

# NOW

BGR's Spotlight on Local Government Issues

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## The S&WB Infrastructure Bonanza: Is Good Governance Part of the Deal?

February 29, 2012

Living and doing business in New Orleans may be about to get more expensive. The Sewerage & Water Board has proposed [doubling water and sewer rates over the next five years](#). In addition, it has proposed the creation of a drainage fee that could eventually cost a typical homeowner nearly \$20 per month.

The resulting new revenue from these sources would help the S&WB to finance the first five years of a 10-year capital plan to improve sewer, water and drainage infrastructure. During those five years, the S&WB would provide \$736 million toward \$2.96 billion worth of projects. The balance of the funding would come primarily from the federal government. But more would be needed. To complete the 10-year plan, the S&WB would have to come up with another \$510 million during the second half of the program. This would require significant additional rate increases. If the current proposal for the first five years alone goes forward, the S&WB will soon be administering a capital budget of unprecedented size and scope.

Few would argue with the notion that an investment of epic proportions is necessary. The vast majority of the water produced by the S&WB is lost through leakage. Its water treatment plants suffer from deteriorating equipment and facilities and are at the mercy of an aged power plant that has suffered two major outages since 2007. The sewer systems remain subject to a federal environmental consent decree mandating more than \$160 million of upgrades and repairs by 2015. In the drainage category, the S&WB has the opportunity – if it can come up with a 35% match – to take advantage of more than \$400 million in federal funds to expand drainage capacity on the east bank.

But the S&WB's failing infrastructure and the recent conviction of a former board member for taking kickbacks from contractors have left citizens with little confidence in the agency. Reforms to the agency's governance would help to rebuild public confidence and make it easier for ratepayers and property owners to accept the necessary financial sacrifices.

With the S&WB's quest for new funding expected to come to a head during the next several months, the current session of the Louisiana Legislature would seem to be an opportune moment to act. Unfortunately, there is no sign of such reforms on the horizon.

In October 2011, BGR issued a report focusing on the S&WB's governance problems, [\*Making the Waterworks Work: Fixing the Sewerage & Water Board's Governance Problems\*](#). Drawing on extensive research into best practices, BGR laid out a roadmap for reform. Some of these reforms require action from the Legislature. Others can be implemented by the S&WB itself.

## **The Role of Governance in the Current Mess**

Underlying the S&WB's current infrastructure woes is a history of chronic underfunding. When adjusted for inflation, sewer and water rates actually declined by 27% from 1987 through 1999. This is one of chief reasons that the infrastructure is in decrepit shape. And now it's time to pay up.

The S&WB's governance structure has contributed to its failure to adequately invest in the system over time and, by extension, to the funding crisis we face today. Unlike most independent water authorities, the S&WB has little control over its financial destiny. The final say in the funding arena belongs to the City Council, which has no responsibility for the operations of the S&WB and plenty of political pressure to keep rates low. Over the past few decades, the City Council has on multiple occasions delayed or killed rate increases, despite the S&WB's pressing needs.

Just as unusual is the presence of elected officials – and particularly City Council members – on its board. The elected officials, leery of voters' ire, have on multiple occasions over the years objected to new rate and tax proposals.

BGR also found board members' terms – appointed members serve for nine years, and can be reappointed without limit – to be unusually long. And while current board members bring an appropriate range of expertise, there are no formal qualification requirements for board membership.

There are other problems that are less about governance structure and more about governance in practice.

First of all, the board is too involved in the review and approval of contracts, a matter that should be left to professional management.

Second, the board has not been evaluating top management on a regular basis. This is one of the most basic responsibilities of any governing board.

Now the public is being asked to invest heavily to reverse the years of neglect that have resulted in large part from flaws in the S&WB's governance. If that is to happen, it should be accompanied by reforms to help prevent such a financial disaster from playing out again.

## **Fixing the S&WB's Governance Problems**

In *Making the Waterworks Work*, BGR made a series of recommendations to reform the S&WB's governance. A number of these require legislative action. BGR called on the Legislature to amend state law to:

- Authorize the S&WB to increase water and sewerage rates annually by an amount tied to a suitable index or other measure, without City Council approval. Larger increases would still require council approval.
- Allow for similar adjustments to any drainage fees that might be imposed.
- Remove the mayor and City Council members from the board, reducing it from 13 members to nine.
- Reduce the terms of board members from nine years to four years and stagger the new terms.
- Limit members to three consecutive terms.
- Require that seven of the nine members of the board have extensive experience in one or more of the following areas: finance, accounting, business administration, engineering, law, information technology or public health.

Implementing the recommendations to adjust drainage fees and remove elected officials from the board would also require corresponding amendments to the city charter. But this should not stop the Legislature from passing laws that are contingent upon such amendments.

BGR also recommended fundamental reforms that can be implemented by the S&WB itself. These include limiting the board's role in contracting primarily to broad issues of policy and oversight, and establishing an annual process for evaluating the performance of the agency's executive management. The S&WB does not help its case for rate increases by failing to enact such fundamental reforms.

As citizens are asked to consider enormous long-term investments in the system, officials should take appropriate action to ensure the S&WB is operating under the best governance model. Without that, the bitter pill that ratepayers and property owners are being handed may become all the more difficult to swallow.