

**STATEMENT FOR THE RECORD
U.S. ENVIRONMENTAL PROTECTION AGENCY
COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON ENVIRONMENT**

**HEARING ON “H.R. __, DRINKING WATER SYSTEM IMPROVEMENT ACT AND
RELATED ISSUES OF FUNDING, MANAGEMENT, AND COMPLIANCE ASSISTANCE
UNDER THE SAFE DRINKING WATER ACT”**

MAY 19, 2017

Chairman Shimkus, Ranking Member Tonko, and Members of the Subcommittee, thank you for the opportunity to provide testimony for today’s hearing record regarding the EPA’s efforts to support our nation’s drinking water infrastructure investments to protect human health.

This statement includes several parts. First, it summarizes the EPA’s Drinking Water State Revolving Fund program, which is a significant source of infrastructure funding for our nation’s public water systems. Second, it summarizes the EPA’s other efforts to understand needs, challenges, and the collaborative work with states, public water systems, and other stakeholders to ensure that our water systems provide clean and safe drinking water to all Americans. Finally, it discusses the concepts of the “Drinking Water System Improvement Act of 2017,” which the Subcommittee is discussing today.

Challenges Facing our Nation's Water Infrastructure

Our nation’s drinking water infrastructure delivers critical public health protection and serves as a cornerstone for economic development across the country. Some of this infrastructure dates over a century old, which is at or beyond its useful life. The EPA’s 2011 Drinking Water Needs Survey identified nearly \$384 billion in capital improvement needs, eligible for the Drinking Water State Revolving Fund, to keep pace with the aging of this critical drinking water requirement over the next 20 years. These investments comprise pipe and other components of drinking water distribution systems, as

well as thousands of treatment plants, storage tanks, and other key assets to ensure the public health, security, and economic well-being of our cities, towns, and communities. Implementing the projects that are needed to maintain and upgrade our existing drinking water infrastructure will remain an essential strategy for protecting the public health in America's communities in the years ahead.

Drinking Water State Revolving Fund

Through the Drinking Water State Revolving Fund (DWSRF), community drinking water systems of all sizes are supported with assistance to maintain the essential components and functions of these systems. Established by the 1996 Safe Drinking Water Act (SDWA) Amendments, the DWSRF is one important tool available to states and local water systems as they seek to address the challenge of continuing to provide safe drinking water. The program creates efficient and sustainable financing programs uniquely tailored to each state's special circumstances, making it a highly successful state-federal partnership and an important complement to the new Water Infrastructure Finance and Innovation Act (WIFIA) loan program.

The EPA provides capitalization grants to the state DWSRF programs as an investment in the nation's infrastructure. By contributing an additional 20 percent of what the EPA provides, states further enhance the size and effectiveness of the program. Twenty-two states leverage their program on the tax-exempt debt market to increase their lending capacity. They make loans at below-market rates, at an average of two percentage points below market over the last several years. Often the result is a substantial interest savings for communities, providing the equivalent to a grant covering approximately 20% of the cost of a project. States even have the flexibility to charge no interest over the life of a loan.

The programs operate on the basis of cost reimbursement. Even though a grant is made directly to a state by the EPA, no funds leave the Treasury until costs are incurred. Through 2016, a total of nearly \$32.5

billion in assistance has been provided by the 51 DWSRF programs to more than 13,000 projects across the country. Over the last three years, the 51 DWSRF programs have provided on average \$2.25 billion per year to communities to finance about 770 projects each year, including assistance to non-infrastructure, capacity-building, and prevention-focused set-asides.

The fiscal year 2018 President's Budget provides robust funding for critical drinking water infrastructure investment. It furthers a commitment to infrastructure repair and replacement, which would allow states, municipalities, and private entities to continue to finance high priority infrastructure investments that protect human health. The President's Budget also includes a total of \$2.3 billion for the State Revolving Funds (including both the DWSRF and the Clean Water SRF), a \$4 million increase over the 2017 annualized Continuing Resolution level.

Protecting Public Health and the Environment with DWSRF

Priority for DWSRF assistance is given to systems facing an immediate threat to public health, systems with infrastructure investment needs to comply with SDWA health standards, and systems most in need on a per-household basis according to state affordability criteria. Reflecting these priorities, about 40% of projects involve treatment upgrades, 40% involve rehabilitation or replacement of distribution pipes, 10% involve source water, and 10% involve improvements to finished water storage. Repayments, a significant feature of the SRFs, are recycled back into the program to provide a source of ongoing funding for additional drinking water projects. Through mid-2016, nearly \$8 billion in principal and interest has been returned to the DWSRFs by borrowers.

Additionally, states have the ability to leverage federal grant awards through the sale of tax-exempt bonds. A very basic example of bond leveraging is a state that receives a \$10 million annual capitalization grant. Using its stream of repayments as security, the state might issue \$20 million in

bonds, “leveraging” its \$10 million capitalization grant to get \$30 million in lending capacity. The net proceeds of these bonds have provided over \$7 billion in additional funding for critical projects.

States have the authority, under the DWSRF, to use a portion of their capitalization grants for additional subsidization in the form of principal forgiveness or grants. This valuable authority allows provision of critical resources to the neediest communities unable to afford SRF loans. To date, states have provided nearly \$3 billion in additional subsidy to state-identified disadvantaged communities.

Small water systems (those serving 10,000 or fewer persons) have received 71% of the total number of assistance agreements made over the program’s history, but account for 35% of all dollars awarded for assistance. In contrast, the largest cities (those serving more than 100,000 persons) have received 7% of the number of assistance agreements. Because of the size and complexity of these large systems, their agreements account for 27% of all dollars awarded for assistance. The DWSRF has successfully established a record of addressing varying water system needs across our nation’s communities, both small and large.

A significant feature of the DWSRF is the flexibility it provides states to use up to 31% of each capitalization grant for a variety of set-asides. The set-asides help states fund administration of the DWSRF, provide technical assistance to small systems, advance the core public health protection mission of state drinking water programs, and support system-level efforts to enhance efficiency and performance.

Capacity Development and Operator Certification Programs

While DWSRF funds play an important role in addressing the nation's infrastructure needs, the 1996 amendments to SDWA created the Capacity Development and Operator Certification programs. In

implementing these programs, the EPA is also playing a broader role in working to ensure that investments by federal, state, and local governments, as well as the private sector, will yield the public health protections they are intended to support. Toward this end, through the DWSRF program and other efforts, the EPA works with states and local communities to emphasize the importance of asset management and capacity development at the state and local level. The EPA is working with partners across the water sector and beyond to provide the knowledge and tools to ensure that the investments we make in our water infrastructure yield resilient and sustainable public health protections. This goal can be achieved through partnerships with states, tribes, local governments, and water systems to develop and maintain technical, managerial, and financial capacity, as well as by promoting professional development in the water sector in order to ensure that there is a pool of qualified water professionals to meet current and future needs. The EPA is targeting its resources toward helping systems achieve results in the following areas:

- Promoting an asset management framework that ensures the right investments are made at the right time;
- Promoting water system partnerships that create opportunities to improve service and public health protection, reduce costs, and address future needs;
- Promoting infrastructure financing and providing options to pay for water infrastructure needs, including through full-cost pricing; and
- Promoting investment in a strong water workforce through capacity development, operator certification, and knowledge sharing, recruitment, and training in the water sector.

The Drinking Water System Improvement Act of 2017

The Administration has not taken a position on the Drinking Water System Improvement Act of 2017, but the EPA appreciates the opportunity to provide information relevant to the important issues that this bill would address. These issues include the DWSRF; the State Public Water System Supervision

(PWSS) program grants; efforts funded by the DWSRF set-asides, such as asset management and water system partnerships; and demonstration of compliance with federal cross-cutting requirements, each of which plays a critical role in protecting public health in communities across the nation.

As designed within SDWA, the states' PWSS programs are the foundation of the implementation of SDWA by the states, and the federal PWSS grant assists in the successful operation of state programs. The PWSS program and the DWSRF set-asides are fundamental to ensuring effective implementation of state drinking water programs. The PWSS program supports conducting sanitary surveys, providing technical assistance to public water systems, developing and maintaining state drinking water regulations, ensuring that public water systems provide information to their consumers, and performing other core program implementation functions. The DWSRF set-asides support activities necessary to ensure safe and affordable drinking water such as asset management, water system partnerships, training and technical assistance, financial management and rate studies, and source water and wellhead protection. Asset management; water system partnerships, including consolidation; and source water protection are important tools to develop and maintain sustainable drinking water systems. As noted earlier in this statement, the agency works with states, tribes, local governments, water systems, and other water sector stakeholders to support the development of these programs. With this wide range of potential activities, the DWSRF set-asides have become an important source of funding for state drinking water programs.

Additionally, providing flexibilities to states in the use of DWSRF funding can also support states and systems in ensuring the protection of public health. The use of additional subsidization and extended loan periods are important options to help small and disadvantaged communities improve and maintain sound drinking water infrastructure. In the application of these flexibilities, it is important to ensure that the states are able to manage the funds in perpetuity.

Conclusion

The EPA's DWSRF program is focused on actions and funding to achieve compliance with environmental and public health standards. Addressing these challenges will require effort from the EPA, states, communities, and other partners. It will require us to use more innovative and sustainable tools to solve these significant challenges. We look forward to working with Members of the Subcommittee, our federal and state colleagues, and our many partners, stakeholders, and citizens who are committed to continuing our progress in providing clean and safe drinking water to all Americans.