



## Selected Supplemental Reading Materials WaterNow Alliance Summit April 2016

During my presentation at the WaterNow Alliance annual summit, I will not be able to go into detail on the topics highlighted in this supplement. However, as much of the summit agenda is focused on financing, affordability and water markets, I thought it worthwhile to provide this information, as AMWA is active in these issues, both on Capitol Hill and in engaging with our membership.

Following are selected materials from AMWA's Legislative Agenda for the 115<sup>th</sup> Congress:

- Extracted pages from AMWA's testimony at a House Hearing on Reinvestment and Rehabilitation of Our Nation's Safe Drinking Water Delivery Systems March 16, 2017. Complete testimony at: <https://www.amwa.net/Zkc>, and
- AMWA's Legislative Agenda: Positions on Key Issues.

And, in October 2016, AMWA released a whitepaper for members, entitled, *The Green Bond Market, an Overview for AMWA Utilities* available at: <https://www.amwa.net/Zkp>.

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It is beyond doubt that America's water and wastewater infrastructure is due for an upgrade. EPA's most recent Drinking Water and Clean Water Needs Surveys show that the nation's water and wastewater infrastructure requires more than \$655 billion worth of investments over the next two decades just to maintain current levels of service, but even those estimates may be too modest. The American Water Works Association has estimated that it may cost drinking water systems alone approximately \$1 trillion over the next 25 years just to upgrade and expand buried water infrastructure, and AMWA and the National Association of Clean Water Agencies have projected that water and wastewater utilities could spend a similar amount over 40 years as they adapt to changing hydrological conditions such as extreme drought, more frequent intense storms, and rising sea levels.

Fortunately, Congress has begun to give this issue the attention it deserves. Last year's passage of the Water Infrastructure Improvements for the Nation Act authorized funding for a new program aimed at removing and replacing outdated lead service lines and helping low-income customers absorb their share of these replacement costs. The law also authorized assistance to help schools and child care centers test the quality of their drinking water. AMWA hopes to see each of these new programs receive appropriations in the next fiscal year.

All of this represents good progress, but we know that much more remains to be done. And while we continue to believe that local water infrastructure should primarily be paid for through local water rates, there is an important role for the federal government to play in facilitating access to affordable financing and offering assistance to

communities in need. AMWA supports the following programs to strengthen and maintain our nation's drinking water infrastructure.

### **The Drinking Water State Revolving Fund**

Authorized by Congress in 1996, the Drinking Water State Revolving Fund (DWSRF) is the most well established federal program to aid in the financing of drinking water infrastructure. Each year after Congress appropriates DWSRF funding, EPA distributes a share of the funds to each state, following a formula based on each state's identified drinking water infrastructure needs. States add a match of at least 20 percent to their share of funding, and then use the proceeds to provide loans and other assistance for eligible projects in their state, with a focus on addressing the most significant threats to public health. Historically, the DWSRF has tended to focus on small or rural communities that face water quality challenges.

According to EPA, through 2016 the DWSRF had provided nearly \$32.5 billion in funding assistance to communities nationwide through 12,827 individual assistance agreements – an average of just over \$2.5 million per project. Small communities serving 10,000 people or fewer have received 9,044 of these assistance agreements since the program's inception – about 70 percent of the total – while metropolitan water systems serving more than 100,000 people obtained 897 DWSRF loans through the end of 2016.

While the DWSRF has been a great success, the program also is in need of a renewed commitment from Congress. The DWSRF has never been reauthorized, and annual funding levels have steadily decreased since 2010. While House and Senate appropriators each approved FY17 funding legislation that would provide more than \$1

billion for the DWSRF, those proposals are currently on hold along with the rest of EPA's final FY17 budget.

Looking ahead, we are heartened that last year during the presidential campaign President Trump called for tripling annual SRF appropriations, but we are concerned that early reports about the White House's FY18 budget request may propose cutting overall EPA funding by as much as 25 percent. These two objectives are simply incompatible.

Rather than drastic cuts, AMWA would prefer to see the SRF programs put on a path toward sustained growth that will result in an eventual tripling of their appropriations, in line with the position of the president's campaign. To this end, AMWA and others in the water sector support an FY18 Drinking Water SRF appropriation that doubles the program's FY16 level, to \$1.8 billion. Such an infusion of funds could also be delivered through a comprehensive infrastructure funding package that Congress may consider later this year.

### **The Water Infrastructure Finance and Innovation Act**

The federal government's newest water infrastructure financing program was established three years ago with strong bipartisan and bicameral support. Enacted as part of the Water Resources Reform and Development Act of 2014, the Water Infrastructure Finance and Innovation Act (WIFIA) pilot program is an innovative financing mechanism that will help communities nationwide pay for large-scale water and wastewater infrastructure projects. Through WIFIA, EPA will loan Treasury funds to cities and towns to carry out qualifying projects, but at a lower interest rate than the community would likely obtain on the bond market. All WIFIA loans will be paid back to the federal government with interest over the period of 35 years following substantial

completion of the project – thus providing affordability to local ratepayers and a return on investment to the U.S. Treasury.

Importantly, WIFIA will complement, not compete with, the existing SRF programs. Unlike the DWSRF, which typically delivers modest-sized loans to help communities respond to public health risks, WIFIA is intended to help communities finance large-scale water infrastructure improvements that may not be positioned to benefit from SRF assistance. For example, because the DWSRF gives preference to projects that address the most serious risks to human health, a significant portion of DWSRF loans often flow to small communities that require help to improve drinking water quality. But other projects that are not directly tied to SDWA compliance or health protection – such as investments to replace or upgrade aging infrastructure or to enhance the reliability and security of water supplies, particularly in metropolitan areas – often struggle to obtain SRF assistance in amounts that will meaningfully reduce total project costs.

A wide range of drinking water, wastewater, stormwater, water reuse, recycling, and desalination projects expected to cost in excess of \$20 million are all eligible for WIFIA loan assistance – with WIFIA funding available to cover up to 49 percent of the total project costs. WIFIA also accommodates smaller communities faced with lower-cost projects, as the program will offer loans to a project costing as little as \$5 million in a community of 25,000 people or fewer.

The next several months will mark an exciting time for WIFIA. Late last year Congress appropriated \$20 million to support WIFIA loans in 2017 – with \$3 million reserved to cover administrative expenses at EPA. EPA expects to leverage the

remaining \$17 million into more than \$1 billion worth of loans to communities across the United States. In January EPA subsequently circulated its first notice of funding availability to begin the process of soliciting WIFIA funding applications, with an April 10 deadline for communities to submit initial letters of interest that describe their potential WIFIA projects. This timeframe could allow the first WIFIA loan funds to get out the door to chosen applicants by the end of the year.

Looking ahead, WIFIA is authorized as a pilot program only through the 2019 fiscal year. Should WIFIA's initial round of funding prove successful, AMWA will urge Congress to quickly reauthorize the program to build on and sustain this initial momentum.

### **Tax-Exempt Municipal Bonds**

The most critical federal water infrastructure financing assistance mechanism is perhaps also the most overlooked during infrastructure policy discussions. And though decisions on the fate of this mechanism will ultimately be made outside of this committee, it is important for all members of Congress to be aware of its essential role in financing water infrastructure.

Since the federal tax code was established in 1913 interest earned on municipal bonds has been exempt from federal income taxes. According to the Congressional Research Service, tax-exempt municipal bonds are the most prevalent water infrastructure financing mechanism, with at least 70 percent of U.S. water utilities relying on them to pay for infrastructure improvements. And a study completed last month by AMWA and the National Association of Clean Water Agencies found that in 2016 alone

communities across the United States issued nearly \$38 billion in tax-exempt municipal bonds to finance water, sewer, and sanitation projects.

Municipal bonds make infrastructure investments more affordable for communities because the lack of a federal tax on their interest payments leads investors to charge lower interest rates than they otherwise would. These lower interest rates directly translate to lower financing costs, and thus more affordability for local water and wastewater ratepayers. Without this tax benefit, water and wastewater utilities across the country would pay about 25 percent more in financing costs over their bond payback periods – essentially an additional tax on water infrastructure investment that would be borne by water utility ratepayers of all income levels.

In Maryland alone, cities and towns across the state issued roughly \$46.5 million worth of tax-exempt municipal bonds to support water and wastewater infrastructure projects in 2016. AMWA's data indicates that fully taxing municipal bond interest would increase local financing costs on this debt by nearly \$20 million over the expected payback periods. Put another way, these increased financing costs represent about 42 percent of the value of Drinking Water and Clean Water State Revolving Fund assistance delivered to Maryland in 2016.

As Congress plans to consider a comprehensive tax reform proposal later this year, AMWA encourages members of this committee who prioritize affordable water infrastructure investments to stand up in support of tax-exempt municipal bond interest. Failing to maintain this effective and equitable subsidy would drastically increase the cost of water infrastructure financing and permanently reduce the affordability of water service to ratepayers in communities nationwide.

## **A Renewed Commitment to Water Infrastructure**

In addition to adequate funding, water infrastructure funding programs also require a renewed commitment from Congress. The Drinking Water State Revolving Fund should be reauthorized, giving Congress a chance to update and streamline the program to position it for continued success in the 21<sup>st</sup> Century. Some updates favored by AMWA include codifying water facility security enhancements as an eligible use of DWSRF funds, and allowing portions of metropolitan water utility service areas to qualify as a “disadvantaged community” that is able to receive additional subsidization.

More broadly, AMWA supports the framework of the Safe Drinking Water Act, and its regulatory process that reflects a careful balance of public health protections and local cost and feasibility considerations. But new EPA mandates may still pose affordability challenges in many communities, particularly among low-income households, so we believe Congress should consider options for a targeted low-income water rate assistance program.

Finally, AMWA believes water utilities should be recognized for taking steps to improve efficiency and adopting industry best practices. For example, communities that have completed water utility asset management plans should be awarded additional preference when applying for DWSRF assistance, and Congress should encourage the formulation of cooperative water utility partnerships that can improve the operations and management of water systems that have previously experienced compliance issues.

Again, AMWA appreciates the opportunity to testify on the importance of reinvestment and rehabilitation of our nation’s drinking water infrastructure. Continued



congressional support for the DWSRF, WIFIA, and tax-exempt municipal bond interest are all policies that will help our nation achieve this goal.

Thank you again, and I am happy to answer any questions from the committee.



**ASSOCIATION OF  
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WATER AGENCIES**

# **MAKE DRINKING WATER A PRIORITY: AN AGENDA FOR THE 115<sup>TH</sup> CONGRESS**

AMWA's 2017 legislative agenda promotes public health and economic growth through water infrastructure investment, helps communities build resilient and sustainable futures, and favors efforts that deliver high-quality water service for all Americans.

Find out more about these and other issues facing the drinking water community at **[www.amwa.net](http://www.amwa.net)**.

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## **Support Robust Investment in Drinking Water Infrastructure**

Congress must deliver strong funding for the Drinking Water State Revolving Fund (DWSRF), the Clean Water State Revolving Fund (CWSRF), and the new Water Infrastructure Finance and Innovation Act (WIFIA).

## **Preserve Tax-Exempt Municipal Bonds**

Cities and towns rely on tax-exempt municipal bonds for affordable water project financing. Congress must maintain tax incentives that encourage investment in the muni bond market while keeping interest rates low for communities and ratepayers.

## **Help Water Systems Build Resilience to Extreme Events**

Extreme weather and changing hydrologic conditions pose new challenges for water utility managers. AMWA has a plan to help water utilities prepare for, and respond to, these risks.

## **Help Communities and Homeowners Address Lead Pipes**

AMWA is closely monitoring EPA's planned revisions to the Lead and Copper Rule and supports programs to help communities and low-income homeowners replace outdated lead service lines.

## **Keep Drinking Water Affordable for All Americans**

Modern testing and treatment methods have made our drinking water safer than ever before, but many communities face difficulties in paying for the latest technologies. AMWA supports policies that will help keep drinking water affordable for all Americans.



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# **SUPPORT ROBUST INVESTMENT IN WATER INFRASTRUCTURE**

The **Drinking Water State Revolving Fund (DWSRF)**, the **Clean Water State Revolving Fund (CWSRF)**, and the **Water Infrastructure Finance and Innovation Act (WIFIA)** are federal programs designed to help communities rebuild and maintain our nation's water infrastructure. But to succeed, they need strong funding support from Congress.

**AMWA urges Congress to provide at least \$1.8 billion for the DWSRF in FY18, and to fund WIFIA at its fully authorized level of \$45 million.**

## **America's Water Infrastructure Needs are Well-Documented**

Communities across the U.S. face staggering costs to upgrade aging water infrastructure. EPA has estimated the nation's water and wastewater systems need more than **\$655 billion** over the next 20 years just to maintain current levels of service. **\$145 billion** of this total is attributed to metropolitan drinking water systems that serve more than 100,000 people each.

## **The DWSRF Is Essential to the Delivery of Safe Drinking Water**

The DWSRF helps states leverage federal funding to issue loans for water projects that will address serious public health risks by improving drinking water quality. Through 2016, the DWSRF has facilitated more than \$32.5 billion in assistance to help cities and towns nationwide carry out roughly 12,800 drinking water projects.

## **WIFIA Is an Innovative New Program Targeting Large-Scale Projects**

Enacted in 2014, WIFIA will offer competitive low-cost financing for water projects that may be too large for the SRFs – generally those expected to cost in excess of \$20 million. EPA is currently soliciting WIFIA applications and plans to offer the first WIFIA loans this year.

## **Water Infrastructure Programs Need Continued Congressional Support**

Congress appropriated \$20 million to get WIFIA up and running in 2017 – funds that will be leveraged into more than \$1 billion worth of loans. We hope Congress will build on this funding with strong DWSRF, CWSRF and WIFIA appropriations as it develops EPA's FY18 budget.



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# PRESERVE TAX-EXEMPT MUNICIPAL BONDS

Communities issue municipal bonds to finance capital improvements at low borrowing rates – stretching their dollars while creating jobs and keeping water and sewer rates in check. But some recent proposals would apply federal income taxes to municipal bond interest for the first time – leading to higher borrowing costs for cities, towns, and local ratepayers.

**AMWA asks you to preserve tax-exempt municipal bonds as an affordable source of water infrastructure financing.**

More information on the importance of tax-exempt municipal bonds to local water utilities is available at [www.amwa.net/MuniBondReport](http://www.amwa.net/MuniBondReport) and [www.amwa.net/MuniBonds2017](http://www.amwa.net/MuniBonds2017).

Tax-Exempt Municipal Bonds Have a Long History in the Federal Tax Code

Since 1913, interest earned on municipal bonds has been exempt from federal income taxes. This prompts investors to accept lower interest rates from cities and towns borrowing to fund infrastructure. As a result, communities can keep water rates affordable for local residents while reducing pressure on federal infrastructure assistance programs.

Water Systems Rely on Tax-Exempt Municipal Bonds to Finance Infrastructure Upgrades

According to the Congressional Research Service, at least **70 percent** of U.S. water utilities rely on municipal bonds to pay for infrastructure improvements. In 2016 communities issued nearly **\$38 billion** in municipal bonds to finance water, sewer, and sanitation projects.

Taxing Municipal Bond Interest Would Burden Local Communities

Fully taxing municipal bond interest would have increased nationwide water infrastructure financing costs by **\$16 billion** in 2016 alone – effectively imposing a new tax on municipalities and utility ratepayers.

Local Ratepayers – Not Wealthy Investors – Would Pay the Cost of New Municipal Bond Taxes

Investors would offset new taxes on municipal bond earnings by demanding higher interest rates – thereby raising local borrowing costs, stressing community resources, and threatening jobs by slowing water infrastructure investments.



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# HELP WATER SYSTEMS BUILD RESILIENCE TO EXTREME EVENTS

Melting snowpack in the Northwest, widespread drought in the West, more intense storms in the Northeast, and rising sea levels along the coasts are projected to affect the nation in the coming decades. In light of these risks, the nation's water utilities are already taking steps to ensure uninterrupted, high-quality water service.

**AMWA supports a “Water Infrastructure Resiliency and Sustainability Act” (WIRSA) that will offer competitive funds to help the nation’s drinking water, wastewater, and stormwater systems plan for and address these challenges.**

**Extreme Weather and Changing Hydrologic Conditions Could Jeopardize Reliable Water Service**

Regardless of the cause, extreme weather and changing hydrologic conditions are putting community water and wastewater systems at risk. Many utilities are already at work to build resiliency to threats as varied as prolonged drought and more frequent intense storms.

**Local Water System Adaptation Costs are Projected to Approach \$1 Trillion by 2050**

These costs, which involve developing new water sources, relocating and rebuilding threatened infrastructure, and implementing new sustainable practices, will come in addition to the billions of dollars worth of traditional infrastructure upgrades already facing utilities.<sup>1</sup>

**WIRSA Targets Funding Assistance at the Most Vital Adaptation Projects**

WIRSA will help the nation's water systems implement critical adaptation measures. Eligible projects will include those that conserve water and increase efficiency, rebuild or relocate threatened treatment facilities, accelerate the adoption of advanced water treatment technologies like water reuse and recycling, or incorporate green infrastructure.

**Please Cosponsor WIRSA in the 115<sup>th</sup> Congress**

WIRSA will be reintroduced in the House and Senate early in 2017. We encourage you to cosponsor this important proposal.



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# HELP COMMUNITIES AND HOMEOWNERS ADDRESS LEAD PIPES

Prior to the 1950s, it was common for many communities in the United States to connect individual homes to water mains with service lines made of lead. But over time, we came to understand that naturally corrosive drinking water allows lead to leach into a home's water supply – posing an unacceptable public health risk.

Today roughly 6 million lead service lines remain in place across the country. Many communities successfully add corrosion controls to their water to reduce lead leaching, but **AMWA is working to develop policies that can offer even greater protections to vulnerable populations.**

## AMWA Is Helping Update Federal Regulations that Minimize the Risks of Lead in Drinking Water

U.S. EPA is currently updating the Lead and Copper Rule, the federal regulations that govern corrosion control standards, sampling collection techniques, public reporting requirements, and additional actions that may reduce the public's exposure to lead. AMWA has urged the inclusion of corrosion control as an effective lead control strategy, and has supported financial assistance to help both communities and low-income families keep lead out of their tap water.

## AMWA Supports Federal Assistance to Help Communities and Consumers Replace Lead Service Lines

Eliminating the nation's remaining 6 million lead service lines will be an expensive endeavor, potentially costing more than \$30 billion. AMWA supports a new funding program authorized by the WIIN Act that will help communities and low-income homeowners replace outdated pipes that they own. We also support efforts to help vulnerable low-income populations replace interior plumbing components that contain lead.

## Utilities and Homeowners Need to Cooperate to Completely Remove Lead Service Lines

Community water systems typically own only the portion of a lead service line that runs from the water main under the street to a home's water meter. The portion from the meter to the house is usually the property of the homeowner, who is responsible for replacement costs. Water utilities and homeowners therefore must work together to completely replace a home's lead service line.





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# **KEEP WATER AFFORDABLE FOR ALL AMERICANS**

The Safe Drinking Water Act (SDWA) directs EPA to carefully balance public health protections with local cost and feasibility considerations when developing drinking water regulations, but new water treatment mandates can still pose affordability challenges in many communities.

**Congress should support targeted low-income rate assistance, efficient utility management strategies, and new workforce development plans as part of a comprehensive effort to ensure that all households are able to pay their water bills.**

## **Everyone Needs Access to Safe and Reliable Drinking Water**

Widespread access to clean and safe drinking water is one of America's greatest public health achievements, but today more and more people across the country are having trouble paying their water bills. The problem is particularly acute in low-income areas where wages simply cannot support increasing utility costs.

## **Water Rate Assistance Should be Part of the Federal Safety Net**

Just as the federal government supports programs to help low-income households buy food and pay home heating costs, similar investments should be made to help disadvantaged Americans pay their water bills. The public health return on such investments will far outweigh their initial costs.

## **Utilities Should Be Encouraged to Implement Efficient Management Practices**

Efficient utility operations are good for ratepayers and a community's bottom line, so AMWA believes these practices should be encouraged. For example, DWSRF assistance should be prioritized to utilities that have completed asset management plans, and multiple adjacent water systems should be encouraged to streamline their operations into efficient regional entities.

## **Create Jobs by Building a New Water Workforce**

AMWA supports expanded federal workplace training opportunities for individuals who wish to build a career in the water sector. Such efforts could train the next generation of utility workers while creating good-paying jobs in communities nationwide.