COUNCIL OF INFRASTRUCTURE FINANCING AUTHORITIES

March 5, 2024

Janet Clements, Workgroup Co-chair
Cynthia Koehler, Workgroup Co-chair
Environmental Financial Advisory Board
Water Infrastructure and Resiliency Finance Center
U.S. Environmental Protection Agency
1201 Constitution Avenue NW
Washington, D.C. 20004

Re: Public Listening Session of the Environmental Financial Advisory Board (EFAB) Water Affordability Workgroup

Dear Co-Chairs Clements and Koehler:

Thank you for holding a listening session on the importance of providing affordable access to drinking water and wastewater services. The Council of Infrastructure Financing Authorities (CIFA) appreciates the opportunity to provide comments on this critical issue. CIFA represents the Clean Water and Drinking Water State Revolving Funds (SRFs), the nation's premier programs for funding water infrastructure that protects public health and the environment.

**The Clean Water and Drinking Water SRFs are proven financing tools for maintaining the affordability of household water and wastewater bills.**

The Clean Water and Drinking Water SRFs are state-federal partnerships that provide communities with subsidized loans to build infrastructure that provides safe drinking water and wastewater services. Reducing the cost of financing for construction alleviates pressure on utilities to raise rates on household water and wastewater bills for needed repairs, replacement and improvements to meet increasingly stringent water quality standards. Both SRFs also fund projects to recycle water for a myriad of purposes. The Clean Water SRFs funds projects to manage stormwater, including green infrastructure, and to restore and protect sensitive ecosystems.

SRF subsidized loans provide significant savings on investments in water infrastructure. Today, the average interest rate on a municipal bond is 3.65%; the average interest rate on an SRF loan is 1.25%. Compared to a municipal bond, communities save $3.1 million in interest payments for every $10 million borrowed from the SRFs. The SRFs also provide additional subsidy, in the form of principal forgiveness or grants, to build water infrastructure projects in communities that couldn't otherwise afford needed repairs, replacement or improvements.

The SRFs are fiscally responsible. These subsidized loan programs provide a renewable, recurring, protected and perpetual source of low-cost financing to build water, wastewater, recycled water and stormwater infrastructure. Every dollar deposited into an SRF must remain revolving in the program forever with loan repayments used to fund new infrastructure projects in perpetuity.

Since their inception, the SRFs, combined, have invested $215.9 billion to finance 64,562 planning and construction projects. As loan programs, the SRFs have $90.5 billion permanently revolving in the programs – more than total cumulative federal funding of $79.2 billion.

The SRFs are effective. These subsidized loan programs deliver funding to thousands of projects every year because federal law provides states with the flexibility to customize their programs based on the unique needs of their communities and ecosystems. States fund projects based on their priorities and can adapt more easily than federal programs to meet the ever-evolving needs for public health and environmental protection.

**Well-intentioned federal policies have unintended consequences that reduce infrastructure investment.**

Since 2009, Congress has established multiple mandates on SRF subsidized loans, which increases the cost of construction, project management and administration. Many of the federal mandates apply to water infrastructure projects funded with state funding. Small communities with a population of fewer than 10,000, who are the recipients of 70% of the loans, are least likely to be able to afford the higher costs and often lack the professional capacity to manage compliance with the federal mandates.

Mandates include:

- Wages for Construction Workers: All SRF borrowers must comply with Davis Bacon which requires contractors to pay the federal prevailing wage to laborers and mechanics on construction projects funded through the SRFs. In 26 states and the District of Columbia, borrowers must also comply with state prevailing wage laws, which is duplicative. While well-intentioned policy, the prescriptive process to demonstrate compliance is burdensome and adds to the administrative costs of project management for projects that receive SRF funding.

- Procurement of iron, steel, construction materials and manufactured products: SRF borrowers whose projects are designated for federal funding must comply with Build America, Buy America Act (BABAA), which requires iron, steel, construction materials and manufactured products used in projects to be made in America. While well-intentioned, these procurement requirements may prohibit superior or innovative technologies from being used in water treatment facilities that receive SRF funding.

- Procurement of iron and steel: All SRF borrowers must use iron and steel made in America for construction projects funded through the SRFs.

- Procurement of Architectural and Engineering Services: Borrowers of the Clean Water SRF whose projects are designated for federal funding must use the federal procurement process for selecting engineers. Established by the Brooks Act, the federal procurement process requires selection based solely on qualifications and prohibits the cost of services from being considered as a factor.

- Asset Management: Some borrowers of the Clean Water SRFs must develop a funding plan, known as a Fiscal Sustainability Plan, to maintain, repair and replace assets, along with a certification that energy and water efficiency measures will be implemented as part of the plan.

- Water and Energy Efficiency: All borrowers of the Clean Water SRFs must certify that the processes, materials, techniques and technologies used in the project maximize efficient water use, reuse, recapture and conservation and energy conservation. The sweeping nature of the mandate requires analysis and certification for projects that lack any potential for energy efficiency, such as gravitational sewer systems, or water conservation, which is a challenging goal when consumption isn't a component of the project. Again, small communities must often contract with engineers to conduct the analysis which drives up the cost of construction and project management.

| **Mandate** | **Enacted** | **Federally Financed Projects** | **State Financed Projects** |
|---|---|---|---|
| Davis Bacon | 2009 | ✓ | ✓ |
| American Iron and Steel | 2014 | ✓ | ✓ |
| Water and Energy Certification | 2014 | ✓ | ✓ |
| Fiscal Sustainability Plan | 2014 | ✓ | ✓ |
| Engineering Procurement | 2014 | ✓ | |
| Build America, Buy America | 2021 | ✓ | |

**Maintaining the integrity of the SRFs as subsidized loan programs is critical to addressing affordability in the long-term.**

Over the last decade, Congress has also required SRFs to give more of their annual federal funding in additional subsidy in the form of principal forgiveness or grants. Combined with "set-asides" which allow annual federal funding to be used for other programmatic activities, these mandates erode the long-term lending power of the SRFs.

For example, the Clean Water SRFs must provide at least 20% and up to 40% in additional subsidy with an additional 6% allowed for administration and technical assistance. Similarly, the Drinking Water SRFs must provide at least 26% and up to 49% in additional subsidy. Combined with "set-asides" for programmatic activities, 80% of annual federal funding for the Drinking water SRFs can be used for one-time expenditures rather than loans which revolve the federal funding.

While SRFs support the flexibility to provide principal forgiveness or grants, federal mandates limit the ability of SRFs to meet the legislative requirements of managing the fund in perpetuity. Additionally, states often have grant programs that are more flexible with fewer mandates to help small communities but are forced to finance their projects through the SRFs because of federal mandates.

Reducing annual federal funding for subsidized loans now reduces the availability of low-cost financing in the future. Maintaining affordable financing is essential for meeting the challenges of affordability.

**CIFA offers these guiding principles for development of recommendations:**

- Funding the SRFs to congressionally authorized levels of $3.25 billion in 2025 and 2026 will maintain access to affordable financing, now and in the future.

- Restoring and increasing flexibility for the SRFs is critical for maximizing the use of federal funding.

- Reducing federal mandates and streamlining compliance procedures for SRF borrowers is inextricably linked to maintaining the affordability of water bills.

Thank you for the opportunity to provide comments on the critical issue of affordability.

Sincerely,

Jeff Walker

CIFA President

**About CIFA**
CIFA is a national not-for-profit organization that represents the Clean Water and Drinking Water State Revolving Funds (SRFs), the nation’s premier programs for funding water infrastructure that protects public health and the environment.

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