



February 8, 2017

The Honorable John Barrasso
Chairman
Environment and Public Works Committee
United States Senate
Washington, DC 20510

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

Dear Chairman Barrasso and Ranking Member Carper:

The Association of Metropolitan Water Agencies (AMWA) appreciates the opportunity to submit comments for the record of today’s hearing on “Modernizing our Nation’s Infrastructure.” As an organization representing the nation’s largest publicly owned drinking water utilities, our members are well aware of the challenges communities face in carrying out necessary improvements to water infrastructure in a cost effective manner. We are eager to work with the committee to develop components of any forthcoming infrastructure funding package that may help communities meet this objective.

It is beyond doubt that America’s water and wastewater infrastructure is due for an upgrade. 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.

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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 a match of at least 20 percent 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. Historically, the DWSRF has tended to favor small or rural communities that face water quality challenges.

According to EPA, through 2016 the DWSRF had provided nearly \$32.5 billion in funding assistance to communities nationwide through 12,827 individual assistance agreements – an average of just over \$2.5 million per project. Of this total, 9,044 assistance agreements worth approximately \$11.5 billion went to small communities serving 10,000 people or fewer. Put another way, small communities that serve drinking water to approximately 20 percent of the U.S. population have historically received 35 percent of all DWSRF funds.

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. While House and Senate appropriators each approved FY17 funding legislation that would provide more than \$1 billion for the DWSRF, those proposals are currently on hold along with the rest of EPA's final FY17 budget.

In response to the nation's well-documented water infrastructure needs, AMWA supports efforts to dramatically increase funding for the Drinking Water and Clean Water SRF programs. We were encouraged last year when President Trump's campaign called for tripling total SRF appropriations, and we believe any major infrastructure proposal advanced by Congress this year should include robust new funding for the SRFs.

The Water Infrastructure Finance and Innovation Act

The federal government's newest water infrastructure financing program was established three 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 an exciting time for WIFIA. Late last year Congress appropriated \$17 million to support WIFIA loans in 2017, a sum that EPA expects to leverage into as much as \$2 billion worth of loans to communities. EPA subsequently circulated its first notice of funding availability to begin the process of soliciting WIFIA funding applications, with an April deadline for communities to submit initial letters of interest that describe their potential WIFIA projects. This timeframe could allow the first WIFIA loan funds to get out the door to chosen applicants by the end of the year.

Looking ahead, WIFIA is authorized as a pilot program only through the 2019 fiscal year. Should the program's initial round of funding prove successful, AMWA will urge Congress to quickly reauthorize the program to build on and sustain this initial momentum.

Tax-Exempt Municipal Bonds

The most critical federal water infrastructure financing assistance mechanism is perhaps also the most overlooked during infrastructure 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 2016 alone, communities issued nearly \$38 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. Without this tax benefit, water and

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wastewater utilities across the county would pay about 25 percent more in financing costs over their bond payback periods – essentially an additional tax on water infrastructure investment that would be borne by water utility ratepayers of all income levels.

As Congress plans to consider a comprehensive tax reform proposal later this year, AMWA encourages senators who prioritize affordable water infrastructure investments to stand up in defense of tax-exempt municipal bond interest. Maintaining this effective and equitable subsidy 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 maintain and modernize our nation's water infrastructure. 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
Chief Executive Officer