ASSOCIATION OF METROPOLITAN WATER AGENCIES

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The Honorable Garret Graves
Chairman
Water Resources and Environment Subcommittee
U.S. House of Representatives
Washington, DC 20515

The Honorable Grace Napolitano
Ranking Member
Water Resources and Environment Subcommittee
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Graves and Ranking Member Napolitano:

The Association of Metropolitan Water Agencies (AMWA) appreciates the opportunity to submit comments for the record of today's hearing on "Building a 21st Century Infrastructure for America: Water Infrastructure Stakeholder Perspectives." As an organization representing the nation's largest publicly owned drinking water utilities, we recognize that many of our top infrastructure policy priorities, as they relate to the Safe Drinking Water Act and the Drinking Water State Revolving Fund, are outside the jurisdiction of this subcommittee. Nevertheless, we share the subcommittee's view on the importance of investing in our nation's water infrastructure, and encourage the subcommittee to actively work toward including water infrastructure funding in any comprehensive infrastructure legislation that is considered by the House of Representatives this year.

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 each showed that the nation's water and wastewater infrastructure together 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. For example, AMWA and the National Association of Clean Water Agencies have projected that water and wastewater utilities could spend nearly $1 trillion over 40 years as they adapt their infrastructure to changing hydrological conditions such as extreme drought, more frequent intense storms, and severe flooding events.

To this end, AMWA was pleased to work with members of the House Energy and Commerce Committee earlier this year as that panel developed and approved H.R. 3387, the Drinking Water System Improvement Act. Among other provisions, this legislation would reauthorize the Drinking Water State Revolving Fund for the first time in that program's history, reauthorize the Public Water System Supervision grant program, and authorize funding for new federal grants to help local educational agencies replace outdated drinking water fountains in schools. AMWA believes that these provisions, along with other parts of the bill that make important improvements to the Safe Drinking Water Act, should be part of any comprehensive infrastructure bill that the House of Representatives considers this year.

Likewise, AMWA also believes that any major infrastructure bill would be incomplete if it does not include a significant new investment in the nation's wastewater infrastructure through the Clean Water State Revolving Fund. In the past AMWA and other water sector organizations have called for Congress to increase funding for each SRF program while also bringing them to a point of funding parity. A comprehensive infrastructure investment bill would offer an opportunity to make this vision a reality.

While local water infrastructure improvements have long been, and should remain, primarily paid for through local water rates, there is widespread agreement that it is appropriate and necessary for the federal government to facilitate communities' access to affordable financing while also offering opportunities for direct assistance to communities in need. And while the Drinking Water and Clean Water SRFs will remain at the core of federal efforts to improve local water and wastewater infrastructure, we encourage Congress to maintain other avenues of assistance as well – such as in the form of a new EPA pilot program and a 104-year-old tax benefit that is relied upon from coast to coast.

The Water Infrastructure Finance and Innovation Act

The federal government's newest water infrastructure financing assistance program was established three years ago 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 cities and towns 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, at low-cost, near-Treasury rates. 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 SRFs, which typically deliver relatively modest-sized loans to help communities respond to public health risks, WIFIA is intended to help communities finance large-scale water and wastewater infrastructure improvements that may not be positioned to benefit from SRF assistance. In the case of drinking water infrastructure projects, for example, the DWSRF gives preference to projects that address the most serious risks to human health, so 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 cost of each project. WIFIA also accommodates smaller communities faced with smaller-scale projects, as the program will offer loans to projects costing as little as $5 million in a community of 25,000 people or fewer.

This is currently an exciting time for WIFIA, as earlier this year EPA invited twelve projects across the country, seeking a total of $2.3 billion worth of assistance, to formally apply for WIFIA loans in 2017. EPA chose this class of twelve projects from the 43 initial letters of interest that were submitted by project sponsors from coast to coast, and the agency hopes to begin finalizing loan agreements 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 as expected, AMWA will urge the subcommittee to quickly begin the work necessary to reauthorize the program 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 income leads investors to pursue lower interest rates than they otherwise would. These lower interest rates directly translate to lower municipal financing costs, and thus more affordability for local water and wastewater ratepayers. Without this tax benefit, AMWA and the National Association of Clean Water Agencies estimate that water and 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.

We understand that legislation related to any potential changes to this tax-exempt structure of municipal bonds is outside of the jurisdiction of this subcommittee, but before the end of the year Congress could vote on a comprehensive tax reform plan that could reduce or eliminate this critical benefit. Should members of Congress be presented with a such a tax reform proposal this year, AMWA encourages members of this subcommittee 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 preserve affordable water infrastructure financing and build a 21st Century water infrastructure.

Conclusion

Again, AMWA appreciates the opportunity to submit these comments on strategies to maintain and improve our nation's water and wastewater infrastructure. Continued investment in the SRFs, a permanent 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