



**ASSOCIATION OF  
METROPOLITAN  
WATER AGENCIES**

Testimony of

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On Behalf of the  
Association of Metropolitan Water Agencies

Before the  
U.S. House of Representatives  
Energy and Commerce Committee  
Environment Subcommittee

Hearing on  
Reinvestment and Rehabilitation of Our Nation's  
Safe Drinking Water Delivery Systems

March 16, 2017

## Summary of the Testimony of Rudolph S. Chow

- Public drinking water utilities in the United States provide their customers with some of the best drinking water in the world, but according to U.S. EPA our nation's water and wastewater infrastructure requires more than \$655 billion worth of investment over the coming decades to ensure current levels of service continue.
- In Baltimore, the Department of Public Works has launched a comprehensive, long-term strategy to replace or rehabilitate 1,500 miles of city-owned water mains that deliver safe and reliable drinking water to our 1.8 million residential and business customers. Cities and towns across the country are undertaking similar efforts to upgrade their water infrastructure.
- Federal financing assistance is a key component of nationwide efforts to rehabilitate water infrastructure. The Drinking Water State Revolving Fund is a well-established program that helps community water systems undertake projects and repairs that ensure continued public health protection. Since 1996 it has provided nearly 13,000 water infrastructure loans with an average value of about \$2.5 million.
- The new Water Infrastructure Finance and Innovation Act (WIFIA) pilot program will deliver additional low-cost loans for major water infrastructure projects that may be too large to benefit from the DWSRF. EPA expects to leverage Congress' initial FY17 appropriation of \$17 million for WIFIA project funding into more than \$1 billion worth of loans to communities.
- The federal tax code helps communities access low-cost infrastructure financing by making interest earned on municipal bonds exempt from federal income taxes. Without this exemption, AMWA estimates that water infrastructure financing costs would increase by approximately 25 percent as investors would demand higher interest rates on municipal bonds. This, in turn, could lead to higher water bills for communities and their ratepayers.
- The Association of Metropolitan Water Agencies stands ready to work with the subcommittee in support of these programs and other initiatives that will renew America's commitment to robust drinking water infrastructure.

Chairman Shimkus, Ranking Member Tonko, and members of the subcommittee: the Association of Metropolitan Water Agencies (AMWA) appreciates the opportunity to testify on the important topic of “Reinvestment and Rehabilitation of Our Nation’s Safe Drinking Water Delivery Systems.” We are glad that Congress is turning its attention to the state of our nation’s water infrastructure.

I am Rudy Chow, and I have served as Director of the Baltimore Department of Public Works since 2014. One of the top priorities of the Department is to safely and reliably deliver high quality drinking water to all 1.8 million of our residential and business customers in Baltimore and the surrounding region. To ensure success in this mission, the Department has launched a comprehensive, long-term strategy to replace or rehabilitate 1,500 miles of city-owned water mains. And on the wastewater side, we have initiated a program to comply with Baltimore’s sanitary sewer consent decree by rebuilding hundreds of miles of sewer mains and by upgrading the capacity of our Back River Wastewater Treatment Plant. Clearly, Baltimore has made a priority of reinvestment in, and rehabilitation of, our water infrastructure.

I also serve as a member of AMWA’s Board of Directors. AMWA is an organization representing the nation’s largest publicly owned drinking water utilities, which collectively serve more than 130 million Americans with quality drinking water. Our members are well aware of the urgent need to upgrade our nation’s water infrastructure, and we are eager to work with the subcommittee to develop components of any forthcoming infrastructure funding legislation that may help communities meet this objective.

It is beyond doubt that America's water and wastewater infrastructure is due for an upgrade. EPA's most recent Drinking Water and Clean Water Needs Surveys show that the nation's water and wastewater infrastructure requires more than \$655 billion worth of investments over the next two decades just to maintain current levels of service, but even those estimates may be too modest. The American Water Works Association has estimated that it may cost drinking water systems alone approximately \$1 trillion over the next 25 years just to upgrade and expand buried water infrastructure, and AMWA and the National Association of Clean Water Agencies have projected that water and wastewater utilities could spend a similar amount over 40 years as they adapt to changing hydrological conditions such as extreme drought, more frequent intense storms, and rising sea levels.

Fortunately, Congress has begun to give this issue the attention it deserves. Last year's passage of the Water Infrastructure Improvements for the Nation Act authorized funding for a new program aimed at removing and replacing outdated lead service lines and helping low-income customers absorb their share of these replacement costs. The law also authorized assistance to help schools and child care centers test the quality of their drinking water. AMWA hopes to see each of these new programs receive appropriations in the next fiscal year.

All of this represents good progress, but we know that much more remains to be done. And while we continue to believe that local water infrastructure should primarily be paid for through local water rates, there is an important role for the federal government to play in facilitating access to affordable financing and offering assistance to

communities in need. AMWA supports the following programs to strengthen and maintain our nation's drinking water infrastructure.

### **The Drinking Water State Revolving Fund**

Authorized by Congress in 1996, the Drinking Water State Revolving Fund (DWSRF) is the most well established federal program to aid in the financing of drinking water infrastructure. Each year after Congress appropriates DWSRF funding, EPA distributes a share of the funds to each state, following a formula based on each state's identified drinking water infrastructure needs. States add a match of at least 20 percent to their share of funding, and then use the proceeds to provide loans and other assistance for eligible projects in their state, with a focus on addressing the most significant threats to public health. Historically, the DWSRF has tended to focus on small or rural communities that face water quality challenges.

According to EPA, through 2016 the DWSRF had provided nearly \$32.5 billion in funding assistance to communities nationwide through 12,827 individual assistance agreements – an average of just over \$2.5 million per project. Small communities serving 10,000 people or fewer have received 9,044 of these assistance agreements since the program's inception – about 70 percent of the total – while metropolitan water systems serving more than 100,000 people obtained 897 DWSRF loans through the end of 2016.

While the DWSRF has been a great success, the program also is in need of a renewed commitment from Congress. The DWSRF has never been reauthorized, and annual funding levels have steadily decreased since 2010. While House and Senate appropriators each approved FY17 funding legislation that would provide more than \$1

billion for the DWSRF, those proposals are currently on hold along with the rest of EPA's final FY17 budget.

Looking ahead, we are heartened that last year during the presidential campaign President Trump called for tripling annual SRF appropriations, but we are concerned that early reports about the White House's FY18 budget request may propose cutting overall EPA funding by as much as 25 percent. These two objectives are simply incompatible.

Rather than drastic cuts, AMWA would prefer to see the SRF programs put on a path toward sustained growth that will result in an eventual tripling of their appropriations, in line with the position of the president's campaign. To this end, AMWA and others in the water sector support an FY18 Drinking Water SRF appropriation that doubles the program's FY16 level, to \$1.8 billion. Such an infusion of funds could also be delivered through a comprehensive infrastructure funding package that Congress may consider later this year.

### **The Water Infrastructure Finance and Innovation Act**

The federal government's newest water infrastructure financing program was established three years ago with strong bipartisan and bicameral support. Enacted as part of the Water Resources Reform and Development Act of 2014, the Water Infrastructure Finance and Innovation Act (WIFIA) pilot program is an innovative financing mechanism that will help communities nationwide pay for large-scale water and wastewater infrastructure projects. Through WIFIA, EPA will loan Treasury funds to cities and towns to carry out qualifying projects, but at a lower interest rate than the community would likely obtain on the bond market. All WIFIA loans will be paid back to the federal government with interest over the period of 35 years following substantial

completion of the project – thus providing affordability to local ratepayers and a return on investment to the U.S. Treasury.

Importantly, WIFIA will complement, not compete with, the existing SRF programs. Unlike the DWSRF, which typically delivers modest-sized loans to help communities respond to public health risks, WIFIA is intended to help communities finance large-scale water infrastructure improvements that may not be positioned to benefit from SRF assistance. For example, because the DWSRF gives preference to projects that address the most serious risks to human health, a significant portion of DWSRF loans often flow to small communities that require help to improve drinking water quality. But other projects that are not directly tied to SDWA compliance or health protection – such as investments to replace or upgrade aging infrastructure or to enhance the reliability and security of water supplies, particularly in metropolitan areas – often struggle to obtain SRF assistance in amounts that will meaningfully reduce total project costs.

A wide range of drinking water, wastewater, stormwater, water reuse, recycling, and desalination projects expected to cost in excess of \$20 million are all eligible for WIFIA loan assistance – with WIFIA funding available to cover up to 49 percent of the total project costs. WIFIA also accommodates smaller communities faced with lower-cost projects, as the program will offer loans to a project costing as little as \$5 million in a community of 25,000 people or fewer.

The next several months will mark an exciting time for WIFIA. Late last year Congress appropriated \$20 million to support WIFIA loans in 2017 – with \$3 million reserved to cover administrative expenses at EPA. EPA expects to leverage the

remaining \$17 million into more than \$1 billion worth of loans to communities across the United States. In January EPA subsequently circulated its first notice of funding availability to begin the process of soliciting WIFIA funding applications, with an April 10 deadline for communities to submit initial letters of interest that describe their potential WIFIA projects. This timeframe could allow the first WIFIA loan funds to get out the door to chosen applicants by the end of the year.

Looking ahead, WIFIA is authorized as a pilot program only through the 2019 fiscal year. Should WIFIA's initial round of funding prove successful, AMWA will urge Congress to quickly reauthorize the program to build on and sustain this initial momentum.

### **Tax-Exempt Municipal Bonds**

The most critical federal water infrastructure financing assistance mechanism is perhaps also the most overlooked during infrastructure policy discussions. And though decisions on the fate of this mechanism will ultimately be made outside of this committee, it is important for all members of Congress to be aware of its essential role in financing water infrastructure.

Since the federal tax code was established in 1913 interest earned on municipal bonds has been exempt from federal income taxes. According to the Congressional Research Service, tax-exempt municipal bonds are the most prevalent water infrastructure financing mechanism, with at least 70 percent of U.S. water utilities relying on them to pay for infrastructure improvements. And a study completed last month by AMWA and the National Association of Clean Water Agencies found that in 2016 alone



communities across the United States issued nearly \$38 billion in tax-exempt municipal bonds to finance water, sewer, and sanitation projects.

Municipal bonds make infrastructure investments more affordable for communities because the lack of a federal tax on their interest payments leads investors to charge lower interest rates than they otherwise would. These lower interest rates directly translate to lower financing costs, and thus more affordability for local water and wastewater ratepayers. Without this tax benefit, water and wastewater utilities across the country would pay about 25 percent more in financing costs over their bond payback periods – essentially an additional tax on water infrastructure investment that would be borne by water utility ratepayers of all income levels.

In Maryland alone, cities and towns across the state issued roughly \$46.5 million worth of tax-exempt municipal bonds to support water and wastewater infrastructure projects in 2016. AMWA's data indicates that fully taxing municipal bond interest would increase local financing costs on this debt by nearly \$20 million over the expected payback periods. Put another way, these increased financing costs represent about 42 percent of the value of Drinking Water and Clean Water State Revolving Fund assistance delivered to Maryland in 2016.

As Congress plans to consider a comprehensive tax reform proposal later this year, AMWA encourages members of this committee who prioritize affordable water infrastructure investments to stand up in support of tax-exempt municipal bond interest. Failing to maintain this effective and equitable subsidy would drastically increase the cost of water infrastructure financing and permanently reduce the affordability of water service to ratepayers in communities nationwide.

## **A Renewed Commitment to Water Infrastructure**

In addition to adequate funding, water infrastructure funding programs also require a renewed commitment from Congress. The Drinking Water State Revolving Fund should be reauthorized, giving Congress a chance to update and streamline the program to position it for continued success in the 21<sup>st</sup> Century. Some updates favored by AMWA include codifying water facility security enhancements as an eligible use of DWSRF funds, and allowing portions of metropolitan water utility service areas to qualify as a “disadvantaged community” that is able to receive additional subsidization.

More broadly, AMWA supports the framework of the Safe Drinking Water Act, and its regulatory process that reflects a careful balance of public health protections and local cost and feasibility considerations. But new EPA mandates may still pose affordability challenges in many communities, particularly among low-income households, so we believe Congress should consider options for a targeted low-income water rate assistance program.

Finally, AMWA believes water utilities should be recognized for taking steps to improve efficiency and adopting industry best practices. For example, communities that have completed water utility asset management plans should be awarded additional preference when applying for DWSRF assistance, and Congress should encourage the formulation of cooperative water utility partnerships that can improve the operations and management of water systems that have previously experienced compliance issues.

Again, AMWA appreciates the opportunity to testify on the importance of reinvestment and rehabilitation of our nation’s drinking water infrastructure. Continued

congressional support for the DWSRF, WIFIA, and tax-exempt municipal bond interest are all policies that will help our nation achieve this goal.

Thank you again, and I am happy to answer any questions from the committee.