



**American Water Works
Association**

The Authoritative Resource on Safe WaterSM

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Sustainable Water Infrastructure

Background

High-quality drinking water and wastewater systems are essential to public health, business, and quality of life in the United States. AWWA and others have documented that our water and wastewater infrastructure is aging and that many communities must begin to increase their levels of investment in the repair and rehabilitation of water infrastructure in order to protect public health and safety and to maintain environmental standards.

Recommendations: We hold several major tenets for sustainable water infrastructure finance.

First, Americans are best served by water systems that are self sustaining through rates and other local charges. We recognize that at present, some communities need assistance due to hardship or special economic circumstances. However, we also remain dedicated to the principle that ultimately, responsibility for investment in water infrastructure must be primarily local. According to the US Conference of Mayors, in 2004-2005 Americans invested \$84 billion in water and wastewater infrastructure, of which 95 percent represented state and local funds without subsidies or federal assistance.

Second, the primary federal role in water infrastructure is one of leadership. Among other things, that role includes demonstrating and encouraging:

- Utility use of modern asset management tools and full cost pricing;
- Use of rate structures that accommodate low and fixed-income customers as much as practical;
- Adoption of green technologies and approaches such as water and energy conservation, water reuse, and non-traditional stormwater management;
- Use of cost-saving watershed and regional strategies, such as system consolidation, regional management, and cooperative approaches among water, wastewater, and highway agencies within a region; and
- Use of advanced procurement and project delivery methods.

Third, there is an important role for the federal government in lowering the cost of capital for water and wastewater investments. Almost 70 percent of American communities use bonds to finance local infrastructure. They pay billions of dollars in interest costs each year. Lowering the cost of borrowing for water and wastewater infrastructure is an important way to leverage local funding and help America rebuild and rehabilitate our aging water infrastructure.

To lower the cost of infrastructure investments, AWWA encourages Congress to develop a mechanism such as a Federal Water Infrastructure Bank and to change the treatment of certain Private Activity Bonds. Together these steps could reduce infrastructure finance costs by hundreds of millions of dollars annually, allowing American communities to do more at lower cost. Such a bank should include features such as:

- Lending for large water infrastructure projects of national or regional importance. The Federal Water Infrastructure Bank should provide direct financing to projects above a specific threshold (for example, \$75 million), at below-market interest rates. This could significantly lower the cost of infrastructure projects, compared to current rates. This separate funding for large projects is necessary because SRFs do not have adequate capital to cover such large projects without sacrificing funding for most small system needs.
- Reducing the cost of leveraging for State Revolving Fund (SRF) programs. A Federal Water Infrastructure Bank could buy bonds issued by State Revolving Funds at below-market interest rates. By reducing their interest payment on these bonds, the Bank would allow SRFs to leverage more funds, make more loans, and increase the ability to offer special assistance to hardship communities.
- Ensuring a streamlined approach to financing. The Bank should enable projects and state SRFs to obtain financing with no more burden than going to traditional credit markets, through a streamlined review and application process. For example, communities with high credit ratings and SRF programs could receive automatic access to Bank financing without significant additional reviews.
- Removing some water and wastewater facility bonds from the Private Activity Bond (PAB) Volume Cap. Currently, municipal bonds that meet certain private use tests are subject to state-by-state volume caps which severely limit the amount of PABs issued for water facilities. To encourage public-private partnerships and reduce financing costs, PABs for publicly owned water facilities should be exempted from the state volume cap, just as PABs for publicly owned solid waste facilities are currently exempted.

There are minimal risks and minimal long-term costs to the federal government from these provisions. Water and wastewater service providers are among the most fiscally responsible borrowers in the United States. Fitch Ratings, a top credit rating agency, calculates that the historical default rate on water bonds is 0.04 percent. Moreover, those states that leverage their SRF programs all have AAA or AA bond ratings and no history of defaults, placing them among the strongest credits in the country.

It is also important for the federal government to continue to directly capitalize state revolving funds, which can be used to both broadly lower the costs of water infrastructure investment and to address the needs of communities in hardship or special circumstances. AWWA proposes several enhancements to the State Revolving Fund programs to allow them to better serve our communities:

- Increase SRF capitalization. Despite growing needs and the implementation of new drinking water regulations, federal investment in the SRF programs has decreased in recent years. AWWA asks that Congress provide \$15 billion in capitalization grants to the DWSRF over 5 years as provided in S. 3617, reported by the Senate Committee on Environment and Public Works in 2008. States should continue to have flexibility in using these funds to address the special needs of hardship communities they identify.

- Eliminate arbitrage restrictions. Allow SRF programs that issue bonds to keep arbitrage earnings on their invested funds to the extent such earnings are used to support additional investment in water infrastructure. Based on historical market rates, this would provide \$200-400 million per year in additional funds for water and wastewater investment.
- Streamline the SRF application. Provide incentives to streamline the SRF loan review process. It can take almost a year to obtain an SRF loan. This deters many communities from using the SRF, and leads them to issue higher-cost municipal bonds instead. Due to the revolving nature of the Fund, increasing the pace of awards through streamlining will help increase the revolving flow of funds, allowing even more projects to get built, and so on into the future.

Finally, there is something the federal government should not do: it should not impose any tax on water, water use, or water bills. AWWA will strongly oppose a federal water tax in any form.

America does not face a water infrastructure crisis at the present, but action is needed now to avert more serious problems in the years to come. The tenets outlined in this paper provide a path towards truly sustainable water infrastructure for all Americans.

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