

## **The State of the 2006 Trenchless Rehab Market**

By Gerry Muenchmeyer, President, NASSCO  
Submitted December 7, 2005

For January 2006 Trenchless Technology Magazine

1. Question: What are the most pressing issues facing the trenchless industry in 2006?

Response:

The identification of funding sources to offset the reduction in federal monies will become a priority in 2006. It appears with the funds needed for hurricane relief and funding the war in Iraq little monies will be available on the federal level. Municipalities must look for higher water and sewer rates to continue work on upgrading their infrastructure assets.

Continued education of the industry on trenchless technologies including proper selection, design and construction is still considered a major priority. Even though there are many more experts in the industry today than even several years ago, many municipal representatives still need to understand the basic technology concepts and associated benefits to their community.

Another educational issue is training of construction inspectors. There are many experienced and talented construction inspectors in the industry but no organized program has been developed to provide a training program that trains inspectors on the variety of technologies and the key to their successful installation. The trenchless technologies involve sophisticated robotics, computer science, steam generation, hydraulics, polymer science to mention a few. Any individual technology might include all or more of these.

A key issue will be to improve the quality of product delivery to the customer. The trenchless industry, to some extent, has evolved into a commodity industry where the product marketing claims of the manufacturer are accepted without QA/QC verification and testing programs to insure that the product delivery meets advertised claims.

2. Question: How do you see the market in 2006 compared to 2005? What percentage of increase or decrease do you see?

Response: With the reductions in funding the market will more than likely be relatively flat until new sources are identified. Funding of projects that were scheduled for release in the southeast hurricane disaster area will more than likely be re-directed to relief efforts. Rehab projects may be delayed a year or two in this region. The ever increasing number of cities, under EPA Consent Decree, that must remain on an aggressive rehabilitation schedule will off-set to, a degree, other downward pressures on the market.

Another factor that is affecting the market is the lower pricing of delivered goods which is resulting in reduced product quality. The pricing in some cases is so low that a single problem on a project can consume any built in profit to the contractor. Businesses are subsequently failing and poor product delivery is causing customers to become increasingly wary of many these technologies. Some municipalities are putting very specific restrictions on the use and application of trenchless technologies, in their jurisdictions, or going back to more traditional methods such as excavation and replacement. Restrictions placed on one technology sometimes effects other technologies thereby compounding the problem

3. Question: What are the growth areas or potential growth areas for trenchless technologies? Water? Laterals? Smaller cities? Explain.

Response: Potential growth areas will be directly affected by funding availability and the consistent commercial quality end product delivery.

Water system renovation is still primarily being driven by system quality improvement with water loss a consideration when choosing a technology. Polymer spray applied systems are starting to become popular and replacing a portion of the cement mortar lining technology which has been used for many years. CIPP systems are slowly emerging but not significantly impacting the water industry yet. The water industry is a future potential for a variety of trenchless technologies but customers are moving cautiously in that direction.

Lateral renovation is becoming increasingly more popular since cities have determined that laterals contribute a major flow component to the sewer system. Subsequent cost savings in the sewage transportation costs, resulting from lateral renovation, have been achieved and cities have adopted creative political approaches for achieving the renovations. Key drivers for the lateral industry are the plumbers who work directly with homeowner to renovate pipes without the normal disruption associated with excavation. These are typically privately funded and are not directly affected by federal or state programs. There are nearly 20 million existing manholes, many of which require various levels of renovation. This market should continue at a steady pace. Smaller cities are probably most effected by federal cut-back since many of the direct grant programs will not be available to these municipalities.

4. Question: A few years ago, rollups were common in the industry. Do you foresee more rollups in the near future? How will this affect the marketplace?

Response: Both downsizing and vertical integrations will continue to some degree in 2006.

Companies planning to break into the trenchless industry or planning to grow must accomplish this through acquisitions and vertical integrations and by becoming full service providers to their customers. Customers spending capital improvement monies will typically bundle multiple technologies and services to accomplish their project goals. Competitive pricing must be achieved by, providing a full range of services and by providing volume material discounting, trained labor and installation and equipment efficiencies, not by delivering inferior products to the customers.

On the other hand companies that are already vertically integrated with multiple technologies will no doubt divest themselves of technologies that are consistently unprofitable thereby downsizing and embracing those technologies that can be achieved profitably. If technology pricing continues to drop in the industry and poor quality products are sold to customers, contractors will find avenues other than trenchless technology to become successful.

5. Question: Federal funding for water and wastewater projects in declining while user rate are increasing. How is this affecting the market? Is there more money becoming available for rehab projects?

Response: Many municipalities are addressing their immediate needs with small contracts that are typically, emergency in nature. Some more progressive cities are recognizing the value of their infrastructure as an asset and are proactively renovating their collection system to promote continued economic growth for the municipality. In some cities and towns, construction bans are in place because the sewer systems are up to capacity or overloaded.

User rates for water and sewer have risen however when compared to other lifestyle services typically paid for by the consumer, the price of clean water and the ability to dispose of sewage is still relatively inexpensive. Industry education is needed and is currently in the planning stages, to better inform the general public on the need for increasing water and sewer rates and why these rates, even when raised, are still the best bargain around.

The consequence of reduced funding levels whether local, state or federal will cause the already failing infrastructure to deteriorate even further. Sooner or later the renovation or replacement will need to be accomplished for the economy to continue to prosper.

6. Question: Asset management is a buzzword among water and wastewater utilities. What effect will the increased use of asset management have on the rehab market?

Response: In recent years the underground piping infrastructure of this Country has finally been recognized as an asset as opposed to a liability. The asset however needs to be functional and in good working order or it may still be considered a liability.

As a first step, the adoption of the Pipeline Assessment Certification Program (PACP), on a national basis, has been instrumental in developing standards for assessing and identifying the condition of the Nation's sewer infrastructure. Cities now can have standard and reliable information upon which they can assess the condition of their infrastructure and make informed financial decisions for repair, renovation and upgrades.

7. Question: What recent technical innovations will impact the rehab market and how?

Response: The Pipeline Assessment Certification Program (PACP) developed by NASSCO has significantly impacted the renovation industry. Collecting the primary data and identifying the defects in a sewer line with the common PACP language insures that a municipality can not only identify immediate renovation needs but can re-evaluate a sewer system over time and determine its rate of deterioration. This program is a key element to asset management for the municipality. New modules will be added in the near future that will include defect coding for laterals and manholes. Additionally, a QA/QC module to monitor the quality of defect reporting using the PACP will be introduced in early 2006.