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Before the
House Committee on Transportation and Infrastructure,
Subcommittee on Water Resources and Environment

Hearing on
"Water Infrastructure Financing: WIFIA and the Clean Water State Revolving Fund"

March 11, 2025

Good morning, Chairmen Graves and Collins, Ranking Members Larsen and Wilson, and Members of the Water Resources and Environment Subcommittee.

My name is Mike Matichich, and I am a Global Principal for Economic and Financial Services at Jacobs Solutions.

I want to thank you for this opportunity to testify today as you examine the Water Infrastructure Finance and Innovation Act (WIFIA) and the Clean Water State Revolving Fund (CWSRF) loan programs. I would also like to thank the U.S. Chamber of Commerce for their leadership and for helping to make my testimony possible.

We like to say at Jacobs that we're "*challenging today to reinvent tomorrow by solving the world's most critical problems*," and addressing challenges to aging water infrastructure, emerging contaminants and water scarcity has never been more complex. As one of America's leading consulting and advisory firms, Jacobs approaches water challenges through what we call a OneWater lens – by viewing the entire water lifecycle and developing integrated, holistic solutions that provide comprehensive benefits to communities across the country and around the world. As part of this, Jacobs is proud to support communities in implementing affordable financing strategies to provide safe and clean water for their citizens.

My career to date has provided me the opportunity to work as an economic and financial planning consultant to the water and wastewater industry for more than 40 years. Over that time, I have focused on helping water, sewer and stormwater utilities develop strategic, implementable financing plans for their capital programs, while keeping rates affordable to customers. Additionally, I have had the pleasure of serving as Chair of the Affordability Subcommittee to the American Water Works Association's Rates & Charges Committee for ten years (2013-2023).

My experience addressing funding and financing challenges for water and wastewater infrastructure began in 1979 when I conducted financial evaluations for the Milwaukee Metropolitan Sewerage District (MMSD) as part of their Water Pollution Abatement Program[1]. This program, which sought to make major improvements to the regional wastewater treatment system to reduce sewer overflows into Lake Michigan, relied on a combination of Federal and State funding, local borrowing, taxes and fees to support over $3 billion in improvements. Over the ensuing four decades, most communities have also needed to combine multiple funding sources to fully fund their large capital programs. While the water infrastructure need has only grown, the investments and financial tools established by Congress have enabled communities to advance needed projects to protect people and the environment.

[1] MMSD History - https://www.mmsd.com/about-us/history

The Need for Federal Investment in Water Infrastructure:

We at Jacobs, and the communities we serve, are deeply grateful for the continued commitment from Congress to fund federal water infrastructure programs. The massive investment into the CWSRF by the *Infrastructure Investment and Jobs Act* (IIJA), as well as the continued appropriations for the WIFIA program, are crucial tools for States, Tribes and localities to address growing capital investment and capacity development gaps, and rising affordability challenges. Additionally, many private industries and the communities where they operate also depend on Federal investments for supplies of clean, safe water. Even in this time of significant budgetary pressures, the need for sustained federal investment in water infrastructure is crucial now more than ever. According to the most recent Clean Watersheds Needs Survey, EPA estimates $630 billion in nationwide need for clean water infrastructure investments over 20 years[2], a 73% increase since the last survey was completed in 2012. Additionally, the American Society of Civil Engineers' (ASCE) most recent infrastructure report card identifies an $81 billion gap in annual capital investment needs for water infrastructure spending[3]. Combining all the stressors that contribute to this growing investment gap – aging assets nearing or exceeding their expected lifespans, growing regulatory requirements to ensure clean and safe water, deferred maintenance backlog resulting in water loss and unreliable service, and operational and infrastructure

[2] 2022 Clean Watersheds Needs Survey - https://www.epa.gov/cwns
[3] 2021 Report Card for Americas Infrastructure: Wastewater - https://infrastructurereportcard.org/cat-item/wastewater-infrastructure/

damages from natural disasters – underscores the importance of addressing these critical water infrastructure challenges.

Background on CWSRF and WIFIA Programs:

The creation of the CWSRF loan program in 1987 as part of the amendments to the *Clean Water Act* provided a mechanism that has become a fundamental part of finance for many of the water and wastewater programs I have supported. The low interest rates and terms of 20-30 years have helped many important projects move forward; the revolving nature of most of the funds distributed through both the Clean Water and Drinking Water SRF programs has created a growing pool of funds for the states to loan out to applicants over the years. Since the CWSRF's creation, the federal investment of $52.4 billion has resulted in $172 billion in assistance provided to communities across the country[4], and over 60% of all awarded agreements have gone to assist communities with 10,000 people or fewer[5]. The CWSRF program is a true federal-state partnership that gives States needed flexibility to address their unique water infrastructure needs and offers various types of assistance and loan terms to help communities cost-effectively implement their clean water projects.

[4] CWSRF 2023 Annual Report - https://www.epa.gov/system/files/documents/2024-10/2023-cwsrf-annual-report.pdf
[5] Clean Water SRF Program Information: National Summary - https://www.epa.gov/cwsrf/ clean-water-state-revolving-fund-cwsrf-national-information-management-system-reports.

The creation of the WIFIA program in 2014 by this Committee was a very important addition to the suite of federal assistance for water infrastructure. The WIFIA program filled a needed gap in the water finance landscape by broadening assistance to a wide range of borrowers and project types and giving larger projects access to credit assistance that otherwise would have been difficult to obtain through the SRF programs. The WIFIA program also offers important financing advantages, including a 35-year repayment period, the ability to delay repayment for up to five years after substantial completion of construction, and a fixed interest rate for the full five-year implementation period for projects.

I have had the opportunity to help several communities secure WIFIA loans since the inception of the program, totaling approximately $2 billion in eligible project value. The WIFIA loans for most applicants can fund up to 49% of the eligible project costs, and the communities I have worked with have used various sources of funding for the 51% matching share. For example, the City of Chattanooga, TN and the City of San Mateo, CA have combined WIFIA loans with SRF loans, which helped maximize project savings. These projects also used other funding streams from revenue bond and general obligation bond proceeds, grants, and equity sources to complete their financing package.

Benefits of the WIFIA Program:

Since the start of the WIFIA loan program in 2017, I have observed some important revisions and innovations that are essential reasons for the continued strong interest in and use of this program. These include:

- Combination of Projects
- Master Agreement
- Opportunity to Renegotiate Rate
- Rolling Applications
- Considerations for Small Communities

In the first couple of years of the WIFIA program, EPA received multiple Letters of Interest (LOIs) from agencies interested in advancing more than one project through the program. This created several inefficiencies for both EPA and applicants. For example, EPA had to review separate, duplicative LOIs for each project, even though much of the financial and demographic information for the LOIs from the same applicant was the same. Applicants in those early years also had to pay separate $100,000 application review fees when submitting full applications to EPA for review. By introducing the "Combination of Projects" option, the WIFIA team provided opportunities for significant efficiencies. For example, Jacobs supported the City of Chattanooga's "Clear Chattanooga" program[6] to reduce sewer overflows in the Tennessee River. This program involved the rehabilitation and upgrade of various pump stations and treatment facilities across Chattanooga. By utilizing a WIFIA loan, the City combined four wastewater projects that could be completed

[6] Clear Chattanooga – https://clearchattanooga.com/

within a common five-year implementation window into a Combination of Projects application, thus benefitting by the efficiencies of a single application and a single application fee for a total WIFIA loan of $186 million[7].

Several years after the Combination of Projects option, EPA added the opportunity to request and negotiate a Master Agreement, under which separate tranches of loans with five-year implementation schedules could be negotiated. This enabled applicants with longer term capital programs to arrange for assured financing for up to 49% of the cost of the programs; those agencies could then plan for the remainder of the needed financing with almost half of the financing already in hand. The first Master Agreement was executed with the Hampton Roads Sanitation District (HRSD) in Virginia in September 2020[8]. In that agreement EPA agreed to provide 49% of the financing for a $2.2 billion compliance program, where the $1 billion in WIFIA loans was divided into three tranches of loans over a 12-year project execution period. The Master Agreement option has proven useful not only for very large programs like HRSD, but also for smaller programs that don't readily fit within a single five-year construction window.

[7] WIFIA Program Fact Sheet: City of Chattanooga, Tennessee – https://www.epa.gov/system/files/documents/2022-12/WIFIA-Factsheet_Chattanooga.pdf
[8] EPA Factsheet WIFIA Loans Under a Master Agreement, 2021.

The WIFIA program's flexible financial terms have cost-saving benefits to communities, even when borrowing costs become cheaper. When municipal bond interest rates dropped to historic lows in 2020, EPA kept the WIFIA program relevant by adding a one-time opportunity for renegotiation. Loan awardees were able renegotiate their loan terms if the U.S. Treasury interest rates fell below the rate that had been negotiated for the WIFIA loan and no reimbursements had been provided yet on the loans. In more recent years, as U.S. Treasury rates increased along with municipal bond rates, the renegotiation option remains important because it gives applicants continued flexibility if the interest rate environment becomes more favorable. As of September 2024, 11 WIFIA loan holders had taken advantage of the renegotiation opportunity, with an estimated $1.5 billion in savings to these applicants in reduced interest costs[9].

During the first several years of the WIFIA loan program, there was a date certain when LOIs were due, timed to be 90 days after the Notice of Funding Opportunity (NOFO) was published in the Federal Register. EPA would receive 50-75 LOIs and would take 3-4 months to review them and decide which applicants to invite to submit full applications. EPA realized it would help both applicants and the workload for its staff by moving to a rolling application calendar. In 2023, EPA initiated the rolling application process, where LOIs would be reviewed and responded to as long as there were remaining funds to offer

[9] 2024 WIFIA SRF Workshop Report, page 6.

loans to applications, which cut down response times considerably. Three communities that I have been working with this year received the results of their LOI applications within 4-5 weeks of submission, and this has helped communities accelerate development of the full applications to keep momentum going in securing financing for important, time-sensitive projects.

The WIFIA loan program has always offered some special considerations to applicants from small communities and systems with service populations of 25,000 or less. From the start of the WIFIA program, these small applicants could submit LOIs for projects with total eligible project costs of $5 million, compared with the $20 million minimum required for larger applicants. During the initial years, there were few applications from small communities, in part because of the rigorous, significant effort to meet the requirements of the two-part application process and then work through the development of the term sheet and loan agreement with EPA and satisfy all the post-award reporting. To make the WIFIA program more attractive to small applicants, EPA has introduced several refinements to the program. Small applicants can now qualify for WIFIA loans of up to 80% of eligible costs, and the application review fee due at the time of submission of the full application is $25,000 rather than the $100,000 that is required from other applicants.

Challenges to Small Systems:

While these refinements to the WIFIA program have led to more interest, it hasn't significantly increased the number of closed loans by small community applicants. I believe this is, in part, due to affordability considerations. Small systems face higher costs per customer than large systems in providing water and sewer service primarily due to scale economies when building treatment facilities and primary conveyance networks. The challenges of higher per-unit costs for small systems extends beyond capital needs, as small systems generally struggle to attract and retain a skilled workforce to manage complex water treatment processes and to meet regulatory and compliance requirements. As a result, even with the flexible financing allowed by the WIFIA program (e.g. 35-year repayment, and delay in repayment past substantial completion of construction), we are always cognizant of the customer affordability challenges communities have in repaying WIFIA loans. This is especially true in our current financing climate with WIFIA interest rates hovering between 4-5 percent in line with the current U.S. Treasury rate. However, it is worth noting that despite these challenges, financing options through the CWSRF and WIFIA programs are the most affordable financing options for communities, especially when compared to municipal bonds and other debt and equity options.

Recommendations for Improvement:

As a further refinement to make the WIFIA loan program more useful for small applicants, I would suggest consideration of a subsidized interest rate for these applicants, such as two-thirds of the U.S. Treasury rate on the date of loan closing. This would closely mirror the consideration given to small systems in the SRF programs. Even small water systems can have costly capital needs and compliance requirements that the SRF programs cannot easily finance, and making WIFIA more accessible would go a long way in closing the investment gap while keeping rates affordable for customers.

Utilizing the CWSRF and WIFIA programs to strengthen the long-term capacity of communities to address their water infrastructure challenges is paramount. Jacobs is proud to partner with the U.S. Water Alliance in their role as an EPA-approved Environmental Finance Center. We support the U.S. Water Alliance and utility organizations by providing planning, project and program management, funding and financing management, and engineering and technological services. This not only helps applicants with applying for and securing funding through the CWSRF and WIFIA programs, but also improves capacity development and allows for seamless delivery of projects from concept to completion. EPA's Environmental Finance Centers and their technical assistance providers are crucial to helping communities improve their public health and safeguard the environment, and we strongly urge this Committee’s continued support of this program.

Additionally, the CWSRF and WIFIA programs can be refined to provide on-ramps for water systems with limited technical, management or financial capacity to get projects ready for construction. Expanding preconstruction financing opportunities enables water systems to kickstart planning work to demonstrate readiness for construction as early as possible in the project lifecycle to quickly access CWSRF, WIFIA, or other financing opportunities. Multiple States have developed their own preconstruction financing programs that can be replicated as successful models across the country.

Conclusion:

As someone who has been involved in water and wastewater infrastructure for more than 40 years, I want to conclude by saying the backlog of critical infrastructure needs continues be an urgent national challenge and an important national priority. The CWSRF and WIFIA programs are a vital part of the financing solution to this challenge, by helping many water systems address compliance and community driven needs that are essential for the health and welfare of our citizenry and to provide an important foundation for economic growth and sustainability for our communities.

Thank you again Chairmen Graves and Collins, Ranking Members Larsen and Wilson, and Members of the Water Resources and Environment for the opportunity to testify.

I look forward to your questions.