Questions for the Record

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on behalf of the Association of Metropolitan Water Agencies

provided to

Committee on Energy and Commerce

Subcommittee on the Environment

Hearing entitled

"From Source to Tap: A Hearing to Examine Challenges and Opportunities for Safe, Reliable, and Affordable Drinking Water"

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The Honorable Laurel Lee

1. Large metropolitan systems face both aging infrastructure and growing demand, including from data centers. Florida is currently the third most populous state, and as the region continues to grow, so does the need for new water supply infrastructure. How are utilities balancing reliability with affordability for ratepayers?

a. Additionally, how should Congress think about growth pressures when evaluating compliance deadlines and funding allocations?

Since the 1970s, there has been a decline in the federal share of water infrastructure funding, shifting a larger burden of financing onto state and local governments. Federal support covered 50-60 percent of all capital funding for water infrastructure during the late 1970s and early 1980s. Prior to Congress passing IIJA, that share had fallen to about 7 percent.[1] The investments needed to maintain and modernize water infrastructure have not kept pace with need, leading to

[1] https://static1.squarespace.com/static/67dd711d1a117219a03e4f7a/t/6a569b0596769c1f5a9a50b6/1784060677553/FINAL+VOW+Economic+Report.pdf.

an estimated $625 billion drinking water infrastructure investment needed over the next 20 years just to maintain current levels of service.[2]

Simultaneously, in 2024 EPA finalized multiple regulatory mandates that create large compliance costs for public water systems, including the Lead and Copper Rule Improvements and the PFAS National Primary Drinking Water Regulations. Although EPA has since proposed rescinding portions of the PFAS regulation and extending the compliance deadline for PFOA and PFOS, the remaining requirements will still impose significant costs on water systems and their ratepayers. The reduced level of federal water infrastructure funding, combined with aging water infrastructure and costly regulatory mandates, is making it more difficult to maintain affordable water rates.

This forces many water utilities to make difficult choices when it comes to balancing necessary infrastructure upgrades with affordability for ratepayers. Water systems always prioritize the safety of drinking water first, followed by immediate needs like repairs and upgrades. When planning for the future, water systems build future water supply needs, population growth, and expected costs into the rates that they set. Data centers and other large new users require enormous amounts of water for cooling and operations. Utilities can structure capacity charges, main extension policies, and contracts so that the customer requiring new capacity bears the cost of serving it, protecting existing ratepayers from subsidizing that growth. Federal programs like WIFIA, with low-interest loans, are critical for large-scale infrastructure projects, like when systems are experiencing growth and need to build more water supply, treatment, or distribution capacity.

The Drinking Water SRF in particular has been an indispensable financing tool for Northern Kentucky Water District. Over the past two decades, NKWD has utilized 17 DWSRF loans totaling over $110 million to finance infrastructure improvements across our system. These projects have addressed treatment plant upgrades, water main replacements, and emergency power generation, all while maintaining affordable rates for our 300,000 customers. Northern Kentucky Water District's experience demonstrates that the DWSRF is not merely a financing mechanism; it is a long-term partnership that enables utilities to plan strategically, combine

[2] https://www.epa.gov/system/files/documents/2023-09/Seventh%20DWINSA_September2023_Final.pdf.

funding sources effectively, and deliver improvements that protect public health while maintaining affordable rates. Federal funding allows us to moderate necessary rate increases by reducing financing costs and, where principal forgiveness is available, reducing the principal our customers must repay.

Growth adds to compliance pressures, because systems in growing regions must expand capacity while also meeting new federal requirements, and Congress should weigh both pressures together when setting compliance deadlines and funding allocations. When thinking about compliance deadlines for regulatory requirements, federal agencies need to consider the resources available to water systems in order to accomplish their goals. Water systems rely primarily on customer rates for revenue. When federal funding is limited or insufficient, systems must defer other needed upgrades in order to abide by the law and keep rate increases in their communities to a minimum, or raise rates at an increased rate to maintain systems. Shorter timelines also require large upfront investments, while longer timelines allow systems to spread costs and associated rate increases over a longer period. Under short compliance deadlines, water systems can also struggle with competition for materials or labor. For example, procuring and implementing the technology to filter PFAS from drinking water means that there must be adequate manufacturing capacity for all water systems with PFAS levels over the maximum contaminant level. This is why any federal mandate must be paired with sufficient federal funding and reasonable timelines.

The Honorable Frank Pallone, Jr.

1. The Drinking Water State Revolving Fund (SRF) provides critical support to help states and water systems deliver safe, reliable drinking water to communities. As we consider reauthorization of the SRF, what recommendations do you have for increasing access to funding and assisting communities as they address drinking water challenges?

a. What specific changes would be beneficial to support disadvantaged communities?

AMWA recommends that Congress reauthorize the DWSRF at funding levels commensurate with the documented need identified in EPA's Needs Survey. Predictable, formula-based

capitalization grants allow states and utilities like NKWD to plan multiyear capital programs and combine SRF assistance with other financing sources effectively.

To support disadvantaged communities, states should consider additional SRF subsidies and principal forgiveness grants that do not need to be repaid. This prevents the accumulation of debt for small or marginalized water systems. Another way to help disadvantaged communities access SRF loans is to ensure that communities are aware of resources that the EPA offers, like technical assistance. The application process for an SRF loan can be complicated, and communities with fewer resources may lack the knowledge or capacity to complete it without this assistance. Ensuring that communities are aware of and take advantage of EPA's Real Water Technical Assistance (RealWaterTA) initiative would help close this gap.

Finally, maintaining dedicated funding for lead service line replacement and emerging contaminants such as PFAS, separate from base DWSRF capitalization grants, would help disadvantaged communities, which often face older infrastructure and fewer resources to address these costly challenges. Dedicated funding ensures these needs are met without reducing the general SRF dollars available for other infrastructure priorities.

2. ***The Water Infrastructure Finance and Innovation Act (WIFIA) is a low-cost financial assistance program that helps communities pay for water infrastructure projects. As Congress considers ways to ensure communities can meet the water infrastructure needs, what changes should we consider to the WIFIA program?***

WIFIA has been an indispensable tool for water systems to access low-cost financing for their large-scale infrastructure projects. However, there are certain aspects of the program that could be improved to create more flexibility and save money for water systems. One change AMWA recommends is amending the WIFIA nonsubordination clause to include a waiver similar to the one that exists for Transportation Infrastructure Finance and Innovation Act (TIFIA) program, the transportation program that WIFIA is modeled on.

Under current law, a WIFIA loan may not be subordinated to the claims of any holder of project obligations in the event of bankruptcy, insolvency, or liquidation of the borrower. Although

intended to protect investments by the federal government, this provision makes it more difficult for large water and wastewater utilities, with complex debt portfolios, to maximize savings. When water and wastewater systems are required to pay WIFIA loans simultaneously with or ahead of other obligations, it dilutes the revenues available to pay debt service on their publicly offered bonds, thereby increasing costs on those bonds and limiting overall borrowing capacity. Congress has already authorized a similar waiver for public agency borrowers under TIFIA, even though transportation issuers make greater use of project financings and water issuers frequently carry strong credit ratings. AMWA recommends that Congress authorize a comparable waiver of the WIFIA nonsubordination requirement, modeled on TIFIA, where (i) the borrower is a public sector borrower; (ii) the borrower or credit instrument has an 'A' category credit rating or better; and (iii) the pledge is not dependent on revenues from the financed project. Congress could also adopt additional TIFIA-style safeguards, such as a limit on the share of project costs financed, to protect the federal investment. This change would bring in large, well-rated entities that currently do not take advantage of the program and allow utilities to maximize the value of their infrastructure investments.

Another recommendation to make WIFIA more accessible is to minimize administrative fees associated with WIFIA applications, which can be a barrier for small and midsize communities in applying for funding. EPA's June 2026 decision to waive the $25,000 application fee for small communities, along with the credit processing fee for small communities in Fiscal Years 2026 and 2027, should encourage more small communities to apply.[3] However, the $100,000 upfront application fee and credit processing fees remain a deterrent for midsize communities that do not qualify for these waivers. Additionally, AMWA members report that slow turnaround times for pending WIFIA loans have caused uncertainty and increased project costs. The EPA should streamline the loan process so that water systems are not waiting on pending applications for extended periods of time.

3. How can a permanent, federal water affordability program help water systems provide safe, reliable drinking water to communities they serve?

[3] EPA, WIFIA Program Announcements, https://www.epa.gov/wifia/wifia-program-announcements

A federal water affordability program, like the Low-Income Household Water Assistance Program (LIHWAP), is a key tool for ensuring low-income people can afford their water and that rates remain affordable for all customers. While one of water systems' top priorities is delivering affordable water, aging infrastructure, lack of federal funding, costly regulatory mandates, the cost of labor and materials, and inflation continue to put financial pressure on utilities, making rate increases necessary at times to maintain safe, reliable water services.

When customers do not pay their water bills, or cannot afford them, water systems lose revenue. Because water systems rely primarily on customer rates for revenue, when a large portion of customers do not pay their bills, water systems are forced to increase rates to make up lost revenue. This continues to make water bills more unaffordable and can exacerbate the issue. While some water systems have established their own customer assistance programs, state law can limit that option. In Kentucky, for example, the Public Service Commission has held that state utility law does not permit a separate rate class based on customer income and prohibits unreasonable differences in rates between classes of customers.[4] As a result, utilities like NKWD cannot simply adopt a discounted low-income rate. A federal assistance program would fill this gap without shifting costs to other ratepayers.

Today, as many as 19 million households nationwide face challenges in paying their water bills.[5] Aging water infrastructure, cybersecurity threats, and expanded regulatory mandates have contributed to the average residential water bill increasing nearly 25 percent between 2019 and 2024[6], and will continue to put additional upward pressure on water rates in the coming years. Recognizing these challenges, Congress established the LIHWAP in 2021 to help qualifying households pay for essential water services, but the program has since expired.

According to HHS, over two years LIHWAP served over 1.5 million households nationwide, including by preventing 923,583 service disconnections, restoring water services 101,687 times,

[4] Ky Rev. Stat. 278.170; Electronic Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates, Case No. 2020-00160, Order at Page 36-38 (Ky. PSC Dec. 8, 2020), https://psc.ky.gov/pscscf/2020%20Cases/2020-00160/20201208_PSC_ORDER.pdf.
[5] https://www.epa.gov/newsreleases/epa-report-highlights-water-affordability-challenges-us.
[6] https://www.bluefieldresearch.com/ns/u-s-water-and-sewer-bill-has-increased-24-in-five-years-raising-affordability-concerns/.

and reducing 1,120,417 water bills.[7] Restarting LIHWAP, or a similar federal water affordability program, would reduce uncollectible accounts and arrearages, allowing water systems to direct more ratepayer revenue to infrastructure repairs, system upgrades, lead service line replacements, cybersecurity protections, long-term resilience planning, and other projects that improve the long-term reliability and security of drinking water.

[7] https://www.acf.hhs.gov/sites/default/files/documents/ocs/DRAFT_LIHWAP-Implementation-Final-Report.pdf.