COUNCIL OF INFRASTRUCTURE FINANCING AUTHORITIES

February 18, 2021

The Honorable Peter A. DeFazio, Chairman
Transportation & Infrastructure Committee
U.S. House of Representatives
2164 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Sam Graves, Ranking Member
Transportation & Infrastructure Committee
U.S. House of Representatives
2164 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman DeFazio and Ranking Member Graves:

The Council of Infrastructure Financing Authorities (CIFA) supports reauthorization of the Clean Water State Revolving Fund (SRF) at funding levels proposed in the Water Quality Protection and Job Creation Act of 2021.

The Clean Water SRFs have identified more than $40 billion in their current project pipeline. Increased funding will allow SRFs to expand and accelerate projects through their proven process, increasing protection for the environment and public health of millions of Americans. Federal funding for the SRFs also provides economic stimulus for thousands of communities across the nation, creating high-wage jobs across the economic spectrum from engineering to manufacturing to construction.

While there is a clear need for increased federal funding of the Clean Water SRFs, it may take some time for some states to be able to provide the required 20% match for a significant increase in funding, especially as their economies continue to recover from the COVID-19 pandemic.

CIFA also recommends reauthorization of the $5 million allocation for state financing authorities under the Water Infrastructure Innovation and Finance Act (WIFIA), which is also referred to as WIFIA for SRFs or SWIFIA. A $5 million appropriation results in $1 billion in funding for infrastructure. California, Iowa and Rhode Island have applied for $676 million in additional funding under this provision.

However, CIFA strongly opposes increased federalization of the Clean Water SRFs.

The Clean Water SRFs were established as state-run programs under a broad federal framework with few federal mandates. This approach allowed each state to customize their loan program to solve a wide range of complex environmental challenges faced by thousands of diverse communities across the nation. The return-on-investment for $47.9 billion in federal funding

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and federal flexibility is an effective, responsive program that has generated more than $145 billion in total investment for more than 42,000 water infrastructure projects.

SRF subsidized loans, which are only possible with federal funding, are vital to meeting the affordability challenge. On average, interest rates for SRF subsidized loans cut interest payments by 50% or an estimated $170 to $180 million in interest for every $1 billion in loans. Additionally, SRF subsidized loans encourage sustained investment in infrastructure, which reduces the likelihood of costly environmental catastrophes and can maintain, and even reduce, the cost of maintenance and operations.

Unfortunately, federal mandates enacted since 2009 have diminished the agility and responsiveness of SRFs to address state environmental priorities. New federal mandates, no matter how well-intentioned, will only further diminish the effectiveness and long-term viability of the subsidized loan program. Below are examples of the unintended consequences of current federal mandates.

- **FEDERAL MANDATE**: SRFs are required to use federal funding for grants and grant-equivalents, instead of subsidized loans. This requirement reduces recurring revenue from loan payments, thereby reducing funding for water infrastructure in the future. (The Clean Water Act currently allows SRFs to use up to 30% of their annual federal funding to provide grants and grant equivalents to communities that meet affordability criteria.)

- **FEDERAL MANDATE**: SRFs are required to use federal funding for specific projects, such as green projects. While well-intentioned, this requirement can displace state priorities that may provide greater protection for public health and the environment. (SRFs currently fund a wide range of water infrastructure based on their state priorities, including water reuse, stormwater management, decentralized treatment, green infrastructure, energy efficiency, climate resiliency, security, cybersecurity, environmental restoration and pollution prevention.)

- **FEDERAL MANDATE**: SRF loan recipients who receive federal funding are required to use the federal procurement process for engineering services, which can conflict with state and local procurement requirements. Because of this, some SRFs, such as Massachusetts, no longer fund engineering services with federal funding.

  (The following federal mandates apply to <u>all</u> Clean Water SRF projects, <u>including those funded exclusively with state funds</u>, which comprise 67% of funding in SRFs nationally.)

- **FEDERAL MANDATE**: All SRF loan recipients must certify that their project maximizes water and energy efficiency. This one-size-fits-all approach requires many small communities to hire an outside engineer to perform the required cost-and-effectiveness analysis and certification, even if the project is replacing leaky sewer pipes or rehabilitating aging treatment facilities which have obvious environmental benefits.

- **FEDERAL MANDATE**: All SRF loan recipients must implement a fiscal sustainability plan with a certification to implement measures to conserve water and energy. This across-the-board approach requires many small communities to hire an outside consultant to develop the plan, which can be especially challenging to implement for those communities with shrinking populations, limited revenue options and few staff resources.

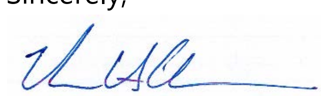
- **FEDERAL MANDATE**: All SRF loan recipients must pay the prevailing federal wage for laborers and mechanics for construction projects (Davis Bacon). This requirement can significantly increase the cost of water infrastructure for smaller communities. (The mandate may not have as great an impact on larger communities with growing economies who often need to pay more than the mandated federal prevailing wage to be competitive in a tight labor market.) However, all SRF loan recipients, even those that pay more than the federal prevailing wage, must comply with the prescriptive paperwork and procedures required to demonstrate compliance with this mandate. SRF loan recipients in states with a state prevailing wage have an even greater burden of compliance. (Federal water infrastructure grants and loans from Rural Development do not have the Davis Bacon mandate.)

- **FEDERAL MANDATE**: All SRF loan recipients are required to use American iron and steel in construction of their water infrastructure projects. Sourcing products and materials to comply with this requirement can be time-consuming and lead to increased cost and delays in construction of critical water infrastructure projects.

Restoring flexibility to the Clean Water SRF will increase demand for SRF subsidized loans, which will increase protection for the environment and public health while saving money for ratepayers and taxpayers. Deirdre Finn, dfinn@cifanet.org, is available at your convenience for more information and policy recommendations to further strengthen the SRFs, including the S.A.F.E. Water Infrastructure Action Plan in response to the COVID-19 pandemic and More Protection, Less Process, an initiative to reduce the cost and burden of compliance on SRF loan recipients.

Thank you for your leadership and commitment to clean water. CIFA looks forward to working with you and the Committee to advance this important legislation.

Sincerely,



Kim Colson
North Carolina Department of Environmental Quality
President, Council of Infrastructure Financing Authorities

About CIFA

CIFA is a national not-for-profit organization that represents the Clean Water and Drinking Water State Revolving Funds (SRFs), the nation's premier programs for funding water infrastructure that protects public health and the environment.