



Strengthening Ohio's Water Infrastructure: Financing and Policy Executive Summary

Water and sewer utilities are faced with the need to invest billions of dollars to modernize infrastructure that was installed decades ago. Ohio has some of the largest revolving loan programs in the nation through the Ohio EPA and the Ohio Water Development Authority, but local utilities must navigate through multiple state and federal funding sources with different applications, funding criteria, and timelines. Grant funding is limited and hard to access. User charges have increased faster than the rate of inflation over the last 15 years, and affordability has become a growing concern, especially in small cities and villages.

Strengthening Ohio's Water Infrastructure: Financing and Policy, a report by the Greater Ohio Policy Center, explores how state leadership can promote new ways of doing business in the water utility sector that can increase long-run financial sustainability. **Asset management** will save costs through predictive maintenance and better targeting of resources, while allowing utilities to better justify their capital improvement plans to governing bodies and encouraging them to benchmark against their peers. **Regionalization** allows utilities to achieve economies of scale and increases their financial sustainability. Utilizing **new technology** to save energy costs in treatment systems can also help to change the financial equation. With the proper guidelines in place, **public-private partnerships** can add to the flexibility and timeliness of many infrastructure projects. Even with a new business model, however, it will be necessary to increase coordination among state and federal agencies to keep affordability within reasonable bounds.

The following actions will strengthen the long-run sustainability of water infrastructure:

- *Increase incentives for regional coordination and consolidation of small drinking water and wastewater systems.* Small systems are often under severe financial stress to meet regulatory requirements and upgrade facilities. Sharing facilities, technical personnel, or administrative functions such as billing, can help to lower per capita costs and ensure that appropriate management and technical personnel are in place. Ohio's local governments have the option to create county or regional drinking water or wastewater systems through a statutory "Chapter 6119" arrangement or to devise a customized arrangement via contract. Additional state incentives via grants, loan forgiveness, or lowering interest rates on existing loans can help to encourage this process.
- *Increase financial incentives for Asset Management Programs by small systems.* An asset management program (AMP) enables a utility to map the location and condition of all of its equipment and facilities, assess the risk of failure, and then integrate this information with capital planning and customer charges. The US EPA, along with national water utility associations, promote asset management planning as a best practice, and state agencies in Ohio provide technical assistance to help utilities start an AMP. Smaller utilities are less likely to

implement an AMP. The Ohio General Assembly considered, but did not pass, an asset management requirement for 2016. Increasing the use of asset management may require increased technical assistance and cost-sharing incentives for smaller systems.

- *Provide the OWDA or Ohio EPA with additional state funds to help keep affordability within acceptable bounds.* Water and sewer user charges have increased at twice the rate of inflation since 2000. Ohio and federal agencies that finance water infrastructure have done a good job in coordinating informally but utilities seeking financial assistance are confronted with the need to understand the requirements of multiple federal and state funding sources and to adjust project financing based on uncoordinated agency funding schedules. The Ohio EPA revolving loan funds can offer principal forgiveness in limited circumstances, but these funds fall short of what is needed. Ohio can take an approach used in other states such as Pennsylvania and Minnesota to combine grant funding and revolving loan funds in the same state agency.
- *Couple asset management plans with improved statewide data collection on key utility performance benchmarking statistics.* National water and wastewater industry associations are recommending performance benchmarking using financial, operational, and service standards as a best practice. Overall, comprehensive performance information about public water utilities is hard to find and is not assembled in any one place. The lack of significant performance and benchmarking information for water and wastewater utilities is an issue not only for the general public but for private investors. At a time when water utilities are asking the customers, investors, and federal and state government to increase the financial support to the sector, it is vital that water utilities provide useful and accurate information. The state should take the lead in creating a reporting framework and a reporting system that is publicly accessible.
- *Enact a public-private partnership (P3) statute for water sector projects that contains safeguards for accountability, transparency, and standardized procedures, including opportunities for public input.* Public-private partnerships (P3s) are arrangements in which a public utility leases or transfers control of certain assets to private operators but stops short of complete privatization. P3s are not a panacea for the public sector's underinvestment in infrastructure, and in other states they have been used inappropriately by cities to receive one-time cash infusions to shore up budget shortfalls. Nonetheless, there are certain specialized skills and technologies that are well-suited to P3 arrangements, such as electric power co-generation technologies at wastewater treatment plants. The state could also create a technical assistance unit through a state agency or nonprofit organization that can advise local systems on the appropriate use of P3s in water, wastewater, and stormwater issues.

The full report is available on the Greater Ohio Policy Center website at:

<http://greaterohio.org/files/pdf/strengthening-water-infrastructure-report-final.pdf>

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