Environmental Finance Advisory Board

FINANCING STRATEGIES TO PROMOTE SYSTEM REGIONALIZATION

Joanne Throwe, President
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Environmental Financial Advisory Board (EFAB)

- EFAB provides ideas and advice to EPA that they can act upon.
- EFAB works to find ways to:
  - Lower costs of and increase investments in environmental and public health protection;
  - Lower cost of environmental protection;
  - Remove financial and programmatic barriers that raise costs;
  - Increase public and private contribution in environmental facilities and services; and,
  - Builds state and local financial ability to meet environmental laws.
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<th>MEDIA/SECTOR</th>
<th>SCIENCE/TECHNICAL</th>
<th>POLICY/STAKEHOLDER</th>
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<td>Air</td>
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EFAB Reports 1990-2020
EFAB Charge on Regionalization

- EFAB issued charge from EPA Office of Water - January 2018.
- EPA supported work group – helped with perspective on EPA’s authority, program operations, tools and techniques to information dissemination and stakeholder engagement.

“Identify and evaluate financing strategies that have been designed to assist and/or incentivize systems to implement governance strategies that may include system consolidation, regional projects and/or service arrangements.”
Approach

- Workgroup participated in conference calls and a day-long in-person workshop in Washington, DC. Highlights included:
  - Multiple forms of regionalization and consolidation – all have distinct advantages and disadvantages
  - Differences between urban, suburban, and rural systems in terms of opportunities for and implications of regionalization.
  - Differences in which water service providers and decision-makers have access to, or familiarity with, information.
EFAB’s Perspective

• Large number of service systems have opportunities to enhance efficiencies and improve accessibility and quality of services. Regionalization may facilitate more effective water service delivery.

• Water sector faces several imperatives to invest in critical infrastructure and service delivery that would be facilitated by regionalization oriented toward protecting public health and economic interests of customers and communities.
• Addressing water quality issues and new regulatory initiatives will amplify economic, labor resource and service delivery challenges.

• Water utility service systems represent major community assets which information and decision-making authority generally rests with local/community decision-makers.

• Availability and accessibility of objective information about advantages/disadvantages of different regionalization and consolidations options may be limited.
EFAB Charge Report
FINANCING STRATEGIES TO PROMOTE
SYSTEM REGIONALIZATION
EFAB Charge Team Members

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EFAB Charge Goals

• Identify and evaluate the various financing options developed to support regionalization.

• Investigate the value of shared governance or alternative governance strategies as potentially effective tools to address deferred investment and maintenance.

• Examine different governance models (public or private) and how they can be used to improve system management, including centralized management of dispersed systems and decentralized systems.

  – Through examples, highlight potential advantages and disadvantages of shared governance or alternative governance strategies to drinking water and wastewater utilities of increased operational efficiencies in reducing capital and operating costs.
Regionalization and Consolidation Defined

- Regionalization of water and wastewater services involves structural and non-structural methods of capturing scale economies and improving operational performance among geographically proximate systems.
- Consolidation does not require geographic proximity, but is also oriented toward performance improvements.
- All forms of regionalization are consolidations; not all forms of consolidation are regionalization.
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<th>Structural Options</th>
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<td>• Regional Public Authorities and Districts</td>
<td>• Governance</td>
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<td>• Municipal Services (Wholesale &amp; Retail)</td>
<td>• Compliance management</td>
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<td>• Private and Investor-Owned Companies</td>
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<td>• Member Cooperatives</td>
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<td>• Capital planning / Asset management</td>
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<td>• Capital financing</td>
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## Evaluation Criteria

- Water quality compliance
- Financial transparency and rate-setting
- Operational efficiency
- Asset management/ infrastructure reinvestment
- Environmental and resource management
- Access to financing on favorable terms
- Customer affordability
- Stakeholder engagement
Recommendation #1:

Promote and incentivize consideration of regionalization and consolidation alternatives through the Safe Drinking Water Act (SDWA) and Clean Water Act (CWA) permitting processes, and through EPA-controlled funding programs including the state revolving funds (SRF), Water Infrastructure Finance and Innovation Act (WIFIA) and other grant programs. Facilitate funding for projects that address new or expanded drinking water and wastewater management needs through regionalization or consolidation alternatives.

- Permitting and funding measures
- Funding programs
  - State Revolving Funds
  - WIFIA
  - Grant programs
Recommendation #2:

Promote the use of “Safe Harbor” provisions to protect systems that absorb troubled systems from regulatory penalties for a reasonable period of time, consistent with existing statutes and regulations.

- Regulatory transition program
  - Existing permits
  - Interim permit limits
  - Existing orders – consolidated systems
  - Existing orders – assisting utility
  - Time
  - Protection from 3\textsuperscript{rd} party actions

- Funding Pool
  - Immediate corrective actions
  - Long-term corrective actions
Recommendation #3:

Examine the impact EPA’s Public Water System Supervision (PWSS) grant allocation formula has on creating disincentives for state governments that actively promote beneficial consolidation of water systems to determine if the formula should be changed.

- State Funding Allocation Factors
  - Number of community water systems and non-transient non-community water systems in the state relative to the total nationwide (56 percent of total)
  - Number of transient non-community water systems in the state relative to total nationwide (14 percent of total)
  - Population of state relative to national population (20 percent of total)
  - Geographic area relative to national area (10 percent of total)

Unintended Disincentive
Recommendation #4:

Review capacity development policies and programs at the state level to ensure consideration of beneficial regionalization and consolidation options.

- EPA assistance for state compliance with SDWA mandated capacity development
  - ensure that all new community water systems have adequate technical, managerial, and financial capacity, and
  - develop a capacity development strategy for existing water systems
Recommendation #5:
Enhance the scope and structure of EPA’s guidance and support for objective, well-informed evaluation of regionalization options through EPA’s information tools (e.g. Water System Partnership website) and active engagement of key stakeholders.

Recommendation #6:
EPA should facilitate informed decision-making by providing states and local officials, as well as other stakeholders, with objective information about legislative and regulatory initiatives and policy tools related to potentially beneficial regionalization or consolidation of water and wastewater systems.
CASE STUDIES

1. **Facilitating Legislation**: Regionalization Achievements Under the Pennsylvania Municipality Authorities Act
2. **Regional Wholesale Authorities**: Great Lakes Water Authority
3. **Regional Retail Authorities**: McLean County Regional Water Commission
4. **Non-Profit Partnerships**: Delaware’s Clean Water Solutions
5. **Public to Private**: Pennsylvania American Water Acquisition of Scranton Sewer Authority
6. **Cooperatives**: Florida Governmental Utility Authority
QUESTIONS / ANSWERS