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Fixing America's Water Infrastructure Requires Competition and Innovation

BY BONNER R. COHEN

Over the next 20 years, upgrading municipal water and wastewater systems is expected to cost between \$3 and \$5 trillion, placing a heavy burden on taxpayers. However, local governments could cut these costs substantially by updating neglected and tainted procurement practices that handicap competition and raise costs. In fact, local governments could start to save millions simply by allowing all pipe suppliers to compete for contracts, including PVC pipe, which many municipalities currently do not allow.

According to the Water Innovations Alliance, a coalition of cost-conscious water providers and experts, it will take 15 to 20 years of significant investments to stabilize and modernize the U.S. water infrastructure at a cost of \$365 billion, in today's dollars. With little prospect that the funds required to address the problem will be forthcoming in the near future, responsible public officials need creative solutions if they want to satisfy the public's demand for safe and affordable water.

One critical challenge lies in the type of pipes used for water infrastructure. Gregory M. Baird, former chief financial officer for

Aurora Water, Colorado's third largest water utility, and president of the Water Finance Research Foundation, places the blame for the vast majority of water main breaks squarely at the feet of corrosion of metallic pipe, which he calls "epidemic." According to a congressional study, corrosion in the water and wastewater sector is a "\$50.7 billion annual drain on our economy," Baird points out. "Leaking pipes also lose an estimated 2.6 trillion gallons of drinking water every year, or 17 percent of all water pumped in the United States."

Baird calls for the removal of artificial barriers when repairing and replacing our nation's water infrastructure when taxpayer money and federally subsidized tax-exempt debt is being used. Currently, in capital budgets across the nation, hundreds of millions of dollars are being earmarked for water distribution pipe-replacement programs which exclude lower-cost, certified pipe materials that are non-corrosive and environmentally safe.

An urgent need to address these issues is outlined in a 2010 U.S. Geological Survey (USGS) study conducted in Milwaukee, Wisconsin. The USGS researchers investigated the source, transport, and occurrence of intestinal viruses in municipal well water. They found that all their water samples tested positive both for viruses and for the presence of wastewater.

USGS concluded that leaky sewage pipes were one source of entry for the viruses and that the problem could be traced to aging sewer systems dating to the early 1900s that were not being properly maintained.

One of the easiest strategies for cash-strapped local governments to begin tackling this problem is to open up the bidding process to ensure that all technologies and materials are given the consideration they deserve. Inserting some market discipline into the process would go a long way toward achieving that goal. After all, competitive bidding employs the principle of “may the best technology win”—a policy that will immeasurably improve the quality of America’s underground water infrastructure in a cost-effective fashion.

Yet many cities—such as Chicago, New York, Boston, Baltimore, Atlanta, Philadelphia, and Los Angeles—have anti-competitive procurement rules that effectively exclude non-corrosive, more affordable pipes made from polyvinyl chloride (PVC) from competing with more traditional, but corrosion-prone, metallic pipes. Such rules often reflect long-standing, cozy relationships between public officials and suppliers to the detriment of local residents.

In contrast, communities that currently allow such competition have already benefited. Charlotte, Cleveland, Dallas, Fargo, Denver, and San Diego are among the municipalities that allow the competitive bidding process to decide the future of their water networks.

Their experience echoes those of other cities that took the plunge into open competition some time ago. In Great Falls, Montana for example, City Engineer Dave Dobbs reports his city’s water main failure rate of 122 in 1997 was reduced to 35 in 2009 by “replacing old water lines with PVC pipe.”

Similarly, the Canadian cities of Calgary and Edmonton, which permit open bidding, have each saved about \$5 million annually in water maintenance costs because of their extensive use of PVC pipe.

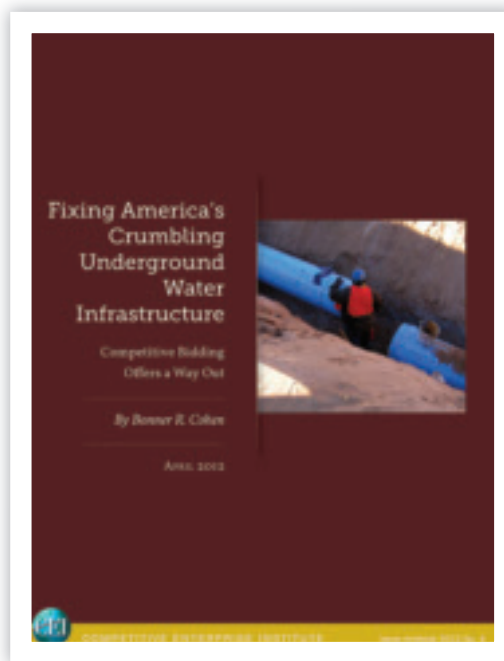
Competitive bidding can serve as an essential safeguard against the influence of politically preferred providers of government services where there may exist a limited amount of choices. When government restricts options it stifles innovation and advancement and sends out an open invitation to crony capitalism, which undermines taxpayers by keeping costs high. We have seen this in our own municipal bond market where bid-rigging increased interest rates, costing taxpayers millions. By reforming the procurement process, we can deal a lethal blow to bid-rigging and all the harm it does.

One of the most insidious forms of crony capitalism is the periodic call for “Buy America” mandates in federal legislation. Senate

appropriators are considering adding Buy America requirements to EPA’s drinking water and clean water state revolving funds (SRF) program in the agency’s FY 2013 budget. The inclusion of such a mandate for certain kinds of pipes and pipe fittings in the 2009 American Recovery and Reinvestment Act (ARRA) stimulus legislation is a case in point. It created a monopoly that benefitted certain iron fittings manufacturers, the only domestic supplier of such equipment. Buy America requirements limit choices, raise costs, and significantly complicate compliance with the SRF program on the part of state and local governments.

Model legislation presented at this year’s ALEC conference in Salt Lake City offered state and local governments a blueprint to address the pressing needs of their water and wastewater systems. The legislation would “ensure that open procurement procedures are utilized in the selection of piping materials for water and wastewater infrastructure projects undertaken by state or local agencies where state funding is used.” It would stipulate that a “piping material is considered proven and acceptable if it meets current and recognized standards as issued by the American Society of Testing and Material (ASTM) and the American Water Works Association (AWWA) and other recognized standards and certification agencies.” The goal is “to construct a project at the best price and best value for system customers and taxpayers.” In this way, public trust in the procurement process can be restored, and the task of rebuilding our water infrastructure to last into the next century can begin.

Human ingenuity has repeatedly come to the rescue of people confronted by problems long thought to be insurmountable. By doing something as simple and sensible as opening up municipal procurement procedures to fair competition, the products of our most creative minds can be put to the service of ensuring Americans access to clean, reliable, and affordable water in their homes, schools, and businesses for generations to come.



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