

A Sierra Club Green Paper

Discussion on the Future of Our Drinking Water

Should the City merge their water system with the Monroe County Water Authority? Pros and cons involved.

“Political power and wealth both come from control over water.”

I. Introduction & Overview

For a number of years the Monroe County Water Authority (the Authority or MCWA) and Rochester have agreed to share water between their two systems. In 2006 the Morin-Ryan water sharing agreement expired and the two parties have been in discussions ever since over the future of our drinking water. The Morin-Ryan Agreement gave Rochester favorable treatment on the sale of their gravity fed water to the Authority where the City is able to sell water to the Authority at 52 cents per 1,000 gallons, where as when needed the City can buy water from the Authority at 48 cents per 1,000 gallons. The agreement has been renewed three times since 2006 while the City and Authority negotiated about the future of the City’s Hemlock water system.

These negotiations have been expanded well beyond the simple question on the price of sharing water. A merger of water services with the possible sale of the City owned Hemlock system to the Authority is under consideration. Further, these “behind the scenes” negotiations are close to completion with a new agreement on the issue of consolidation of services likely to come soon. What’s troubling is that there has been no public disclosure on the elements of the negotiations nor has there been public debate on the future of a system Rochester has developed and maintained over 130 years!

The idea of consolidation of water services has been continually advanced in business circles and the public press BUT is it really a wise idea and economically advantageous to both Monroe County and to Rochester? This Sierra Club Green Paper examines the Pros and Cons of merging the City system with the Authority and ***questions whether the idea is really profitable for everyone.*** In a democratic society it is imperative that such a major

decision not be made by politicians behind closed doors. *Private negotiations and deal-making must be brought out into the light of public debate and public vote before any final decisions are made on the future of our water.* Most certainly the Authority should not take advantage of the City in these negotiations by threatening to pull out of all cooperative agreements because the new Eastside Webster plant gives them plenty of water. The issue of high quality water for everyone at the lowest rate should be the dominant consideration rather than who profits in deal making.

II. Arguments for merger of systems from City point of view

It's no secret that the City water infrastructure is old and needs continual maintenance and up keep.¹ The current city administration is arguing that the City can avoid the costs of a *potential* major breakdown in the system requiring, "costly emergency repairs". (*Thomas Richards, City News, Nov. 3, 2010*). It's more likely that the City is concerned about the real costs of meeting the new very strict Federal water filtration requirements for open reservoirs called **the LT2 Rule**.

LT2 Rule² In 2006 the Federal government passed a new water filtration requirement called the LT2 Rule - which requires the City to add a higher level of filtration for the open reservoirs at Cobbs Hill, Highland and Rush. The City plans to meet this expensive requirement by building two UV filtration plants. The costs to the City to meet this **unfunded Federal mandate** are large.

Cost for Highland & Cobbs Hill reservoirs = \$12 million

Cost of new liner for Highland = \$3 million

Associated other costs = \$2 million

¹ Currently the City loses approximately 7 million gallons of water per day in unmetered water.

² Under the Bush Administration the Federal EPA water treatment requirements undertook to require cities to meet a new extremely high 'hospital level' standard for pure water coming from open reservoirs called the LT2 rule. The problem being addressed was the cryptosporidium virus from bird droppings could resist chlorine treatment. Two choices given cities to handle the problem were to cover the reservoirs or to build additional treatment facilities. Although there were a number of cities in the US that fought the rule and offered alternative solutions the Bush Administration rejected all options and forced the rule nationwide. In the Rochester case, studies were undertaken of the Cobbs Hill Reservoir and NO cryptosporidium virus was found and no cases could be traced in the medical record as caused by the drinking water. The Cobbs Hill reservoir was successfully protected from birds by stretching wires across the open space.

Rush reservoir liner and cover \$10 million
(but the contract negotiations assign Rush reservoir costs to MCWA)

Total costs of meeting LT2 rule = \$27 million

The City is able to produce and ship high-quality Hemlock water at a lower cost than the Authority, but the Authority water is charged at a lower rate. The City water rates have permitted an \$8 million dollar a year surplus from water sales, which should have been used to generate a special fund for maintenance of the system, but instead was used for the general City budget. Because of the above LT2 Rule and other potential repairs the City system the city will have to raise water rates in the future. If they transfer the system to the Authority they avoid the blame for unpopular rate increases but City rate payers will not escape future increases by the Authority.

Outline Points

- 1) Perceived Economic Savings: City will be hard pressed economically to manage upkeep of the infra-structure without the Authority's help. Further, we can expect the city will shed a number of Water Bureau jobs by turning over responsibilities to the Authority.
- 2) Infrastructure: The City is facing some expensive infra-structure repairs and the high cost of meeting the new Federal LT2 filtration requirements for Cobbs Hill reservoir. If they turn over the full system to the Authority they will escape having these costs fall exclusively on City taxes.
- 3) Water rates: When the Webster water treatment plant comes on line the Authority will no longer need to buy City water (at a profit to the city) therefore the City will be forced to raise water rates.

III. Arguments Against a Merger of Services from the City Point of View

Currently the City can produce high-quality water at a lower cost than the Authority which results in a net profit to the City. But water rates will rise no matter what the City decides to do with their water system because, without Monroe County's help on repairs and purchase of Hemlock water, City rates will go up to compensate for the loss of sales to the Water Authority. Further, even if a favorable deal is struck on merger of services the Authority will have to

significantly raise water rates to pay for the Eastside plant which will influence City water rates.

No matter how the Authority argues, the City water from Hemlock has a long record of being of very high quality and cheaper to transport because its gravity fed. For proof of this quality one has only to look at the fact that when DDT had destroyed all but two nesting pairs of bald eagles in New York State one breeding pair was at Hemlock Lake. It is common opinion that Hemlock water is preferred because it is higher quality than water from Lake Ontario which must be pumped uphill.

Loss of Valuable Asset. If a merger of services takes place we expect that the City will continue to receive Hemlock water in the short run but will lose the use of Hemlock water in the long run. This is because the Authority's business plan is based on both immediate water revenues and on anticipated sales from regional expansion. If the Authority gains control over the City's water supply and suburban sprawl develops south of the city the Authority will use Hemlock water to meet their expansion needs in the southern parts of the County and region.

Safety issues: A common argument the Authority advanced to justify building the unneeded Eastside water treatment plant is that one centralized water system is safer. But is it? In fact it's the redundant linkages between our two waters systems which make the whole system safer in case one system breaks down. If a major emergency caused electrical failure that put the Authority's pumps were out of commission the Hemlock system could provide much of the water needed in the short run. If redundancies were established with other small neighboring systems the whole regional system would be safer than by relying on one very large provider.

On costs: In 1995 the City completed building the Hemlock treatment plant at a cost of \$20 million plus \$10 million in staffing and associated costs. When the total City costs of building such an elaborate system are considered we must include the huge expenditures City taxpayers put out since 1877. These include purchase of Hemlock/Canadice lakes, removing 200 cottages and four hotels, building the water piping infrastructure, constructing Cobbs Hill (1905) Highland and Rush reservoirs, staffing and repairing the system. This may come to a system worth over a billion dollars. How will a cash contract deal with the Authority possibly compensate for funds the City has invested in providing pure, high quality water for citizens over 133 years? *When the full costs of the City system are taken*

into account it's hard to imagine any way the Authority could adequately compensate the City for those costs.

Short-term solution vs. long term benefit: Governments often look to short-term solutions to the economic strait-jacket, but abjure consideration of long-term benefits. As the price of energy continues to rise related to oil depletion and global warming, the cost of pumping water uphill by the Authority will rise, requiring them to continually increase the price of water. The advantages of a gravity fed system will become greater and greater, assuring Rochester lower costs for water in the future.

Emergency repairs? Although the City may be able to work out a lucrative contract with the Authority which provides short term revenues and addresses some of the potential weak spots in the Hemlock infrastructure there will be a long term loss of revenue flow into the City. On the question of what “costly emergency repairs” might occur there is a remote chance for some catastrophic breakdown and if such occurred the Authority would help. But the fact is for many years the City has garnered excess revenues from water sales which have been applied to the General Budget. We question the wisdom of diverting so much of these water funds away from repairs and maintenance.

The politics of water. Most likely final decisions about the future of the City water system will be made with consideration of the politics of water. The City Water system is under both democratic control and Democratic control. This means that decisions about water are made and can be influenced by *direct citizen participation and vote by elected officials* who can be replaced if they make poor decisions. On the other hand *the Authority is a semi-public, opaque operation where decisions are made ostensibly by the Board of Directors who are appointed by the Monroe County manager and President of the legislature which is dominated by a Republican majority.* It's no secret that these director jobs are political plums awarded for Party loyalty and contributions to the Party. The Board has never made a decision which the County Executive opposes. Board positions offer the Directors influence on the award of water contracts (most are engaged with the real estate or construction businesses). After one year the Authority pays Board Member's health care costs for life. The Authority Board is politically lopsided as there are no Democratic representatives on the Monroe County Water Authority Board, but this is not to say jobs at the Water Bureau are immune from political influence and patronage.

Outline of Points

- 1) Water rates: City will have to raise water rates to compensate for loss of water purchases from the Authority BUT *water rates will likely increase anyway due to the Authority's need to pay for the Eastside plant.*
- 2) Water quality: Hemlock water is very high quality and presumed better water than water from Lake Ontario. The City stands to lose use of Hemlock water.
- 3) Safety: It's safer to have two or more interconnected water systems providing water in case one system fails.
- 4) Gravity: Hemlock water is cheaper to transport because it is a gravity-fed system.
- 5) Adequate compensation: City taxpayers have invested millions and millions in building their water system. How will they be compensated for the investment?
- 6) City will lose future revenues: Even though the City may gain in the short term there will be a long term loss of revenues
- 7) Built out system: The City is unable to grow its water system any more therefore they are at a competitive disadvantage to the Authority system.
- 8) The Politics of Water: The City system under Democratic control and a democratic vote. The Authority Board of Directors is appointed by the Republican Party and there are no Democratic representatives.

IV. Arguments for a Merger of Services from the Point of View of the Monroe County Water Authority

Beside the idea of providing better public service and benefiting the entire region by a consolidation of services the Authority stands to gain in several other ways by working out a favorable contract with the City. The Authority's problem involves their commitment to the new, hugely expensive Eastside – Webster water treatment plant, which is expected to come in at slightly less than \$150 million dollars when complete. *The problem is that the **plant is unneeded at this time** as water use in the region has somewhat decreased.* How will the Authority amortize their bonds if water sales are on the decline?

The Authority has argued in the past that the new Eastside plant makes the whole system safer and that they are better able to provide maintenance on water systems, but a more likely reasons for their interest in

taking control of the City system are twofold: a) the Authority **can save on the costly electrical pumping bills**, and b) the Authority **can raise water rates on both the City and Region** to pay for the Eastside plant.

Currently the Monroe County Water Authority is the second largest user of electricity in the region due to the fact all their water must be pumped up hill using electrically driven pumps. In contrast the Hemlock system all flows downhill using the economically free force of gravity to move the City water.³

If the region eventually grows according to the expectations of the Authority they will want to obtain control over the Hemlock system in order to accommodate growth in the regions south of the City in such areas as Henrietta, Rush, and perhaps along the route 5 & 20 corridor between Canandaigua and Geneseo. If this occurs the City will be cut off from use of Hemlock water and will be required to use the near-by water from Lake Ontario.⁴

Outline Points

- 1) Public service. Belief they can do a better job providing water services to the region.
- 2) Economics: Belief that consolidation of services will benefit the entire region socially and economically.
- 3) Pay for the Eastside water treatment plant: Obtaining the City water system will help pay for the Eastside Webster plant which costs approximately \$150 million dollars.
- 4) Safety: The Authority argues that one large system is considered safer than two independent systems.
- 5) Maintenance: The Authority is better funded and able to provide system maintenance and repairs than the City system.
- 6) Obtaining City Water System can contribute to regional growth: If the Authority gains control over the Hemlock water treatment plant they will be able to use this water to grow their system east & west using Hemlock water.
- 7) Authority can save on costs of pumping water: If the Authority gains control over the gravity fed City water system it will result in savings to the Authority because of the costs of pumping water uphill will be less.

³ Currently the Authority is willing to buy water from the City at 52c per 1,000 gallons because it is still cheaper than their production and pumping costs. At this time they purchase between 7 to 13 millions of gallons a day from the City.

⁴ It is rumored that the Monroe County Water Authority has been approached by one water system near the Rts 5 & 20 corridor to take over management of their system. This system is most likely the Conesus system.

- 8) Authority can eventually cut the City off from using Hemlock water: They can eventually cut the City and near-by suburbs off from using Hemlock water and meet the City's need through use of water from the Webster Eastside plant but still gain the revenues.

V.

Why does Authority want the City system when they will have a large surplus of water when the Eastside plant comes on line?

The Authority is in the expansion business and has been able to gain a near monopoly position in selling regional water. The City is viewed as a competitor by the Authority. If they get control of the City system they can eliminate a competitor.

The Authority's strength is based on its size and on the fact it is an authority, which gives it a competitive edge in staffing, purchases and in the ability to independently float bonds. Their credit rating is higher than the City making expansion easier. The Authority is calculating on long term growth of the area which relies on water intra-structure development. The Authority is able to legally expand their water system in multiple near-by counties where as the City water expansion possibilities are limited to the existing corridor.

If the Authority is able to obtain control over the City water system they will have an abundance of lower cost gravity fed water from the Hemlock system. Since they are an Authority they are able to raise water rates at their discretion they can raise City water rates and use the profits to pay off the debt on the Webster Eastside plant.

A long term plan by the Authority is to provide water to the City from the Eastside Webster water treatment plant and use Hemlock water for expansion in the southern areas of the region.

SUMMARY OPINIONS

Is it wise for the City to Consolidate Water Services with the Monroe County Water Authority System?

- 1) The City will see a short term economic gain at a long term cost by consolidating water services.
- 2) The City stands to lose a valuable asset developed for over 100 years by City taxpayers.
- 3) The City will gain help with maintenance and upkeep of their system.
- 4) The City will lose jobs to the Authority.
- 5) The City will lose political power.
- 6) **The best decision for the City is to take a ‘wait & see’ approach to merging services.**
- 7) The Eastside water treatment plant is not expected to come on line until 2013 or later. In the meantime the City should work with the County for a continuation of the cooperative water sale agreement.
- 8) After the Eastside Webster plant comes on line the City will then be in a better position to make estimates on what advantages and costs there are to the City and broader community in a merger of services.

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