Testimony of Mr. Robert Iacullo
Executive Vice President
United Water
Committee on Appropriations
Subcommittee on Interior, Environment, and Related Agencies
Regarding Water and Wastewater Infrastructure
April 16, 2013

Chairman Simpson, Ranking Member Moran, and members of the Interior Subcommittee, my name is Bob Iacullo, and I am the Executive Vice President of United Water. On behalf of the Company, and the over 2,350 dedicated men and women who provide water, wastewater and other environmentally-related services to over five and one half million people in 21 states, I thank you for the opportunity to testify to the need for, and benefits of Federal policy that promotes investment in our nation's aging water infrastructure.

United Water, a wholly-owned subsidiary of Suez Environnement – a leading global environmental services company with nearly 80,000 employees worldwide – is recognized for its water industry leadership which dates back to 1869. Clearly, we can provide a unique perspective to the challenges of managing, maintaining and replacing water-related infrastructure. In Boise, Idaho, for example, United Water employs close to 100 people who provide excellent water service to nearly a quarter of million residents – many of whom are represented by Chairman Simpson. With capital expenditures of over $8 million in 2012, United Water Idaho has prepared a capital improvement plan which estimates that over $82 million will be expended in a seven year period for replacement of infrastructure like water mains, service lines and meters. In its entirety, United Water has developed a five year capital program that forecasts capital expenditures of nearly $400 million between 2013 and 2018, while currently managing over $3 billion in total assets.

Access to (low cost) capital means that the billions of dollars of the nation's water-related infrastructure can be better managed and maintained. The American Water Works Association estimates that by lowering the cost of borrowing by 2.5% on a 30 year loan, total project costs can be reduced by more than 26%. While we are endorsing private entity access to the low interest bond market, it is ultimately the 70 million consumers whose systems have access to the bonds that benefit. The need is clear.

Cities, towns and communities across the nation face major challenges over the next 20 years to replace aging and worn out water and wastewater systems, which are vital to maintaining public health and building local economies. Capital investment for such projects will be difficult as many states and local governments face budget deficits, revenue shortfalls and opposition to new taxes. The US Environmental Protection Agency (EPA) and the Government Accountability Office predict an investment-funding gap of more than $635 billion for upgrades and repairs to public water and wastewater systems, many of which have been in place for 50 to 100 years.

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In its most recent reports to Congress, the EPA identifies unmet investment needs for water and wastewater infrastructure, which threaten safe drinking water and clean watersheds, in almost every state including the following:

Idaho - $1.4 billion (wastewater only)

California - $68 billion

New York - $55.7 billion

Ohio - $25.7 billion

Washington - $14.4 billion

Virginia – $12.9 billion

More alarming is the 2010 report by U.S. Conference of Mayors, whose members manage many of the nation's water and wastewater systems, predicting future spending for public water and wastewater systems will range between $2.5 trillion and $4.8 trillion over the next twenty-year period. Projected spending is almost double the $1.6 trillion local governments have invested in the past 53 years.

State and Local governments, confronted with the need to replace obsolete assets and build new facilities while facing ever-increasing federal regulatory standards, need every financing tool available to upgrade and maintain water and wastewater systems.

So how do we address the environmental and economic needs of our nation, in the most effective and efficient manner? It is the professional opinion of many of the companies, organizations and associations that make up the water sector, that private capital generated through favorable Federal bonding mechanisms would provide the relatively expedient infusion of resources to initiate a sustainable model of infrastructure renewal and replacement.

One of the models which was introduced in the 112th Congress, and reintroduced in the 113th Congress and awaits full Senate approval is the Water Infrastructure Finance and Innovation Act of 2013, or "WIFIA". Modeled after the successful transportation program known as TIFIA,

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Title X of the Water Resources Development Act of 2013 offers a modern effective way to increase investment in water-related infrastructure at the lowest possible cost to the Federal government. The proposed EPA administered program would make $250 million in low-interest Treasury bonds available, in equal allotments of $50 million per year over five years: 2014 through 2018. WIFIA's focus on large water projects and public-private partnerships is to be applauded, as these projects will leverage a percentage of private investment. These types of projects often lack access to other funding. However, because of the current limited nature of WIFIA, we look to other mechanisms to draw upon to incent investment.

The other favored investment model is the elimination of the volume cap on the issuance of Private Activity Bonds for water and wastewater projects. Private Activity Bonds, or "PABs" are exempt facility bonds, a form of tax-exempt financing that encourages state and municipal governments to collaborate with sources of private capital to meet a public need. The public private partnership approach makes infrastructure repair and construction more affordable for municipalities and ultimately for users or customers. PABs allow private capital to cost effectively replace or augment the use of public debt while shifting risk from the municipality to the private partner.

As an example, late last year United Water closed a 40-year PPP transaction involving an innovative business model (we call "SOLUTION") which included a commitment to invest over $100M in new infrastructure over the contract term as well as a $150M upfront payment to the City of Bayonne's Municipal Utilities Authority (MUA). The upfront payment was financed with private capital – a combination of **taxable** debt and equity - most of which was used by the MUA to retire its outstanding debt. Since the transaction closed, Moody's has already affirmed the City of Bayonne's Baa1 G.O. rating and improved the credit outlook from negative to stable. This has effectively increased capacity on the City's balance sheet to issue new debt to meet other needs. Although benefitting from the current interest rate environment and credit quality brought by the transaction structure, the City's situation could have been further improved if a portion of the upfront payment could have been financed with **tax-exempt debt using PABs** instead of **taxable debt**. Moreover, if there is a need to finance capital investments beyond those already built into the contract, the City could benefit from continued access to tax-exempt debt through the use of PABs in the future.

As another example that illustrates the benefit that PABs provide, we can turn to one of United Water's projects in its Regulated Business (where the company both owns and operates the assets and is under the jurisdiction of a State Public Utility Commission): the $100 million expansion of the Haworth, New Jersey water treatment facility. The Haworth Water Treatment

Plant serves approximately one million people between Bergen and Hudson counties in northern New Jersey. United Water received a $65 million PAB allocation (volume cap) at a (tax exempt) interest rate of 4.95%, compared to a conventional (taxable) rate of 7.62%. In this specific example, PABs ultimately will provide customers with a better than 2.5% interest savings on the $65 million face amount.

Legislation to lift the volume cap on PABs for water and wastewater projects has maintained broad bipartisan and bicameral support. In the 112th Congress, H.R. 1802 and S.939 garnered over 100 co-sponsors in recognition of the need for an increase in water infrastructure investment. The General Accounting Office estimated that the shortfall in water infrastructure investment would reach $500 billion in the next 20 years. Consequently, elimination of the volume cap on PABs would generate an estimated $5 billion annually in private capital, and 150,000 jobs, also on an annual basis.

In summary, United Water endorses the development of a WIFIA program for larger projects and aging infrastructure. Moreover, we encourage Committee Members to support the EPA Environmental Financial Advisory Board's recommendation to remove water and wastewater projects from the PAB state volume cap, or perhaps a 5-year PAB pilot program, to help municipalities contain costs and provide much needed access to capital. It will only be through sustainable capital investment programs that utilize both public and private resources that we can lessen the cost of water infrastructure renewal and replacement projects, and their fiscal effect on customers and constituents; minimize the number of water service interruptions on homes and businesses; stimulate the economy; and protect and preserve scarce water resources. Thank you again for the opportunity to appear before your committee. At the pleasure of the Chair, I would be glad to answer any questions the Committee has at this time.