

**Testimony of the City of Columbus in Opposition to H.B. 163
Before the House Public Utilities Committee
May 29, 2019**

Chairman Callender, Vice Chair Wilkin, Ranking Member Smith, members of the committee, I am John Newsome, Administrator of the Columbus Division of Sewerage and Drainage, the regional wastewater utility for Central Ohio. Columbus provides water and sewer service to approximately 879,000 people inside the city of Columbus and 350,000 people outside the city.

I am here today on behalf of the City of Columbus to oppose House Bill 163. This bill will unfairly and unconstitutionally eliminate a city's Local Government Fund allocation and prohibit a city from utilizing Ohio EPA's revolving water and sewer loan funds in the following circumstances:

1. The city charges non-resident customers higher rates for water and sewer service than residents, and the higher rates are not calculated pursuant to generally accepted industry practices consistent with industry guidance; and/or
2. The city requires payments from other political subdivisions for water and sewer service to those political subdivisions, and the payments are unrelated to the cost of service.

Columbus' 2018 Local Government Fund allocation was \$21.2 million, 68% of which was used to fund police and firefighters. Although Columbus utilizes the bond markets extensively, Columbus regularly utilizes Ohio EPA loan funds to fund sewer and water infrastructure projects because these loans sometimes offer a lower interest rate than the bond markets and reduce borrowing costs substantially.

Columbus' total debt for sewer and water infrastructure is currently \$2.9 billion, of which \$1.3 billion is in general obligation bonds, \$407 million is in revenue bonds, and \$1.2 billion is in outstanding Ohio EPA loans. The general obligation bonds are backed by the full faith and credit of the city of Columbus. The revenue bonds and Ohio EPA loans are backed by utility rate payments. Of the total water and sewer infrastructure debt, approximately \$2.3 billion is attributed to infrastructure constructed to serve residents, and \$696 million to infrastructure constructed to serve non-residents.

Columbus' water and sewer rates are not arbitrary, but are determined on a cost of service basis. Columbus' methodology for calculating the cost of service rate differentials for residents and non-residents is based upon periodic cost of service studies and is consistent with accepted industry standards, including the *American Water Works Association M1 Principles of Water Rates, Fees and Charges*, 7th Edition (AWWA 2017).

Based upon Columbus' Cost of Service Studies, Columbus charges non-resident water customers covered by service contracts with suburban municipalities 1.3 times the resident rate, and non-contract, non-resident customers 1.5 times the resident rate. Columbus charges non-resident sewer customers 1.1 times the resident rate. For non-resident water rates, these costs are allocated based on consumption patterns, peak demand factors, and storage, and include the recovery of actual operation and maintenance costs, depreciation, and a reasonable rate of return on the unrecouped capital investments that Columbus incurred in building the infrastructure to serve non-residents. For non-resident sewer rates, costs include collection system operation and maintenance costs, depreciation, and a reasonable rate of return. Given the differences in the costs and risks involved in serving resident and non-resident water and sewer customers, it would be unequitable and unreasonable to expect non-residents to pay the same rates for utility service as residents.

The return on investment factor used in calculating non-resident rates has been characterized as "pure profit," suggesting that this factor is not included in the "generally accepted industry practice" defense created in the bill. This characterization is not

accurate. There are two components of Columbus' industry-accepted, non-resident rate calculation methodology that allow for capital cost recovery--depreciation and rate of return. The depreciation component can be characterized as the means for recovery **of** invested capital; it is the way in which an initial investment gets recouped. The rate of return component provides for the "return **on** invested capital", and is the way that a utility gets compensated for debt interest expense, the use of its credit rating and borrowing capacity to serve non-residents, and the risk Columbus residents bear by maintaining the debt incurred to build non-resident infrastructure. In either component, there is no "pure profit."

The bill's penalty for a city requiring payments from other political subdivisions for service where the payments are unrelated to the cost of service may eliminate a critical economic development tool in Central Ohio. In a growing and increasingly complex region, economic development often requires partnerships. In recent years, Columbus has used such partnerships to extend water and sewer service to growth areas outside the city.

This cooperative economic development model is reflected in agreements with the cities of Dublin, New Albany, and the multi-party Northern Pickaway County and Prairie Township Joint Economic Development Districts (JEDDs). Under these agreements, Columbus provides utility extensions to support new development in growth areas outside the city in exchange for shared tax revenues generated within the expansion areas. These revenue sharing agreements are not based upon the cost of providing service.

Under these cooperative agreements, our suburban municipal partners and the townships within the JEDDs have benefited from increased employment and increased tax revenue. In addition, these agreements have resulted in major projects being located in these growth areas; projects that only Columbus has the water and sewer infrastructure capacity to serve.

HB 163 if enacted will leave Columbus with stark choices, including ending sewer and water service to growth areas outside the city--a result that will limit economic development opportunities for the entire region. In addition, by restricting Columbus' non-resident rates, in particular the rate component related to a reasonable rate of return on unrecouped, non-resident infrastructure investments, H.B. 163 may negatively impact Columbus' bond rating and thereby significantly increase borrowing costs in the bond markets. This outcome would result in increased rates for residents and non-residents. When setting Columbus' bond rating, the bond rating agencies review the fiscal integrity of Columbus' water and sewer utilities, including the sufficiency of utility revenues, the adequacy of cash reserves, and the reasonableness of rates charged to resident and non-resident customers.

Finally, Mr. Chairman, HB 163 interferes with municipal water and sewer utilities' authority in violation of the Ohio Constitution. The General Assembly is without power to require a city to furnish water and sewer service to non-residents or to limit the price the city may charge for such services. The fact that this bill imposes financial penalties on actions that are within a city's constitutionally granted authority rather than prohibiting such actions outright does not alter the unconstitutionality of the General Assembly's interference.

Mr. Chairman, members of the committee, your attention and consideration in this matter are very much appreciated. I would welcome any questions that you may have at this time.