

Draft for Discussion by Infrastructure Task Force May 18, 2010

Infrastructure Action Steps

Reduce Costs

It is clear that the fiscal capacity of the region to finance services is limited and most likely inadequate. It is imperative that service providers aggressively evaluate and pursue all possible cost reduction measures. Our collective ability to address several of the other necessary action steps will largely hinge on our successful pursuit of cost reduction measures. Everything must be on the table.

Action 1: Examine the potential cost savings of differing levels of service and demand for energy, water, sewer and transportation systems.

Rationale: Decisions about how to allocate limited resources will be difficult and emotionally charged. We need to inform that decision-making process with good information on potential cost savings so that the various choices available, and the consequences of those choices, are clear.

Process & Responsibility: As the regional planning agency responsible for transportation planning, SEMCOG should work with the major service providers to implement this action step. Initially, this effort should focus on DTE Energy, CMS, and the DWSD.

Timing:

Action 2: Evaluate cost savings from implementation of technological innovations

Rationale: Policies and programs for managing infrastructure need to be updated to take advantage of potential savings from technological innovations. Once the cost saving potential is understood, it can serve as a catalyst for implementation.

Process & Responsibility: Convene experts representing key areas of service: roads, water, sewer and energy to identify current and cutting edge technologies that could be applied in and between various sectors.

Timing:

Action 3: Incentivize efficient use of service

Rationale: Forcing changes in consumer behavior to reduce overall system costs would be polarizing and the subject of lengthy debate. Alternatively, incentives which promote behavior changes that truly reduce the cost of service would preserve choices and thus have a greater chance of succeeding. These incentives need to be institutionalized.

Process & Responsibility: Using the analysis of cost savings associated with different levels of service (Action Step 1), develop a specific list of incentives. SEMCOG should work with the major service providers to implement this action step. Initially, this effort should focus on DTE Energy, CMS, and the DWSD.

Timing:

Action 4: Identify opportunities to optimize efficiency of the overall infrastructure system

Rationale: While initially, infrastructure efficiencies can and should be pursued on a sector by sector basis, maximizing efficiency will necessitate a high degree of coordination between service providers.

Process & Responsibility: This needs to be a key component under “Institute Collaboration Amongst Service Providers”

Timing:

Action 5: Pursue cost savings through legislative and regulatory reform

- Identify and analyze specific policy/regulatory/legal reforms with significant potential to reduce costs.
- Specifically identify areas where multiple regulations, enacted independently, have a compound impact on cost.
- Assess pros and cons of reforms based on how desired outcomes are impacted.
- Investigate alternative standards and performance measures as well as methods to meet them (e.g. several hundred million dollars are being saved as part of a redesign combined sewer overflow project in the City of Detroit.)

Rationale: Many current laws and regulations were adopted without considering the impact they have on the efficiency and effectiveness of service design and delivery, particularly when combined with other regulatory policies. These regulations and standards must be identified and examined to determine if the desired regulatory outcome can be achieved in a way that is more efficient and fiscally sustainable.

Process & Responsibility: The major service providers should convene and develop a list of proposed regulatory reforms, associated cost savings, and the impact of those reforms. This should be presented to the Michigan legislature and appropriate regulatory agencies.

Timing:

Action 6: Pursue cost savings by reducing the cost of labor consistent with the permanently changed fiscal realities of government.

Rationale: Southeast Michigan has undergone a major economic transformation, resulting in legacy costs for service providers that are no longer fiscally sustainable. We must reevaluate these costs in view of the region’s new economic reality.

Process & Responsibility: Service providers should work with unions to explore compensation and contracts that will help reduce overall cost structures: both current and future costs.

Timing:

Redesign Revenue Collection Systems

Existing revenue collection systems have incrementally evolved over a period of decades. A common denominator is that the formulas for supporting investment in infrastructure heavily depend on consumption. Yet policies at the federal, state and local level increasingly emphasize conservation. This effort to achieve environmental sustainability is inconsistent with our need to achieve fiscal sustainability.

Another common denominator is that current formulas often contain hidden subsidies. Furthermore, they often do not reflect all of the costs, both short term and long term, of the service. Thus, the current formulas do not reflect the true cost of service. If we are to achieve fiscal sustainability, we must acknowledge and pay for the true cost of service.

Action 1: Seek commitment to identifying and disclosing the true cost of service and reflecting this cost of service in rates and other revenue generation tools.

Rationale: The first step in developing a revenue collection system that adequately meets current and future infrastructure needs is to acknowledge that the current system does not reflect the true cost of service and that it must do so if we are to achieve fiscal sustainability.

Process & Responsibility: SEMCOG will draft a model resolution and seek its endorsement by service providers in the region.

Timing:

Action 2: Identify components of true cost of service revenue structure for water/sewer, transportation, energy, etc.

Rationale: Before we can effectively evaluate alternative infrastructure funding formulas, we must first understand all the components of a true cost of service system. At a minimum these include construction, long-term maintenance, seasonal maintenance, replacement, debt service and legacy costs.

Process & Responsibility: The major service providers should develop a scope of work to undertake this task and pool resources to have it implemented.

Timing:

Action 3: Identify and evaluate alternative formulas to fully pay for investment in infrastructure considering:

- Compatibility with environmental policies for conservation
- Fiscal sustainability
- Equity
- Consistency with true cost of service principles
- Quality of service to residents and businesses
- Other?

Rationale: Implementing new formulas for investment in infrastructure that achieve the objectives above will be predicated on compelling arguments demonstrating the benefits to the region. While this will be extremely difficult, this effort will help the region achieve independence and control of its own destiny.

Recognizing there are multiple ways to accomplish this objective, a thorough analysis of alternatives must be undertaken.

Process & Responsibility: SEMCOG should facilitate this effort with the major service providers. The product should be a proposed array of formulas for infrastructure funding for consideration and adoption by decision-makers including local elected officials as well as business groups and organizations.

Timing:

Institute Collaboration Among Service Providers

A number of recommended actions require a high degree of collaboration between service providers. While some of the details may be complicated, there are certain opportunities for collaboration which are ripe for implementation. These opportunities will serve as building blocks for evolving even higher degrees of collaboration in the future.

Action 1: Seek formal agreements to cooperate between service providers

Rationale: A number of actions to successfully confront the infrastructure challenge in the region require a high degree of collaboration among service providers. Meaningful and long-lasting collaboration will not occur unless it is formalized and institutionalized.

Process & Responsibility: SEMCOG should convene the major service providers to develop and adopt an inter-agency agreement committing to a formal partnership. Lessons learned from existing agreements should help guide this process.

Timing:

Action 2: Focus initial efforts on developing and coordinating asset management programs as well as technological innovations.

Rationale: There is broad acceptance and recognition that asset management is a core function of an efficient infrastructure system. There is growing recognition that asset management and implementation of technologically innovative strategies cannot be successfully accomplished in a vacuum because there is a high degree of interdependence in services. While more complicated forms of collaboration are being pursued, efforts to begin coordinated asset management and application of new technologies should be started immediately (one example is that SEMCOG is now sharing information with DTE on the location of transportation projects).

Process & Responsibility: Through the inter-agency process in Action 1, begin to institutionalize coordinated asset management.

Timing:

Action 3: Develop a pilot project to facilitate formal collaboration between local government planners and private utilities.

Rationale: Changes to long standing practices are difficult to undertake particularly when they involve multiple organizations. Having a successful pilot project will help build acceptance.

Process & Responsibility: Through the inter-agency process in Action 1, develop a pilot project to serve as a model for collaboration and cooperation.

Timing:

Strategically Invest and Disinvest to Make Efficient Use of Infrastructure

Continued limitations on financial resources require a much more strategic approach to infrastructure investment. Scarce resources must be focused on areas with maximum potential. In addition, we need to right size and realign infrastructure in areas where it is, and will continue to be, underutilized.

Action 1: Focus economic development in areas where quality infrastructure capacity already exists and plans call for utilization: local master plans, economic development plans, etc.

Rationale: The demographic and economic changes in the region have resulted in some degree of excess capacity. Use of this existing capacity should be a priority.

Process & Responsibility: To be determined

Timing:

Action 2: Work collaboratively to determine locations of infrastructure that will likely continue to be underutilized and work towards downgrading and/or decommissioning.

Rationale: In addition to excess capacity, it is clear that available fiscal resources are inadequate for maintaining the existing system. Strategically investing limited fiscal resources means that certain parts of the infrastructure may need to be decommissioned.

Process & Responsibility: To be determined

Timing:

Manage Infrastructure Based on Holistic View of Needs and Outcomes

Limitations on available resources in Southeast Michigan are well documented. The existing “system” for determining current and future levels of investment is largely based on single issue advocacy (e.g. roads, transit, water, energy). Optimal, strategically targeted investment will not materialize unless a more holistic policy approach is created and implemented. This will require commitment from leaders throughout the region.

Action 1: Convene leaders in the region to establish targeted outcomes based on a comprehensive view of needs with emphasis on sustainability.

Rationale: There is no single entity responsible for the delivery of primary infrastructure services. This necessitates the convening of leaders in the region to come together and establish the needs and outcomes that must be accomplished on behalf of the region’s citizens and businesses. These outcomes can then be used to guide a wide array of decisions and to benchmark progress.

Process & Responsibility: DTE Energy, CMS and SEMCOG should work with leaders in the region to establish agreed upon outcomes for infrastructure services in Southeast Michigan.

Timing:

Action 2: Address options for revenue reform in the aggregate (water, sewer, roads, energy) for such factors as sufficiency to fund services, fiscal sustainability, economic viability and competitiveness.

Rationale: The single-issue focus of the past will not serve the region well in the future, particularly with the severe economic constraints that are long-term in nature. Therefore, we need to assess the inter-relationships and compatibility of various options for revenue reform between service sectors.

Process & Responsibility: SEMCOG should facilitate this effort with the major service providers. The product should be a proposed array of formulas for infrastructure funding for consideration and adoption by decision-makers including local elected officials as well as business groups and organizations.

Timing:

Develop an Agenda for Specific Legislative/Regulatory Reforms

Past is not prologue. Confronting the infrastructure crisis in the region requires modification of some past practices to reflect current and future conditions. Some practices in need of review relate to how we pay for infrastructure. Other practices relate to what we are trying to accomplish with our infrastructure (e.g. levels of service, complying with environmental standards, etc.). Revisiting some past practices is necessary to create a healthy dialogue about what we are doing and how we are doing it. This will result in an identification of opportunities for efficiency and cost reduction. An initial list of measures to address follows, which is supportive of other ongoing efforts more targeted towards enabling collaboration in general. (Note: There is a single Process and Responsibilities section below for this solution component.)

Action 1: When redesigning revenue collection systems, allow for restructuring of public debt.

Rationale: One consequence of the decline in public sector revenue, whether from taxes, fees or assessments, is that outstanding fixed debt service requirements absorb a higher-than-projected proportion of available revenue, aggravating the strain on operating budgets. Both state and federal law should be modified to permit greater public sector flexibility to restructure debt requirements to match reduced revenue streams.

Action 2: Evolve existing programs/policies to reward good infrastructure management (e.g., State Revolving Loan Fund, expanding and incentivize asset management, GASB 34, etc.)

Rationale: To the extent that some level of federal and state support for infrastructure continues, the system(s) for allocating resources should reward organizations that more aggressively implement management programs. This would be an incentive to implementing best practices.

Action 3: Remove constraints on collaboration between government and private sector.

Rationale: The current legal structure may impede progress in achieving the collaboration referred to throughout this report. Rather than a constraining environment, we need to create an environment that enables cooperation.

Action 4: Define reasonable risk thresholds and change regulatory restrictions on risk.

Rationale: Regulatory agencies traditionally have assessed the quality, safety and efficacy of public health standards by evaluating the benefits and risks of a single proposed standard without consideration of return-on-investment considerations. With ongoing constraints on revenue available for infrastructure, consideration of standards must include relative efficacy measures. Relative efficacy measures would evaluate the benefit/cost of a single proposed regulatory standard against the benefit/cost of competing regulatory standards using return-on-investment principles so as to rationalize spending of scarce revenue resources.

Process & Responsibility: SEMCOG should convene a group including the major service providers and other key stakeholders in both the public and private sector. This group should develop a specific list of recommended statutory and regulatory revisions including those identified under the Reduce Costs Action Step #5 “Pursue cost savings through legislative and regulatory reform.” This task should begin immediately.

Timing:

Education and Disclosure

Education is a key component to affecting the changes outlined above. Elected officials, businesses, the media and the general public must all develop a better understanding of the infrastructure issues our region faces and the changes that are necessary to establish and maintain an integrated system of quality infrastructure that supports the region's economy and is also fiscally sustainable. (Note: There is a single Process and Responsibilities section below for this solution component.)

Action 1: Educate local officials on true cost of service principles and the benefits of their application. Disclose the impacts and benefits of varying levels of infrastructure investment; both short term and long term.

Rationale: Local elected official support is critical to securing support for the various actions steps in this document. There needs to be a broad understanding of the short and long range implications of different levels of investment in our infrastructure system.

Action 2: Develop educational tools for local governments, utilities, and transportation providers to educate the public on such topics as:

- True cost of service
- How revenue is used
- Consumer choices that reduce cost of service/peak demand
- Other

Rationale: Broad-based support from the general public will also be needed to secure support for the actions steps in this document. Local governments and utilities are best suited to conduct this outreach through their existing communication tools (e.g. mailers, newsletters, cable television, etc.).

Action 3: Continuously work with the media in an effort to communicate our choices for managing infrastructure and the pros and cons of those different choices.

Rationale: The media presents another opportunity for communicating with the general public. Without an organized effort to communicate with the media on the topic of infrastructure, reporting will be random and disjointed.

Process & Responsibility: SEMCOG should accept lead responsibility for leadership and guidance of this overall effort. The implementation of specific steps will require the support of numerous agencies of government and the private sector.

Timing: