



COUNCIL OF INFRASTRUCTURE FINANCING AUTHORITIES

**Testimony from the Council of Infrastructure Financing Authorities (CIFA)
for the Subcommittee on Interior, Environment and Related Agencies
about Fiscal Year 2023 Appropriations for the U.S. Environmental Protection Agency
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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.

Funding

CIFA urges Congress to fully fund the Clean Water and Drinking Water SRFs at \$2.75 billion each, the 2023 authorization in the Clean Water Act and Safe Drinking Water Act. Additionally, fully funding the \$5 million authorization for the state financing authorities under the Water Infrastructure Finance and Innovation Act (WIFIA) Program will ensure SRFs have access to affordable financing to leverage their programs to meet demand.

Full funding is needed to reduce the legacy gap and growing deficit in water infrastructure investment. According to the American Society of Civil Engineers (ASCE), the need for capital investment in water infrastructure was \$129 billion in 2019, while actual investment was just \$48 billion, leaving a gap of \$81 billion. If this trend continues, the gap is will grow to \$434 billion by 2029.

Moreover, full funding is needed to help utilities maintain sustained investment in water infrastructure, while keeping household user rates affordable. First, more funding is needed to cover significant cost increases for water infrastructure projects due to historic levels of inflation, supply chain disruptions, and a tight labor market. Second, more funding is needed to help utilities comply with more stringent water quality standards. Third, demand for SRF subsidized loans is likely to increase as the Federal Reserve raises interest rates which will impact interest rates on municipal bonds.

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 permitting 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 will increase due to supplemental appropriations in the IJA.

Earmarks

CIFA urges Congress to restore full federal funding of the capitalization grants for the Clean Water and Drinking Water SRFs.

The Consolidated Appropriations Act of 2022 maintained the 2021 funding levels for the Clean Water and Drinking Water SRFs. However, Congress used the SRF capitalization grants to fund earmarks, which cut funding for state projects by \$818 million – \$393 million or 36% for state drinking water projects and \$425 million or 27% for state wastewater, stormwater, and clean water projects.

While appropriations in the IIJA mitigate the *immediate* impact of these funding cuts, paying for congressionally-selected projects by cutting funding for state priorities sets an alarming precedent with significant cascading consequences.

- Cutting federal funding for subsidized loans for state priorities to provide grants for congressionally selected projects undermines the successful SRF state-federal partnership. Using the SRF capitalization grants to fund earmarks side-steps the states' proven process for prioritizing limited funding for water infrastructure, which can potentially increase the risk to public health and the environment.
- Cutting federal funding for SRF subsidized loans impacts other funding. Using the capitalization grant to pay for earmarks reduces state match and diminishes the leveraging power of the SRFs to issue bonds to increase funding for water infrastructure.
- Cutting federal funding for the SRFs also cuts funding for additional subsidy (grants and principal forgiveness), which helps build water infrastructure for communities that couldn't otherwise afford it.
- Cutting federal funding for the SRFs also cuts funding for critical water quality programs and activities, including technical assistance for small, rural and tribal communities, source water protection and capacity development under the Public Water System Supervision Program, and other state and local water protection activities.
- Cutting federal funding for SRF subsidized loans permanently eliminates revolving funds to pay for ongoing water infrastructure needs.

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. 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.

Congress established the SRFs as state-federal partnerships with shared commitment to protect water quality and provide a safe reliable supply of water in communities across the nation. Annual federal and state funding was intended to capitalize the subsidized loan programs which could then provide a recurring source of funding to meet the perpetual need for sustained

investment in water infrastructure. Thanks to Congress' forward thinking, the SRFs have more than \$85 billion in loan repayments (revolving funds) today – more than total federal funding of \$74 billion - to fund projects that may never have been built under a traditional federal grant program.

However, federal mandates for additional subsidy have eroded capitalization of SRFs, jeopardizing a permanent, protected, recurring source of funding to meet water infrastructure needs for future generations.

Only 20% of 2022 annual appropriations for the Drinking Water SRF must be provided in subsidized loans, which capitalize the programs. Of the remaining capitalization grant,

- 26% must be used for federally mandated additional subsidy (14% mandated by the 2022 Appropriations Act and 12% mandated by the Safe Drinking Water Act),
- 23% may be used for additional subsidy at the discretion of the state, and
- 31% may be used for set-asides (2% for technical assistance for small communities, 4% for administration, 10% to support the Public Water System Supervision program, and 15% for state and local activities, such as capacity development and source water projection).

Only 54% of 2022 annual appropriations for the Clean Water SRF must be provided in subsidized loans, which capitalize the program. Of the remaining capitalization grant,

- 20% must be used for federally mandated additional subsidy (10% mandated by the 2022 Appropriations Act and 10% mandated by the Clean Water Act),
- 20% may be used for additional subsidy at the discretion of the state, and
- 6% may be used for set-asides (2% for technical assistance for small, rural and tribal communities and 4% for administration).

Federal mandates for additional subsidy have also impacted the ability of some states to issue bonds for state match. These SRFs need loan repayments to provide security for bonds to generate state match; fewer loans and historically low interest rates have reduced revenue needed for state match.

Congress has provided multiple forms of financial assistance to help low-income, disadvantaged and underserved communities to build much-needed water infrastructure.

- As part of the IIJA, Congress mandated that 10% of annual federal funding for the Clean Water SRF be provided in additional subsidy for communities that meet the affordability criteria and increased the mandate for additional subsidy for the Drinking Water SRF from 6% to 12%. Moreover, Congress has provided states with the ability to provide up to 30% of annual federal funding for the Clean Water SRF and up to 35% of annual federal funding for the Drinking Water SRF to help communities that couldn't otherwise afford much-needed water infrastructure.
- According to the U.S. Environmental Protection Agency's interpretation of the IIJA, Congress requires 49% of 2023 supplemental appropriations – \$2.2 billion for each

program – to be provided in additional subsidy to communities that meet affordability or disadvantaged community criteria. That’s more than \$2 billion in funding for principal forgiveness and grants in 2023.

- In 2018, Congress established the Small, Underserved and Disadvantaged Community Grant Program specifically to help the neediest communities build infrastructure to provide safe drinking water.

Finally, many states have grant programs to help low-income, disadvantaged communities. State grant programs tend to be more accessible and user-friendly for small and disadvantaged communities, especially those that lack the professional capacity to comply with federal mandates, such as Davis Bacon, American Iron and Steel, and the myriad of federal crosscutters required of SRF borrowers.

Dedicated Funding in the Infrastructure Investment and Jobs Act

CIFA urges Congress to provide specific allowances for dedicated special category appropriations in the IIJA, including funding to replace lead pipes and remediate emerging contaminants with a focus on per- and polyfluoroalkyl substances (PFAS). Changes to the base program are not necessary. However, targeted and limited adjustments for the dedicated special category funding are needed to efficiently and effectively achieve the goals of Congress.

2022 and 2023 Appropriations for Replacement of Lead Service Lines:

- Allow funding to be used for replacement of any, and all, lead pipes, including lead water mains which EPA has determined are ineligible for this dedicated funding.
- Allow up to 100% of funding to be used for additional subsidy for any community, which is necessary to alleviate the cost to homeowners to replace the privately owned portion of the lead service lines.
- Allow funding to be used by SRFs to contract directly for lead service line inventories.
- Allow funding to be used to replace indoor lead plumbing, 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.

2022 and 2023 Appropriations for Remediation of Emerging Contaminants with a Focus on Per- and Polyfluoroalkyl Substances (PFAS):

- Allow funding to be used for testing and monitoring.
- Allow funding to be used by SRFs to contract directly for remediation efforts.
- 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.
- Eliminate the requirement that 10% of the capitalization grant for this dedicated special category funding be used for green projects.