



**Trusting the Tap: Upgrading America's Drinking Water Infrastructure
Subcommittee on Environment and Climate Change
of the Committee on Energy and Commerce
U.S. House of Representatives
March 29, 2022**

**Testimony of
James P McGoff, Chief Operating Officer and Director of Environmental Programs
Indiana Finance Authority
On behalf of the Council of Infrastructure Financing Authorities (CIFA)**

On behalf of the Drinking Water State Revolving Funds (SRFs), thank you for the opportunity to provide an update on the implementation of the Infrastructure Investment and Jobs Act. My name is Jim McGoff and I am Chief Operating Officer and Director of Environmental Programs for the Indiana Finance Authority. I am also President of the Council of Infrastructure Financing Authorities (CIFA), which represents the Clean Water and Drinking Water State Revolving Funds.

SRFs: Proven, Effective, Adaptable, Responsive

The Drinking Water SRFs are the nation's premier programs for funding water infrastructure that provides safe, reliable, and sustainable drinking water to communities across the nation. Since they were established more than two decades ago, Congress has provided \$24 billion in federal funding to capitalize the Drinking Water SRFs. Along with state funding, proceeds from bonds and loan repayments, the SRFs have been able to double that federal investment, providing more than \$48.5 billion in subsidized loans for more than 17,000 drinking water infrastructure projects.

While the majority of funding is used to build infrastructure, SRFs can also use a portion of their annual federal funding for other priorities, called set-asides. SRFs can use up to 2% of the capitalization grant for technical assistance for small systems, up to 10% of the capitalization grant for the state Public Water System Supervision Program, and up to 15% of the capitalization grant for state and local activities, such as initiatives to protect the source of drinking water or develop asset management plans for communities.

The SRFs are effective state-federal partnerships because states can customize their program, within a broad federal framework, to align and achieve state priorities and national goals for public health. The flexibility to tailor the delivery of federal funds is the hallmark of the program and allows the SRFs to be both responsive to needs of communities facing diverse challenges and adaptable to ever-changing conditions with their state.

SRF subsidized loans provide significant savings for investments in water infrastructure, which helps water utilities meet stringent water quality standards while maintaining more affordable user rates. In 2021, the average interest rate on a Drinking Water SRF loan was 1.07%, less than half of the current interest rate of 2.25% on the public finance market. On average, these below market rates save more than 50% in interest payments over the life of the loan or about \$1.3 million for every \$10 million in loans. The SRFs also provide additional subsidy in the form of principal forgiveness and grants for water systems that may not otherwise be able to pay for needed water infrastructure.

The SRFs serve water utilities of all sizes. In 2021, Ohio funded the smallest project in the country - \$8,868 to rehabilitate a drinking water tank in the village of Elmore serving a population of 1,400 – and Oklahoma funded the largest project - \$205 million for a multi-faceted project to develop a drought-resistant supply of water and reduce reliance on groundwater in the City of Enid serving a population of more than 100,000.

The majority of SRF subsidized loans – 71% – have been provided to small communities with populations under 10,000, with more than 50% of all loans provided to communities serving fewer than 3,300 people and 20% for communities smaller than 500 people. These small communities are less likely to qualify for financing on the public market and, if these small systems are able to secure public financing, they are more likely to pay a higher interest rate. Additionally, these small communities often lack the professional capacity to undertake capital improvement projects without significant support from the SRF program.

While the majority of loans are provided to small communities, the majority of funding – 56% – has been provided to communities with populations larger than 10,000, with 30% of all funding provided to water systems that serve populations of 100,000 or more. While these medium and large water systems can often qualify for financing on the bond market, the savings from SRF subsidized loans can be significant on larger projects. Additionally, these larger borrowers help the SRFs maintain a balanced portfolio, which in turn allows SRFs to maintain a AAA rating that reduces the cost of borrowing for leveraged programs, saving even more money for all borrowers.

A Pivotal Point for Achieving National Public Health Priorities

Thanks to your leadership, the bipartisan Infrastructure Investment and Jobs Act (H.R. 3684) offers an unprecedented opportunity to make a historic and transformational investment in our country's water infrastructure. Because of your commitment, America will be able to expand access to safe, reliable drinking water for millions of people across the nation.

While the law offers unprecedented opportunity, the SRFs are concerned about a significant potential for **missed opportunities**, particularly with the one-time-only special category funding for replacement of lead service lines and remediation of emerging contaminants with a focus on perfluoroalkyl and polyfluoroalkyl (PFAS/PFOA) substances.

Under federal law, the SRFs are required to deliver the majority of funding through individual assistance agreements to drinking water utilities for capital improvement projects. This approach is extremely efficient and effective for improving, rehabilitating and replacing aging water infrastructure.

However, delivering financial assistance to utilities, one-by-one, for assessments, inventories and remediation may not be the most efficient or effective strategy for achieving the goals of the special category funding – lead service line replacement under the Drinking Water SRF and remediation of emerging contaminants under the Clean Water and Drinking Water SRFs. Statewide problems may call for statewide solutions. Providing additional flexibility to the SRFs will ensure the goals of the legislation are achieved - more quickly, more efficiently and more cost-effectively.

Below are examples of statewide strategies that are limited or not permitted under the current federal law:

Statewide strategies for inventory of lead service lines and testing of emerging contaminants are limited. Under current law, 27% of the capitalization grant may be used for set-asides, including technical assistance and state and local programs, plus an additional 4% for administration of the program. While some of this funding may be used to fund inventories and testing, there are obstacles.

To access funding for set-asides, SRFs must provide the list of projects that will be funded. SRFs who don't have eligible construction projects are unable to access the set-aside funding to pay for inventories and testing. Without inventories and testing, SRFs will struggle to develop a project pipeline for construction projects that are required to be listed in order to receive the grant. More importantly, the allowable set-aside funding is inadequate for some SRFs to accomplish statewide inventories and testing.

Allowing states to contract directly for a statewide, regional, or small system inventory of lead service lines may be more efficient and cost-effective than entering into a separate agreement with each water utility to conduct surveys, particularly small, rural systems.

Statewide strategies to remediate PFAS / PFOA are limited or ineligible. Current law restricts the ability of SRFs to contract directly for prevention and remediation of emerging contaminants. For example, a state could choose to remove unused fire foam, a known source of PFAS, from every firehouse in their state, or excavate soil that has tested positive for the forever chemicals.

Allowing states to contract directly to remediate contamination before it gets into the drinking water supply may be more efficient and cost-effective than requiring water utilities to assume that responsibility. However, maintaining funding for treatment of drinking water and wastewater for emerging contaminants remains the priority.

Accelerating Replacement of Lead Service Lines

The Safe Drinking Water Act requires the Drinking Water State Revolving Funds to develop criteria to determine whether a drinking water utility, as a whole, can afford a water infrastructure project. Because the savings from subsidized loans are so significant, SRFs typically reserve additional subsidy for communities that couldn't otherwise afford to finance the project on their own, to address a serious threat to public health, or to incentivize projects, such as green infrastructure.

SRFs must be judicious with additional subsidy because every dollar used for principal forgiveness and grants permanently reduces funding for future water infrastructure. Subsidized loans, on the other hand, provide a permanent, recurring source of revenue to fund water infrastructure projects that may never be built if the SRFs were a traditional grant program. Thanks to the wisdom of Congress to establish the SRFs as subsidized loan programs, nearly \$24 billion in loan repayments will remain revolving in the program forever.

However, some types of projects, like full lead service line replacement, particularly replacement of pipes on private property, are much more difficult to finance with only subsidized loans. Limiting funding for additional subsidy to 49% and restricting that funding to disadvantaged communities may further complicate efforts. While some SRFs have been successful attracting applicants using a combination of subsidized loans and additional subsidy, other SRFs are facing difficulty attracting applicants for these labor-intensive projects without the offer of full additional subsidy.

Recommendations

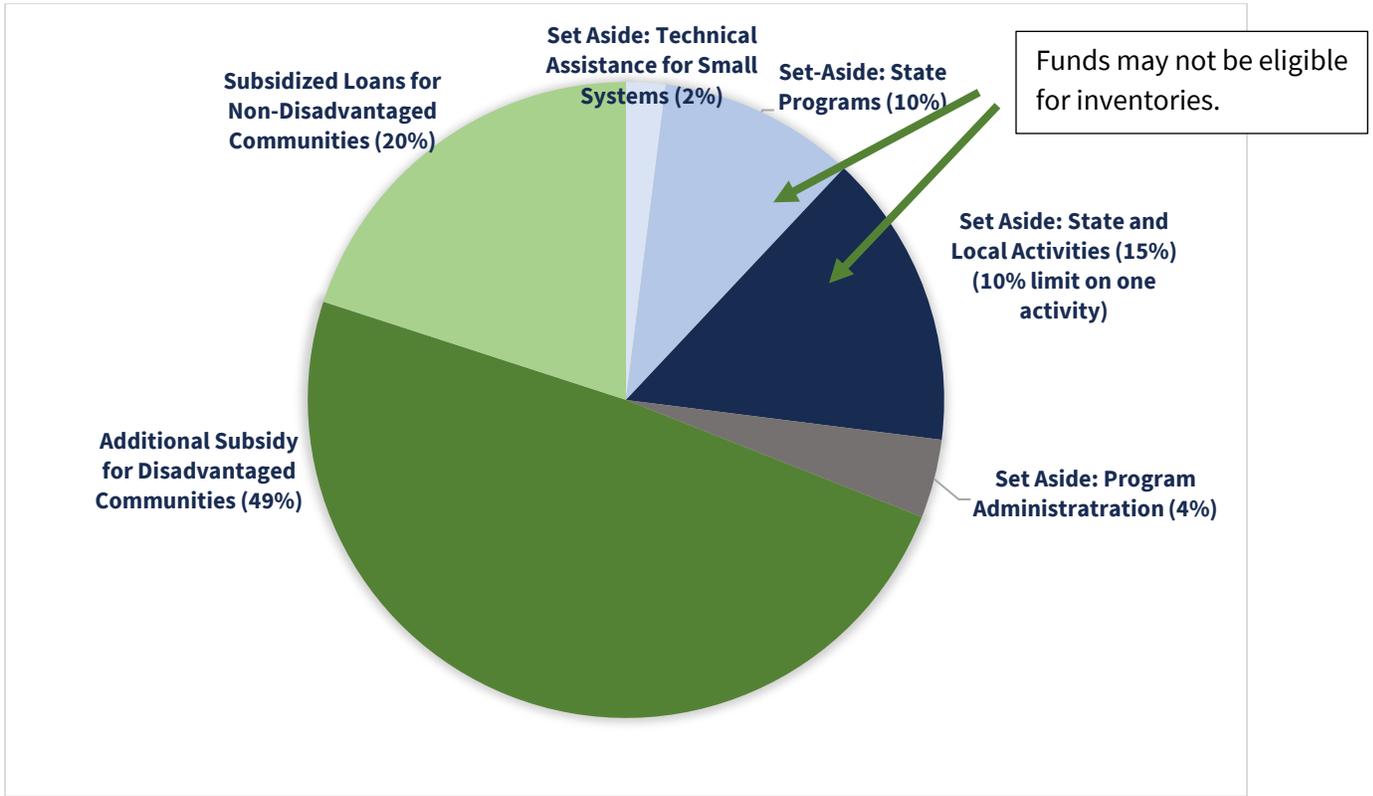
To help the SRFs achieve the goals set forth by Congress in the bipartisan infrastructure law, the SRF community asks for your help in modifying the law to provide more flexibility for the special category funding for lead service line replacement and remediation of emerging contaminants, specifically:

- Allow the SRFs to use up to 100% of the capitalization grant to contract directly for inventories of lead service lines, testing of emerging contaminants, and prevention and remediation of water contamination from emerging contaminants.
- Allow the SRFs to use up to 100% of the capitalization grant for additional subsidy (grants and principal forgiveness) for lead service line replacement to any drinking water utility eligible under the Drinking Water SRFs.

Thank You

On behalf of the Drinking Water State Revolving Funds, thank you again for your leadership for making federal investment in water infrastructure a national priority. Because of your unwavering commitment to federal funding and flexibility, communities across the nation can trust the water that comes out of their tap.

Capitalization Grant for a Drinking Water SRF that Uses All Available Set-Asides



Capitalization Grant for a Drinking Water SRF that Only Uses Administration Set-Aside

