



**Testimony from the Council of Infrastructure Financing Authorities (CIFA)  
about Fiscal Year 2025 Appropriations for the U.S. Environmental Protection Agency  
Prepared for the U.S. House of Representatives Appropriations Subcommittee  
on Interior, Environment and Related Agencies  
May 10, 2024**

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. The SRFs are state-run programs that provide subsidized loans to rehabilitate, replace and modernize infrastructure that provides safe drinking water, recycled water for multiple purposes, wastewater treatment, stormwater management and environmental restoration and protection.

**Requests from the Clean Water and Drinking Water SRFs:**

- Fund both SRFs to congressionally authorized levels of \$3.25 billion each.
- Fund congressional earmarks separately from the SRFs.
- Eliminate duplicative mandates for additional subsidy (grants and principal forgiveness).
- Eliminate the outdated mandate for green infrastructure.

**Protect public health.**

Fully funding the SRFs at \$3.25 billion each is a conservative and economical investment in water infrastructure. Stable, routine investment in water infrastructure is the single greatest factor in averting life-threatening and costly water crises in communities across the nation.

**Maintain affordable water bills.**

The SRFs provide loans at below market rates, which can cut interest payments by as much as 75% compared to a municipal bond or private financing. These savings alleviate the pressure on utilities to raise rates on water bills, which has a direct impact on family budgets.

**Meet the growing demand for affordable financing.**

Increased federal funding of the SRFs is needed to meet the growing demand for SRF subsidized loans, which has skyrocketed due to the increased cost of planning, design, construction and financing.

- According to the results of the 7<sup>th</sup> 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. The Clean Watershed Needs Survey, which will be released in the coming months, is expected to show similar increases in need.

- While historic inflation has ebbed, the cost of planning, design and construction remains well above pre-pandemic levels, particularly in rural communities that can least afford it.
- Complying with more stringent water quality standards requires new investments in sophisticated and often expensive treatment technologies.
- Higher construction costs are compounded by higher financing costs from rising interest rates on the municipal market. The cost of borrowing has become a barrier to needed investment in water infrastructure.

### **Strengthen fiscal responsibility.**

Increasing federal funding for the SRFs is a fiscally responsible approach to funding water infrastructure. Federal funding used for subsidized loans creates a perpetual, renewable source of revenue to meet the never-ending need to rehabilitate, replace and modernize aging infrastructure. Loan repayments are funding water infrastructure projects that may never have been built if the SRFs were a grant program.

### **Restore financial integrity.**

Unfortunately, Congress is systematically turning the SRFs, which have been successful, sustainable, state-run loan programs, into a massive federal grant program. Over the last three years, Congress has diverted \$3.73 billion in federal funding from the SRFs to pay for congressional earmarks which are grants. Congress has also mandated that the SRFs use another \$1 billion of annual federal funding for principal forgiveness or grants instead of subsidized loans. As a result, more than 55% of annual federal funding for the SRFs will be used one time for one project in one community, rather than over and over for multiple projects in perpetuity.

### **Fund the SRFs first.**

Congress can restore financial integrity to the SRFs by funding the programs first, then funding congressional earmarks *in addition to* the SRFs. Using the SRF capitalization to pay for congressional earmarks may be convenient, but it is inconsistent with the goals of the SRFs.

- First, congressional earmarks are grants, not loans. Giving away a majority of annual federal funding as grants diminishes the long-term lending power of the SRFs.
- Second, SRF projects must be prioritized based on risk to human health, environmental protection and affordability. It's unclear how congressional earmarks are selected by Congress.
- Third, congressional earmarks redistribute the allotment of federal funding, which is established by federal law. Congressional earmarks don't offset cuts to programmatic funding for the SRFs. In fact, nearly all states have experienced a net loss of federal

funding for water infrastructure (SRF funding plus congressional earmarks) since Congress began using the SRF capitalization grant to pay for congressional earmarks.

### **Sunset the Duplicative Mandate for “Free Money.”**

For more than a decade, annual appropriations bills have required the SRFs to provide a portion of annual federal funding as principal forgiveness or grants. For the last three years, Congress has maintained these federal mandates, despite duplicative federal mandates being enacted in Infrastructure Investment and Jobs Act (IIJA) in 2021. Combined, the federal mandate for the Clean Water SRFs doubled from 10% to 20% and the federal mandate for the Drinking Water SRF increased from 20% to 26%.

Sunsetting the duplicative federal mandates won't end financial assistance for communities that need help. The Clean Water Act and Safe Drinking Water Act provide flexibility for the SRFs to use up to one-third of their annual federal funding to help communities that couldn't otherwise afford to build a water infrastructure project. Additionally, many states have more generous and flexible assistance programs to support small, rural and disadvantaged communities.

### **Restore autonomy for prioritization of SRF-funded water infrastructure projects.**

For more than a decade, Congress has required the SRFs to allocate 10% of annual federal funding to build “green” water infrastructure projects as determined eligible by the U.S. Environmental Protection Agency. While well-intentioned, this federal mandate can have the unintended consequence of diverting annual federal funding from water infrastructure projects that may have a greater benefit to public health and environmental protection.

Sunsetting this federal mandate is unlikely to impact investment in “green” projects. Green projects are the norm today, growing substantially over the last ten years because of the need for resilient and sustainable solutions, demand by consumers, and cost-savings. Perhaps most importantly, many communities have adopted a more integrated and holistic approach, incorporating “green” components into every project rather than treating a green project as a separate special project.

### **Fund state programs that support infrastructure investment.**

The Public Water System Supervision Grants and Water Pollution Control (Section 106) Grants play an integral role in the permitting of water infrastructure projects that protect water quality and public health. Without increased federal funding for these programs, states may not have adequate resources to process permit applications for drinking water and wastewater infrastructure projects.