American Water Works Association | ASSOCIATION OF METROPOLITAN WATER AGENCIES | NACWA A Clear Commitment to America's Waters | Water Environment Federation the water quality people

November 3, 2014

The Honorable Shaun Donovan
Director
Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Dear Director Donovan,

As the Administration plans its budget request for the 2016 fiscal year, the undersigned organizations urge you to support the nation's water and wastewater systems by funding programs and prescribing policies that will enable communities to undertake needed investments in water and wastewater infrastructure. We respectfully request the FY16 budget to include:

1. At least level funding for the Clean Water or Drinking Water State Revolving Fund (SRF) programs;
2. A full $25 million appropriation for the new Water Infrastructure Finance and Innovation Act (WIFIA) pilot program; and
3. Maintenance of the tax benefits associated with municipal bonds, which communities rely on to affordably finance water infrastructure needs.

The Clean Water and Drinking Water State Revolving Funds

It is well documented that communities across the country face enormous cost challenges in complying with state and federal mandates related to water quality and public health. With the assistance of states, the Clean Water and Drinking Water SRFs have a proven record of delivering low-cost financing to communities needing to upgrade their water infrastructure to meet these requirements. In fact, since their inception the two programs have combined to provide more than $70 billion in support of tens of thousands of job-producing water and wastewater projects across the country.

Unfortunately, since reaching highs during the 2010 fiscal year annual appropriations for the SRF programs have been on a downward trend: the CWSRF received $1.449 billion in the 2014 fiscal year, while the DWSRF received just under $907 million. Further cuts would only mean fewer loans for fewer water projects in fewer communities, so we strongly request that SRF funding levels proposed in FY16 not fall below these baseline amounts.

The Water Infrastructure Finance and Innovation Act

Just as the SRF programs have proven successful in helping a range of communities make targeted investments in their water infrastructure, the newly-authorized WIFIA pilot program was designed to offer low-cost financing to a class of water and wastewater

projects – such desalination, enhanced energy efficiency, or general infrastructure upgrades and repairs – that go beyond the traditional bounds of the SRFs. Focused on projects forecasted to cost above $20 million, WIFIA will extend low-cost financing opportunities to more communities, and therefore facilitate federal support for a variety of water infrastructure projects that represent the full range of investment needs across the country.

In order to make this vision a reality, the Administration should seek to fund WIFIA's full $25 million authorization in FY16 – an amount we estimate EPA could leverage into at least $250 million worth of low-interest loans for major water projects across the country.

As the FY16 budget process is the first to get underway since Congress approved WIFIA as a five-year pilot program, the coming fiscal year is pivotal. The Administration must demonstrate its commitment to WIFA, and the nation's water systems, by seeking funds to support these innovative, low-cost loans.

Tax-Exempt Municipal Bonds

Finally, just as the FY16 budget should adequately fund new and existing water infrastructure programs, it must avoid policies that would hinder the ability of communities to make investments in water infrastructure apart from direct federal assistance.

In recent years, we have been dismayed to see proposals from the Administration and Capitol Hill to reduce the federal income tax exemption of interest earned on municipal bonds. While supporters of such proposals have framed them as a means to increase tax revenue, this narrow viewpoint overlooks the fact that the tax exclusion leads investors to accept lower interest rates on municipal bonds – thereby lowering financing costs for communities issuing bonds to fund investments in water and other types of public infrastructure.

Tax-exempt municipal bonds financed $258 billion worth of water and wastewater infrastructure between 2003 and 2012, and cities and towns nationwide would have paid an additional $9 billion to finance water and wastewater projects over that period had municipal bond interest been fully taxable. Make no mistake: a reduction in municipal bond tax benefits would directly translate into new cost burdens on local communities seeking to invest in infrastructure improvements. Such policies should stay out of the FY16 budget.

Conclusion

Studies conducted by EPA and some of our own organizations have found that water and wastewater systems face investment needs upwards of $1 trillion over the next twenty

years – costs that will only rise if the FY16 budget makes low-cost financing more difficult to obtain. We therefore urge you to develop a budget that promotes water infrastructure investment through the Clean Water and Drinking Water SRFs, WIFIA, and tax-exempt municipal bonds.

Thank you for your attention to this matter. Please feel free to contact us should you have any questions.

Sincerely,

Tom Curtis, Deputy Executive Director for Government Affairs
American Water Works Association
202 628-8303

Diane VanDe Hei, Executive Director
Association of Metropolitan Water Agencies
202 331-2820

Ken Kirk, Executive Director
National Association of Clean Water Agencies
202 833-2672

Eileen O’Neill, Executive Director
Water Environment Federation
703 684-2400