COUNCIL OF INFRASTRUCTURE FINANCING AUTHORITIES

August 30, 2023

The Honorable Charles Schumer
U.S. Senate
Washington, D.C. 20515

The Honorable Mitch McConnell
U.S. Senate
Washington, D.C. 20515

The Honorable Kevin McCarthy
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Hakeem S. Jeffries
U.S. House of Representatives
Washington, D.C. 20515

Re: 2024 Federal Funding for the Clean Water and Drinking Water State Revolving Funds (SRFs)

Dear Majority Leader Schumer, Minority Leader McConnell, Speaker McCarthy and Minority Leader Jeffries,

The Council of Infrastructure Financing Authorities (CIFA), which represents the Clean Water and Drinking Water State Revolving Funds (SRFs), respectfully requests $3 billion in federal funding for each SRF for fiscal year 2024, the full authorization established by the Infrastructure Investment and Jobs Act of 2021 (IIJA). CIFA also urges Congress to fund congressional earmarks <u>in addition to, rather than instead of</u>, SRF state water infrastructure projects.

**CIFA members are extremely concerned about Congress' efforts to replace the fiscally responsible, state-run SRF subsidized loan programs with a huge new federal grant program run by the U.S. Environmental Protection Agency (EPA).**

Three decades ago, Congress established the SRFs as federally subsidized loan programs to provide affordable financing for water infrastructure that protects public health and the environment. Since then, these state-run programs have turned $79 billion in federal funding into more than $215 billion in financial assistance for more than 64,000 clean water and drinking water infrastructure projects across the nation. Because of Congress' foresight and fiscal responsibility, more than $90 billion in loan repayments are permanently revolving in the SRFs, funding water infrastructure projects that may never have been built if Congress had established a federal grant program instead of a state loan program.

However, over the last two years, Congress has diverted $2.3 billion or 42% of annual federal funding from SRF subsidized loans to create a gigantic new EPA grant program for water infrastructure projects that are handpicked behind closed doors without any transparency or accountability to the taxpayers. The proposed 2024 appropriations from the U.S. House of Representatives and U.S. Senate would divert another $1.47 billion from SRF subsidized loans to one-time grants – $880 million in House earmarks and $588 million in Senate earmarks.

Restoring the financial integrity of the SRFs as subsidized loan programs is fiscally responsible. Every federal dollar diverted from SRF subsidized loans to grants permanently eliminates a recurring source of funding to meet the never-ending need to repair, rehabilitate and replace aging water infrastructure. Unlike grants that fund one project, SRF subsidized loans generate loan repayments that can be used, and reused, in perpetuity to fund many projects, alleviating the cost of construction and compliance on future generations.

**By using the SRF capitalization grants to pay for congressional earmarks, Congress is creating new inequities in the distribution of federal funding for water infrastructure.**

Using the SRF capitalization grant to pay for congressional earmarks displaces projects selected and prioritized by states based on risk to human health, protection of water quality and affordability. Funding congressional earmarks *instead* of these prioritized state projects jeopardizes public health, especially in communities that can't afford to repay a loan and depend on annual federal funding for grants or principal forgiveness.

Using the SRF capitalization grant to pay for congressional earmarks is also a massive redistribution of federal funding from a majority of states to a few states. Since 2022, Congress has redirected federal funding for water infrastructure[1] from 36 states to pay for congressional earmarks in 14 states. (See 2022 and 2023 impacts by state.) If 2024 appropriations remain level and the SRF capitalization grants are used to pay for congressional earmarks, Congress will, again, redirect federal funding for water infrastructure from 36 states to cover the cost of congressional earmarks in 14 states. (Appendix A provides estimated impacts by state for 2024).

Congress can fix these inequities by funding congressional earmarks *in addition to* the SRFs, instead of diverting federal funding from state priority projects to pay for congressional earmarks in some states.

**Cutting annual federal funding for the SRFs will increase water bills.**
Annual federal funding is directly linked to the cost of financing for SRF water infrastructure projects. Cuts to annual federal funding will mean fewer projects receive subsidized loans and those projects that receive funding are likely to pay higher interest rates and fees on the subsidized loan.

Ultimately, higher financing costs will be passed on to households and small businesses in higher water bills, increasing the burden on low-income families and job creators who are already struggling to cope with historic inflation. Higher interest rates, combined with a myriad of federal mandates on SRF subsidized loans, may force some communities to delay, or even forgo, needed capital improvement projects that provide safe drinking water and wastewater services, which increases the risk to public health.

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[1] Federal funding includes SRF funding and congressional earmarks.

Higher Interest Rates and Fees

Interest payments and fees on SRF subsidized loans are used to administer the program, generate state match, and repay interest on municipal bonds for leveraged programs. Less annual federal funding means fewer loans; fewer loans mean less revenue from interest rates and fees. To generate adequate revenue to maintain the program and meet the needs of communities, SRFs may be forced to raise interest rates and fees, which will increase the cost of water infrastructure.

Less Leveraging

Annual federal funding provides an infusion of new money for SRF subsidized loans that can be pledged to repay municipal bonds which generate additional funding for more water infrastructure projects. Less federal funding significantly reduces the leveraging power of leveraged SRFs, further reducing the ability to meet the demand for financing.

Fewer Grants

Annual federal funding for the SRFs determines the amount of grants or principal forgiveness that can be provided to communities that can't afford to repay a loan. Cuts to annual federal funding means fewer communities will get the help they need to build the infrastructure to provide safe drinking water and wastewater services to their residents, which increases the risk to public health especially in small, rural and disadvantaged communities.

No Grants for Clean Water Projects

Legally, the Clean Water SRFs may not be able to provide any principal forgiveness or grants if federal funding falls below the threshold in the law. Under the Clean Water Act, SRFs may only provide principal forgiveness or grants "if the total amount appropriated for making capitalization grants to all States under this subchapter for the fiscal year exceeds $1,000,000,000."

Less Help for Rural America

SRFs use up to 2% of annual federal funding for the SRFs to provide technical assistance for small and rural communities. Less federal funding means less support for these communities who often lack the professional capacity to develop and manage capital improvement programs to meet stringent water quality standards that protect public health and the environment.

Impacts to Water Quality

SRFs use up to 25% of annual federal funding for the Drinking Water SRFs to supplement state and local water programs, such as training and certification of utility staff, development of asset management plans, and protection of water that is the source of drinking water. Less federal funding will impact these programs and activities.

**The IIJA doesn't offset cuts to annual federal funding for the SRFs.**

While the IIJA provides a five-year boost to federal funding for the SRFs, nearly half of the funding – $20 billion of $43 billion – can't be used to address crumbling infrastructure, such as replacing a broken water main – even one made of lead! Of the $23 billion in federal funding for the base program, nearly half can't be used for subsidized loans, which is a lost opportunity for building a recurring stream of revenue from loan repayments to fund future water infrastructure projects.

In 2023, one-third of the "supplemental" federal funding in the IIJA was used to backfill cuts to annual federal funding. If Congress continues to use the annual SRF capitalization grant to fund congressional earmarks, the SRFs – and the utilities who depend on SRF subsidized loans for affordable financing – will face a massive funding cliff when the short-term IIJA funding ends in three years (2026).

**Please increase and stabilize federal funding for the Clean Water and Drinking Water SRFs.** Fully funding the SRFs and paying for all congressional earmarks in the appropriations bills would cost $7.47 billion, which is a reasonable and responsible investment in infrastructure relative to the public health benefits of safe drinking water and clean waterbodies. Increased federal funding will allow the SRFs to help more utilities and communities mitigate the rising cost construction and compliance with increasingly stringent drinking water and water quality standards. Increased federal funding for the SRFs will also ensure the nation continues to tackle the legacy gap in capital investment in water infrastructure, which is expected to grow to $434 billion by 2029 according to the American Society of Civil Engineers (ASCE).

Providing safe drinking water and improving water quality is one of the greatest public health achievements of the 20th century. Restoring federal funding, fiscal responsibility and financial integrity to the SRFs will ensure America keeps its promise to safe, clean water in the 21st century.

Thank you for your consideration. Please contact Deirdre Finn, dfinn@cifanet.org or (850) 445-9619, with any questions or for more information.

Sincerely,

Jeff Walker
CIFA President

**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.

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**Appendix A**

**2024 Estimated Net Federal Funding for Water and Wastewater Infrastructure Projects**

| Net Increase or Cut in Federal Funding 2024 Compared to 2021[2] | | |
|---|---|---|
| **State** | **Clean Water SRF[3]** | **Drinking Water SRF[4]** |
| Alabama | 4,310,986 | 918,462 |
| Alaska | 3,048,519 | 16,636,124 |
| Arizona | (1,467,925) | 5,889,480 |
| Arkansas | 16,441,308 | 1,773,549 |
| California | (1,006,548) | 6,339,376 |
| Colorado | (1,920,468) | 4,680,952 |
| Connecticut | 1,209,692 | (1,404,367) |
| Delaware | 2,427,573 | (6,563,876) |
| Florida | 7,511,135 | (11,670,529) |
| Georgia | 6,117,049 | (5,847,612) |
| Hawaii | (1,180,115) | (324,853) |
| Idaho | 2,953,116 | (1,063,876) |
| Illinois | (13,513,864) | (203,290) |
| Indiana | (16,783,157) | (8,223,394) |

[2] 2021 was the last year the full SRF capitalization grant was allotted to states.

[3] Funding includes SRF funding and congressional earmarks. 2024 estimated SRF allotment based on statutory formula. Includes estimated allotment for Tribes, deduction of $1.5 million for the Clean Watershed Needs Survey and deduction of $9.5 million for EPA administration of congressional earmarks, which is included in the Senate appropriations bill. Does not include state allotment for state 604(b) grants and deduction for EPA administration of American Iron and Steel mandates. All states receive a minimum of .5%.

[4] Funding includes SRF funding and congressional earmarks. 2024 estimated SRF allotment based on the 7th Drinking Water Needs Survey. 2021 allotment based on the 6th Drinking Water Needs Survey. Includes estimated allotment for Tribes, deduction of $12 million for monitoring of unregulated contaminants, and deduction of $9.5 million for EPA administration of congressional earmarks, which is included in the Senate appropriations bill. Does not include deduction for EPA administration of American Iron and Steel mandates. All states receive a minimum of 1%.

| | | |
|---|---|---|
| Iowa | (6,765,859) | (5,271,313) |
| Kansas | (3,587,402) | (4,914,165) |
| Kentucky | 4,838,841 | 1,986,292 |
| Louisiana | (5,148,277) | 7,561,612 |
| Maine | 43,455,159 | 10,073,881 |
| Maryland | (2,465,278) | (4,121,609) |
| Massachusetts | (5,126,487) | 271,430 |
| Michigan | (991,622) | 8,240,660 |
| Minnesota | 7,444,326 | 9,048,715 |
| Mississippi | 21,409,094 | 9,826,405 |
| Missouri | (20,511,297) | (11,161,487) |
| Montana | (3,797,427) | (6,563,876) |
| Nebraska | 6,622,076 | 11,750,764 |
| Nevada | 13,119,082 | (4,742,391) |
| New Hampshire | (2,841,839) | (5,063,876) |
| New Jersey | 1,458,048 | 3,434,479 |
| New Mexico | 3,391,581 | (19,372) |
| New York | (33,259,675) | 27,055,747 |
| North Carolina | 2,573,956 | (13,817,273) |
| North Dakota | (3,797,427) | (6,563,876) |
| Ohio | 1,580,935 | 16,879,286 |
| Oklahoma | 5,841,780 | (1,037,170) |
| Oregon | 11,288,122 | 4,036,687 |
| Pennsylvania | (11,827,615) | 4,936,392 |
| Puerto Rico | (10,133,016) | (6,563,876) |
| Rhode Island | 6,994,827 | (4,463,876) |
| South Carolina | 6,823,303 | 11,314,405 |
| South Dakota | 19,802,573 | (6,563,876) |
| Tennessee | (10,296,544) | (2,891,007) |
| Texas | (5,521,477) | (36,863,354) |
| Utah | (3,306,901) | 9,313,965 |
| Vermont | 1,242,325 | (128,876) |
| Virginia | (411,012) | (523,885) |
| Washington | 19,812,885 | 804,073 |
| West Virginia | 10,664,402 | 358,124 |
| Wisconsin | (10,367,097) | 2,157,987 |
| Wyoming | (3,797,427) | (6,563,876) |