American Water Works Association | ASSOCIATION OF METROPOLITAN WATER AGENCIES | Water Environment Federation the water quality people

March 6, 2018

The Honorable Greg Walden
Chair
The Honorable Frank Pallone, Jr.
Ranking Member
Committee on Energy and Commerce
United States House of Representatives
Washington, DC 20515

Dear Chairman Walden and Ranking Member Pallone,

We are aware of legislation introduced in the House and Senate that would create preferential borrowing terms and exclusive, dedicated budget authority within the Water Infrastructure Finance and Innovation Act (WIFIA) program for state revolving loan funds (SRFs), H.R. 4902 and S. 2364. We urge you to oppose this idea. It does not make sense, particularly from an economic standpoint.

The Drinking Water and Clean Water SRF programs have been important finance tools, primarily, but not exclusively, for small to medium-sized projects. WIFIA was created to provide low-cost financing for drinking water, wastewater and stormwater projects costing at least $20 million, larger than the SRF programs typically address. That said, WIFIA also offers financing opportunities for smaller projects. There is provision in the statute allowing communities serving fewer than 25,000 people to apply for WIFIA loans for projects costing at least $5 million. In addition, states may aggregate multiple small-scale projects into one WIFIA application to meet either the $5 million or $20 million threshold.

Given these existing, ample funding opportunities for a wide range of communities, a new WIFIA just for SRFs is unnecessary. Every one of the SRF projects eligible under that proposal is already eligible to seek financing under WIFIA, given that SRFs can bundle smaller projects to meet the project size thresholds, as the State of Indiana has done. We believe that Congress should see how the Indiana project plays out, and the level of SRF interest in WIFIA generally, before creating and dedicating outsized funding to another SRF program within WIFIA.

We have additional concerns. We believe the large interest rate subsidy in H.R. 4902/S 2364 is a significant step backward from our collective effort under WIFIA to leverage limited federal funds to support much-needed water infrastructure investment. With the 12 letters of interest for WIFIA loans EPA is processing now, the agency has estimated it will leverage WIFIA capitalization funds at a **ratio of 92:1**. We estimate that loans under the proposed SRF preference would consume a large amount of budget authority with the interest rate subsidy, resulting in a dramatically lower leveraging ratio of about **6:1**.

At 6:1, these SRF preference loans could support about $1.2 billion in loans, which, in turn, would support about **$2.4 billion** in total water infrastructure investment with a **$200 million proposed annual authorization.**

In contrast, at 92:1, EPA has estimated that the agency can support twice that level of loans -- $2.3 billion -- and twice the level of total infrastructure investment -- **$5 billion** in projects -- with **just $25 million in WIFIA annual authorizations**.

Clearly, the original WIFIA program offers much greater leveraging capabilities than the new proposal, thus allowing appropriations to stretch further and provide taxpayers with the greatest return on their investment.

Additionally, the legislation appears to give the EPA Administrator complete discretion in making loans at less than the Treasury rate, so this interest rate subsidy is apparently not targeted to rural or under-resourced systems. There also appears to be no provision for the rate savings to be passed along to the borrowers from the SRF.

Finally, there is a provision in the SRF WIN bills that would theoretically protect the SRF programs and WIFIA by saying that this new program could not be funded unless the SRFs and WIFIA received appropriations at not less than the levels they received during the 2018 fiscal year. We believe this provision will raise significant scoring concerns and would also create a de facto cap on SRF and WIFIA appropriations at FY2018 levels, where the original WIFIA authorizing legislation provided for increased funding each year for WIFIA.

We believe that there are better legislative vehicles for reinvesting in our nation's water infrastructure, namely H.R. 4492 and S. 2329, the Water Infrastructure Finance and Innovation Reauthorization Act. These bills would not only reauthorize WIFIA for five years while boosting authorized appropriations, but they would also help jump-start that part of WIFIA authorized for the Corps of Engineers. Providing more appropriations for WIFIA would make more loan money available for all interested parties, including state agencies.

The WIFIA program is set to expire at the end of FY2019, but EPA is expected to make the first loans in the second quarter of 2018. This could mean Congress will only have a sample size of three fiscal years to judge the budgetary and infrastructure benefits of the program. Reauthorization of the program for an additional five years, as proposed in H.R. 4492 and S. 2329, would enable the EPA and Corps to further stand up the program and Congress time to further consider the benefits and functionality of WIFIA before considering drastic changes to the program, as proposed in H.R. 4902 and S. 2364.

Again, we urge your committee not to take up the SRF WIN legislation, but instead consider H.R. 4492 as the best mechanism to leverage federal funding into effective water infrastructure investment. We would be happy to continue conversations on the SRFs, WIFIA, the Safe Drinking Water Act, the Clean Water Act and water infrastructure finance. Please do not hesitate to contact us or our staffs.

Sincerely,

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Cc/ Members, House Committee on Energy and Commerce

Members, House Appropriations Subcommittee Interior, Environment and Related Agencies