ASSOCIATION OF METROPOLITAN WATER AGENCIES

LEADERS IN WATER

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The Honorable James Inhofe
Chairman
Environment and Public Works Committee
United States Senate
Washington, DC 20510

The Honorable Barbara Boxer
Ranking Member
Environment and Public Works Committee
United States Senate
Washington, DC 20510

Dear Chairman Inhofe and Ranking Member Boxer:

The Association of Metropolitan Water Agencies (AMWA) appreciates the opportunity to submit comments for the record of today's hearing on "The Federal Role in Keeping Water and Wastewater Infrastructure Affordable." As an organization representing the nation's largest publicly owned drinking water utilities, our members are well aware of the challenges communities face in balancing water rate affordability with the need to pay for necessary improvements to water infrastructure. We are eager to work with the committee to explore how the federal government may be able to better assist communities in meeting this objective.

The ongoing water crisis in Flint, Michigan has led Congress to increase its focus on water systems, but a comprehensive response to Flint should recognize that America's water infrastructure challenge goes far beyond the need to address lead service lines. EPA's most recent Drinking Water and Clean Water Needs Surveys show that the nation's water and wastewater infrastructure requires more than $650 billion worth of investments over the next two decades just to maintain current levels of service, but even those estimates may be too modest. The American Water Works Association has estimated that it may cost drinking water systems alone approximately $1 trillion over the next 25 years just to upgrade and expand buried water infrastructure, and AMWA and the National Association of Clean Water Agencies have projected that water and wastewater utilities could spend a similar amount over 40 years as they adapt to changing hydrological conditions such as extreme drought, more frequent intense storms, and rising sea levels.

While we believe that local water infrastructure should primarily be paid for through local water rates, there is a role for the federal government to play in facilitating access to affordable financing and offering assistance to communities in need. Fortunately, there are several new and established federal programs and policies in place to help cities and towns deliver clean and safe drinking water.

The Drinking Water State Revolving Fund

Authorized by Congress in 1996, the Drinking Water State Revolving Fund (DWSRF) is the most well established federal program to aid in the financing of drinking water infrastructure. Each year after Congress appropriates DWSRF funding, EPA distributes a share of the funds to each state, following a formula based on each state's identified drinking water infrastructure needs. States add 20 percent match to their share of funding, and then use the proceeds to provide loans and other assistance for eligible projects in their state, with a focus on addressing the most significant threats to public health. According to EPA, as of 2014 the DWSRF had provided more than $27.9 billion in funding assistance to communities nationwide through approximately 11,400 individual loans – an average of $2.4 million per project.

While the DWSRF has been a great success, the program also is in need of a renewed commitment from Congress. The DWSRF has never been reauthorized, and annual funding levels have steadily decreased since 2010. Even President Obama's FY17 budget request of $1.02 billion for the DWSRF falls more than $100 million below the amount the administration sought for the program in 2016.

In response to the nation's well-documented water infrastructure needs, AMWA supports efforts in Congress to provide $2 billion to the DWSRF in FY17, along with an additional $2 billion for the Clean Water State Revolving Fund. Should this funding level not be possible in the current fiscal environment, at minimum we urge Congress to avoid cutting total SRF funding below its current level, and to ensure the total SRF investment is equally divided between the Drinking Water and Clean Water programs. AMWA also encourages the Environment and Public Works Committee to consider legislation to formally reauthorize the SRF programs.

The Water Infrastructure Finance and Innovation Act

The federal government's newest water infrastructure financing program was established two years ago in large part due to the efforts of the Environment and Public Works Committee. Enacted as part of the Water Resources Reform and Development Act of 2014, the Water Infrastructure Finance and Innovation Act (WIFIA) pilot program is an innovative financing mechanism that will help communities nationwide pay for large-scale water and wastewater infrastructure projects. Through WIFIA, EPA will loan Treasury funds to cities and towns to carry out qualifying projects, but at a lower interest rate than the community would likely obtain on the bond market. All WIFIA loans will be paid back to the federal government with interest over the period of 35 years following substantial completion of the project – thus providing affordability to local ratepayers and a return on investment to the U.S. Treasury.

Importantly, WIFIA will complement, not compete with, the existing SRF programs. Unlike the DWSRF, which typically delivers modest-sized loans to help communities respond to public health risks, WIFIA is intended to help communities finance large-scale water infrastructure improvements that may not be positioned to benefit from SRF assistance. For example, because the DWSRF gives preference to projects that address the most serious risks to human health, a significant portion of DWSRF loans often flow to small communities that require help to improve drinking water quality. But other projects that are not directly tied to SDWA compliance or health protection – such as investments to replace or upgrade aging infrastructure or to enhance the reliability and security of water supplies, particularly in metropolitan areas – often struggle to obtain SRF assistance in amounts that will meaningfully reduce total project costs.

A wide range of drinking water, wastewater, stormwater, water reuse, recycling, and desalination projects expected to cost in excess of $20 million are all eligible for WIFIA loan assistance – with WIFIA funding able to cover up to 49 percent of the total project costs. WIFIA also accommodates smaller communities faced with lower-cost projects, as the program will offer loans to a project costing as little as $5 million in a community of 25,000 people or fewer.

The next several months will mark a critical time for WIFIA. EPA is in the final stages of drafting the program's rules, and the agency has announced plans to issue the first WIFIA loans during the 2017 fiscal year. In preparation of this the Obama Administration's FY17 budget request for the first time sought funding for WIFIA loans. AMWA urges Congress to fund WIFIA in its fully authorized amount of $35 million in 2017. Assuming a conservative leveraging ratio of 10:1, this sum could be leveraged into at least $350 million worth of water infrastructure loans next year. Some have even suggested the leveraging ratio could reach as high as 60:1, which would translate into $2.1 billion worth of loans following an initial $35 million investment.

The Environment and Public Works Committee should also look to the upcoming Water Resources Development Act as an opportunity to extend the WIFIA pilot program, which is currently scheduled to end in 2019. Because the pilot program is not expected to be operational until the first two years of its authorization (2015 and 2016) have passed, there will remain only three years for the government and communities to explore opportunities with WIFIA. While we are confident that WIFIA should be authorized as a permanent program, at minimum the next WRDA bill should extend the pilot phase for at least two years to make up for the time lost while EPA developed the program's operational rules.

Tax-Exempt Municipal Bonds

The most critical federal water infrastructure financing assistance mechanism is perhaps also the most overlooked during policy discussions. Since the federal tax code was established in 1913 interest earned on municipal bonds has been exempt from federal income taxes. According to the Congressional Research Service, tax-exempt municipal bonds are the most prevalent water infrastructure financing mechanism, with at least 70 percent of U.S. water utilities relying on them to pay for infrastructure improvements. In 2014 alone, communities issued $34 billion in tax-exempt municipal bonds to finance water, sewer, and sanitation projects.

Municipal bonds make infrastructure investments more affordable for communities because the lack of federal taxes on interest payments leads investors to charge lower interest rates than they otherwise would. These lower interest rates directly translate to lower financing costs, and thus more affordability for local water and wastewater ratepayers. One study by AMWA and the National Association of Clean Water Agencies found that fully taxing municipal bond interest in 2012 alone would have increased water infrastructure financing costs nationwide by $9 billion.

Unfortunately, even as members of Congress and the administration increasingly speak of the importance of affordable water infrastructure financing, proposals are circulating to tax municipal bond interest. For example, the President's FY17 budget request proposes to phase out the tax exemption on municipal bond interest for certain high-income taxpayers. While the plan is framed as making high-earners pay their fair share of taxes, in reality the plan would prompt investors to demand higher interest payments on tax-exempt bonds – meaning higher borrowing costs for local communities investing in infrastructure. This would directly translate into increased costs borne by water utility ratepayers – especially low-income individuals and families who are already struggling to pay their water bills. Higher water infrastructure financing costs could also lead communities to look to the federal government to close the gap, thereby increasing stress on federal water infrastructure financing programs.

As Congress may consider a comprehensive tax reform proposal as early as next year, AMWA encourages senators who prioritize affordable water infrastructure investments to stand up in defense of tax-exempt municipal bond interest. Maintaining tax-exempt municipal bond interest is the simplest step Congress can take to ensure affordable water infrastructure financing well into the future.

Conclusion

Again, AMWA appreciates the opportunity to submit these comments on efforts to keep water infrastructure affordable. Continued investment in the DWSRF, the funding and extension of WIFIA, and the preservation of tax-exempt municipal bond interest are all policies that will help our nation achieve this goal.

Thank you again, and AMWA looks forward to continuing to work with you on this issue.

Sincerely,

Diane VanDe Hei

Diane VanDe Hei
Chief Executive Officer