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My name is Karen Massey and I am the Director of the Missouri Environmental Improvement and Energy Resources Authority. I am here today in my capacity as President of the Council of Infrastructure Financing Authorities, representing the State programs that manage the State Revolving Funds. We welcome the opportunity to share our views with the Subcommittee on financing community water infrastructure projects.

We believe sustained Federal funding is essential to realizing our nation's water quality goals. States should be in the forefront in pursuing different options and innovations that will make the best possible use of that funding. We recognize that the current level of funding provided through the SRFs, as well as programs within USDA and HUD, will not be sufficient to meet the escalating needs for water infrastructure. Thus, we welcome new approaches and tools that may generate additional resources. However, we are convinced the SRF partnership between the federal and state governments should continue as the primary means for assistance to communities in addressing water quality issues.

In the past two decades, few federally authorized programs have proven as effective in realizing their intended goals as the SRF programs. They have provided a sustainable source of funding to protect and restore our nation's rivers and streams. It is important to note that the assistance made available to communities is significantly greater than the initial federal investment as a result of state match, loan repayments, issuance of bonds and interest earnings. The Clean Water State Revolving Fund has committed over $90 billion to projects for wastewater infrastructure.

States, as the recipients of SRF capitalization grants, recognize that they incur a number of responsibilities. We must manage those funds in a fiscally responsible manner and be accountable. We must give priority in our funding decisions to the water quality benefits that will result and the urgency of environmental problems needing resolution. We give particular attention to the challenges faced by small, rural and disadvantaged communities. Our goal is to use all the possible tools and strategies to assure needed financing.

As the Subcommittee weighs the future of the SRF program, as well as new initiatives to spur water infrastructure development, we hope you will bear in mind the record of accomplishment by State SRF programs over the past twenty-five years.

From the States perspective we have two primary issues of concern: funding and program flexibility.

The ability of States to meet present and future needs for water infrastructure is predicated on continued funding for the SRF programs at a sufficient level to ensure the full realization of the revolving nature of the funds and the maximum utilization of leveraging by States which have chosen that option. We understand the need for budget restraint but would hope that not too great a share of that restraint is at the expense of the SRF programs.

Our second concern centers on efforts to impose new requirements and obligations that are not at the core of SRF program goals. It is well to remember that it is a loan program not a grant program. If an SRF loan becomes too administratively burdensome and weighed down with too many extraneous requirements, it will cease to be an attractive option for many communities, with the result that clean water goals will suffer. After years of successful program operation we think it is clear the more latitude and operating flexibility the States have, the greater our capacity to accomplish the environmental and financial goals of the program. Certainly States need to be fully accountable for their use of federal dollars but excessive oversight or administrative control by EPA stifles innovation and the ability of States to best respond to local needs.

A good example of administrative burden recently imposed on the States are the processes and paperwork that have accompanied the application on Davis-Bacon provisions to SRF funded projects, particularly in those States already having a prevailing wage rate in place. It has been a duplicative, time-consuming and unproductive undertaking.

The success of this program derives from the flexibility of the SRF model, allowing each State to decide the best approach to meet its individual water quality needs. Efforts to mandate that a certain percentage of funding be set aside for particular types of projects such as green infrastructure or that require States to dedicate a set percentage for additional subsidization fail to recognize that States are in the best position to decide their priority water quality needs.

With respect to the question of what new tools or innovations may help communities achieve their clean water goals, the issue is how to achieve a significantly increased level of affordable financing for water infrastructure. As the recent ARRA experience illustrates, when communities can access free or very affordable money, water infrastructure gets built. The key factor is the cost of that money. If new approaches, such as the Water Infrastructure Finance and Innovation Act (WIFIA), can provide additional funding at attractive rates this will be a plus, particularly in terms of financing projects that might not be built in the immediate future due to funding constraints.

Currently, State SRF programs are able to provide communities with a loan at an interest rate significantly below prevailing municipal market rates. In addition, a number of States offer interest free loans to economically disadvantaged communities. Beyond loans there are a variety of other assistance options available including purchasing or refinancing local debt and providing guarantees or purchasing insurance for local debt.

Can WIFIA offer comparable benefits to communities?

WIFIA seeks to facilitate Federal credit assistance in the form of direct loans and loan guarantees for larger scale water and wastewater projects in order to generate additional sources of capital. Our sense is that its impacts are likely to be relatively modest. The assistance made available through WIFIA would not approach the very low interest rate offered through a subsidized SRF loan. In many instances, borrowing at a Treasury rate – the key benefit of WFIA – will not provide any advantage over borrowing in the municipal market. A SRF loan is going to be a better deal from an interest rate standpoint. And tax exempt financing will remain attractive both from the standpoint of competitive rates and the likelihood that a Federal loan guarantee will include Federal requirements and conditions; this would not be the case with a municipal bond issue.

This by no means suggests there are not circumstances in which the WIFIA approach would be useful. It offers an alternative for projects that are beyond the scope of available SRF funding and for which the Federal guarantee represents the optimal credit option. Viewed as a supplementary program, to address specific situations and the unique funding challenges of large scale projects, WIFIA should prove a valuable addition to the financing tool box. The needs of most communities, however, will continue to be best met by the State Revolving Fund programs.

It is our hope that as the Subcommittee explores various legislative options to increase sources of financing for community water infrastructure, there will be a focus on several issues of significance to the future strength and development of the SRF programs.

There a number of important administrative and operational issues for the Clean Water State Revolving Fund program that require a legislative fix. These include expanding eligibilities, allowing additional subsidization to disadvantaged communities, fund transferability and clarifying States' use of bonds to meet match requirements. It would be very helpful to get these noncontroversial items resolved in the near future and not subject to the uncertain prospects for a multi-year SRF reauthorization bill.

We encourage the Subcommittee to carefully weigh the potential that proposals seeking to incorporate new goals within the SRF programs may undermine the core mission of maximizing sustainable financial assistance to communities to develop water infrastructure. SRFs are being targeted to advance policy goals ranging from green infrastructure and smart growth, to better asset management, full-cost pricing and Buy American requirements. States are beginning to experience resistance from municipalities, particularly smaller communities, which now view a SRF loan as too complex and burdensome. A host of new requirements, however well-intentioned, will impede the effort to get the communities with the most significant water quality issues moving forward to address those challenges.

The proposals attaching new conditions to SRF assistance appear to reflect a policy shift toward imposing federal requirements governing all future assistance provided by the 51 CWSRF programs. This is a dramatic departure from the last 25 years of operation and signals a "federalization" of the program.

Since their beginning, the State CWSRF programs have managed the programmatic and financial operations of their respective programs. Title VI of the Clean Water Act allows the CWSRFs to manage their programs as state programs, making the basic decisions on what gets funded, when, and under what conditions. States have made the decision whether or not to leverage. States have ranked eligible projects and determined the priority for providing financing.

The corpus of the CWSRF since the beginning of the program has been treated as state funds. Essentially, once the capitalization funds were first used then all repayments, interest earnings, fee revenues and bond proceeds have been treated as state, not federal, funds. Now at issue is whether federal controls are to be placed on the use of the corpus which has accumulated over the last 25 years. The implications are significant. Will federal control over the corpus extend to assistance agreements, investments and bond issues of the CWSRFs? What are the ramifications for state bond issues if there is a risk of future federal requirements affecting the use of bond proceeds? How will this potentially impact the cost of borrowing? All important questions raised by the prospect of expanded federal control over what have been state run programs, subject to federal oversight, but with the management and decision-making in the hands of the states.

The tremendous success of the CWSRFs, as state run programs able to meet their particular water quality needs, argues for a careful assessment of where this trend toward a federalization of the program will ultimately lead. The result may be a SRF program that is a less productive and less attractive source of financing in a time of escalating water infrastructure needs.

Thank you for the opportunity to provide the views of State SRF managers. We shall look forward to working with the Subcommittee as it continues its work to support water infrastructure development.