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July 7, 2010

The Honorable Robert Perciasepe
Deputy Administrator
U.S. Environmental Protection Agency
Ariel Rios Building
1200 Pennsylvania Avenue, N. W.
Mail Code: 1101A
Washington, D.C. 20460

Dear Mr. Deputy Administrator:

Your presentation to the National Association of Clean Water Agencies (NACWA) in April was well-received and much-appreciated. During your remarks, you asked that NACWA and other stakeholders provide you with their thoughts on the future of the Clean Water State Revolving Fund (CWSRF) program, specifically asking the question of when the fund should be considered sufficiently capitalized and what the role of the federal government should be in relation to clean water funding and financing.

As you know, prior Administration budgets provided for zeroing out the SRF program by fiscal year 2011 or 2012. NACWA was pleased to see that the President's 2011 budget retained funding for the SRF. At the same time we believe that the federal government must re-imagine and significantly alter the current funding partnership to address the growing clean water infrastructure funding gap that EPA estimates to be in the hundreds of billions of dollars over the next 20 years.

It is clear that ending or reducing the program now would be a major blow to advancing clean water in America. While the SRF may be the logical program through which additional funds should be routed, we believe that the SRF as it is currently set up cannot meet the current needs, let alone the growing needs, associated with municipal Clean Water Act regulatory compliance. As discussed further below, it is vital that the Administration ensure greater equity in the future distribution of federal clean water funding whether through the SRF or other mechanisms.

The Agency's recently released and much-anticipated 2008 *Clean Watersheds Needs Survey* (CWNS) underscores the importance of rethinking both the amount and method of federal investment. The CWNS estimate includes \$187.8 billion for wastewater treatment and collection systems, \$63.6 billion for combined sewer overflow corrections, and \$42.3 billion for stormwater management. Furthermore,



several states reported a lack of resources to adequately survey and report needs — the irony of this situation requires no further attention.

In the meantime, municipalities continue to shoulder over 97% of the cost of wastewater construction with the vast majority of federal funds being in the form of loans that, while helpful, nevertheless add to already overburdened municipal debt loads. According to the U.S. Census Bureau, water and wastewater infrastructure are second only to schools in terms of municipal expenditures, costing nearly \$70 billion a year. It is clear that municipalities are doing their share.

The relative lack of a federal presence in the funding arena — with the helpful one-time infusion of *American Recovery and Reinvestment Act* funds excepted — is especially shocking in light of the fact that clean water provides benefits to all users, whether upstream or downstream. There is little debate that clean water infrastructure, particularly wastewater treatment facilities, are as important as transportation and other forms of infrastructure, especially in light of the public health and ecosystem benefits they ensure.

With the benefits and the growing need so firmly established, what should the federal government do and what is the role of the SRF within the broader context of federal effort and investment?

The CWSRF is beneficial but it is important to note that the vast majority of funds have gone to meet the needs of small and rural systems. These systems, many of which are NACWA members, are undoubtedly in desperate need of the technical support the SRF provides. The CWSRF, however, is completely underfunded as it relates to urban areas, many of which have been dealt an especially difficult hand as a result of the ongoing economic downturn. There are individual cities whose Clean Water Act compliance costs are in the billions of dollars, which means that the entirety of the annual dollars that the CWSRF provides to urban projects would be insufficient to meet even one such city's current need. There must be a federal funding program that ensures the federal government is a partner with the Nation's cities and that ensures a federal stake in ever-increasing enforcement and regulatory actions that impact our urban areas disproportionately.

The benefits of re-fashioning the federal-state-local funding partnership are many. Such a partnership would improve the environment and public health, spur technological advances, bolster urban renewal in line with green techniques and innovations in energy production and conservation; create hundreds of thousands of jobs; improve asset management; and guarantee federal policies that maximize environmental benefit in the most affordable, cost-efficient manner. These should be the foundational principles underlying any "re-imagining" of a clean water funding program that can address complex 21st century challenges.

The current economic downturn also underscores that, ideally, any new federal program should be deficit-neutral. As the President's bipartisan National Commission on Fiscal Responsibility and Reform develops recommendations for establishing a long-term economic plan, it is clear that the stomach for new, large-scale spending will be unlikely. For this reason, NACWA and the Water Infrastructure Network (WIN) organizations have strongly advocated for the establishment of a National Clean Water Trust Fund financed by new dedicated revenue sources that would provide new grant funding while also maintaining revolving loans under the SRF program. Such a trust fund would expand jobs and reduce deficit spending by removing these costs from the federal General Fund. A national trust fund could also finance delegated state clean water programs, including implementing the National Pollutant Discharge Elimination System (NPDES) permit program.

Trust fund legislation, the *Water Protection and Reinvestment Act of 2009* (H.R. 3202), has been introduced in the House and currently enjoys nearly 40 cosponsors. NACWA believes the Administration should come out with a statement in support of the legislation and the trust fund concept, just as it recently supported a dedicated revenue structure for the Superfund program.

While more money is a vital part of the solution, so too is ensuring the equitable distribution of any federal funding that becomes available. This means any new funding that becomes available should, on an equitable basis:

- 1) Help urban and rural systems alike;
- 2) Promote green and gray projects based on site-specific priorities;
- 3) Account for a new, more flexible approach to affordability and to determining financial capability constraints;
- 4) Incentivize new technologies and market-based approaches such as trading while also accounting for the impacts of climate change;
- 5) Advance continuous asset management improvement;
- 6) Take a watershed approach and focus on advancing water quality goals for the Nation's waterways with a focus on our great water bodies.

With these principles in mind, NACWA strongly urges that the Administration:

1) Request funding for the CWSRF in the FY 2012 budget at no less than the amount requested by the Administration for FY2011; and

2) Support a National Clean Water Trust Fund that takes the dedicated revenue options analyzed and reported by the General Accountability Office (GAO) in June 2009 as a starting place; and

3) Ensure a full and careful review of EPA's approach to making affordability and financial capability determinations. This new approach should maximize municipal flexibility to target limited municipal dollars to projects that attain the highest level of water quality benefit and to also account for new regulations that often add additional, unexpected financial burdens.

It would be our pleasure to meet with you to further discuss the role of the SRF and how we can work to ensure new, innovative ways to maximize the benefits of federal clean water funding. Please contact me or Ken Kirk (kkirk@nacwa.org) to set up this meeting at your earliest convenience. Many thanks for your consideration of this letter and I look forward to hearing from you soon.

Sincerely,



Kevin Shafer
NACWA President

Cc: Peter Silva
Nancy Stoner
Jim Hanlon