



Written Testimony
by

Ryan Schmitt

President
Petticoat-Schmitt Civil Contractors, Inc.

and

Chairman of the Board
NUCA Representing Utility and Excavation Contractors

before the

House Subcommittee on Water Resources and Environment

addressing

“Review of Innovative Financing Approaches for Community Water
Infrastructure Projects -- Part II”

March 21, 2012

Chairman Gibbs, Ranking Member Bishop, and members of the subcommittee. My name is Ryan Schmitt. I am president of Petticoat-Schmitt Civil Contractors, Inc. in Jacksonville Florida, and serve as the current Chairman of the Board at NUCA, representing utility and excavation contractors. I appreciate the opportunity to testify before the subcommittee today on the innovative financing approaches for water infrastructure projects in American communities. NUCA believes there are many creative alternatives to be considered, and we thank the subcommittee for holding this hearing, the second one on this important subject this year.

NUCA is the oldest and largest national trade association working solely for the utility construction and excavation industry, consisting of a nationwide network of chapters and member companies that provide the workforce and materials to advance the water, sewer, gas, electric, telecommunications and construction site development industries across the country. NUCA also serves as chair of the Clean Water Council (CWC), a coalition of some 40 national organizations representing underground construction contractors, design professionals, manufacturers and suppliers, labor representatives and others committed to ensuring a high quality of life through sound environmental infrastructure. These industries work collectively to improve critical underground systems that unquestionably enhance America's quality of life.

NUCA commends the past efforts of this subcommittee to advance legislation to increase investment in wastewater infrastructure, and we look forward to working with you more on a range of legislative initiatives to open the door to more investment opportunities from both public and private sources. NUCA believes long-term and reliable sources of revenue are needed to meet the skyrocketing needs facing our water and wastewater infrastructure and we are eager to participate in the discussion as the issues and challenges are vetted, debated and resolved.

SIGNIFICANT FUNDING NEEDED TO TACKLE RISING NEEDS

America's water infrastructure needs are nothing short of staggering, and the need to invest in it is well known and clearly documented. According to the U.S. Environmental Protection Agency (EPA), hundreds of billions of dollars are needed to repair and rebuild America's dilapidated underground environmental infrastructure, yet the reduction of available public dollars has obstructed significant progress to address these needs. Members of our industry see the results of failing water and sewer systems literally from the trenches in their everyday work, and the scene isn't pretty.

Additionally, the American Society of Civil Engineers (ASCE), an active member of the CWC, evaluates the nation's infrastructure and reports on the status of it every few years. America's wastewater infrastructure is continually graded at a "D minus" in the ASCE's *Report Card for America's Infrastructure*. There is a clear consensus among both government and industry professionals that the state of this infrastructure is quickly going from bad to worse.

ECONOMIC FACTORS HELP DEMONSTRATE THE NEED FOR NEW REVENUES

The water infrastructure market and companies working in it are also in serious trouble. In addition to the cuts in federal funding to refurbish these systems over the past several years, state budgets have been hit hard because of ongoing problems in the housing market, which in turn has lowered revenues from property taxes. The lack of public dollars has kept the construction industry on the sidelines. In fact, construction has been the hardest hit industry sector since the beginning of the economic downturn and continues face unacceptably high unemployment. Construction firms that work on public water and wastewater infrastructure projects likely face significantly higher unemployment than general construction. This is certainly true in my State of Florida.

To make matters worse, the rising cost of construction materials and labor has reduced the purchasing power of public works dollars. Fewer contracts are going out to bid, which only increases the number of bids competing for limited projects. The inevitable result is less work on this deteriorating infrastructure and fewer jobs for those who do this critical work.

NUCA believes that passage of several water infrastructure bills is needed to take important first steps to help get the construction industry back on its feet and contribute to the slow recovery of America's economy. Although underground water and wastewater projects are generally recognized for their effectiveness in enhancing public health and environmental protection, the *economic* benefits that result from this work are often overlooked. Those benefits are real and demonstrated in a 2009 report by the Clean Water Council.

The CWC study, *Sudden Impact: Assessment of Short-Term Economic Impacts of Water and Wastewater Projects in the United States* supports the argument that water infrastructure investment creates significant and immediate economic benefits in terms of job creation, increased demand for goods and services, rise in personal income and generation of state and local tax revenue. The study only addresses economic impacts during or immediately after the project. Future work on these facilities brings economic enhancements, including additional job creation when maintenance and repair activities are conducted.

The findings of the study are based on data collected from 116 water and wastewater construction projects in five demographically diverse states and 73 counties. The projects encompass a broad range of project types, sizes, materials, construction methods and labor markets. Specifically, the study shows that a \$1 billion investment in water and wastewater infrastructure results in the creation of up to some 27,000 new jobs with average annual earnings of more than \$50,000, increases in demand for products and services in other industries of between \$2.87 and \$3.46 billion, and generation of personal or household income of more than \$1 billion. Importantly, each \$1 billion invested also generates approximately \$82.4 million in state and local tax revenue.

The study underscores the "ripple effect," or how this investment impacts industry sectors outside of construction. Each \$1 billion invested in water and sewer projects generates measurable employment in 325 other standard industry classifications. In fact, a \$1 billion investment results in the hiring of at least 100 workers in 25 industry segments outside of construction, including retail markets, wholesale trade, real estate, insurance carriers, health care, food services, and accounting, just to name a few.

Copies of *Sudden Impact* were sent to all members of the U.S. House and Senate after its release, and additional copies are available on request.

INNOVATIVE FINANCING OF WATER INFRASTRUCTURE PROJECTS

Private Activity Bonds Funding Water Infrastructure

NUCA has supported a wide range of legislative solutions to address America's environmental infrastructure challenges since its establishment in 1964. However, because of the reduced federal dollars available for water infrastructure improvements over the past several years, the association has recently focused on increasing opportunities for private investment and public-private partnerships (P3s). The Sustainable Water Infrastructure Investment Act (HR 1802 and S 939) would address both of these goals by lifting water and wastewater infrastructure projects from the state volume cap on private activity bonds (PABs), thereby encouraging use of more P3s in the market.

PABs are a form of tax exempt financing for state and municipal governments looking to partner with a private entity to "meet a public need," such as construction of a wastewater treatment plant. Use of public-private partnerships makes infrastructure repair and construction more affordable for

municipalities. PABs use private capital in lieu of public debt and shift the risk and long-term debt from the municipality to the private partner. The tax-exempt status of the bond provides lower cost financing for investors, which translates to lower costs for local governments and ultimately their customers.

Unfortunately, federal tax law restricts PABs from reaching their maximum benefit by limiting the amount of PABs that may be issued annually in a state. This “volume cap” is based on the state population – last year the cap was determined by the greater of \$95 per resident or \$277.82 million. Because water and wastewater projects are “out of sight, out of mind,” tax-exempt funding is commonly directed toward more politically attractive projects such as public housing and student loans. As a result, in 2007 only 1.3 percent of all exempt facility bonds were issued to water and wastewater projects.

By lifting the cap on PABs that fund water and wastewater infrastructure projects, it is estimated that up to \$5 billion could be generated in annual private investment at very low cost to the federal government. In fact, the last “score” by the Joint Committee on Taxation found that this provision would cost \$354 million over the next 10 years. The fact that this “cost” is solely a mild loss of federal tax revenue is significant – the measure doesn’t require the government to “spend” a federal dime.

Legislation to remove water and wastewater infrastructure from under the state volume cap on PABs has broad support both on and off Capitol Hill. In fact, it is cosponsored by Democrats on the far left as well as strict conservatives on the right. Dozens of business groups also support the legislation, from the Clean Water Council to the U.S. Chamber of Commerce to Operating Engineers and Laborers’ unions.

At a time when all levels of government are scrambling to make ends meet, and policymakers of all stripes are clamoring for more private-sector solutions to job creation, increased use of PABs and other opportunities for public-private partnerships for water infrastructure improvements are needed now more than ever.

State Revolving Fund Reauthorization

The 1987 amendments to the Clean Water Act (CWA) fundamentally changed the way the federal government provides financial assistance for water pollution control facilities by replacing the construction grants program with the Clean Water State Revolving Fund (SRF) program. Controlled and operated by the states, the SRF program provides loans and other financial assistance for water pollution control projects.

In general, SRF loans provide necessary resources for public projects that promote public health, protect the environment, create scores of high-paying American jobs, expand the local tax base and enhance our overall quality of life. The revolving nature of the program has made it a successful federal financing program, and has been the primary reason for its continued funding through annual appropriations, despite the fact that SRF authorization expired in 1994. Nationally, interest rates for SRF loans average at approximately 2.5 percent compared with substantially higher market rates, and provide flexible repayment terms.

Revolving funds work in perpetuity to provide a fiscally sound approach to infrastructure financing. The Clean Water SRF, for example, has leveraged tens of billions of dollars in federal grants into significantly more resources through revolving loans to local communities.

NUCA appreciates the introduction of the Water Quality Protection and Job Creation Act of 2011 (H.R. 3145). The bill, authored by Congressman Bishop, would authorize \$13.8 billion over the next five years for EPA’s Clean Water State Revolving Fund (SRF) would help provide initial investment increases

needed to put the underground infrastructure industry back to work. The technical assistance to rural, small and tribal communities would help educate local governments seeking financial support to improve their wastewater infrastructure and reduce costs. And providing \$2.5 billion for combined sewer overflow (CSO) is a wise federal investment.

While we fully support opportunities for more private investment, NUCA believes a strong federal commitment to the SRF continues to be needed. Reauthorization of the program would be a big step in the right direction.

Development of "WIFIA"

Following the model of the successful Transportation Infrastructure Finance and Innovation Act (TIFIA), legislation pending in this subcommittee will offer credit assistance through the use of loans and loan guarantees to complement traditional financing programs for water and wastewater infrastructure improvements. These "WIFIA" resources would offer states and localities assistance to fund significant water infrastructure projects with very little impact on the federal budget. If structured effectively and in compliance with current law requiring the federal government to establish a capital reserve to cover anticipated credit losses, a WIFIA authority could use existing funding mechanisms such as the SRF to maximize its potential.

National Infrastructure Bank

Establishing a National Infrastructure Bank to finance a variety of infrastructure projects, including wastewater infrastructure projects should also be considered. Such a bank would independently evaluate projects and determine the most effective means (loans, grants, etc.) to finance them. Amounts and types of government oversight, structure of the Bank, revenue sources and opportunities for private-sector participation are all issues that must be addressed while considering establishment of such an entity.

Clean Water Trust Fund

There is a growing national conversation about the establishment of a dedicated source of revenue through a new "Clean Water Trust Fund." While NUCA supports the concept, there are several concerns to be addressed. Issues related to determining how to administer a clean water trust fund, what activities should be eligible to receive support from trust fund revenues, and of course, the most effective and equitable way to pay for it, will all have to be addressed.

CONCLUSION

There are several legislative proposals that if crafted effectively could put the underground utility and excavation industry back to work, create scores of jobs in hundreds of American industries, expand local tax bases at a time when local officials badly need new revenues, and begin to repair and rebuild the nation's crumbling underground environmental infrastructure. NUCA believes removing the state volume cap on PABs, reauthorizing the SRF program, and establishing new options for loans and loan guarantees through WIFIA should be front and center on the congressional agenda.

I thank you for the opportunity to testify before the subcommittee today, and I look forward to answering any questions you might have.

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
Truth in Testimony Disclosure

Pursuant to clause 2(g)(5) of House Rule XI, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

(1) Name:

Ryan Schmitt

(2) Other than yourself, name of entity you are representing:

NUCA

(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?

YES

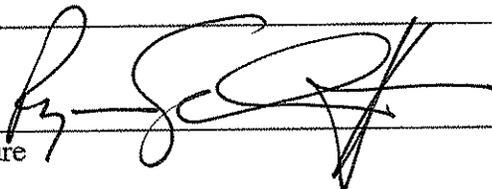
If yes, please provide the information requested below and attach your curriculum vitae.

NO

(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:

NA

Signature



Date

3-20-12

PS **PETTICOAT-SCHMITT** **CIVIL CONTRACTORS, INC.**

****DRAFT #2****

RYAN SCHMITT
PRESIDENT

CLIENT APPROVAL

Signature: 

Date: 4-8-11



Ryan Schmitt serves as president of Petticoat-Schmitt Civil Contractors, Inc., a civil construction company performing underground utility, grading and roadway construction for public and private entities in Northeast Florida and Southeast Georgia. Schmitt has more than 20 years experience in the construction industry and is the 2011 chairman of the National Utility Contractors Association (NUCA), the largest national trade association representing the underground utility and excavation industry.

Prior to founding Petticoat-Schmitt Civil Contractors, Inc., Schmitt held positions of estimator, project manager, and vice-president and general manager while working for a site development contractor in northeast Florida. Schmitt's background includes the successful management of construction operations including strategic planning, organizational design, process development and implementation, recruiting and staffing, safety design, project management and managerial accounting.

Along with his 2011 NUCA Chairmanship, Schmitt is a past president of NUCA of North Florida and the Underground Utility Contractors of Florida. He is also a board member of Seamark Ranch, a privately funded home for children.

Schmitt holds bachelor's degrees from the University of Florida and the University of North Florida. In addition, he earned a master's degree in business administration from the University of North Florida and is licensed as a State Certified General Contractor and a Fire Protection Contractor.

For more information about Schmitt and Petticoat-Schmitt Civil Contractors, Inc., call (904) 751-0888.

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