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vision

Bridging the Funding Gap

The need for greater federal investment in
wastewater infrastructure



My Message Today

Everyone agrees that a water infrastructure funding gap is a reality.

Water infrastructure is a public good and a national priority.

EPA's market-based solutions would help but a large gap still remains.

The US has committed to fund nearly every other type of critical national infrastructure through trust funds and dedicated fees.

Water infrastructure is as high a national priority as transportation.

America Deserves a Clean Water Trust Fund



The Problem

- The vast network of sewer pipes and facilities are aging and in need of repair/upgrades.
- Additional regulatory mandates and enforcement actions are adding enormous expenses to already cash-strapped communities.
- Global economic growth is pushing the cost of material, resources and expertise higher.





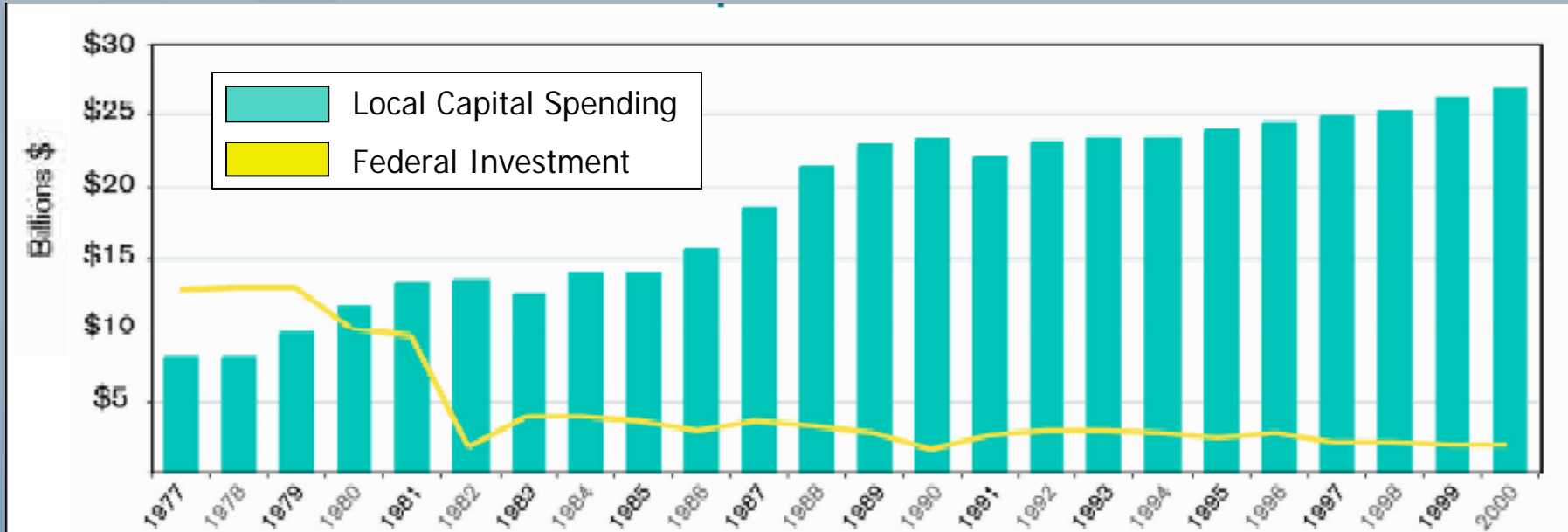
Funding Gap




- The cost of repairing, rehabilitating, and maintaining clean water infrastructure has risen dramatically while federal funding has been slashed
- EPA, GAO, and WIN report a \$300 to \$500 billion gap between what is being spent and what needs to be spent on our aging clean water infrastructure
- According to EPA, if left unaddressed, we could see a return to pre-Clean Water Act levels of impairment by as early as 2016



Need Grows -- Federal Share Falls



- The 78% federal share in 1978 is only about 3% today
- Municipalities spend \$63 billion annually on clean water infrastructure – second only to education



But, What About All of EPA's Solutions?

Let's look at each "class" of solution one by one and explore whether and how they narrow the funding gap

- Better utility management
- Customized financing tools and approaches
- More efficient water use
- Watershed-scale strategies





Better Utility Management



- **What:** Asset management, EMS, cost-effective technologies, design-build delivery, public-private partnerships
- Sure, all of these approaches can reduce costs of capital and/or O&M
- But, much of the gains have already been captured and **estimates of “the gap” already take O&M efficiencies into account**, whether delivered by public operators or private contract managers.
- If we're generous, **perhaps another 5-10% could be taken out of future costs** from some combination of more efficient technologies, more efficient O&M, and reduced costs of construction through design-build.
- **90% of the gap remains**



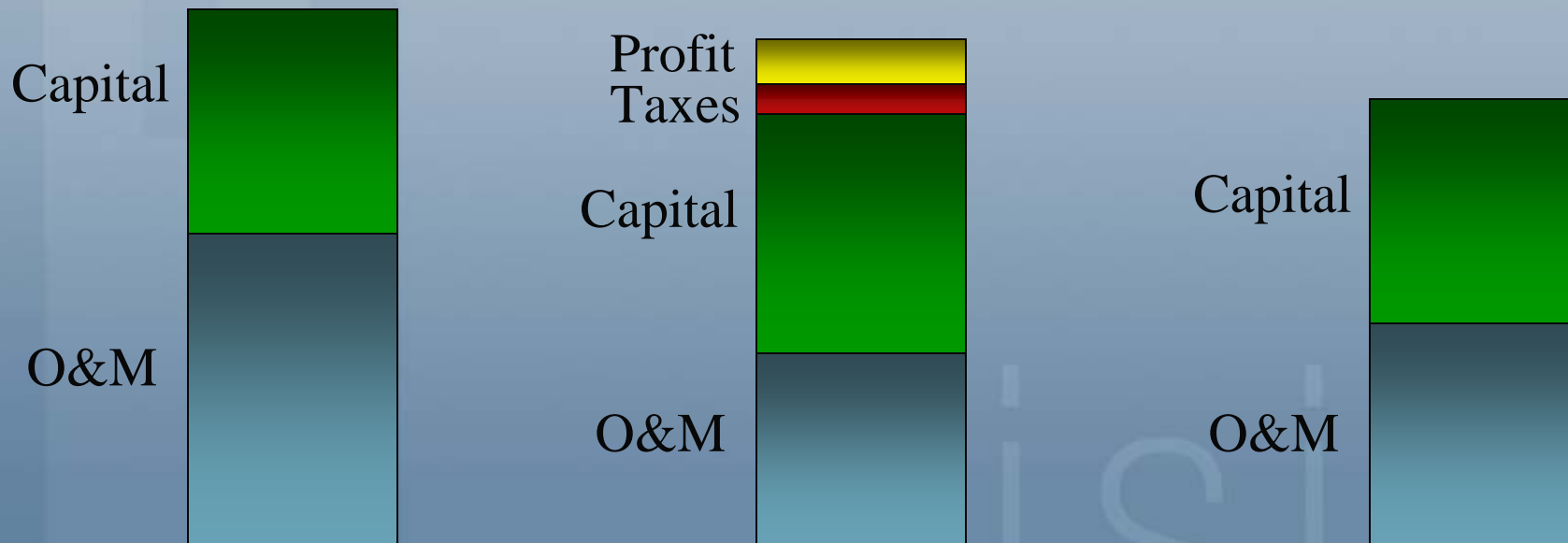
Let's Be Clear About Public-Private Partnerships

An efficient public wastewater utility reduces total costs of service further and frees up more capital for investment than an efficient private utility

Inefficient Public

Efficient Private

Efficient Public





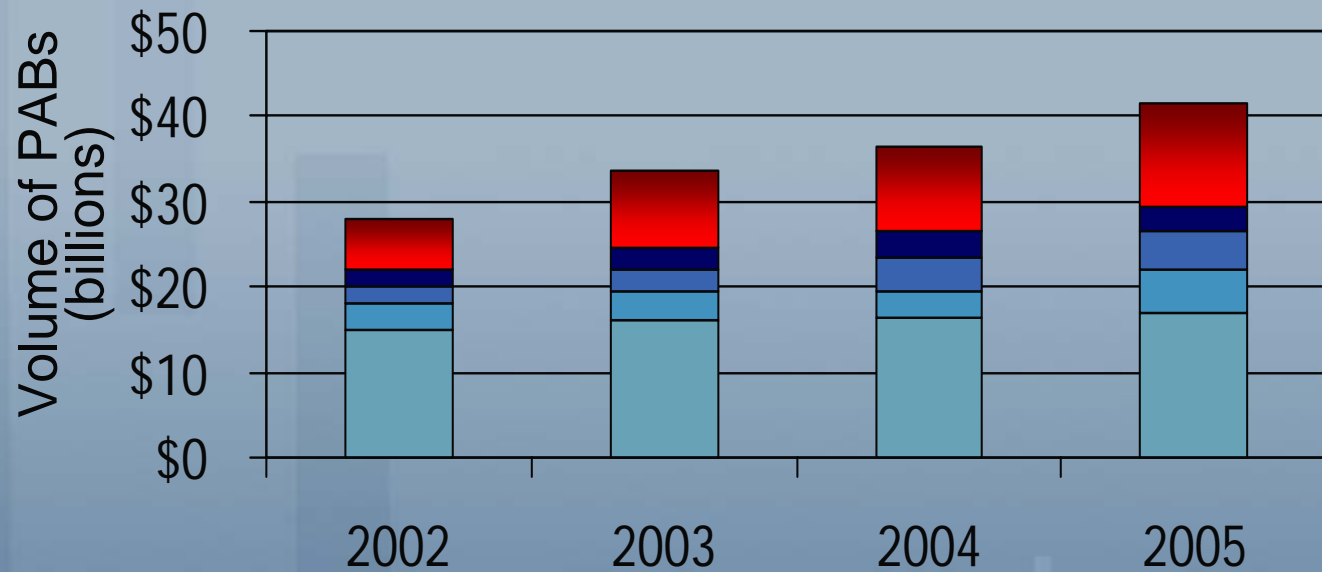
Customized Financing Tools and Approaches

- **What:** Full-cost pricing, SRF leveraging, private activity bonds, tax credits for private investments, tax-increment financing, tradable development rights, etc.
- Sewer rates already recover all O&M and capital costs in current budgets. The only costs unrecovered are capital investments some communities can't afford.
- Leveraging SRFs further will increase funding, so within existing limits, let's do more of that.
- Reducing the cost of capital through "boutique" financial approaches could address specific needs, but mostly for cities with growing tax bases and estimates of funding gap do not include growth.
- **85% of the gap remains.**



Let's Be Clear About Private Activity Bonds

There is no evidence that state volume caps on private activity bonds have restricted issuance of “exempt facility” bonds, of which wastewater is one type



Number of States with Unused Capacity By Year

2002.....	46
2003.....	47
2004.....	46
2005.....	49





More Efficient Water Use

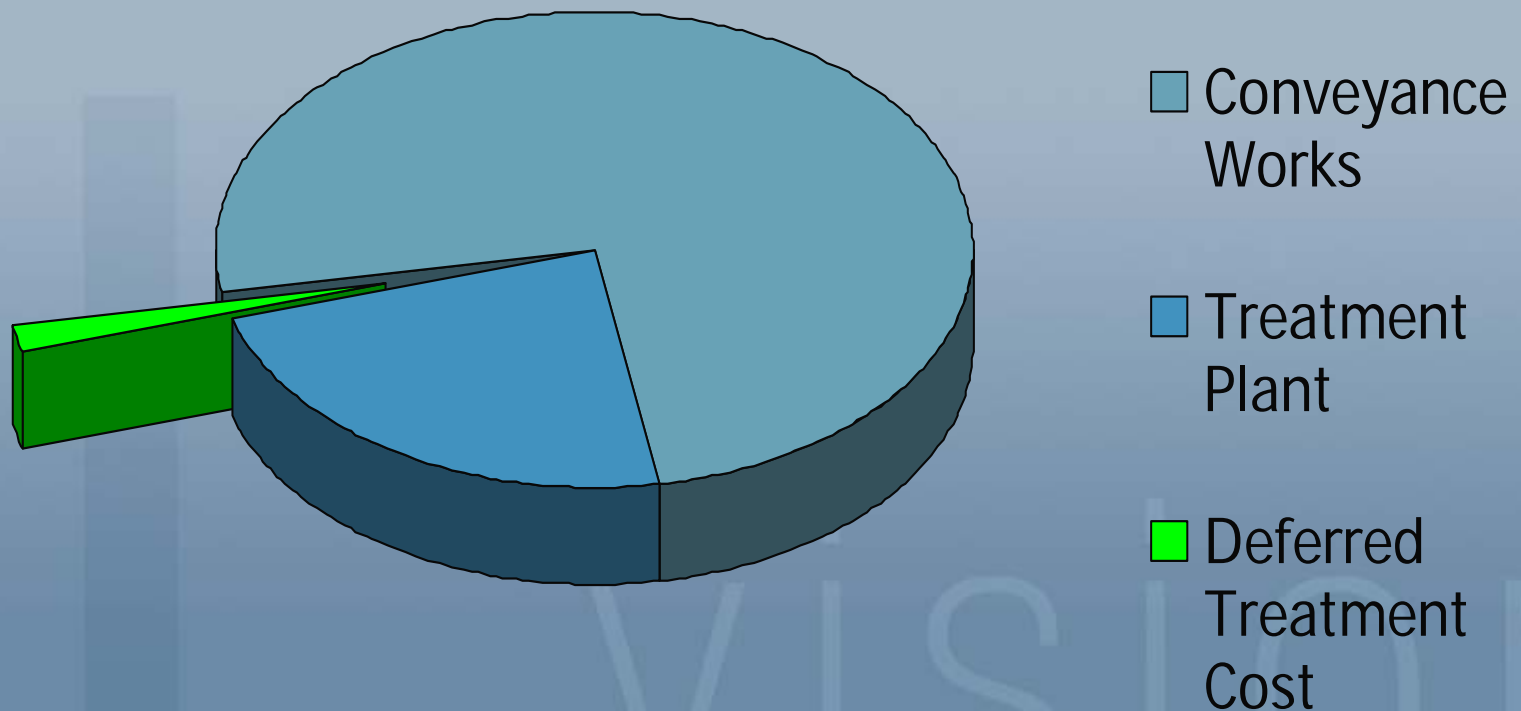
- **What:** household, commercial, and industrial water conservation and use efficiency programs
- Great idea to cut O&M costs in the short run, freeing up capital to fund more infrastructure
- But it's a short-run adjustment, which reduces need to invest today in growth-related infrastructure – but, estimates of the gap do not include a component for growth
- **85% of the gap remains**





Let's Be Clear About Water Conservation

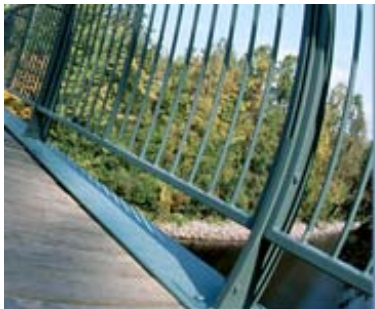
By reducing demand on treatment plants, water conservation can at best, defer investments in capacity expansion, but in the long run, nothing else changes



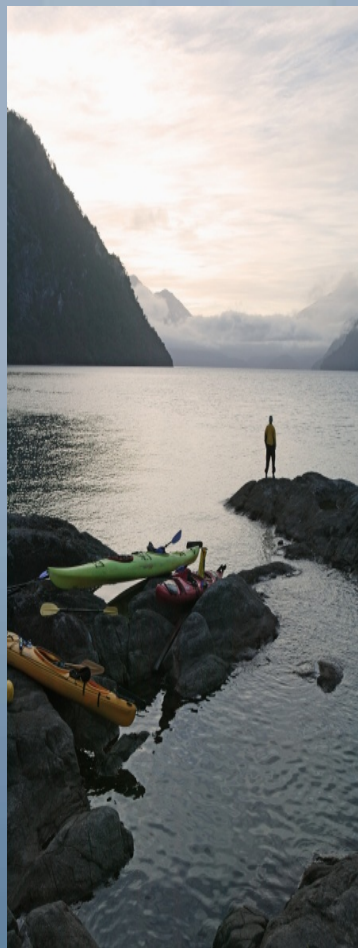


Watershed-Scale Solutions

- **What:** Watershed scale NPDES permitting, tradable discharge rights, source water protection, smart growth, valuing ecosystem services.
- Great idea, let's do more of these things.
- But applications are limited across the country and potential to reduce investments at wastewater utilities limited to perhaps 2-3% based on the number of water-quality limited stream segments that contain POTWs.
- **82% of the gap remains.**



Recap



- Better Utility Management: Potentially addresses another 10% of gap.
- Customized Financing Tools: Potentially addresses another 5% of gap.
- Watershed Solutions: Maybe addresses 3% of gap.
- 82% of funding gap remains.
- Where do we go from here?



A Clean Water Trust Fund

Since 2001, the WIN coalition has supported a new Clean Water Trust Fund, modeled after the highly successful transportation trust funds and capitalized with a series of federal taxes on activities that contribute to the problem or benefit from the solution

“Transportation trust funds have been enormously successful in creating stable, dependable revenue streams for funding transportation infrastructure projects... Water infrastructure projects deserve no less”

Jack Schenendorf, former Chief of Staff, House Transportation and Infrastructure Committee




Why a Federal Trust Fund?

Looking at 17 successful Federal Trust Funds, Congress has consistently found strong arguments for federal action because:

- Where investments deliver “**public goods**,” financing at the federal level delivers nationally preferred and sustainable levels and types of investment compared to local or state financing
- Infrastructure networks are **national priorities** with social and environmental equity implications when provided unevenly
- **Investment demands are of national proportion** and well matched to the unique financing position of the Federal Government
- Federal funding can **enhance local revenue-raising capacity**

An overwhelming majority of Americans (84%) would support legislation in the U.S. Congress that would create a long-term, sustainable and reliable source of federal funding for clean and safe water infrastructure.



OK, How Would We Capitalize a Federal Clean Water Trust Fund?

Essential Criteria

- Fair & Equitable
- Minimize Burden
- Funds Are Firewalled

Options

- Fees on flushable products
- Fees on corporate income across sectors discharging to wastewater treatment plants
- Fees on bottled beverages

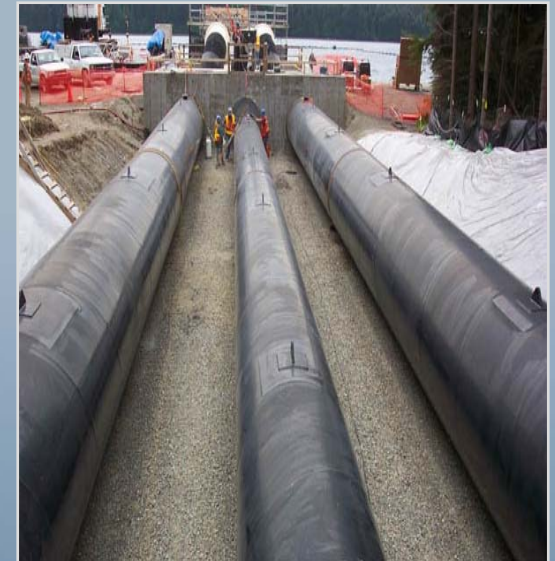
*Thinking about only one option, target revenues could be raised with a fee of less than one half of one percent on flushables, bottled beverages, and corporate income, with negligible effects on the US economy. **This would raise approximately \$8 billion/year.***





What Would the Trust Fund Finance?

- The long-term viability of the Clean Water State Revolving Loan Fund (CWSRF)
- High priority projects with the greatest water quality bang for the buck
- Technical assistance to small/rural communities
- Utility management initiatives
- Research and technology projects
- Protection of key national waterways/watersheds





Advantages of Direct Federal Funding

Virtually every study comparing direct to indirect delivery of federal funds concludes that direct funding is more effective, more efficient, and more equitable



- Direct federal funding can be **targeted** to known and high-priority needs, tax subsidies are **diffuse**
- Direct federal funding **benefits households dollar-for-dollar**, tax subsidies increase corporate profits
- Congress can control direct federal spending levels, **federal tax subsidies are less controllable**
- Direct federal funding can be **allocated to those that need it most**, delivering **equitable effects nationwide**, indirect tax subsidies will gravitate primarily toward wealthy communities
- Direct federal funding is **transparent**, indirect federal tax subsidies far less so.



Thoughts on Achieving Sustainability



- What is the timeframe needed to achieve sustainability?
- Can we achieve sustainability under the existing regulatory structure?
- What is the cost of sustainability?

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The Growing Challenge



- Current U.S. population is 300 million
 - By 2025: 350 million
 - By 2050: 420 million
- Increased industrial output/stressors
- Emerging Issues will test our capabilities
 - Nonpoint Source Pollution
 - Global Warming
 - Emerging Contaminants
- Anticipated stricter regulatory requirements
- Compliance costs will escalate at same time that . . .
- The federal funding commitment is dwindling



Where Do We Go From Here?

- First Wave: Construction Grants
 - Passed over Presidential Veto
- Second Wave: Loan Program (SRF)
 - Passed over Presidential Veto
- Third Wave: To Be Determined
 - Debate is focused on “entitlement” versus “right/necessity” of clean water



**Federal Government Must Be Part
of the Third Wave Solution**

Questions?



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