

Testimony of Mayor Gregory A. Ballard – City of Indianapolis, Indiana  
Water Resources Subcommittee - House Transportation and Infrastructure Committee

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February 28, 2012

My name is Greg Ballard, and I've been the Mayor of Indianapolis since 2008. I would like to thank the Chairman and the committee for inviting me.

I am testifying on behalf of The U.S. Conference of Mayors where I serve as Co-Chair of the Mayors Water Council, and have been part of the discussions that led to EPA's Integrated Planning Memorandum.

As Mayor of Indianapolis, I have direct experience with one of the most expensive Combined Sewer Overflow enforcement actions in the nation's history. In fact, Indianapolis was the first city in the country to successfully renegotiate an EPA Consent Decree. We succeeded in amending our long-term control plan twice, resulting in better environmental protections at less cost, scheduled to be completed 10 years ahead of the original consent decree. That is cleaner water for our residents ten years earlier than originally prescribed by the EPA.

This background gives me a unique perspective to comment on the matter before this subcommittee today.

I am here today to tell you why the Mayors of this nation are concerned about the rising costs of water and wastewater infrastructure, and comment on ways by which Congress can provide much needed relief to local governments as they work towards their clean water goals.

I think it is important to recognize that EVERYONE wants to do the right thing related to the environmental condition of our communities.

As a Mayor, my job is to be a steward for my citizens. I want them to have the best, safest water. So do my peers around the country. So does EPA, so do environmental groups, so do community representatives, and so do our businesses. We are all in agreement on this. But we can find a better way forward to reach this shared goal.

My testimony today focuses on 3 areas.

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**1. Local governments need serious, immediate financial relief in order to rehabilitate and modernize existing water and wastewater physical plants.**

First and foremost, water and wastewater infrastructure serves to protect public health, support the economy, and protect the aquatic ecosystem. In 2009 alone, local governments invested \$103 billion in such infrastructure investments. As a result, American cities provide some of the safest, cleanest, most affordable water in the world. America's cities have long ago put out the fires on the Cuyahoga River, and continual improvement of water quality has been achieved over the last 40 years.

This comes at a hefty price, and the price tag continues to grow. In the last decade, public spending on water and wastewater was \$855 billion, significantly outpacing GDP growth, (spending 65%, GDP only 41%).

At the same time, local government revenues declined in the face of a struggling national economy. And notably, local government long-term debt grew over the decade by 82%. In fact in 2009, local government long-term debt was greater than annual revenues for these same municipalities.

This financial picture is not rosy, and is not projected to change course.

For example in Ohio in 2009, local government revenues were \$53 billion, expenditures were \$55 billion, and long term debt was \$44 billion, up from \$15 billion in 1995. Per capita spending on water and wastewater was \$186 in 1995 and \$322 in 2009. The national average was \$337 in 2009. In New York State, local government revenues were \$139 billion, expenditures were \$176 billion, and long term debt was \$165 billion, up from \$66 billion in 1995. Per capita spending on water and wastewater was \$170 in 1995 and \$348 in 2009.

These trends indicate that annual deficit spending at the local government level is a growing problem, and an unsustainable one. Importantly, the phenomenal growth in long term debt may prove to be the single greatest limiting factor in achieving clean water goals and sustaining the current high quality of life for over 300 million Americans.

It makes it all the more difficult for our cities do the right thing ... provide clean water ... and to do it effectively. It is one reason the U.S. Conference of Mayors is calling on Congress to help us more sensibly and flexibly achieve our shared clean water goals.

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## **2. Local Government wants to reestablish a true Partnership with Congress and the Administration.**

Congress has successfully partnered with local government on clean water goals in the past. In the 1970s and 1980s to reach shared clean water goals, Congress approved capital construction grants, while local government shouldered the responsibilities – and repercussions – of implementing and then meeting or missing those goals.

As these grants were replaced by loan programs, it marked the beginning of a gradual retreat from shared responsibility. The State Revolving Loan Fund (SRF) program was adopted by Congress primarily because the grants program proved to be too costly to the U.S. Treasury. Congress therefore shed financial responsibility for clean water goals while still setting the rules and the strategy for meeting the rules. Ultimately, this translates into unfunded mandates.

As a result, for the last 20+ years, local government has had to finance water and wastewater infrastructure through a combination of pay-as-you-go and long-term borrowing through revenue and general obligation bonds. The large amounts of capital necessary to construct, reconstruct and expand physical plant leaves no choice to communities but to rely on long-term financing.

While the SRF loan program is helpful, it is largely targeted to smaller-population communities that lack access to favorable terms on the capital market. Currently, Congress has recapitalized the SRF program at about \$2 billion per year, bringing the total amount of financing available to roughly \$6 billion a year including the revolving funds that go back out in loans.

SRF loans only apply to capital investments. In contrast, all-in local costs for water and wastewater infrastructure and services eat up sixty cents of every operations and maintenance (O&M) dollar spent. These loans also compound the growing issue of overall long-term debt being faced by our cities. The debt is amortized over time, and is accounted for by water and wastewater revenues. As debt and O&M increases, so too do rates.

Current considerations for alternative financing all involve long-term borrowing. These alternatives do not provide a “solution”, but they do provide some financial relief to communities. Because of that the U.S. Conference of Mayors supports the following proposals:

- **Modification of the tax code to remove state caps on the use of private activity bonds for public water and wastewater infrastructure investment (e.g., H.R. 1802; and S. 939).** This allows local government to harness private capital and expertise in building and operating water and wastewater systems while retaining public ownership.
- **Water Infrastructure Finance and Innovation Act (WIFIA).** The U.S. Conference of Mayors adopted policy to support this approach because it can lower overall costs for large capital water projects by as much as 16 percent.
- **Public-Private Partnerships.** These can lower O&M costs as well as capital costs where investments in construction are involved.

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The U.S. Conference of Mayors is also exploring opportunities to work with pension fund managers to provide capital for investment.

Congress can play a vital role in improving local investment options by passing legislation that increases access to the full array of financing tools available to meet our environmental goals.

**3. Congress can play a greater role in providing financial relief for communities by setting clean water priorities and reasonable expectations on affordability.**

The proliferation of aggressive federal regulatory mandates has served to increase local spending on water and wastewater on top of the mounting budget and financing concerns outlined above. Over 780 cities and water/wastewater utilities have, or will, experience sewer overflow enforcement actions by the EPA. These actions all amount to unfunded mandates.

My colleague Mayor Jim Suttle of Omaha, Nebraska, already pointed out in testimony regarding EPA's new Integrated Planning Policy Framework that multi-billion dollar consent decrees to manage Acts of God (storms and sewer overflows) account for the largest public works investments in the history of the cities affected.

Indianapolis originally faced \$3.5 billion in expenses as part of a consent decree reached in 2006 with the Regional EPA and Indiana State regulatory authorities. That figure quickly ballooned by an additional \$300 million through cost overruns, and the city likely would have continued to face additional, unexpected and unbudgeted charges throughout the implementation period.

In 2008, however, the city invested in an effort to re-evaluate the steps necessary to resolve the clean water concerns with an eye to better results at a lower cost. As a result, Indianapolis amended the consent agreement twice with EPA. In each case, the city was able to reduce the overall price of the solution and get better environmental results.

We enjoyed forging a partnership with EPA, finding common sense, less costly fixes to the challenges we face. In fact, EPA called the renegotiation with my city as a win-win for everyone involved. It was a great example of governments working together. We demonstrated that flexibility, creativity and government can go hand-in-hand.

The U.S. Conference of Mayors adopted policy in June 2011 urging the EPA and Congress to use the maximum flexibility allowable in the Clean Water Act to reduce the cost burden of reducing or eliminating sewer overflows.

Recently a group of Ohio mayors penned a letter to their Congressional delegation asking them to convince EPA to apply readily available and legally allowable flexibility in this area.<sup>1</sup>

**Conclusion**

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<sup>1</sup> See attached Letter and Resolution 43 for Achieving Clean Water Goals

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It is important for the committee to recognize that the recession and deficit spending is not over at the local level. Growing long term debt will stymie investment in infrastructure and other social programs.

It is also important to recognize that Congress can play a role in reducing water and wastewater costs by requiring EPA to prioritize mandates, and acknowledge that flexibility and affordability should play a greater role in determining clean water solutions at the local level.

Thank you again for inviting me to testify before you.

Gregory A. Ballard, Mayor of Indianapolis