



April 15, 2019

The Honorable Jared Huffman, Chairman
The Honorable Tom McClintock, Ranking Member
House Committee on Natural Resources
Subcommittee on Water, Oceans and Wildlife
1324 Longworth House Office Building
Washington, DC 20515

Re: April 2, 2019, Subcommittee Hearing on "WOW 101: The State of Water Infrastructure and Innovation"

Dear Chairman Huffman and Ranking Member McClintock:

Thank you for the opportunity to provide input to the committee as part of the record for the April 2 hearing on "WOW 101: The State of Water Infrastructure and Innovation." The Santa Clara Valley Water District (Valley Water) greatly appreciates the committee's attention to the critical issue of our nation's water infrastructure.

Valley Water is responsible for providing safe, clean water and healthy waterways throughout Santa Clara County, California, which is home to nearly two million people and is the heart of Silicon Valley. We manage ten dams and surface reservoirs, three water treatment plants, 28 natural flood protection projects, one advanced purification center, and 275 miles of creeks. Our programs are as diverse as importing and treating water; managing flood control projects along rivers, creeks, and the South San Francisco Bay shoreline; and improving the health of all our waterways.

As Congress considers national infrastructure legislation, it is critical that any package contain a significant water infrastructure component. High-quality drinking water and wastewater systems are essential to support a vibrant state and strong economy. California and other western states that are large suppliers of water face a broad range of hurdles, including climate change and longer drought cycles, that must be considered to effectively manage a high-quality water supply. Yet, the water infrastructure systems of these regions are increasingly unable to keep pace with such water supply demands of the 21st century. Increased funding to repair, rehabilitate, or construct new facilities is needed to meet growing demands on drinking water and wastewater systems. Below are specific provisions that Valley Water suggests including in any new infrastructure package.

Storage

Additional capacity to capture and store water during wet years is essential to ensuring a drought-resistant supply that can sustain our water needs in Santa Clara County and throughout the state. Increased storage also has the coequal benefit of providing environmental water that improves overall ecosystem health.

In order to provide these benefits and address our region's growing need to ensure a drought-resistant water supply, Valley Water is pursuing an expansion of the Pacheco Reservoir that will create an additional 134,000 acre feet of emergency supply, provide downstream flood protection for nearby communities, and provide year-round flows into Pacheco Creek that would benefit a federally-

threatened distinct population segment of California steelhead salmon. The project has already received nearly \$500 million in conditional funding from the State, but significant federal funding is needed to help meet the remaining construction costs. The Water Infrastructure Improvements for the Nation (WIIN) Act created an important new source of funding for storage, but those funds have already been expended, demonstrating the significant demand for these dollars.

Valley Water recommends the following provision to improve water storage capacity:

- Extending the WIIN Act storage provisions for an additional five years (through 2026) and authorizing an additional \$500 million in funding for storage and groundwater projects.

Title XVI Water Reclamation and Reuse Program

Funding for recycled water infrastructure is critical for western states like California that are prone to droughts. Factors like population growth; changing environmental conditions, including climate change and longer drought cycles; and regulations related to the operation and management of treatment, storage, and conveyance, all influence the ability for states to maintain a reliable water supply. With insufficient funding available at the local and state levels to meet these challenges, there is broad consensus that significant federal investment is needed for water utility agencies to leverage the financial resources necessary to meet their water supply needs.

The U.S. Bureau of Reclamation's Title XVI Water Reclamation and Reuse Program (Title XVI Program) is a critical funding source for recycled water projects in 17 western states, including California. The program authorizes and grants funding for the planning, design, and construction of these projects in partnership with local government entities. Since its inception in 1992, the program has been hugely successful and is always oversubscribed. There is simply not enough funding available to meet this growing infrastructure need.

Valley Water recommends the following provisions to improve the Title XVI Program and incentivize additional water reuse and recycling:

- Make permanent the WIIN Act Title XVI Program for competitive grants and increase the authorization from \$50 million to \$100 million per year.
- Remove the requirement that Title XVI projects must be named in annual appropriations bills.
- Remove the requirement that Title XVI projects must be in drought or disaster areas.
- Increase the maximum federal cost share for Title XVI projects from \$20 million in October 1996 prices to \$30 million in January 2019 prices.

Financing

Local funding mechanisms that are used often to meet the needs of local water and wastewater services are often dependent upon rates, applicable charges, and locally-adopted bonds. This funding alone cannot deliver the water supply needs of these regions on a long-term basis. More effective funding options are needed to help leverage available local dollars to meet growing capital needs for essential water and wastewater services. Financial assistance programs from the federal and state government can reduce the burden and provide savings that can maximize local funds.

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The Honorable Tom McClintock, Ranking Member
April 15, 2019

Key federal and state funding tools that can generate a source of water infrastructure funding for the projects of water utility agencies are the Water Infrastructure Finance and Innovation Act (WIFIA) Program, the use of public-private partnerships, and revenue bonds and reduced interest rates that encourage lending opportunities. The WIFIA Program is critical to supporting water utility agencies fund their crucial water infrastructure projects because it provides government-sponsored financing at below-market costs in a way that assists in loan guarantees for large-scale projects. It is therefore necessary to continue to support the WIFIA Program but also enhance it by amending it in ways that benefit the funding needs of water utility agencies.

Valley Water recommends the following to improve infrastructure financing:

WIFIA Program Amendments:

- Include language that the Environmental Protection Agency (EPA) remove the springing lien provision to impose senior lien on pledged revenues and/or assets in the event of default leading to bankruptcy, insolvency, or liquidation. Agencies like Valley Water cannot provide a senior lien due to conditions of existing bond covenants.
- Include language in the WIFIA Program rules to allow borrowers to pay for the credit subsidy instead of requiring annual congressional budget appropriation. This change would allow for larger loans to be made by the EPA to fund major water infrastructure projects without the government taking on the credit risk.

Public-Private Partnerships:

- Include language that will provide for a modification of the tax-exempt bond provisions of the Internal Revenue Code to permit (but not require) the financing of drinking water, recycled water, and wastewater facilities from the proceeds of tax-exempt governmental activity bonds issued directly by a government agency or on behalf of a government agency-approved public-private partnership (P3) that may own, operate, and/or finance the facilities. P3s provide flexibility outside of the typical public sector procurement process for public water agencies to finance water infrastructure projects, which results in overall project savings and timely project completion. Current law prohibits the use of P3s on projects that use tax-exempt governmental activity bonds, which hinders the ability of local agencies to leverage their local dollars.

Revenue Bonds and Reduced Interest Rates:

- Reduced interest rates: Lowering the cost of borrowing for infrastructure can often result in a more affordable and manageable investment for a water utility agency and its ratepayers.
- State general obligation bonds. These must be authorized by voters, and the bond repayment is often guaranteed by a state's general taxing power. However, often it is the state's general fund that provides the security for the amount being borrowed. Funds flow through respective state agencies and departments in the form of grants and low-interest loans to eligible applicants.
- Revenue bonds: Funding is authorized only for a specific capital infrastructure project, and the borrowed amount is paid through a dedicated revenue stream.

Dam Upgrades

The safety and reliability of our nation's dams is of the utmost importance. According to the American Society of Civil Engineers' 2017 Infrastructure Report Card, nearly 20 percent of the nation's dams – more than 15,000 – are considered high-hazard potential and in desperate need of upgrades and

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retrofitting to withstand seismic events and ensure public safety. Anderson Dam, located in Morgan Hill in south Santa Clara County, is Valley Water's largest dam and is considered a high-hazard potential dam due to seismic risk. Valley Water is pursuing a complete seismic retrofit of the dam, with construction expected to begin in 2022. There are currently insufficient state and local funds available for these capital-intensive projects that have a critical life-safety component, demonstrating the need for additional federal investment.

Valley Water recommends the following to help improve dam safety:

- Extending the WIIN Act program for High-Hazard Potential Dams for five years and authorizing an additional \$100 million for grants to upgrade high-hazard potential dams.

Again, thank you for your attention to these critical issues, and we appreciate your consideration of our recommendations. We believe these investments are critical to improving our nation's water infrastructure, helping to deliver important benefits for public health, safety, economic prosperity, and the environment. Should you have any questions, please do not hesitate to contact me at (408) 630-2884 or rgibson@valleywater.org.

Sincerely,



Rachael Gibson
Deputy Administrative Officer
Office of Government Relations