



Statement of the
National Association of Water Companies

Before the
House Committee on Transportation and Infrastructure

Regarding Opportunities and Challenges in the Creation of a Clean Water Trust Fund

July 15, 2009

The National Association of Water Companies (NAWC) represents all aspects of the private water service industry. The range of our members' business includes ownership of regulated drinking water and wastewater utilities and the many forms of public-private partnerships and management contract arrangements. Seventy three million Americans – nearly one in four - receive service from a private water service provider.

THE INFRASTRUCTURE REPLACEMENT CHALLENGE

NAWC commends Chairman Oberstar, Ranking Member Mica, Chairman Johnson, Ranking Member Boozman and this Committee for tackling the complex issue of providing guidance and funding for the Nation's environmental and water pollution control infrastructure for the 21st Century. We commend Rep. Blumenauer for his dedication to raising the profile of water and wastewater infrastructure issues over the past several years.

This Committee has responded to many water challenges over the past four decades through the successful implementation and oversight of the Clean Water Act. In 1972, the EPA Construction Grants Program created an operational framework and wastewater infrastructure system unparalleled elsewhere in the world. In the 1980s and throughout the past two decades this Committee continued its commitment to the Clean Water Act by creating and funding a sustainable Clean Water State Revolving Loan Fund program. This loan program is a successful federal, state and local partnership that provides incentives for communities to leverage and innovate to meet water infrastructure, water protection and community health needs. By encouraging communities and states to take ownership in their water pollution management, the SRF loan program has broadened the scope of stakeholders involved in and committed to water pollution protection.

Water and natural resource leaders, managers and stakeholders need to think critically and innovatively about the challenges our nation's environmental infrastructure is facing in the 21st Century. As water becomes an increasingly scarce natural resource, all stakeholders must be committed to 1) changing utility, household, and industrial behavior

with regards to water use and conservation and, 2) the sustainability of our nation's environmental infrastructure. These goals are not mutually exclusive.

NAWC actively supports federal policies that provide utilities with the incentives to set prices that both sustain infrastructure investments and encourage conservation by household and industrial water users. The State Revolving Loan Fund programs and other low-interest, financing tools can help utilities to make affordable investments in their 21st century infrastructure priorities while still sending accurate price signals to household and industrial water users about the value of the resource.

A recent report by the Aspen Institute representing the consensus of a diverse group of renowned experts in the field of water and wastewater recommends that stakeholders "ensure that the price of water services fairly charges the total cost of meeting service and sustainable infrastructure requirements, subject to concerns about affordability. Funding for water utilities should generally rely on cost-based rates and charges, and water revenues should not be diverted to unrelated purposes."

CONCERNS ABOUT A TRUST FUND

NAWC has serious concerns with the Water Protection and Reinvestment Act of 2009, and will likely not be able to support it. In short, our concerns are that the trust fund mechanism created by this bill would serve to further mask the value of water through taxes on unrelated activities and discourage responsible water use and conservation through heavy, broad utility subsidizations.

Aggregate water use can only be reduced by changing the way people think about flushing their toilets, watering their lawns, washing their dishes and how industries think about water as an input cost. Similarly, public support for spending on environmental infrastructure can only be increased by changing the way people and businesses think about those very same activities. Neither goal can be achieved by creating opaque ways to fund water initiatives that allow users to continue thinking of water as a disposable resource.

As noted by the author of the Water Protection and Reinvestment Act of 2009, all corporations in America use drinking water and clean water infrastructure and depend on its functioning to support their business. These corporations should be expected to spend more on their water and sewer utility bills to support infrastructure that is essential to their business. Facing higher input costs, corporations could reasonably be expected to seek cost saving and water use reduction technologies. Conversely, it is unclear if a .15% tax on corporate profit would create any incentive for companies to install water efficient fixtures or technologies. Likewise, it is unclear if a tax on consumer products at the register will have any affect on the way consumers think about water at the faucet. The correlation is simply too abstract.

ALTERNATIVE OPTIONS FOR FUNDING INFRASTRUCTURE

The EPA Gap Analysis of 2002 found that a significant gap could develop if the nation's clean water and drinking water systems maintain current spending and operations practices. However, this gap largely disappears if (*on average*) municipalities increase clean water and drinking water spending at a real rate of growth of three percent per year.

If properly priced, environmental infrastructure projects can obtain loans based on existing dedicated user fees and forecasted revenue streams. Water and wastewater utilities currently have the cost structure in place to support debt financing and loan repayment and are not in need of grants funded through dedicated tax revenue.

During this time of economic uncertainty all water service providers must do their best to mitigate rate shock to customers in the face of expensive but much needed infrastructure investments. NAWC is supportive of several low-interest financing programs that allow for utilities to fund debt repayment and properly price and value water services while achieving modest savings for our customers. By lowering the interest on debt, Congress can reduce the cost of infrastructure projects to the public and help to finance certain priority environmental infrastructure investments.

*H.R. 537, The Sustainable Water Infrastructure Investment Act:
Expanding the Availability of Private Activity Bonds for Water Projects*

One low-interest tool is the use of tax exempt securities known as exempt facility bonds or private activity bonds ("PABs"). These tax exempt bonds, which were used extensively during the 1980's to help resolve the nation's solid waste disposal crisis, leverage federal dollars and provide lower cost financing for environmental infrastructure projects.

Currently, private activity bonds can be used by states and communities for housing, student loans and infrastructure investment such as water and wastewater investment. However, the use of the bonds is restricted in a way that disfavors water projects. PAB issuance subject to a state volume cap is dominated by housing and housing-related purposes, comprising some 65% or \$18.2 billion of total PABs issued in 2007. By comparison, PABs for water and sewer related purposes comprised a mere 1.3% of issuance (\$374.1 million) in 2007.¹ The good news is that in 2008, amidst the housing market turmoil, PAB issuance for exempt facilities increased slightly by \$119 million against a sharp decrease in housing issuance.² NAWC does not believe that water and wastewater providers should be competing with housing developers and mortgage insurers for low-interest funding options.

With the elimination of the bond cap for water and wastewater projects, experts have projected that \$1 to \$2 billion of PABs would initially be issued annually and that number could double or triple annually to \$4-6 billion over time. Rep. Bill Pascrell from

¹ American Water Works Association, *Study on Private Activity Bonds and Water Utilities*, June 2009.

² The Bond Buyer, *2008 PAB Issuance Fell 52% to \$13.7B*, July 8, 2009.

New Jersey has taken the lead on introducing a bill, H.R. 537 that would free up this funding. We encourage members of the Transportation and Infrastructure Committee to support this effort by co-sponsoring Rep. Pascrell's legislation.

Drinking Water and Clean Water State Revolving Loan Funds

NAWC has historically been supportive of the State Revolving Loan Funds. By providing primarily a modest subsidy on interest, these loan programs adhere to the principals of helping utilities to make affordable investments in their infrastructure while still sending accurate price signals to household and industrial water users about the value of the resource.

The State Revolving Loan Funds are also a great tool for Congress to set priorities about water and wastewater utility spending. NAWC is supportive of the process to reauthorize these funds. Specifically, NAWC supports making the benefits of the SRF available to all wastewater utility customers through an expanded scope of eligible wastewater purveyors. Likewise, NAWC supports expanding the scope of eligible projects to include 21st Century priorities such as treatment works security, water conservation, water reuse, energy efficiency, asset and utility management improvement plans, and watershed improvement plans.

NAWC believes that the SRFs should encourage the use of public-private partnerships, regionalization, and consolidation, where appropriate, to address viability problems and infrastructure replacement challenges. Provisions encouraging full cost of service rates and sound asset management are essential. Similarly, NAWC supports provisions to preclude non-compliant treatment works from receiving the benefit of SRF funding unless there is a plan to take corrective action, resolve violations and move towards compliance with health and environmental laws.

Private Utility Access to the Clean Water State Revolving Fund (CW-SRF)

Private water service providers own about 20 percent of all wastewater utilities and, manage and operate many more. Ten million Americans are served by a private wastewater utility. However, current law prohibits privately-owned wastewater utilities from obtaining Clean Water State Revolving Loan Fund low-interest loans, therefore barring millions of Americans from the benefits of the Clean Water SRF which their tax dollars fund. Furthermore, be assured that the financial benefits of CW-SRF eligibility would be passed on to our customers. The various state Public Utility Commissions that oversee and set the rates our members charge would assure this, and are on record supporting full CW-SRF eligibility.

Private water service providers routinely work closely with state environmental and health agencies to assist failing systems meet their public health and environmental requirements and extending service to under served areas. These underserved or unsewered communities may rely on septic systems that discharge sewage directly to surface waters. One NAWC member tells a vivid a story of children who actually played

in the overflowing wastewater puddles before her company extended sewer service to this low-income community. States should be allowed to facilitate this much-needed environmental and public health assistance through equal funding opportunities.

NAWC congratulates Chairman Oberstar and members of the Committee on the House passage of HR 1262 – the Water Quality Investment Act of 2009. While NAWC is unable to support the legislation due to our concerns stated above, we look forward to working with this Committee and the Senate as this bill proceeds through the legislative process in order to ensure funding parity to all Americans in the Clean Water SRF.

WaterSense

In addition to promoting federal policies that encourage conservation and accurate pricing, NAWC is supportive of EPA's WaterSense program. We commend the efforts made by Representatives George Miller, Rush Holt and Jerry McNerney to fully authorize the program. WaterSense is an important tool using market-based incentives to encourage consumers to conserve water. NAWC and many of our member companies are proud to be WaterSense Partners.

PRIVATE WATER SERVICE PROVIDERS

Almost twenty five percent of Americans receive water or wastewater service from a private water service provider. Privately owned utilities have successfully provided service to the public since the early 1800s. It is a proven model. Many may not be aware though that public-private sector collaboration occurs in almost every aspect of the water provision, treatment and discharge process. From full ownership, to management, to green building planning, to energy saving implementation, to meter reading. Private water service professionals have broad expertise. The range of public-private partnership models can be adapted to the unique needs of individual communities.

Private water service providers are on the cutting edge of technical innovation and research. Furthermore, in this time of economic uncertainty, our members continue to make needed investments that support employment as well as environmental and public health requirements.

CONCLUSION

We appreciate the Committees continued leadership. These are long-term challenges, and we look forward to working with the Committee to achieve long-term solutions that will allow the water and wastewater providers to meet their present and future infrastructure investment needs.