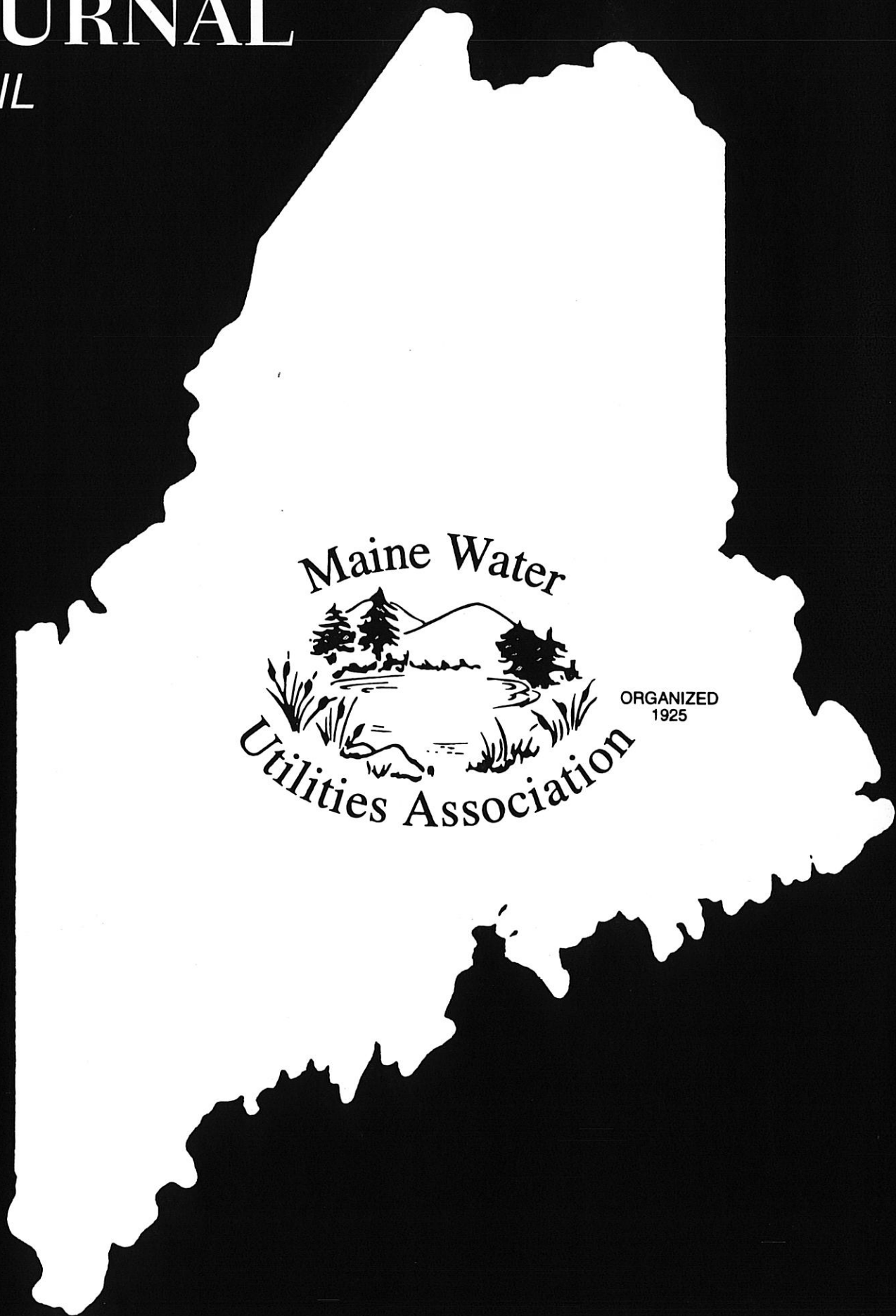


2005
JOURNAL
APRIL



Maine Water
Utilities Association

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going to move forward. Even if we do get our matching money then the maximum amount of money we will have next year is \$16 million. So, clearly, this is a very big problem.

This is something we have really been struggling with and I'd be happy to hear your ideas on how we are going to come up with our matching funds. We can go to the legislature in the next session, maybe January. We were not successful this year despite our best efforts. I am not very encouraged about that prospect.

We just became aware of the option of using interest money for the match. Other states in the country are doing that. We also have an option of going to the Bond Bank. The Bond Bank has expressed some interest in issuing a bond for us. Again that's money that we have to pay back. It's not a general obligation bond, like we have used in the past.

That's the sobering news to open my update but it's very real. As you all know it's a very successful program. We have put \$67 million out on the streets since 1997. The SRF program is one that many of you have benefited from and we hope we continue to have a program.

Last week I was in Austin, Texas for an Association of State Drinking Water Administrators meeting and that was when the Washington Post story broke. As you know, Portland was singled out as a water system with lead problems. The story was based on completely inaccurate information but Portland was singled out, as were other cities across the nation. Lead is a huge focus for the EPA right now, mostly because that's pretty much all they are dealing with in DC in the Office of Groundwater and Drinking Water. That focus is filtering down to the states. EPA is coming to see us next week. We have to give a detailed description of what each system is doing to try to optimize corrosion control.

What we're trying to advocate from the state perspective is that this is an isolated problem in Washington, DC and not a problem throughout the country. We are trying to inject some reason into this situation so we don't end up with a new Lead and Copper rule that is worse than the existing rule - which I think we all acknowledge, has some problems. However, those are fixable problems. We are strongly advocating that we don't need a complete rule overhaul, but what we need is public education; we don't need an MCL on the cap. EPA is very focused on schools and daycares. That's the next area of focus.

I will provide a very quick rule update. I received this information last week. The Groundwater Rule is expected to come out in the spring of 2005. The Long Term 2 Surface Water Treatment Rule and the Stage 2 DBP Rule will be promulgated in late summer of 2005. A Radon Rule is not on anyone's radar screen right now, it is low priority.

There are a few other things we are working on with the association; sustainable water use being one. You probably all know the DEP has been tasked with coming up with rules for sustainable water use. We are working actively with a subcommittee of this association to provide input. DEP has been very willing to listen. I don't think it's going to be some kind of pass a test water use standard. I think they are really trying to listen and get stakeholders and respective parties involved. I don't think I have anything else for this regulatory update, unless you have questions for me. I would be happy to answer any question about the SRF program, which is probably the biggest headache we are experiencing now.

How will the Maine Tax Cap Referendum Affect You?



Bruce Berger, Moderator



Jim Cohen, Jeff Austin, Gary Foster

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think so. No single community can do that. The biggest untold story of this proposal is that you are turning control of your community over to the very people that you think have failed.

Whether the cap is 10, 20, or 30 mils we are sacrificing a very important principle of basic democracy which is having a very close relationship involving the tax, those people that have to pay it and those who receive the services from it.

Schools do receive local funding in Maine in the form of local property tax and local money. Say what you will about spending on education in Maine. Maybe it does increase too much. It's different in each community. You will hear about what was going on in 1980 as opposed to what is going on now. In 1980 we didn't have the federal intervention on special ed. It was there but they weren't driving and the lawsuits weren't present for the local citizens demanding the services that we now have. No Child Left Behind didn't exist. Learning results didn't exist. The two inch thick 1985 Maine education reform act didn't exist. There are many external factors, not under the municipality's control that may drive some spending even though student populations may have decreased. There are a few communities in Maine where student population is going up. The Palesky proposal makes no attempt to address that. There is no sensitivity concerning what the conditions in a local community are. You would get the same mil rate as everybody else. Education is a tough issue. Currently communities are free to spend more on education and I think that is right. I think each community should be able to decide whether it wants to exceed what the state says is essential, on their own dime. Palesky ties your hands and says no, you're not free to decide for yourself.

There isn't much time before the election. I think for the water utilities, one of the things you have to keep in mind is the relationship with your municipality. Do you receive money from your municipality? If your municipality is losing revenue, are you going to be losing revenue and what does that mean? As people who generate revenue via your own rates - like anybody else who generates money at the local level - I think you are going to be looked at to generate more. Is that a scare tactic? I hope not but I do think it is a reality.

People are saying that we need to do something. Unfortunately, in some quarters, that's really translated as we need to do anything. I think that's irresponsible. I think we should vote for solutions if they are good solutions and reject them if we don't think that. The environment in Maine is not one where a rejection to Palesky will be a message to local officials and legislatures that everything is OK, don't worry about it. There is a lot of work to be done in this area. There is a lot of attention being focused in this area and it is not the case that if we don't do Palesky then nothing will ever get done. If Gray wants a property tax cap, they can do one today, they can do one tomorrow. There is nothing in state law prohibiting a town from doing that. We don't need this initiative. Thank you.



The Maine Plan

James Cohen, Esquire

Verrill Dana LLP

Good morning. It's good to see you all here today. I am glad you are all facing with your backs away from the golf course for the course of the next 20 minutes. What I wanted to talk to you about today is probably one of the most important public policy issues we have faced in this state, in our lifetimes. The ramifications of what happens over the next three weeks and over the course of the next year are going to be extremely significant

to our lives, our businesses and our families. At this point we really don't know what that is going to look like. What's interesting is that most of the discussion we hear is that: "we need to do something". We

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absolutely do need to do something. That's what I hear from my constituents, that's what I hear from people I work with and that's what I hear from people in Augusta. We need to do something.

It's very clear that Maine people want to change; the question is: "what should we do about it"? We want to send a message, but do we want to send the wrong message? I think we all want to send the right message. Now interestingly, as I think we all know, taxes in Maine are too high. We have known that for a long time. We know that because we have just gone through two hard fought referendum campaigns about property taxes. If you look at the tracking information from polls, two years ago the big thing on people's minds was education or health care. Now it's taxes. Taxes have gone to the top of the list because we have educated the people of Maine that it is the number one problem in this state and we need to fix it. We now know where Maine stands relative to its tax burden. We now know that other states have ways of dealing with it.

In Maine our problem is one of trust. Can we trust our government officials to do something about taxes? I've worked in the Maine Legislature now for over eleven years. Rarely when I walked down my street at home did I ever hear people talking about the Maine Legislature, but these days people are talking about the legislature. Everybody has an opinion about the Maine Legislature and most of it isn't good. Most of the discussions revolve around the fact that they failed. They had a chance to get the job done and they didn't, and furthermore, they have had a chance for 25 years to get it done and they didn't - and people are frustrated about that. I think that if the legislature had done something in the last session, then we wouldn't be having the kind of debate we are having today.

I am pleased that the Maine State Chamber of Commerce has stepped forward, using a proactive approach, and has offered a solution. It is not just a solution for big business or small business, but it's a solution that would work for the people, the communities and for Maine. They put together a plan, that is not borrowed from another state, but one that was based on the needs of Maine. That is why the Chamber is calling it The Maine Plan. It really was developed with Maine in mind. These are ideas that were culled from business people, municipal workers, educators, state officials and a wide variety of other sources.

When this proposal comes forward it will not go to the Legislature for them to decide that maybe they will do something with it and maybe they won't. We have seen what can happen if we give it to the legislature. This is formed to come forward as a ballot initiative. In fact we are going to be collecting signatures, this November 2nd.

We hope to collect enough signatures so that we won't have to go to the legislature and obtain their approval. It would be nice if we could obtain that approval but, either way, we are going to have a chance to vote on it. When the proposal is put before the voters it will not be a scenario where we stand up and say: "you know it is not the greatest proposal, and maybe it will work and maybe it won't and yeah it has a ton of flaws, and it may be a big failure, but it sends a message". No, this is crafted in a way so it can work. It is ready to go into affect the day it is enacted. It's a plan we can live with and it is tax relief we can afford.

Next year we are going to have a legislature, that's maybe 20 percent new. I think it is going to be higher. I think it is going to be 30 percent, maybe higher than that. A major chunk of the legislature is going to be walking in January 1, not knowing where the men's room is or the women's room is and they will be handed a fiscal mess and will be asked to fix that problem. I don't have a tremendous amount of confidence about what that is going to look like.

I think Jeff is correct. I think every community is going to be impacted differently. We don't know exactly if everybody is going to be pulling with the same oar in terms of how we solve the problem. Portland has been on the short end of the school funding stick and maybe many of your communities are also on the short end of the stick. So, a top down solution that tries to prescribe a statewide solution, not tailored to local needs, is at risk that when it gets to the legislature.

This plan was developed in a way to be more suited to local needs. The Maine Chamber has come out in favor of this plan and opposed to the other plans.

If the projected \$600 million impact is a real number - and I know of no reason why it isn't - here is what the math looks like. If we raise sales taxes one percent, it generates \$132 million. You can do the math and figure out how many percentage points of sales tax you would have to raise, to offset that \$600

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million. A one percent increase in the Maine income tax raises \$84 million. Maine is already one of the highest income tax states. If you want to talk about a tax that is bad for attracting business, it's the income tax. Our income tax is too high and we need to lower it. Maine business understands that.

All of the other taxes you could raise really don't amount to that much. You could raise the cigarette tax at 25 cents. For every quarter that you add to it, people find other ways to buy cigarettes and you get less revenue. We are already sort of maxing out in that source. What about motel taxes and meal taxes? Well, for every one percent increase in meal taxes, we get \$15 million. We are at seven percent right now. We could double it and we still aren't talking about that much money. We could raise our lodging tax. Raise it one percent and we realize \$5 million dollars.

When you do the math you start to realize what a half million dollars or more in tax shifts does to business in Maine. It doesn't look good. This plan has one fundamental aspect in that it seeks to limit the rate of growth of spending.

The plan limits the growth of all levels of government: county, municipal, school and state. It is directed at the state and at all levels of government. There won't be some of the cost shifting and tax shifting that could occur under some of the other plans. It limits growth to the average ten year rate of real personal income growth. That equates to the actual money that is in your pockets, adjusted for inflation. It is a rate that is actually a slower rate of growth than the economy.

I don't know about you, but when I read the letters to the editor and when I read about what is wrong with the government, it is about spending. I don't hear a lot of people say that the problem with Maine is the mil rate – it's about spending. That is the problem. If you just focus on one little aspect of it, that's when you cause all sorts of shifting; you have to be comprehensive in the way you approach it and go after the problem - which is spending.

This plan is also fair. One of the things that we have learned as we have studied this is that every community is different. Let's take Kennebunkport or York as examples. Those communities are low mil rate, high value communities. There are many people in those communities who are suffering mightily because of revaluations and the value of their property increasing. A solution that doesn't do anything for those communities is really no solution at all. Those people won't get any benefit as a result of the tax cap. They can only lose. The same is true for renters, because they don't pay property taxes.

We need a solution that is going to affect all levels of government and not cause those kinds of shifts.

It's also one that is workable. As water utility managers, you never know from one year to the next what your costs are going to look like. You don't know what mill is going to shut down, or what mandate is going to come from the federal government. Well, it is no different in any other sector of government. You don't know when you are going to have to separate your storm drains, you don't know when you are going to have to satisfy a special education mandate or when the next ice storm is going to hit. The plan is workable in that it builds in exceptions for those types of unforeseen events.

The plan also gives local control and that is important because every community is going to be different. A one size fits all plan is probably not going to work for most communities. What we built in is the ability to go directly to the voters and approve funds to address specific needs.

The goal is to get Maine into the middle third of the nation in terms of tax burden. We don't want to be an Arkansas or a Mississippi, but we would like to be a Kentucky, a Connecticut or like some of the other states that have a balance in terms of the quality of life and public services. The plan says we are going to limit the rate of spending until we get there.

This is also a collaborative plan. Last week the service center coalition, which is comprised of the 70+ largest municipalities in Maine, unanimously endorsed this plan. Why did they endorse this plan? It was not because it limits spending, but because it does it responsibly. That is the important thing here; it is relief within a form.

We have also had an analysis done by Planning Decisions, which is an economic consulting group. What they did was to take the measure of growth in this plan and project forward and backwards. What they found was, had this plan had been in affect ten years ago, Maine would today be in that middle third of state taxes and that, going forward, within 5 to 10 years Maine can be within that same window.

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I know, as a municipal official, it would be great to say no sometimes, but it is very difficult to say no. You have constituents come forward and they want a fence or they want a new street light on their street or they want a sidewalk. It is very difficult to say no. Having the spending limit is something that most politicians would find helpful. So, this is a wise plan in that respect.

Let me just conclude by talking about where we need to go from here. The next step is to collect signatures in order to make this a real concrete alternative. We are going to be out on November 2nd collecting those signatures and we are going to need help collecting those signatures. We are going to need partners in that effort. Anyone who is interested in that collection effort can see me after my presentation. The Maine Chamber website has the ability to get you plugged in and participating. We need all your help to do this.

Another thing I would like to add is that we have heard of another alternative plan that is being proposed. One of the things that alternative plan does is impose a limitation on the ability to raise revenues in all levels of government. One of those units of government that is covered is water utilities. I don't know if that is legal or not, but it would certainly conflict with the whole regime of Public Utility Commission oversight. Such a provision would prevent you from raising revenues unless you go to the voters. So if that passed, maybe that trumps PUC regulation. I don't know.

The plan that the Chamber has proposed does not get into water utilities or sewer districts; its focus is on municipalities and their spending.

Thank you for your time.

Conference No. 476

December 9, 2004

Biddeford

Welcome to Biddeford

Jerry Mansfield

General Manager, Biddeford & Saco Water Company

Good morning on behalf of everyone who lives and works here, welcome to this beautiful campus.



Regulatory Update

Roger Crouse, Maine Drinking Water Program

Good morning everyone. We're in a little bit of a chaos at the Drinking Water Program. We're involved in a move. We're moving to the Key Bank building at 286 Water Street in Augusta. The movers are packing everything up this morning and we'll be bringing our stuff over through the weekend and reassembling our module furniture. We won't be back in operations until Tuesday.

We have been working with the State Planning Office and the Governor's office on submitting legislation for the next bond package. We requested 2 year's worth of match, since we didn't get any match last year. We'll be

seeing where that goes and we'll be working with the Governor's office on that.

There's nothing really new as far as rules in the last few months. We are going to be working on a fluoride rule revision, although that hasn't started yet. If you have any comments, let us know. I would like to simplify it a little bit, if we can still do that and maintain public health protection, that would be