



Water Infrastructure

Support Short- and Long-Term Funding for Water Infrastructure Construction

Background:

- There is a persistent downward trend in federal investment in water infrastructure. When adjusted for inflation, total federal commitment to funding has declined more than 50 percent (inflation adjusted) since the inception of the Environmental Protection Agency's (EPA) State Revolving Fund (SRF) program in 1987. This is particularly troubling as EPA's estimates show that investment of between \$400 and \$600 billion is needed over the next 20 years just to keep pace, resulting in an annual investment gap of more than \$20 billion a year.
- When the federal government began mandating quality standards for drinking water and wastewater discharge through legislation like the Clean Water Act and Safe Drinking Water Act, it also recognized that forcing local governments to spend billions of dollars to upgrade facilities and equipment to comply with these regulatory requirements was impractical. The EPA's SRF program is the vehicle the government uses to avoid foisting the burden of maintaining national water standards onto local ratepayers alone. When the federal government shirks its responsibility to help with financing improvements to local water systems, federal water quality standards become unfunded mandates with state and local governments stuck holding the bag. As the economic downturn continues to pressure State and local governments, federal water infrastructure financing assistance is even more critical.

Federal Funding/Financing Options:

- **Water Infrastructure Appropriations.** Over the last three fiscal years, Congress has cut total appropriations to the Clean Water SRF and Drinking Water SRF programs by over \$1.1 billion. Sequestration adds another \$145 million on top of those cuts. The President's Budget has requested cuts to these programs nearly every year since the Clinton Administration. Vigorous Congressional efforts to curtail government spending, and to rein in EPA specifically, have placed these programs (which are the single largest line-item in EPA's budget) squarely in the crosshairs. Indiscriminate across-the-board cuts disproportionately affect this program because of its relative size within EPA, and EPA itself has shown little effort to defend these programs; they would rather defend their own FTEs rather than grant programs where they have little control over the direction of the funding.
- **Water Trust Fund.** With the volatility inherent in the annual appropriations process, a sustainable, long-term funding mechanism is needed to provide market certainty for construction firms and local water authorities. A new long-term funding mechanism should be multi-year and supplementary to the current SRF process. This long-term mechanism should also embrace the "user pays" concept that other infrastructure funding mechanisms have implemented with success to create a budget-neutral, user-fee financed, clean water trust fund. This option has gained little traction in Congress in recent years due to revenue raising provisions being politically unpalatable.
- **Water Infrastructure Finance and Innovation Act (WIFIA).** With the success of TIFIA in the transportation sector has generated much Congressional interest in how to create a similar program for water infrastructure. Essentially this program would be a system of loans, loan guarantees, and lines of credit for water projects utilizing the full faith and credit of the US Treasury. There are multiple different ideas and approaches for how to construct such a program, and issues that remain to be worked out include project minimums, the method of selecting projects, and how the loan authority would be distributed.
- **Other Creative & Alternative Approaches to Water Infrastructure Finance.** As traditional methods of funding fall out of favor, it is important to seek fresh and creative approaches. One creative mechanism is the highly successful, but costly, Build America Bonds program in the Recovery Act. BABs are taxable bonds for which the U.S. Treasury Department pays a 35 percent direct subsidy to the issuer to offset borrowing costs. The program financed nearly \$38 billion in water and sewer infrastructure projects over the two years it was active, but the high cost of the program makes it unlikely to be revived or considered a sustainable solution. Another mechanism is a national water infrastructure bank that adopts a

sensible project value minimum dollar amount and reconciles the qualifications for “national or regional significance.” These creative and alternative mechanisms should supplement rather than replace the traditional financing mechanisms already proven to work.

- **Private Investment in Water Infrastructure.** There is considerable private capital that could and would be invested in water infrastructure if the proper mechanisms were available. Public-private partnerships for water infrastructure construction should be encouraged to help shift the risk of water projects from the public sector to the private sector. One example of how this can be accomplished is removing water and wastewater infrastructure from the under the private activity bond volume cap to help secure this avenue of innovative project finance.