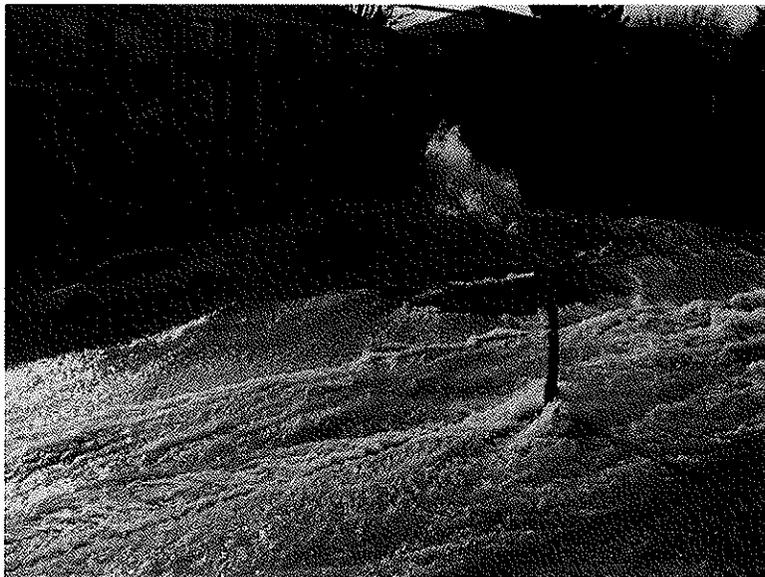
	Water	Wastewater	Stormwater
Water bodies	Water sources: 3 reservoir impoundments & Susquehanna River	N/A	40 miles of streams Baltimore Harbor
Treatment plants	3 filtration plants producing up to 265 mgd* of potable water	2 treatment plants capable of treating up to 250 mgd of wastewater	N/A
Pipes	3,700 miles of water mains in Baltimore City & County; 8,761 fire hydrants	1,400 miles of sanitary sewers	1,146 miles of storm drains; 27,561 manholes; 52,438 inlets & 1709 outfalls
Pumping stations & other structures	24 pumping stations, 6 elevated tanks & 3 reservoirs	8 major pumping stations & 6 minor installations	4 pumping stations & 5 large debris collectors
Impervious area	N/A	N/A	Restoration of 7,000 acres of impervious area by 2017

*mgd – million gallons per day

Baltimore’s water and wastewater utilities are a \$400 million business with more than 1,700 employees and a \$2.2 billion, 6 year capital improvement program. The water and wastewater systems are enterprise funds, operated without profit or loss to other

funds of the City. Our ratepayers support these programs through their water and sewer bills. But the challenge facing Baltimore and other cities is how to maintain these complex water systems and respond to the many federal mandates issued under the federal Clean Water and Safe Drinking Water Acts. The condition of our nation's water infrastructure has become a national issue.

When it comes to the financial pressures of running modern water, wastewater, and stormwater systems, Baltimore is not alone, but we are on our own. Over the next 20 years an estimated \$4 trillion will be spent nationwide for water and wastewater projects, 90% of which will be funded locally. Even with our large capital program, Baltimore has a \$4 billion gap in funding over the next 6 years. And that figure does not include the \$2 billion needed to replace existing stormwater pipes. Over 95% of the City's water mains have been in service for 65 years without regular inspections, and many of these pipes are approaching 100 years of service. Over 50% of the storm drains were installed prior to the 1950s. Having to direct our investment toward meeting federal mandates has had dire consequences on the condition of our water infrastructure. Deferred maintenance and capital investment has resulted in the loss of finished water in excess of 20% every day; major water breaks and emergencies create lengthy service disruptions, damage to and loss of property; and increased sediment loads to streams and the Harbor.



It's hard to convince your citizens and ratepayers to accept annual increases in water and sewer rates to comply with federal mandates when the basic infrastructure is crumbling. Since 1996 our typical family of 4 has seen their annual cost for water and sewer service triple. The water and wastewater utilities' debt service doubled between FY 2004 and FY 2011. The current financial structure does not provide a sufficient or stable funding source for stormwater infrastructure. And these financial burdens do not

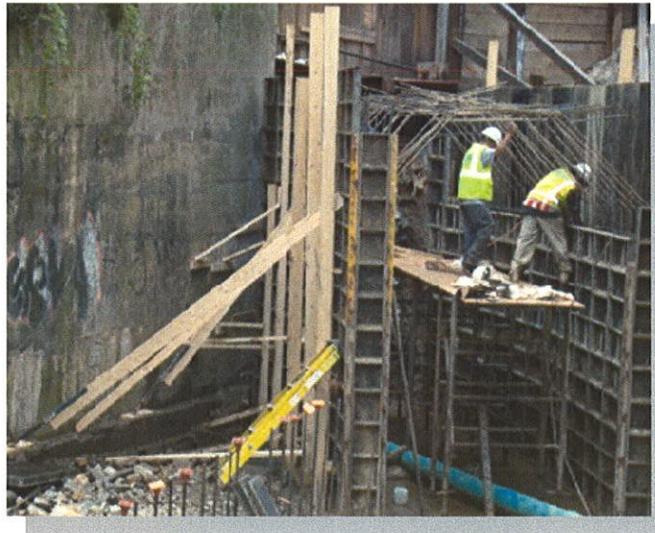
reflect the hydraulic modifications remaining to be done under our wet weather consent decree or other regulatory requirements to be met in the future.

We have already employed a multitude of strategies to finance our water infrastructure needs and we are consistently looking for new and innovative methods to make our ratepayers' dollars go further. As an enterprise fund, we are able to sell water and wastewater revenue bonds to fund our capital programs. Since the first bond authorization in 1990, we have requested increases six times, the most recent in 2010. We are now able to carry a maximum debt limit of up to \$1.017 billion in the water utility and \$1.11 billion in the wastewater utility. These are revenue obligations borne solely by the water and wastewater utilities and are necessary to support the capital programs that respond to federal requirements and mandates, as well as reinvestment in the respective systems. But we cannot continue to raise the debt ceilings of our utilities without thought to our ratepayers who support these debts through their bill payments. To leverage our capital dollars, we have competed for and received State Revolving Loan funds. These low- and no-interest loans have helped us with our financing, but the size of our system makes for some very large and costly projects. Declining federal funding for state revolving funds has only increased the competition for these limited dollars. These reduced funding levels come at a time when unfunded mandates continue to exert pressure on our water and sewer rates and capital programs, diverting investments away from our aging infrastructure.

- Baltimore is a city of 87 square miles; last annexation in 1918 (further annexation prohibited by State law)
- Population of 626,664
- Average unemployment rate of 10.3% (January-July, 2011)
- 47% of the population lives below the Median Household Income of \$42,000 (family of 4)
- 25% of the population lives below the poverty line (2010 Census)

One project that has been partially funded by State revolving loan funds is the upgrade of our two wastewater treatment plants to meet the nitrogen limits mandated by the Chesapeake Bay TMDL. Cleaning up the Bay is important for the State, local, and regional economies, and due to our proximity to this vital water body, we in Baltimore feel a particular stewardship. Baltimore's wastewater treatment plants are two of the largest in the State and in order for Maryland to meet its pollution reduction goals, both plants must be outfitted with state-of-the-art Enhanced Nutrient Removal (ENR)

facilities which will cost a total of \$900 million. In addition to the State revolving loan funds, we are also receiving funding assistance under the Bay Restoration Fund (BRF). The BRF, or as it is affectionately known in Maryland, “the Flush Tax,” is a state-wide fund financed by every public sewer system customer, including our citizens, through fees on their water and sewer bills. Baltimore was also successful in applying for stimulus funds through the State, receiving \$6 million toward one of the ENR projects. We are grateful for the support we’ve received from the SRF, BRF, and stimulus funding, but at the end of the day, the balance of that \$900 million falls on the shoulders of Baltimore’s ratepayers.



A challenge that Baltimore has faced recently is the funding for our stormwater program. When viewed against the history of Baltimore City, the regulation of stormwater is a fairly new development: we received our first Municipal Separate Storm Sewer System (MS4) permit in 2005. The regulation of stormwater followed a pattern that is familiar in environmental regulation. First the science developed to recognize a problem, then EPA determined how it would regulate the problem, and local governments are left to figure out how to pay for the regulations. In Baltimore, we began to fund our stormwater compliance out of the city’s general fund where, at budget time, it would have to compete with all of the city’s other priorities for funding. As the TMDL requirements of the MS4 permit became more stringent, it became clear that stormwater would need a dedicated funding source. Of course “dedicated funding source” translates into another dip into our citizens’ wallets.

My administration has been trying to create an equitable way to fund compliance with these relatively new requirements plus rehabilitate and maintain our aging stormwater infrastructure. As politically unpopular as it is during a slow economic recovery, we may be faced with requiring all properties in Baltimore City to pay a charge based on the

amount of their impervious area. I would like to thank Senator Cardin for his efforts to insure that the federal government would pay its fair share of this kind of charge.

We are not just looking to our rate payers to fill the gap in our funding needs. We are also looking for ways to reduce our costs, and energy is certainly one area where we have been successful. Methane is a byproduct of wastewater treatment, and we have used this gas to heat some of our buildings and processes. We are lowering our energy costs by operating a public/private cogeneration facility that converts methane into 3MW of electricity, approximately 30% of the base electrical load for one of our treatment plants. We are also investigating the ability to install solar farms on large areas available at the treatment plants to generate even more electricity.



In addition to the strategies I've already discussed, cities like Baltimore need new and innovative funding options. This is why last summer at the United States Conference of Mayors' annual meeting I co-sponsored a resolution that was adopted by the Mayors' Water Council supporting the creation of a water infrastructure financing and innovation authority (WIFIA) modeled after the Transportation TIFIA program. The WIFIA would set up a loan guarantee program that would provide low-cost capital to water and wastewater utility investments in infrastructure. WIFIA could provide secured direct loans and loan guarantees, a standby line of credit for infrastructure construction, and annual federal funding to budget for credit defaults. Federal credit can make a project more attractive for private capital and lower interest rates on private lending. And credit available on Treasury borrowing rates can reduce borrowing costs by up to 20 percent. Since water utilities have existing revenue streams which they can use to repay federal credit assistance, an investment of this nature is even more financially sound than the widely supported TIFIA program. And let's not forget that the historic default rate on water and sewer bonds is 0.04 percent.

Another innovative financing strategy that is gaining attention is a Clean Water Trust Fund. The fund would be supported by national dedicated user fees that are low-rate and broadly based on a range of products sold in interstate commerce. This Trust Fund could provide a long term and sustainable national funding source for water and wastewater infrastructure investment, research and development of advanced treatment technologies, support expansion of the state revolving funds, and provide grant assistance for watershed, urban stormwater and rural nonpoint source management. A 2009 General Accountability Office report documented potential revenue sources for this fund. Quite frankly, a source of sustainable national funding is essential to the recovery of our nation's water infrastructure and our environment because local governments cannot carry the financial burden by themselves. Both the WIFIA and Clean Water Trust Fund have merit and deserve consideration.

Increased funding is only one side of the coin in improving our water infrastructure. As co-chair of the U.S. Conference of Mayors' Water Council, I and my representatives have been meeting in formal and informal settings with EPA Headquarters since December of 2010. Through our membership in professional organizations such as NACWA, APWA, and WEF, we have pressed a consistent message: cities need some flexibility in meeting the requirements of the Clean Water Act and Safe Drinking Water Act. We want to meet our environmental responsibilities; it is important to the health and welfare of our communities. But our resources are finite.

I am happy to report to the distinguished members of this Subcommittee that the EPA has heard our message. EPA acknowledges the strain that municipalities are under and is willing to work with us to develop a more flexible and tailored program to achieve the goals of a cleaner environment without bankrupting us in the process. It is called integrated planning. In an October 27, 2011 memorandum to their regional administrators, EPA Headquarters noted the following:

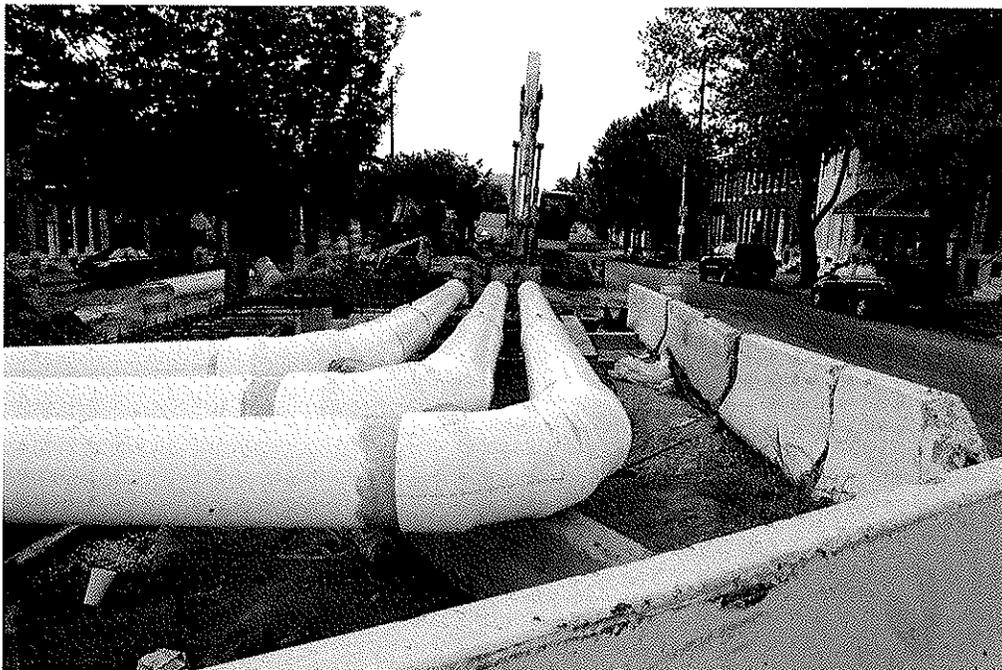
“Integrated planning will put municipalities on a critical path to achieving the water quality objectives of the CWA by identifying efficiencies in implementing sometimes overlapping and competing requirements that arise from separate waste- and storm-water programs, including how best to make capital investments and meet operation and maintenance requirements. Integrated planning can also lead to the identification of sustainable and comprehensive solutions, such as green infrastructure, that improve water quality as well as support other quality of life attributes that enhance the viability of communities.”

At a December 13, 2011 meeting with NACWA representatives, EPA promised to provide a draft framework for municipalities to consider when preparing their own plans. True to their word, on January 13, 2012, EPA released the *Draft Integrated Planning Approach Framework*, a document that outlines the overarching principles that should guide development of an integrated plan, some of the elements that need to be

addressed, and the means to implement the plan. Integrated planning is a big change in the way that EPA approaches enforcement and it could not have come at a better time. In the past, EPA enforced compliance with federal environmental laws through a series of unfunded mandates. Each mandate was pursued individually and with the same sense of urgency. Through integrated planning, we will be able to look at all of our environmental projects holistically to determine the environmental, social and health benefits of each, place projects with the greatest benefits at the top of our capital plans, and address the less effective projects later.

My city is already developing its own integrated plan and our intentions for the plan are largely in sync with the EPA draft framework. We are in the process of looking at all of our responsibilities under the Clean Water Act and Safe Drinking Water Act, our operations and maintenance requirements, and our future capital investment needs. Each of these projects and programs will be given a score based on its environmental, social, and health benefits and we will develop several alternatives for how to proceed. After extensive stakeholder consultation and outreach, we will develop a long-term plan for the effective management of our utilities.

You will notice that I mentioned Baltimore's Safe Drinking Water Act responsibilities as one element of our integrated plan. Right now, EPA only wants Clean Water Act mandates included in integrated planning. But Baltimore, like many other cities, is responsible for metropolitan drinking water and wastewater systems, and stormwater controls and treatment within our borders. Our citizens and ratepayers pay for these systems, and all three utilities run under the same streets. An integrated plan for Baltimore must address all three systems. It just makes sense.



In order to continually provide high quality drinking water, cities need to be able to plan in a holistic manner for the replacement of water mains and refurbishment of treatment plants. In Baltimore, we have three water treatment plants that provide high quality water to 1.8 million people. One of our plants, Montebello 1, is starting to show its age and will be needing a complete refurbishment. We are unable to shut Montebello down to make all the necessary upgrades and repairs until we construct a fourth treatment plant. It's the timing of this kind of capital expenditure that we want to work into an integrated plan so we know that we are doing it in time to best protect the quality of our water but also at a time when it makes fiscal sense.

We also want to be sure that we comply with drinking water regulations in a way that accurately balances the public health benefit of those regulations with environmental and social benefits. Baltimore currently has 5 open finished water reservoirs. Due to the LT2 Rule, we have to cover or UV treat them all to the tune of \$190 million and a lot of angry citizens view those reservoirs as aesthetic amenities in their communities. While we understand the public health benefit of covering or providing additional treatment, and we are committed to undertaking this effort, we would also like to examine if that health benefit outweighs the health and environmental benefit of replacing miles and miles of aging and leaking water mains. We don't know yet, but it's possible that our limited funding would be better spent on system improvements first, then cover or treat the reservoirs further on down the road. The fact that EPA is now reexamining the LT2 Rule under the President's Regulatory Review underscores our concerns about the sequencing of these projects.



While EPA is not yet seeing eye-to-eye with Baltimore and other cities on the issue of integrating drinking water planning, they have left the door open to further negotiation on the issue, and I am confident that we will reach a solution that protects human health and the environment.

One challenge that EPA, state regulators, and cities will have to face together will be to establish a legal framework to accommodate integrated planning. The tools provided by

the Clean Water Act and the Safe Drinking Water Act are limited and none of them provides an easy fit for the kind of long-term, holistic approach that integrated planning must entail. EPA has stated that they do not think that a rule-making or revision to the Clean Water Act is necessary to accommodate integrated planning. I do not disagree with that, but I must emphasize that to make integrated planning work in the current legal scheme, there can be no "one size fits all" approach: each municipality will have to reach an agreement with EPA and its state regulators that is unique to its resources and challenges.

I am very proud that my city is at the forefront of the integrated planning effort. I believe that this program presents an excellent opportunity for each city and utility to comprehensively assess their water, wastewater, and stormwater programs and to plan in a way that produces the best results both for people and the environment.

I thank the Chairman and Subcommittee members for your kind attention and will be happy to answer any questions you may have.