COUNCIL OF INFRASTRUCTURE FINANCING AUTHORITIES

Water Infrastructure Financing: WIFIA and the Clean Water State Revolving Fund
Committee on Transportation & Infrastructure
Subcommittee on Water Resources and Environment
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Testimony of
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On behalf of the Council of Infrastructure Financing Authorities (CIFA)

Chairman Collins, Ranking Member Wilson and members of the Committee, thank you for the opportunity to testify before you today on behalf of the 51 Clean Water State Revolving Funds (SRFs), the nation's premier programs for financing water infrastructure that protects human health and the environment.

My name is Jeff Walker and I served as Executive Administrator for the Texas Water Development Board, which manages the Clean Water SRF in the Lone Star State, for eight years before retiring last year. I also served as President of the Board of Directors of the Council of Infrastructure Financing Authorities (CIFA), which is a national not-for-profit organization of the Clean Water and Drinking Water SRFs.

The Clean Water SRFs asked me to deliver four messages today.

First, the Clean Water SRFs love loans. Federally subsidized, low interest loans are a fiscally responsible investment in clean water infrastructure that protects human health and the environment. Federal funding allows the SRFs to maintain affordable interest rates and provide principal forgiveness and grants to communities that couldn't otherwise afford to pay for a water infrastructure project, both of which directly impact household water bills.

Second, Clean Water SRF loans save real money – now and in the future. A low interest SRF loan can cut the cost of financing by more than 50%, which directly impacts today's household wastewater bills. At the same time, loan repayments help build a permanent and sustainable source of revolving funds to provide affordable financing for water infrastructure projects in the future, impacting future household wastewater bills.

Third, the Clean Water SRFs are effective because the programs are customized by states to meet the unique needs of the communities they serve. SRFs pick the projects based on state priorities, set the interest rates based on state economic factors, and determine the eligibility for principal forgiveness and grants based on state demographics.

Fourth, congressional mandates on Clean Water SRF loans, no matter how well-intended, increase the cost of clean water infrastructure, which can also directly impact household wastewater bills. Providing greater flexibility to state-run Clean Water SRFs can reduce costs for construction, compliance and administration of projects, while maintaining protection for human health and the environment.

Reliable access to affordable financing from the Clean Water SRFs is essential for maintaining and strengthening public health, especially in small and rural communities.

The Clean Water SRFs provide below market, low interest loans to communities to build infrastructure that provides household wastewater services, recycles water to safely reuse it, and removes harmful contaminants from stormwater and agricultural runoff. This core public health infrastructure protects water quality in oceans, lakes, rivers and streams, making these water bodies safe for swimming, fishing, kayaking and other recreation.

More than half of Clean Water SRF subsidized loans (55%) are provided to communities with populations of less than 3,500, many of whom can't qualify or will pay higher interest rates in the municipal bond and private lending markets. Without financing from the Clean Water SRFs, these communities are more likely to experience unreliable household wastewater services and poor water quality, which can result in exposure to deadly and debilitating waterborne diseases that are preventable.

Fully funding the Clean Water SRFs to congressionally authorized levels of $3.25 billion in 2025 and 2026 is a fiscally-responsible investment in public health and disease prevention.

Federal funding for the Clean Water SRFs is a catalyst for increased investment in clean water infrastructure. Appropriations, while provided in the budget for the U.S. Environmental Protection Agency (EPA), simply pass through the agency and are sent to the states based on a statutory allotment formula. States provide a 20% match for federal funding. Borrowers contribute to the long-term lending capacity for future projects by paying modest interest on the subsidized loans.

As loan programs, the Clean Water SRFs provide a permanent, recurring source of revenue to continually reinvest in the never-ending need to build, rehabilitate and modernize clean water infrastructure. Since Congress established the Clean Water SRFs, $52 billion in cumulative federal funding has generated more than $171 billion in financial assistance for water infrastructure with $64 billion of that total funding permanently revolving to finance future projects. Today, the Clean Water SRFs are continually reusing decades-old appropriations to finance new projects, many of which may have gone unfunded had a traditional grant program been established instead of a loan program.

Reauthorizing the Clean Water SRFs at increasing levels through 2036 will reaffirm the nation's commitment to clean water and public health. With population growth, more stringent regulation, and higher post-pandemic costs, more federal funding is needed to replace aging infrastructure, modernize facilities and invest in innovative treatment technologies to meet increasingly rigorous water quality standards as well as to simply keep pace with inflation.

However, reauthorization levels are meaningless if Congress continues to divert annual federal funding from the SRF capitalization grants. Since congressional earmarks returned in 2022, more than $2 billion has been diverted from the Clean Water SRFs to pay for Community Projects and these cuts are not offset by federal funding for congressional projects. For example, *net* federal funding for clean water infrastructure in Texas – SRFs and Community Projects – has been cut by more than $11 million over the last three years.

Clean Water SRF loans save money – a lot of money – which helps utilities keep household wastewater bills affordable.

SRF below market loans provide meaningful savings on the cost of financing for clean water infrastructure. For example, a community with an A rating would pay $9.5 million in interest payments on a 20-year, $20 million municipal bond at today's rate of 4.1%. By comparison, the same community would pay $4.1 million in interest payments for a Clean Water SRF loan for the same amount with the same term at the 2024 average SRF interest rate of 1.9% – a savings of $5.4 million, more than half the cost of financing. These significant savings benefit the bottom line and alleviate the pressure on utilities to raise rates on household wastewater services.

The Clean Water SRFs achieve results because the programs are run by states, not by a distant and desensitized federal bureaucracy.

The Clean Water SRFs are customized, under a broad federal framework, to meet the diverse health, environmental and economic needs of communities across the country. SRFs, who have a better understanding of the needs in their state, pick and prioritize the projects, which ensures funding goes to the highest and best use. SRFs establish their own interest rates, affordability criteria, and application procedures. SRFs align to state laws to provide a more seamless experience for communities, especially small and rural communities who often struggle to navigate a maze of funding opportunities.

Because of this decentralized approach, the Clean Water SRFs are more efficient, cost-effective and responsive to the ever-changing needs of their communities and constituents than a one-size-fits-all federal program. Under the SRF state-federal partnership, the Clean Water SRFs have provided an average of 1,738 loans per year over the last three years – a level of performance that would be difficult to achieve by a federal program.

However, SRFs have concerns about attempts to use agency guidance and annual evaluations of the SRFs based on non-statutory "expectations" to incrementally federalize the programs, which would diminish the efficiency and effectiveness of the programs.

Congressional mandates on SRF loans increase the cost of clean water infrastructure, which are passed onto households in higher wastewater bills.

In addition to providing low interest rates, the Clean Water SRF loans, originally, were also low-cost. However, a proliferation of congressional mandates over the last 15 years has increased both the cost and complexity of a Clean Water SRF loan. The increased cost of construction, administration and compliance from congressional mandates erodes the savings of SRF subsidized loans, which means higher wastewater bills for consumers.

Today, congressional mandates impact nearly every aspect of an infrastructure project financed by a Clean Water SRF loan, including planning and design, procurement of engineering services, wages for construction workers, and the eligibility of building materials. Congressional mandates not only increase the cost of goods and services, but compliance with the multiple federal mandates is often complicated, especially for small and rural communities who often lack full-time professional staff to manage a loan for a capital improvement project. Additionally, most congressional mandates apply to water infrastructure projects funded by state taxpayer funds as well as federally funded projects.

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	✓	

More importantly, congressional mandates may not be achieving Congress' well-intended public policy goals. For example, three congressional mandates in the Water Resources Reform and Development Act of 2014 increase process and paperwork but may not increase protection for public health or accountability for taxpayer funded projects.

Fiscal Sustainability Plan with Green Certification

The Clean Water Act requires SRF borrowers to develop and implement an asset management plan for the water infrastructure project that's being financed and certify implementation of water and energy conservation as part of the plan. However, this congressional mandate only applies to borrowers of about half the SRFs – the ones providing direct loans, not the ones purchasing debt.

Asset management optimizes operations, cuts costs, and reduces the risk of catastrophic failure, which is why SRFs implement a range of incentives to encourage the development of full-facility asset management plans. Incentives include GPS mapping of assets in small and rural communities, bonus points to applicants with asset management plans, and grants to develop an asset management plan. These incentives are achieving more meaningful accountability for taxpayer funds than the one-size-fits-all congressional mandate which is inconsistently applied across the country.

Green Certification (often referred to as the Cost and Effectiveness Analysis)

The Clean Water Act requires SRF borrowers to certify that they have selected the processes, materials, techniques and technologies that maximize efficient water use, reuse, recapture and conservation and energy conservation based on a cost and effectiveness analysis. This one-size-fits-all congressional mandate applies to all projects, including projects that don't use electricity such as gravitational sewer systems, and to renewable energy and water reuse projects, which are specifically designed to achieve the goal of the congressional mandate.

Increased water and energy efficiency improves operations, stabilizes or lowers costs, and can even generate new revenue, which is why the Clean Water SRFs fund standalone water reuse projects, water efficiency projects and renewable energy projects. Additionally, many utilities incorporate water and energy efficiency into their projects because these components improve service and benefit the bottom line. The value of water and energy efficiency is firmly instilled across the water sector and will not be eroded if the congressional mandate is sunset.

Engineering Procurement Requirement

The Clean Water Act requires Clean Water SRF borrowers that are designated as equivalency projects[1] to use the federal procurement process for selecting architects and engineers, known as the Brooks Act. States that certify that their state procurement process is aligned to the Brooks Act ("Mini-Brooks Act") can use their state procurement process instead of the federal procurement process.

[1] Equivalency is the process of assigning certain federal requirements to SRF projects that, combined, receive funding equal to the amount of annual appropriations.

States that don't align with the Brooks Act, about one-third, must implement both the federal and state procurement processes or develop workarounds to reduce the burden on borrowers. For example, some SRFs issue separate assistance agreements, funded by state match or loan repayments, for engineering services. In other states, borrowers, particularly those in small and rural communities, simply don't access the SRFs for planning and engineering because of the congressional mandate.

Closing Thoughts

The Clean Water SRFs are a national model for federal investment in infrastructure. Congress created the state-run low interest loan programs to replace the Construction Grant program, an expensive and unsustainable federal program that bypassed states and provided grants directly to wastewater utilities.

Under the SRF framework, federal, state and local governments share responsibility for ensuring our citizens have adequate wastewater systems and our streams, rivers and water bodies remain pollution free. Because states are closest to the borrowers and rate payers, they are best positioned to determine how to spend the money to efficiently and effectively meet the unique needs of their communities and constituents.

Increasing federal funding for the Clean Water SRFs may show up in EPA's budget but appropriations simply pass through the agency before being sent to states. However, cutting federal funding for the Clean Water SRFs directly impacts the ability of states and local communities to deliver affordable financing for essential wastewater and stormwater services to their constituents.

Finally, rising costs, inflation, congressional mandates, and loss of base capitalization grants have eroded the ability of communities to access and utilize affordable financing from the Clean Water SRFs, one of the most successful federal and state partnership programs in the nation's history. We urge you to reauthorize and fully fund the Clean Water SRFs, allow states to manage their programs however it works best for your shared constituents, and reduce the regulatory burden on borrowers, which is borne by the citizens through increased costs and time to deliver essential services.