Water Infrastructure Innovation: Financing and Beyond

TESTIMONY OF

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BEFORE THE

WATER RESOURCES AND ENVIRONMENT SUBCOMMITTEE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

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Good morning, Chairman Gibbs and Subcommittee Members. My name is Jeff Eger and I am the Executive Director of the Water Environment Federation [WEF]. At the Water Environment Federation, our passion is to preserve and enhance the water environment to support clean and safe water, both in the United States and globally[1]. I am honored to be here today to discuss innovative financing approaches for water infrastructure. I will also add a few thoughts on the broader imperative for innovation in water infrastructure beyond financing needs.

Modern, high-quality drinking water and wastewater systems are essential to public health, environmental protection, economic well-being and quality of life in the United States. We all know that our water and wastewater infrastructure is aging and that many communities must significantly increase their levels of investment in repair and rehabilitation along with meeting ever-increasing public health and environmental requirements. The U.S. Environmental Protection Agency estimates that given current levels of investment, the shortfall between actual versus necessary levels of investment in water infrastructure will exceed $530 billion over the next twenty years. While numbers may differ somewhat, all available studies point to a very large and growing infrastructure gap that will have profound impacts on our public health, environmental welfare, the economy and overall quality of life.

A recent "Value of Water Survey" done for ITT[2] asked a representative sample of American voters and businesses about the state of our nation's water infrastructure. The

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[1] Founded in 1928, the Water Environment Federation (WEF) is a not-for-profit technical and educational organization of 36,000 individual members and 75 affiliated Member Associations representing water quality professionals around the world. WEF members, Member Associations and staff proudly work to achieve our mission to provide bold leadership, champion innovation, connect water professionals, and leverage knowledge to support clean and safe water worldwide.

[2] *Value of Water Survey: Americans on the U.S. Water Crisis*, published by ITT Corporation, www.itt.com/valueofwater/

public and businesses both agree that fixing our water infrastructure is a key national priority. More than 80% of the surveyed registered voters say government – Federal, State, local - should increase water infrastructure investment to upgrade our systems and should lead the search for solutions. But all are willing to do their part: 63% of voters and 57% of the nation's industrial and agricultural businesses are willing to pay more each month in their water bills to ensure long-term access to clean water.

WEF continues to champion financial sustainability for water infrastructure as key to meeting our nation's clean water needs. In 2010, WEF issued an updated position statement that reaffirmed that Americans are best served by well-managed water and wastewater systems that are self-sustaining through rates and other local charges set to reflect full-cost pricing of these valuable services.[3] WEF also recognizes that even if local utilities are well-managed using best practices and striving for full-cost pricing, federal leadership, including assistance in financing infrastructure costs, will continue to be needed for many communities due to affordability issues. This Federal leadership includes strengthening and funding the Clean Water and Safe Drinking Water State Revolving Fund Programs (SRFs). WEF recognizes that our nation's budget situation is applying pressure on Congress and the Administration to reduce spending upon discretionary programs, but we feel that maintaining or slightly increasing funding for the SRF's, combined with innovative funding mechanisms, would be good policy and make practical long-term economic sense for our nation as we try to curb the ever widening gap between water and wastewater infrastructure needs and capabilities. As Congress works

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[3] *Financial Sustainability for Water Infrastructure*, **a**dopted by WEF Board of Trustees February 5, 2010; see: http://www.wef.org/GovernmentAffairs/PolicyPositionStatement/WaterInfrastructure/

to find solutions to our water and wastewater infrastructure capacity problem, it is critical that new funding mechanisms are added to the toolbox, while successful traditional funding mechanisms remain the most reliable and practical tools in the toolbox.

In evaluating innovative financing approaches, the federal government should consider how to lower the cost of capital for water and wastewater investments. Almost 70 percent of American communities use bonds to finance local infrastructure. They pay billions of dollars in interest costs each year. Lowering the cost of borrowing for water and wastewater infrastructure is an important way to leverage local funding and help America rebuild and rehabilitate our aging water infrastructure.

To lower the cost of infrastructure investments and to increase the availability of lower-cost capital, the American Water Works Association (AWWA), the Association of Metropolitan Water Agencies (AMWA) and WEF have been supporting enactment of a "Water Infrastructure Finance and Innovations Act" (WIFIA), modeled after the successful Transportation Infrastructure Finance and Innovations Act (commonly called TIFIA). Such a mechanism could lower the cost of capital for water utilities while having no or little effect on the federal budget deficit. WIFIA would access funds from the U.S. Treasury at Treasury rates and use those funds to support loans and other credit mechanisms for water projects. Such loans would be repaid to the Authority – and thence to the Treasury – with interest.

The Water Infrastructure Finance and Innovations Act would:

- Provide for loans, loan guarantees, and other credit support for large water infrastructure projects and those with national or regional importance. Communities

undertaking these projects often find it difficult or impossible to access SRF loans in meaningful amounts, due in part to inadequate capitalization of the SRFs.

- Reduce the cost of leveraging for SRF programs by lending to them directly. WIFIA could lend to those SRF wishing to leverage their capitalization grants at the lowest possible interest rates. This would allow SRFs to make more loans and would increase their ability to offer special assistance to hardship communities if they chose to do so. Currently, about 27 states leverage their SRF programs on the bond markets. WIFIA loans to an SRF would offer another mechanism to accomplish the same goal and make such a practice more attractive to additional states.

It is also important for the federal government to continue to directly capitalize state revolving funds, which can be used to both broadly lower the costs of water infrastructure investment and to address the needs of communities in hardship or special circumstances. In concert with AWWA and AMWA, WEF proposes several enhancements to the State Revolving Fund programs to allow them to better serve our communities:

- Continue support for SRF capitalization. Despite growing needs and the implementation of new drinking water regulations, overall federal investment in the SRF programs has decreased significantly in recent years. We ask that Congress carefully consider the broad and important economic and public health benefits that flow from each dollar of support for the SRF programs.
- Provide states with flexibility in using SRF funds. This should include the ability to address the special needs of hardship communities they identify. This flexibility should also include the ability to use state procurement processes and standards that

minimize process and administrative "burdens" for grant recipients and for states themselves.

- Eliminate arbitrage restrictions. Allow SRF programs that issue bonds to keep arbitrage earnings on their invested funds to the extent such earnings are used to support additional investment in water infrastructure. Based on historical market rates, this would provide $200-400 million per year in additional funds for water and wastewater investment.
- Streamline the SRF application. Provide incentives to streamline the SRF loan review process. It can take almost a year to obtain an SRF loan. This deters many communities from using the SRF, and leads them to issue higher-cost municipal bonds instead. Due to the revolving nature of the Fund, increasing the pace of awards through streamlining will help increase the revolving flow of funds, allowing even more projects to get built, and so on into the future.

Finally, WEF supports tax-exempt private activity bonds for water and wastewater projects by removing the Internal Revenue Service volume cap on such bonds Private-activity bonds are tax-exempt bonds that allow the private sector to participate in financing public projects. The federal government limits the use of these bonds by the private sector for public projects. Each state has a cap on the amount of private activity bonds it can issue for eligible projects that include water and wastewater infrastructure projects. Lifting this cap would provide more low-cost capital to public-private partnership water and wastewater projects.

Developing innovative financing mechanisms to support construction of needed water and wastewater projects is critical to our nation's future. In my mind, our industry and

our nation also needs to re-imagine how we provide these vital services to make sure we are incorporating new ideas and innovations more broadly and consistently. Innovative approaches should allow us to provide better and sustainable service at lower costs, which ultimately reduces the pressure on financing needs and local utility rates. Fundamentally, we need to move from a wastewater treatment business to a water resource recovery business. We are now seeing at various facilities around this country and the world the ability of "wastewater treatment" plants to produce products and energy and new water. Some facilities are even net producers [rather than consumers] of energy. By fostering this approach, WEF hopes to work with all interested partners to transform our industry sector through such innovation.

Advancing innovation will require the buy-in of the general public. WEF has started the *Water's Worth It* campaign to expand and deepen everyone's understanding of the value of water[4]. We can demystify water and wastewater treatment by promoting the direct connections between what the water sector does and what the public values: jobs, health, security and clean water. Part of this outreach campaign will also focus on how water treatment processes can recover energy and other resources while protecting public health and the environment.

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[4]For more about WEF's *Water's Worth It* effort, see: http://www.wef.org/watersworthit/