The Authoritative Resource on Safe Water SM
American Water Works Association

Innovative Funding of Water Infrastructure

Presented by
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Good morning, Chairman Gibbs and members of the Subcommittee. My name is David Weihrauch, and I am treatment plant manager for the drinking water utility serving the town of Oxford, Ohio. I very much appreciate this opportunity to offer input on a draft bill the subcommittee is considering, the Water Infrastructure Finance and Innovation Act, commonly called WIFIA. I am here representing the American Water Works Association, which has done ground breaking work to define the water infrastructure needs facing cities like Oxford and in helping to describe innovative financing tools like WIFIA.

Because this hearing adds to the record that was opened at the Subcommittee's first hearing on this subject on February 28, this statement concentrates on a number of questions that were raised in that discussion. First, however, I want to reiterate that the American Water Works Association strongly supports the approach to WIFIA reflected in the bill the subcommittee is considering. We are very excited about such an innovative new financing tool, and we urge the Subcommittee to see this bill introduced and moved through the legislative process as soon as possible on a bipartisan basis, without changes that would dilute its value to the nation's water and wastewater systems.

At the first hearing the Subcommittee learned about AWWA's new report titled, "Buried No Longer: Confronting America's Water Infrastructure Challenge." That report, which was released on February 27, marries the most comprehensive data ever assembled regarding the nation's buried drinking water pipe network to data from the US Census Bureau, to estimate the needs our nation faces to replace pipes as they come to the end of their useful lives and to accommodate population growth. It shows that those needs total at least $1 trillion dollars over the coming 25 years. I want to emphasize that this is $1 trillion for buried drinking water assets <u>only</u>. Above-ground drinking water facilities such as storage tanks, reservoirs, and treatment plants will add to the total. And waste water and storm water related investment needs are expected to be just as large over the same period. I do not believe that any serious person disputes the fact that the nation faces immense water-related investment needs or that public health, the environment, the economy, fire protection, and our quality of life all depend on the infrastructure we are talking about.

Nor should anyone believe that simply putting off this investment offers a solution. In fact, as the recent AWWA analysis shows, any temptation to delay needed investment presents a stark choice: make the investments on time, or accept deteriorating levels of water service, including more main breaks and the emergency repairs they require. Make the investments on time, or face even steeper investments when the time inevitably comes at which a complete replacement of pipes simply cannot be delayed. The old adage that "a stitch in time saves nine" is nowhere truer than in the case of water infrastructure investment.

I would be remiss if I didn't take this opportunity to address a number of key questions raised at the first hearing. For example, a question was raised concerning whether WIFIA should be directed to or through the State Revolving Funds. The American Water Works Association believes that tying WIFIA to the SRFs in this manner would be a very bad idea, for a number of reasons.

First, it is important to keep in mind that WIFIA is designed to supplement the SRF by addressing needs that are not well addressed, if at all, by the SRFs. State Revolving Funds generally do not or cannot offer large amounts of assistance to any individual project. In the drinking water program, the record shows relatively few loans in excess of $20 million, not counting funds made available under the American Recovery and Reinvestment Act, when unusually large amounts of money had to be spent quickly. The SRFs are exceptionally valuable tools for smaller and medium water projects that could struggle to repay loans at Treasury rates or which need other kinds of assistance or subsidy. But tying WIFIA to SRF defeats the very purpose for which WIFIA was designed. WIFIA can't do what the SRF does and vice versa. And in contrast to the SRF, WIFIA loans must be repaid to the Treasury. WIFIA and the SRF are different tools which need to be deployed in different ways.

Moreover, tying WIFIA to the states would reduce the amount of low interest loans that could be delivered to water projects. We already see, in the case of the drinking water SRF, that states take an average of 15-20 percent of appropriated funds "off the top" to help defray the cost of their drinking water primacy, training, and similar programs. Those programs are important and deserve support, but that support should be provided directly, <u>not</u> by bleeding WIFIA funds away from water project finance.

Allowing states to run the WIFIA program and take out the cost of program administration would also increase the program's cost to federal taxpayers. Not involving states in the administration of WIFIA minimizes its administrative complexity and cost. WIFIA loans would be repaid at Treasury interest and the record shows there is essentially no risk of default for these kinds of projects, so the program's leverage is high. In contrast, every dollar taken out of the program by states to help administer WIFIA at the state level would be a dollar that is <u>not</u> repaid to the Treasury, and would reduce leverage. What is now designed as an innovative, lean, cost effective, and highly leveraged program would become much less so.

In addition, running WIFIA through the states would significantly dilute the funds available, since each state would have to be guaranteed a certain percentage of the available funds. That approach is inefficient, and ensures that projects of lesser significance in some states will receive loans, while projects of truly great "national and regional significance" in other states will not. We urge you to ensure that WIFIA is administered at the federal level for the benefit of projects having national or regional significance, even if that means not every state will receive loans for an approved project each year.

Another important point is that many states are limited or prohibited in their ability to assist the largest utilities. Many states have either legislation or policy that limits or forbids assistance to their largest water systems. That may be understandable, given the limited capitalization of the SRFs, particularly the drinking water SRF. WIFIA would specifically address those larger projects that are too big for most SRFs to handle, but are just as important as smaller projects.

Moreover, about half of the states do not or cannot offer SRF assistance to investor owned utilities. WIFIA's purpose is to lower the cost of project finance to benefit customers, regardless of the type of utility serving them, and we support the inclusion of private systems in the program. State public service commissions, which regulate the rates of investor-owned utilities, take active steps to ensure that the benefits of lower cost financing inure to the customers of private water systems, not their owners. We do not support excluding private systems from the WIFIA program, as many states would have to if they operated WIFIA.

Fortunately, the draft bill does allow for states and smaller water systems to directly benefit from the WIFIA program. States may aggregate a number of smaller projects into a WIFIA application. This has at least three noteworthy advantages: First, it essentially allows states to leverage their SRF capital base. Second, it allows smaller projects to benefit from low Treasury rates in the same way that larger projects do. And third, it allows states to move larger projects and "pools" of smaller projects out of the SRF applicant pool and into the WIFIA pool, thereby reducing competition for SRF funds. This would allow states to concentrate their available resources on their own highest SRF priorities.

A related question at the last hearing concerned whether WIFIA would have the effect of taking money away from the established State Revolving Fund (SRF) programs. WIFIA neither needs to be nor should be funded at the expense of the SRFs. WIFIA was explicitly designed to operate as a complement to the SRF programs, which are highly effective and should be fully funded. The SRF program – at least the drinking water SRF – is aimed primarily at smaller water systems that need help with investments in order to comply with safe drinking water standards. Those needs are critical and funding for the SRFs should not be reduced. WIFIA is designed to address an entirely different problem, namely the need for lower-cost financing for large projects, so that they can proceed more quickly with lower impact on the customer's bill.

There was also a question at the first hearing about the role of private capital in the WIFIA program. AWWA does not support allowing private investors to directly access WIFIA loans. But a private firm that enters into a concession agreement with a utility involving project finance should be able to access WIFIA with (and only with) the sponsorship of that utility. For example, if my utility entered into a Public-Private-Partnership which involved a concession to finance and build a new treatment plant for the City of Oxford, the firm that undertook that concession should be able to apply for WIFIA funds under my sponsorship. This kind of project is increasingly attractive to utilities, and is sometimes called a "DBFO" project, for Design, Build, Finance, and Operate. Generally such projects are undertaken as concessions from the utility for a fixed period, say 30 years, after which the assets covered by the agreement transfer to utility ownership. Under the right circumstances, such projects can offer significant advantages to the utility and its customers. In such cases, we believe it makes sense to allow the private firm to apply for WIFIA financing under the utility's sponsorship, making the benefits of low cost finance available to the utility's customers, even though the financing goes to the concessionaire.

In summary, Mr. Chairman and members of the Committee, the American Water Works Association strongly supports the draft bill as written.

As we said at the first hearing, AWWA firmly believes the cornerstone of water infrastructure finance is, and should remain, local rates and charges. That said, there are periods when large capital projects must be undertaken. About 70 percent of American communities use municipal bonds and other forms of debt to finance such projects. Being able to lower the interest rate by even a small amount in a multi-million-dollar, 30-year loan adds up to significant savings in the cost of an infrastructure project. It allows communities to do more with less, and to rebuild American infrastructure at lower cost to our customers.

It is worth noting that these investments also create jobs. In fact 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 3.68 jobs are added to the national economy. Moreover, these national benefits come on top of improved public health, a cleaner environment, stronger fire protection, and a better quality of life in the community.

WIFIA will allow our nation to build more water infrastructure at less cost, will facilitate investments that are important to the nation's long-term future, and will help our economy both now and in the long run. To top all of that, we will get a cleaner environment, better public health and safety, and a stronger quality of life for ourselves and our posterity.

Thank you again for addressing this important issue. AWWA stands ready to help you in any way it can in securing the earliest possible passage of this legislation.