



**Testimony from the Council of Infrastructure Financing Authorities (CIFA)
about Fiscal Year 2024 Appropriations for the U.S. Environmental Protection Agency
Prepared for the U.S. Senate Appropriations Subcommittee
on Interior, Environment and Related Agencies**

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

- Fund the SRFs to the full authorizations - \$3 billion each
- Fund WIFIA for state financing authorities to the full authorization - \$5 million
- Fund congressional earmarks without cutting funding to the SRFs
- End duplicative mandates for additional subsidy
- Eliminate state match for federally mandated additional subsidy in the Infrastructure Investment and Jobs Act (IIJA)
- Increase flexibility for generating state match
- Increase flexibility for lead service lines and emerging contaminants in the IIJA

Why Fully Fund the SRFs?

CIFA urges Congress to fund the SRFs to their full authorizations in the law - \$3 billion each.

According to the results of the 7th Drinking Water Needs Survey, America needs to invest \$625 billion over the next 20 years to provide safe drinking water to communities across the nation, a 32% increase from previous assessment. While Congress reauthorized the SRFs at significantly higher levels in the IIJA, Congress has failed to fund the SRFs at new levels.

Increasing federal funding for the Clean Water and Drinking Water SRFs is a long-term, fiscally responsible 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 needed to meet stringent water quality standards.

Subsidized loans provide significant savings to communities, which relieves pressure on utilities to raise 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, savings from SRF subsidized loans 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.

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 broken 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.

Fund Congressional Projects without Cutting SRF Funding for State Projects

CIFA urges Congress to fund congressional projects (earmarks) *in addition to* fully funding the SRFs for state projects. Over the last two years, Congress used the SRF capitalization grant to pay for earmarks which has resulted in cuts to net federal funding (SRFs + earmarks) for water, wastewater and stormwater infrastructure in 36 states, Puerto Rico and Washington, D.C. [State profiles on the impact of earmarks.](#)

As a result of these cuts, an estimated one-third of "supplemental" funding for 2023 in the IIJA was needed to offset cuts in annual federal funding. In addition to less funding for SRF state projects, using the capitalization grant to pay for congressional earmarks has a cascade of consequences:

- Less funding for principal forgiveness and grants for small, rural and disadvantaged communities.
- Increased interest rates on SRF subsidized loans to secure a bond for leveraged programs.
- Cuts to state and local water quality programs and technical assistance for small and disadvantaged communities.
- A permanent reduction in funding for future water infrastructure projects.

If funding remains the same as 2022 or 2023 levels and all project requests from the U.S. House of Representatives are funded, funding for the Clean Water SRFs would be cut by more than 75% and the Drinking Water SRFs would receive zero funding.

Funding	Clean Water SRF	Drinking Water SRF
2022 Capitalization Grants	\$1,638,826,000	\$1,126,088,000
2024 Project Requests (House)	- \$1,296,973,173	- \$1,233,158,539
2024 Project Requests (Senate)	TBD	TBD
Remaining Funding	\$341,852,827	(\$107,070,539)

Eliminate Duplicative Federal Mandates for Additional Subsidy

CIFA urges Congress to eliminate mandates for additional subsidy in the annual appropriations bill. 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.

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.

In addition to the additional subsidy mandates in the IIJA, the 2023 appropriations bill required the Clean Water SRFs to use 10% of annual federal funding and the Drinking Water SRFs to use 14% of annual federal funding for grants or principal forgiveness.

- The IIJA mandates that 55% of total SRF appropriations in the law be provided as grants or principal forgiveness.
- The IIJA doubled the amount of annual federal funding to the Drinking Water SRF that must be provided as grants or principal forgiveness, from 6% to 12%. SRFs may provide up to 35% of annual federal funding for additional subsidy.
- The IIJA established a new mandate for additional subsidy for the Clean Water SRF, requiring 10% of annual federal funding be provided as grants or principal forgiveness. Previously, Clean Water SRFs had the flexibility to provide up to 30% of annual federal funding to communities that met affordability criteria or implemented green projects.

Eliminate State Match for Federally Mandated Additional Subsidy in the IIJA

CIFA urges Congress to exclude federally mandated additional subsidy from state match requirements. Mandates for additional subsidy jeopardize the ability of SRFs to generate adequate revenue for state match and program administration and have the unintended consequence of increased costs for borrowers.

States can only use interest payments, not loan repayments, as a way to generate state match. When mandates for additional subsidy reduce funding for subsidized loans, SRFs must increase interest rates on loans to generate enough revenue to meet its obligations.

Remove Barriers for Generating State Match

CIFA urges Congress to remove the prohibition on cross-collateralization for bonds used for state match. Cross-collateralization allows interest payments from both programs to secure a bond. Combining the assets of both programs can reduce interest rates on bonds, which is especially helpful for the Drinking Water SRFs that have fewer assets than the Clean Water SRFs. While federal law allows cross-collateralization to leverage a program, federal law doesn't extend the cost-saving benefits for the purposes of generating state match.

Increase flexibility for lead service lines and emerging contaminants in the IJA

CIFA urges Congress to increase flexibility for IJA 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.

Drinking Water SRF Funding for Lead Service Line Replacement:

- Maintain the current 49% mandate for additional subsidy but allow SRFs to use up to 100% of federal funding for grants or principal forgiveness for any community. Additional flexibility is needed to cover the cost of replacement of the private portion of the lead service line without passing on the cost to homeowners. In many communities, replacement projects are less likely to move forward without additional financial assistance.
- 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, in public buildings or buildings that serve vulnerable populations, such as daycare centers, schools, nursing homes, libraries, and courthouses.

Clean Water SRF Funding for Remediation of Emerging Contaminants:

- Allow communities to use funding for testing, monitoring and watershed studies to *find* the existence and sources of emerging contaminants. U.S. EPA currently prohibits the use of this funding to *find* PFAS, which is ubiquitous.
- 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.
- Extend the deadline to apply for the capitalization grant by one year to provide sufficient time for SRFs to build a pipeline of high-quality projects for this funding.