The Authoritative Resource on Safe Water SM
American Water Works Association

Innovative Funding of Water Infrastructure for the United States

Presented by
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Good morning, Chairman Gibbs and members of the Subcommittee. My name is Aurel Arndt, and I am General Manager and Chief Financial Officer of the Lehigh County Authority based in Allentown, Pennsylvania. I deeply appreciate this opportunity to offer input on the critical issue the subcommittee is addressing today: the need for innovative financial mechanisms to sustain and rejuvenate our country's water infrastructure.

As background, the Lehigh County Authority provides high-quality, affordable and reliable water and sewer service to more than 22,000 customers in Lehigh County and Northampton County, Pennsylvania. I have worked for the Lehigh County Authority since 1974. Throughout my career, which includes service on the Executive Board of the Government Finance Officers Association, then the board of the Pennsylvania Infrastructure Investment Authority (PennVest), and now on the Water Utility Council of the American Water Works Association (AWWA), I have focused my efforts and interest on water infrastructure finance. I am here today representing AWWA and its more than 50,000 members across the United States.

Yesterday, AWWA released a report titled, "Buried No Longer: Confronting America's Water Infrastructure Challenge," which reveals that restoring existing water systems as they reach the end of their useful lives and expanding them to serve a growing population will cost at least $1 trillion over the next 25 years. I want to emphasize that this is $1 trillion for buried drinking water assets only. Above-ground drinking water facilities, waste water, storm water, and other water-related investment needs are also very large, and must be added to reflect the true magnitude of the water investment needs before us. I would be happy to share copies of that report with members of the subcommittee. As I'm sure you know, a number of other organizations, including EPA, and other witnesses at this hearing have all concluded that the country's need for infrastructure reinvestment is substantial and pressing. Therefore, I'd like to focus my remarks today primarily on addressing the challenge before us.

A New Approach: The Water Infrastructure Finance and Innovation Act. We have had a chance to review this subcommittee's draft legislative language that would create a Water Infrastructure Finance and Innovation Authority (WIFIA) and I must say, we wholeheartedly endorse this approach. As described in the draft, WIFIA would fill a significant gap between what current water infrastructure tools can do and what needs to be done.

I would like to emphasize that AWWA strongly believes the cornerstone of water infrastructure finance is, and should remain, local rates and charges. That said, there are periods in time when large infusions of capital are needed, such as when large amounts of pipe must be replaced or a treatment plant must be upgraded due to age or new regulations. Today, the state revolving loan fund (SRF) program and municipal bond market represent the primary long-term means for financing water infrastructure projects. The scale of water infrastructure investment needs however, often push utilities beyond the limits of these traditional financing sources and beyond the ability to set affordable rates for its customer base. That calls for an expanded toolbox of funding options to help meet the nation's critical water infrastructure needs.

The SRF program is the primary federal mechanism for assisting local communities in dealing with water infrastructure challenges. It is an effective program that we strongly support. However, in many states, the SRF is unable to make loans to large communities or for large projects simply because large loans would exhaust all of the state's capitalization funds – leaving a gap for large, regionally and nationally significant water infrastructure projects.

About 70 percent of American communities use municipal bonds and other forms of debt to finance water infrastructure projects. Being able to lower the interest rate by just a few percentage points in a multi-million-dollar loan can amount to significant savings in the cost of an infrastructure project. These savings for local borrowers can significantly accelerate needed water infrastructure investment by making it more affordable for utilities and their customers. In fact, lowering the cost of borrowing by 2.5 percent on a 30-year loan reduces the lifetime project cost by almost 26 percent, the same result as a 26-percent grant.

Lowering the cost of infrastructure investment pays dividends in other ways as well. Most fundamentally, it makes it possible to do more with less, that is, to rebuild more infrastructure at lower cost. In addition, the US Department of Commerce Bureau of Economic Analysis (BEA) estimates that for every dollar spent on water infrastructure, about $2.62 is generated in the private economy. And for every job added in the water workforce, the BEA estimates 3.68 jobs are added to the national economy. Moreover, these national benefits come on top of improved public health, a cleaner environment, strengthened fire protection, and a better quality of life in the community.

Consequently, WIFIA would assist communities in meeting the nation's water infrastructure needs in a manner that would have minimal cost to the federal government while complementing existing financing mechanisms, maintaining the current federal role, leveraging private capital, and creating vital manufacturing and construction jobs.

We urge this subcommittee, the full committee, and the rest of Congress to enact this WIFIA legislation. We note that it is modeled after the highly successful Transportation Infrastructure Finance and Innovation Act (commonly called TIFIA). Similar to TIFIA, WIFIA will lower the cost of capital for water utilities while having little or no long-term effect on the federal budget.

Replicating the TIFIA model. We largely agree with the approach taken in the draft, which would access funds from the U.S. Treasury at long-term Treasury rates and use those funds to provide loans, loan guarantees, or other credit support for water infrastructure projects. Funds would flow from the Treasury, through WIFIA, to funding recipients to enlarge their pool of capital. Loan repayments – with interest – and guarantee fees would flow back to WIFIA and thence into the Treasury – again, with interest.

Eligible water infrastructure projects would include drinking water, waste water, storm water, water reuse and desalination, and similar projects, and associated infrastructure replacement and rehabilitation.

We agree that WIFIA should have the authority to:

- Provide direct loans, loan guarantees, and lines of credit for large water infrastructure projects. We believe it makes sense for WIFIA to make loans above a minimum size, which we have proposed as $20 million. That is generally the top level at which State Revolving Loan Funds can make loans, and WIFIA is intended to complement the SRF program by specifically targeting this gap and focusing on larger projects that are generally unable to access capital through the SRFs.

- Provide direct loans, loan guarantees, and lines of credit to SRFs for a group of smaller projects combined to meet the $20 million minimum threshold. Currently, 31 states leverage their SRF programs by borrowing. Allowing SRFs to borrow through WIFIA will further leverage SRF resources and make such a practice more attractive to additional states. This will allow SRFs to make more loans for small and medium-sized projects.

AWWA concurs that, like the TIFIA program, WIFIA should be able to take a subordinate position in any project. This would be extremely helpful in attracting and leveraging private capital in particular projects. We do recommend, however, that it must be the utility that applies for and receives a WIFIA loan, and not a private participant in a project.

We concur that WIFIA should not provide for loan forgiveness or negative-interest loans or similar credit aspects that would increase the cost of the WIFIA program to the federal government. We agree with the straightforward approach of creating a mechanism to allow the very low cost of Treasury funds to be passed on to American communities for investment in water and wastewater projects. Loans would be made at Treasury rates and repaid with interest. In addition, a small interest surcharge or fee would be added to cover WIFIA's operating expenses, or Congress could appropriate those expenses, minimizing or offsetting the amount needed to be appropriated for administrative expenses.

It is also essential to ensure a streamlined approach to financing. We appreciate WIFIA's streamlined review and application process and ability to make decisions with no more burden to the applicant than required by traditional credit markets. We believe it is important to avoid federal cross-cutter requirements and complications of that kind to the maximum possible extent.

Low Cost to the Federal Treasury. A key feature of the draft proposal for WIFIA, as in TIFIA, is the minimal cost to the Federal Government. Under the Federal Credit Reform Act, a federal entity can provide credit assistance to the extent that Congress annually appropriates budget

authority to cover the "subsidy cost" of the loan, i.e. the net long-term cost of the loan to the Federal government. In this way, Congress directly controls the amount of lending – but the budgetary impact is also minimal because it reflects the net long-term cost of the loan, and virtually all water-related loans are repaid in full. In fact, Fitch Ratings, a top credit rating agency, determined that the historical default rate on water bonds is 0.04 percent. Indeed, water service providers are among the most fiscally responsible borrowers in the United States. Moreover, those states that leverage their SRF programs have no history of defaults, placing them among the strongest credits in the country. Consequently, WIFIA – because it involves loans that are repaid with interest – involves minimal risks and minimal long-term costs to the federal government. TIFIA is able to leverage federal funds at a ratio of approximately 10:1. With the water sector's strong credit ratings and history, that ratio could be even greater for WIFIA. In other words, because of the sector's strong credit rating and history, the "subsidy cost" called for by the Federal Credit Reform Act would be minimal.

We do advocate modifying the TIFIA model in at least one important respect: to explicitly provide that a utility which pays its own "subsidy cost" up front should be able to get a loan or guarantee that does not count against WIFIA's appropriated budget authority. In effect, such a utility would be paying for credit insurance and would be able to access funds at Treasury rates in the same degree as a utility that had its "subsidy cost" paid through the appropriated budget authority. Happily, the draft does do these things.

Conclusion. Enacting a Water Infrastructure Finance and Innovation Act (WIFIA) modeled after the successful transportation program known as TIFIA will offer meaningful assistance to American communities in a modern, cost-effective way, at the lowest-possible cost to federal taxpayers. It will help to increase the nation's level of investment in water and waste water infrastructure to meet the immense needs for rehabilitation and replacement, build the infrastructure we need for future prosperity, and create the jobs we need today. A number of water infrastructure tools have been sincerely proposed over the years, but WIFIA is the one that best targets the real needs of communities, makes the most fiscal sense, and that will have the most impact on our nation's water infrastructure.

In short, WIFIA will allow our nation to build more water infrastructure at less cost. And to top that, we will get a cleaner environment, better public health and safety and a stronger foundation for our economy.

We thank this subcommittee for the leadership it is taking today in holding this hearing and more importantly, in offering this vitally needed tool – WIFIA – to help address in a significant way this nation's water infrastructure challenges. We offer to work with the subcommittee in communicating the value of WIFIA to the rest of Congress and our respective publics.

Thank you again for the opportunity to appear today. I will be happy to answer any questions or to provide you with any other assistance I can, now or in the coming months.

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