Summary of a Proposal for an Enhanced Federal Water Infrastructure Assistance Program

H_20 (Help to Optimize Water) Coalition

February 16, 2001 Revision

What problem are we trying to fix?

- Current capital investment in water and wastewater (water) infrastructure is insufficient to replace and upgrade water treatment and pipeline facilities to meet existing as well as future replacement and regulatory needs. If capital investments are not increased by water and wastewater utilities, there will be a crisis in the near future (5-10 years) in many communities and cities served by these utilities. There may already be a crisis in some communities whose infrastructure has deteriorated to the point where the public is exposed to greater health risks.

- While there is not a consensus on the total investment needs for water and wastewater infrastructure, all agree they are very large, ranging from $250 billion to $1 trillion over the next 20 years.

- The needs of each water and wastewater utility and its ability to meet these obligations varies substantially because of differences in the size of the population served, customer income levels, age and composition of the facilities, and many other factors. In general, because they lack economies of scale, smaller utilities may have a more difficult time meeting the challenge than larger utilities.

- In some communities, water and sewer rates have not been set at a level that reflects the true cost of providing the service, including capital investments, even when these rates would be affordable. Failure to address this issue will perpetuate existing funding deficiencies that could lead to a "gap" and assure the utility will never be self-sustaining.

- In other communities, if customers were to pay for the increased capital investment for needed projects, the resulting rates would be unaffordable to some customers. This is a social problem with health and other implications that federal assistance can help address.

- Since federal funds are not unlimited, federal assistance should be directed to customers who are unable to pay the true cost of providing water and wastewater services.

- The most serious health or environmental problems, that communities cannot afford to address on their own, should be considered for federal assistance first.

- Because of their unique nature, combined sewer overflows (CSOs) and sanitary sewer overflows (SSOs) may require solutions different from those for traditional sanitary sewage collection and treatment services.

When should assistance be provided and what kind?

- Assistance should be provided to those utilities that have both an economic need and an actual or potential environmental or health problem. To demonstrate economic need, a utility should show, based on an agreed upon benchmark, that a substantial portion of their customers could not afford the rates that would have to be charged to meet the required capital investments. (Note: While operating and maintenance [O&M] costs must be included in determining affordability, in general financial assistance should not be provided for O&M costs. However, with some types of assistance, like water or sewer bill subsidies, one would not be able to distinguish precisely what costs were being supported.)

- Funds for water and wastewater assistance should be split evenly between the two programs, although flexibility to transfer funds between the two programs should be allowed.

- States must match the federal capitalization grant with a 20% state share (same match as in the SRF Program).

- A mix of federal assistance should be available to meet the different problems encountered and all utilities, regardless of ownership, should be eligible. The states should be empowered to use the different kinds of assistance to effect long-term solutions that cost-effectively use federal dollars. Assistance can include:

    - Low interest loans (including forgiveness of varying amounts of interest and principal depending on need).

    - Water bill payment assistance for low-income families (like the Low Income Home Energy Assistance Program under HUD for home heating and cooling bills).

    - Grants
        - The federal cost share of a project should not exceed 50% to assure sufficient ownership in the project by the recipient of the federal assistance.
        - States may not use more than 30% (same % as in the SRF Program) of their federal capitalization grant for combined grants and forgiveness on loans. This will assure assistance funds are not depleted over the long term and the industry does not become dependent on them.

    - Private activity bonds (current state bond caps should be eliminated for water and wastewater projects).

- Guarantees and insurance payments for municipal and private financing.

- Assistance should not impede innovation nor inhibit the right of the recipient to consider life cycle costs and quality in the selection of technology and products best suited for the project.

How should the program be structured and implemented?

- The best mechanisms for providing loans and grants are modified and expanded State Revolving Loan Fund (SRF) Programs under the Safe Drinking Water Act (SDWA) and the Clean Water Act (CWA). The Drinking Water SRF Program has a number of important innovations and has worked reasonably well at integrating all the assistance options into a long-term solution. While improvements can be made, it is a good model to start with. A new separate assistance program is not favored because it would likely compete with the current SRFs, encounter jurisdiction barriers in those states with separate SRF programs, and unnecessarily disrupt the marketplace during the transitional period, for no apparent gain.

- As with the current SRF, the states should administer the program.

How should assistance packages be structured?

- Private solutions such as public-private partnerships should be carefully considered and evaluated by the states in assembling an assistance package. To encourage the states to get the most out of the federal funds available, states, who reduce the amount of federal assistance on individual projects by leveraging private sector funds and solutions, should get additional federal funds during the next funding cycle to recognize their more efficient use of the federal monies. The additional funds would come from an incentive pool assembled for this purpose and derived from the federal monies.

- To minimize the drain on the federal treasury over the long term, utilities receiving assistance should be required to move towards charging their customers full cost of service rates, to assure that all who can afford to pay do so. This will send appropriate price signals to customers and assure the utility is doing all it can to address capital needs.

- If long term subsidies are needed, water bill assistance should be considered so only those that can't afford to pay their entire water bill are subsidized.

- Utilities receiving assistance must be able to demonstrate they will remain or become viable with the assistance. In addition, they must show that they have an adequate capital budgeting and investment process.

- Assistance should fund solutions for problems confronting existing customers not growth.