



COUNCIL OF INFRASTRUCTURE FINANCING AUTHORITIES

Testimony for the U.S. House of Representatives Subcommittee on Interior, Environment and Related Agencies about Fiscal Year 2024 Appropriations for the U.S. Environmental Protection Agency

The Council of Infrastructure Financing Authorities (CIFA) 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. The SRFs provide subsidized, low-interest loans to repair, replace, rehabilitate and improve water, wastewater, recycled water and stormwater infrastructure.

Requests from the Clean Water and Drinking Water SRFs

- Fully fund the SRFs to the full authorizations - \$3 billion each
- Fully fund WIFIA for state financing authorities to the full authorization - \$5 million
- Fully fund congressional earmarks without cutting funding to the SRFs
- End the duplicative mandates for additional subsidy
- Increase flexibility for funding in the Infrastructure Investment and Jobs Act (IIJA)
- Increase flexibility for generating state match

Why Fully Fund the SRFs?

CIFA urges Congress to fund the SRFs to their full authorizations - \$3 billion each. In 2021, Congress recognized the need for increased funding for water infrastructure by reauthorizing the SRFs in the Drinking Water and Wastewater Infrastructure Act in the IIJA. However, Congress has not funded the SRFs to the newly authorized levels to meet this need.

Increasing federal funding for the Clean Water and Drinking Water SRFs is a long-term, fiscally responsible state-federal approach to funding infrastructure that protects public health and the environment. As revolving loan programs, the SRFs provide a perpetual, renewable source of revenue for the never-ending, and always evolving, need for ongoing investment in water infrastructure. Every federal dollar provided to the SRFs is loaned and repaid over and over again – funding projects that would never have been built if the SRFs were a traditional grant program. Federal funding provided in 2024 will pay for projects for future generations, forever.

The SRFs efficiently and effectively deliver state and federal funding to thousands of communities across the nation. States, not federal agencies, pick the projects based on state and local priorities. In 2021, the SRFs provided nearly \$9.4 billion – including more than \$6.4 billion in state funds – for 2,767 projects. That year, 68% of SRF subsidized loans were directed to projects in small, rural and disadvantaged communities, many of which couldn't otherwise afford to pay for the infrastructure.

Subsidized loans provide significant savings to communities, which relieves pressure on utilities to increase rates on households. Compared to a municipal bond at the current rate of 3.65%, an SRF subsidized loan at 1% can save as much as 75% in interest payments over the life of the loan. With rising interest rates in the municipal bond market, these savings will increase.

Increased funding is also needed to help keep pace with historic inflation, which disproportionately impacts water infrastructure due to increased competition from other well-funded infrastructure sectors. Current annual funding levels simply don't pay for the same number of projects as they would have just a few years ago.

While the IIJA provided significant supplemental appropriations to the SRFs, nearly half of funding in the IIJA - \$20 billion – can only be used to replace lead service lines and address emerging contaminants; these funds can't be used to repair or replace a water main – even one made of lead!

Additionally, CIFA urges Congress to fully fund delegated water quality programs, including the Public Water System Supervision Grants and Water Pollution Control (Section 106) Grants. These programs play an integral role in the permitting of water infrastructure projects that protect water quality and public health. Without increased federal funding, states may not have adequate resources to implement these delegated programs and process permit applications for drinking water and wastewater infrastructure projects, the number of which have increased due to supplemental appropriations in the IIJA.

Fully Fund Congressional Projects without Cuts to SRF State Priority Projects

CIFA urges Congress to fully fund the SRFs *in addition to* congressional earmarks for water, wastewater, recycled water and stormwater. For the last two years, Congress has used the SRF capitalization grants to pay for congressional earmarks, cutting funding for state priority projects by \$2.3 billion. Because of this approach, 35 states and Puerto Rico have experienced a cut in net funding (SRF formula funding plus earmarks) for drinking water and clean water projects.

Funding in the IIJA was intended to *supplement* annual federal funding for SRF state priority projects. However, in 2023, an estimated one-third of these "supplemental" IIJA funds were needed to offset cuts in annual federal funding for the SRFs, which totaled nearly \$1.5 billion for both programs.

In addition to funding fewer SRF state priority projects, using the capitalization grant to pay for congressional earmarks has a cascade of consequences:

- Fewer small, rural and disadvantaged communities receive grants and principal forgiveness.

- Ability to leverage is reduced, resulting in even fewer projects being funded this year and in future years.
- State and local water quality programs must be scaled back.
- Funding for future water infrastructure is permanently reduced.

If Congress continues to use the SRF capitalization grants to fund congressional earmarks, the SRFs will have no choice but to begin planning now for the future funding cliff when funding in IIJA ends in just three years. While three funding cycles may be an eternity for Congress, it is an incredibly short timeline for infrastructure programs to shrink the pipeline of projects and manage the expectations of prospective borrowers.

Eliminate Duplicative Federal Mandates for Additional Subsidy

CIFA urges Congress to eliminate mandates for additional subsidy in appropriations – 10% for the Clean Water SRF and 14% for the Drinking Water SRF – which are duplicative of new or increased mandates established by the Drinking Water and Wastewater Infrastructure Act in the IIJA.

Additional subsidy is the portion of an SRF subsidized loan that doesn't have to be repaid and comes in the form of principal forgiveness or a grant.

- Under the Safe Drinking Water Act, the Drinking Water SRF must provide *at least 12%* and may provide up to 35% of annual federal funding to disadvantaged communities.
- Under the Clean Water Act, the Clean Water SRF must provide *at least 10%* and may provide *up to 30%* of annual federal funding to communities that meet the affordability criteria.

Moreover, federal mandates for additional subsidy erode the fundamental nature of the SRF subsidized loan programs which were intended to create a permanent, protected, recurring source of funding to meet water infrastructure needs for future generations.

Expand Eligibility of Special Purpose Funding in the IIJA

CIFA urges Congress to increase flexibility for IIJA funding to replace lead pipes and remediate emerging contaminants with a focus on per- and polyfluoroalkyl substances (PFAS). No permanent changes are needed, but providing more flexibility to these restricted funds will allow the SRFs to move federal funding more quickly into communities to address these serious threats to public health.

Funding for Lead Service Line Replacement:

- Provide SRFs with the flexibility to use *up to 100%* of federal funding for grants or principal forgiveness for *any community*, while maintaining the current 49% mandate. Additional flexibility is needed to be able to pay for the replacement of the private portion of the lead service line without a cost to homeowners.

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- Provide SRFs with the flexibility to contract directly for lead service line inventories. Additional flexibility is needed to more efficiently procure services to conduct the inventories, especially for small, rural and disadvantaged communities.
- Allow communities to use lead funding to replace all lead pipes, including lead water mains which are currently ineligible.
- Allow funding to be used to replace indoor lead plumbing in limited circumstances, such as water fountains and faucets, for public buildings or buildings that serve vulnerable populations, such as daycare centers, schools, nursing homes, libraries, and courthouses. Additional flexibility is needed to complete the job.

Funding for Remediation of Emerging Contaminants with a Focus PFAS:

- Allow communities to use funding for testing, monitoring and watershed studies to *find* the existence as well as the sources of PFAS. Additional flexibility will provide communities with the data needed to develop scientifically sound solutions to contamination.
- Allow SRFs to use funding to contract directly for remediation efforts. Additional flexibility will allow states to remove known contaminants that are a threat to water quality on property not owned by a water system.
- Eliminate the requirement that 10% of federal funding be used for green projects to ensure funding is directed to projects based on the greatest risk to public health.
- Extend the deadline to apply for the capitalization grant by one-year to provide sufficient time for SRFs to build a pipeline of projects for this new dedicated special category funding.

Remove Barriers for Generating State Match

Some states may face a challenge in securing match in the coming years, especially states that issue bonds to generate match. The SRFs pledge interest payments on subsidized loans to repay bonds. Because nearly half of IIJA funding can't be used for loans, states may need to increase interest rates on subsidized loans funded by IIJA to generate sufficient revenue to secure a "state-match" bond.

Additionally, federal law prohibits cross-collateralization, which allows interest payments from both programs to secure a bond for state match. Combining the assets of both programs can reduce interest rates on the bonds, which is especially helpful for the Drinking Water SRFs that have fewer assets than the Clean Water SRFs.

Congress can help in several ways - maintain the IIJA match at 10% for the next three years, require match only for federal funding used for subsidized loans (not funding for mandated principal forgiveness and grants) and remove the prohibition on cross-collateralization for bonds that secure match.