

OPPORTUNITIES AND CHALLENGES IN THE CREATION OF A CLEAN WATER TRUST FUND

(111-49)

HEARING
BEFORE THE
SUBCOMMITTEE ON
WATER RESOURCES AND ENVIRONMENT
OF THE
COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES
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JULY 15, 2009

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<i>(Ex Officio)</i>	

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U.S. House of Representatives
Committee on Transportation and Infrastructure

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July 13, 2009

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SUMMARY OF SUBJECT MATTER

TO: Members of the Subcommittee on Water Resources and Environment
FROM: Subcommittee on Water Resources and Environment Staff
SUBJECT: Hearing on "Opportunities and Challenges in the Creation of a Clean Water Trust Fund"

PURPOSE OF THE HEARING

The Subcommittee on Water Resources and Environment is scheduled to meet on Wednesday, July 15, 2009, at 2:00 p.m., in room 2167 of the Rayburn House Office building to receive testimony on the opportunities and challenges in the creation of a Clean Water Trust Fund. This hearing will be the first of several hearings related to addressing the need for increased investment in wastewater infrastructure improvements, and meeting the water quality goals of the Clean Water Act.

The Subcommittee will hear from Members of Congress, a representative of the Government Accountability Office (GAO), representatives of State and local governments, and other stakeholders on issues related to the creation of a Clean Water Trust Fund with a dedicated source of revenue to finance wastewater infrastructure projects and improve national water quality.

BACKGROUND

The Subcommittee on Water Resources and Environment has jurisdiction over water quality and wastewater infrastructure programs administered by the Environmental Protection Agency (EPA) under the Federal Water Pollution Control Act, commonly known as the Clean Water Act.

I. *The Importance of Investment in Wastewater Infrastructure*

To a great extent, improvements in water quality since the passage of the 1972 Clean Water Act have resulted from a significant investment in wastewater infrastructure improvements throughout the country.

Since 1972, the Federal government has provided more than \$82 billion for wastewater infrastructure and other assistance, which has dramatically improved water quality and the health of the economy and the environment. During the same time period, overall investment in the nation's wastewater infrastructure, from Federal, State, and local sources, has been over \$250 billion. Today, the nationwide system of wastewater infrastructure includes 16,000 publicly owned wastewater treatment plants, 100,000 major pumping stations, 600,000 miles of sanitary sewers, and 200,000 miles of storm sewers.

Investment in wastewater infrastructure has provided significant environmental, public health, and economic benefits to the nation. First through the Federal construction grants program, and now through the Clean Water State Revolving Fund (Clean Water SRF) program, the investment in water infrastructure has been integral to improving the quality of the nation's waters. The improvements to water quality realized through Federal, State, and local investment in wastewater infrastructure have been significant, helping to increase the number of fishable and swimmable waters throughout the nation. As a result of dramatic improvements in wastewater infrastructure, effluent discharges of pollutants have decreased by one-half since 1970, despite the fact that waste loads grew by more than one-third due to population growth and an expanded economy. Today, the nation's farmers, fishermen, and manufacturing and tourism industries rely on clean water to carry out activities that contribute more than \$300 billion to our economy each year.

However, these achievements are now at risk. According to a 2000 EPA report, entitled "Progress in Water Quality", "without continued improvements in wastewater treatment infrastructure, future population growth will erode away many of the Clean Water Act achievements in effluent loading reduction."

Given the expansion of the U.S. population forecast over the next 20 years, EPA projects that by 2016, wastewater treatment plants nationwide may discharge certain pollutants into U.S. waters at levels similar to those that existed in the mid-1970s, only a few years after the enactment of the Clean Water Act. In addition, if these population forecasts are projected further to the year 2025, without significant investment in additional treatment capacity, the level of pollution being discharged into the nation's waters would reach rates not seen since 1968, four years before the enactment of the Clean Water Act, when they reached the maximum level ever recorded.

Without increased investment in wastewater infrastructure, in less than a generation, the United States could lose much of the gains it has made thus far in improving water quality as a result of the 1972 Clean Water Act.

An additional concern is that much of the wastewater infrastructure in this country is rapidly approaching, or has already exceeded, its projected useful life. Many cities and communities throughout the United States are currently facing a critical juncture in the age and reliability of their water infrastructure. For example, several major U.S. cities still rely on sewer pipes that were installed more than 100 years ago to collect and treat domestic sewage. In addition, many of the

wastewater treatment facilities constructed soon after enactment of the Clean Water Act are now reaching the end of their expected useful life and are in need of repair or replacement.

Another looming need centers on upgrading aging infrastructure to control and eliminate combined sewer overflows. Combined sewers are found in 33 States across the United States and the District of Columbia. To eliminate combined sewer overflows, communities must redesign their sewer systems to separate sewage flows from stormwater flows, to provide significant additional capacity to eliminate the possibility that combined flows will exceed the limits of the infrastructure, or to implement measures that decrease the amount of stormwater that can enter the system (i.e., non-structural or green infrastructure). Either way, this will be a massive undertaking: EPA estimates that it will cost more than \$50 billion.

In the near future, many communities will need to repair or replace large portions of their wastewater infrastructure or face the likelihood of increased failures in their ability to treat wastewater, posing a significant threat to the country's quality of life, economic prosperity, the health and safety of humans, and environmental quality.

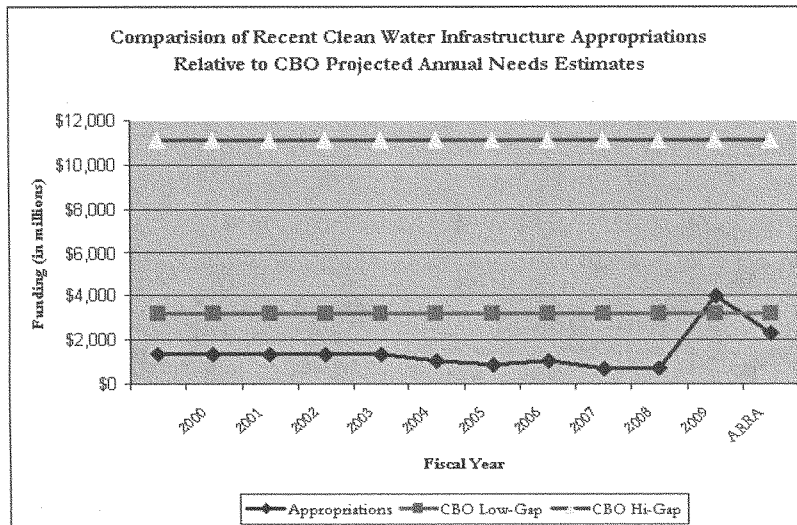
The Clean Water Act requires EPA to report to Congress every two years with a detailed estimate of the costs of needed water infrastructure in each State. This report, which is compiled through a survey of the States, includes estimates of needed projects to achieve the improvements in water quality necessary to meet the goals of the Clean Water Act, including publicly owned municipal wastewater collection and treatment facilities, facilities for the control of combined sewer overflows, activities to control stormwater runoff and nonpoint source pollution, and programs designed to protect the nation's estuaries.

These state surveys show that the financial resources necessary for wastewater infrastructure improvements are substantial. According to EPA's most recent assessment of wastewater infrastructure needs, the "Clean Watersheds Needs Survey 2004 Report to Congress", the existing documented needs for the nation are \$202.5 billion. In addition, according to EPA's Clean Water and Drinking Water Infrastructure Gap Analysis, between \$300 billion and \$400 billion in capital investment is needed over the next 20 years for restoration and replacement of the nation's aging wastewater infrastructure. Considering the lack of predictability on the average annual appropriations to the Clean Water SRFs, a consistent level of increased investment is necessary to address these needs and close the current funding gap for wastewater infrastructure projects.

RECENT FUNDING HISTORY OF THE CLEAN WATER STATE REVOLVING FUND

Fiscal Year (FY)	Presidential Request	Congressional Appropriations
FY 1998	1,075,000,000	1,350,000,000
FY 1999	1,075,000,000	1,350,000,000
FY 2000	800,000,000	1,350,000,000
FY 2001	800,000,000	1,350,000,000
FY 2002	850,000,000	1,350,000,000
FY 2003	1,212,000,000	1,341,225,000
FY 2004	850,000,000	1,342,035,000
FY 2005	850,000,000	1,091,200,000
FY 2006	730,000,000	886,758,840
FY 2007	687,550,000	1,083,817,000
FY 2008	687,554,000	688,450,000
FY 2009	555,000,000	689,080,000
American Recovery and Reinvestment Act	n/a	4,000,000,000
FY 2010	2,400,000,000	(House) 2,307,000,000

Other organizations, including the Congressional Budget Office (CBO) and a coalition of industry and other stakeholders, all have estimated that significant increases in investments are necessary to address wastewater needs over the next 20 years – as much as twice the current level of investment by all levels of government. These estimates fall between CBO’s low-cost estimate of a \$3.2 billion annual gap, and CBO’s high-cost estimate of an \$11.1 billion annual gap. The needs are especially urgent for areas trying to remedy the problem of combined sewer overflows and sanitary sewer overflows, and for small communities lacking sufficient independent financing ability.



EPA is also examining how improved technologies and innovative financing options might help close the gap between projected needs and current expenditures. For example, over the last decade, innovative technologies have emerged that provide similar (or increased) benefits to traditional wastewater infrastructure projects, but in a more cost-effective, sustainable, and environmentally-sensitive manner. These technologies, such as on-site source controls to capture stormwater, pervious pavement, green roofs, stream buffers, and other water reuse technologies, mimic natural processes to protect and enhance environmental quality, reduce wet-weather related “peak” loads, and promote water conservation and reuse. When used independently, or in conjunction with other traditional treatment technologies, the use of water-efficient technologies can provide the same, or greater, water quality benefits at a reduced cost, both in terms of capital investment and long-term operation and maintenance.

In the same manner, investment in technologies that improve the overall energy efficiency of a publicly-owned wastewater treatment facility will enable owners and operators of such facilities to provide their essential services in a more cost-effective and environmentally-sensitive manner. As noted in a recent hearing of the Subcommittee on Water Resources and Environment, the potential for energy conservation and operation and maintenance cost savings from implementation of energy efficient technologies are substantial – including energy savings ranging from between 10 and 30 percent for the replacement and upgrading of existing components (e.g., aerator pumps and motors), and the possibility for a treatment facility to generate 100 percent of its own power from the use of biogas (methane recapture), cogeneration (combined heat and power), or renewable sources of energy (wind and solar).

However, even if wastewater systems are able to implement cost savings and improved efficiencies, significant increases in investment will be needed to meet projected needs.

In addition, a significant number of small, rural, and disadvantaged communities throughout the nation face challenges financing wastewater infrastructure, either because of a lack of sufficient financial resources or a declining ratepayer base to address stranded infrastructure needs. In many of these communities, even with the assistance of below-market rate loans from the state revolving fund, communities still face difficulties affording the increase in local wastewater rates that would otherwise be necessary to finance wastewater infrastructure needs. In many cases, addressing these affordability issues may require an increased level of Federal assistance through additional technical assistance, financial flexibility, or subsidization to targeted communities or ratepayers.

II. *The Clean Water Act Program*

Titles II and VI of the Clean Water Act provide authority for grants to States and municipalities and the establishment of Clean Water SRFs, respectively, for the construction of treatment works. The Construction Grants program, contained in Title II of the Act, funded approximately \$60 billion in wastewater improvements over the life of the program. This program was phased out in favor of state revolving funds in the Water Quality Act of 1987 (P.L. 100-4).

Title VI of the Clean Water Act provides for the establishment and capitalization of Clean Water SRFs to aid in funding the construction of wastewater infrastructure for the improvement of water quality throughout the nation.

Since 1987, the majority of Federal assistance for wastewater infrastructure improvements has been through the Clean Water SRF program. EPA has approved 57 States and territories for funding under the Clean Water SRF program. Through this program, individual states and territories maintain revolving loan funds to provide low-cost financing for approved infrastructure projects. Funds to capitalize the Clean Water SRF programs are provided through Federal capitalization grants and State matching funds (equal to 20 percent of Federal Government grants). Since 1987, Congress has appropriated more than \$31 billion in capitalization grants funded through general taxpayer revenues. Clean Water SRF revenues also include receipts from the sale of bonds, loan repayments, and interest earnings.

Through fiscal year 2008, the Clean Water SRFs have provided a cumulative of \$69 billion in loans for wastewater projects, including nearly \$5.8 billion in loans in FY 2008 alone. Yet, the demand for financial assistance from the Clean Water SRFs continues to exceed available funds, forcing communities to look elsewhere for the additional capital necessary for wastewater infrastructure, or to defer wastewater infrastructure improvements. For example, in a recent survey of State wastewater infrastructure needs under the American Recovery and Reinvestment Act (P.L. 111-5) conducted by the Association of State and Interstate Water Pollution Control Administrators and others, 31 States reported that they are unable to fund 6,943 projects submitted for Recovery and Reinvestment Act funding (valued at \$37.6 billion) because of a lack of available financial resources.¹

¹The Association of State and Interstate Water Pollution Control Administrators (ASIWPCA), the Environmental Council of States (ECOS), the Council of Infrastructure Financing Authorities (CIFA), and the Association of State

Several States have taken steps to supplement funding for water infrastructure and other clean water projects. A number of States have approved special issuances of bonds to assist local communities.

In 2004, the State of Maryland enacted legislation that established the Chesapeake and Atlantic Coastal Bays Restoration Fund (the Fund), supported by a \$2.50 per month fee on sewer bills and an equivalent \$30 annual fee on septic system owners. The Fund is to be used to upgrade wastewater treatment plants, repair failing septic systems, and finance a cover crop program to reduce nitrogen and phosphorous loadings to the Chesapeake Bay and coastal bays.

Similarly, in 1996, the North Carolina General Assembly established the Clean Water Management Trust Fund. This trust fund is financed through annual appropriations from the State of North Carolina General Assembly. Since its creation, the North Carolina Clean Water Management Trust Fund has administered over \$300 million in grants for more than 200 wastewater treatment and stormwater projects.

III. *Creation of a Clean Water Trust Fund*

A potential national solution to meet the long-term, sustainable capital needs for wastewater infrastructure is the creation of a national Clean Water Trust Fund. The creation of a national trust fund, with an appropriate sustainable source of revenues, would provide for a deficit-neutral, long-term federal contribution to protecting existing water resources, and enable the country to make continued progress towards its water quality goals uniformly instead of focusing on a piecemeal basis. In addition, the creation of a Clean Water Trust Fund should help provide greater certainty to State and local governments on the availability of sufficient revenues to meet existing and future water quality needs, both through capital expenditures for wastewater infrastructure repairs and replacements, as well as potentially addressing other Clean Water Act authorities, such as non-point source control programs (under section 319 of the Act) and grants to State pollution control programs (under section 106 of the Act). This long-term predictability on wastewater infrastructure funding would allow State and local governments to develop long-range planning for wastewater infrastructure repairs and replacements, and provide for more cost-effective coordination of such repairs and replacements with other long-term capital investments (e.g., coordinate sewer line replacements with surface transportation projects).

Several Federal trust funds exist within the context of the Committee on Transportation and Infrastructure to finance capital improvements and maintenance needs for the nation's infrastructure, including the Highway Trust Fund, the Aviation Trust Fund, the Harbor Maintenance Trust Fund, and the Inland Waterways Trust Fund.

The Highway Trust Fund was created by the Highway Revenue Act of 1956. This trust fund collects revenue from taxes on motor fuel, sales of trucks, trailers, and truck tires, and the use of heavy vehicles to help pay for the maintenance of the national roadways. In FY 2008, the Highway Trust Fund collected approximately \$44.5 billion, and expended approximately \$43.1 billion.

Drinking Water Administrators (ASDWA), *American Recovery & Reinvestment Act: State Responses on CWSRF & DWSRF Funding Demand and Needs*, <http://www.asdwa.org/home/docs/ARRASurvey.pdf> (last visited on July 10, 2009).

The Airport and Airway Trust Fund was created by the revenue title of the Airport and Airway Development Act of 1970. This trust fund receives the majority of its funding from a 7.5 percent tax on domestic airlines tickets, as well as funding from a tax on air cargo, an international departure tax, and taxes on fuels used by aircraft operators to help provide funding for capital improvements to the nation's airport and airway system. In FY 2008, the Airport and Airway Trust Fund collected approximately \$12.5 billion, and expended approximately \$12.9 billion.

The Harbor Maintenance Trust Fund was created in the Water Resources Development Act of 1986. The Harbor Maintenance Trust Fund is supported by an *ad valorem* tax paid by the shippers (not including exporters) of cargo loaded or unloaded at a U.S. port. The funds are used to conduct maintenance dredging of harbors and to provide for disposal facilities for dredged material. In FY 2008, the Harbor Maintenance Trust Fund collected approximately \$1.6 billion of which \$786 million was utilized for maintenance expenditures.

The Inland Waterways Trust Fund was created in the Inland Waterways Revenue Act of 1978, as amended by the Water Resources Development Act of 1986. The Inland Waterways Trust Fund is supported by a 20-cent per gallon tax on commercial fuel used on specified inland waterways. The fund is used to pay for half of the Federal cost of constructing navigation improvements on those waterways; the remaining half is paid from general revenues. In FY 2008, the Inland Waterways Trust Fund collected approximately \$93 million; however, in the same fiscal year, approximately \$202 million was transferred from the fund for the construction of projects on the inland system.

In January 2008, Chairman James L. Oberstar, Chairwoman Eddie Bernice Johnson, and Representative Blumenauer requested that the Government Accountability Office (GAO) undertake a study of potential funding mechanisms and revenue sources available to establish a Clean Water Trust Fund, including options that can be "efficiently collected, are broad based, equitable, and that support annual funding levels of at least \$10 billion."² In May 2009, the GAO released the study titled "Clean Water Infrastructure: A Variety of Issues Need to be Considered When Designing a Clean Water Trust Fund."

GAO found that stakeholders identified three main issues that would need to be addressed in designing and establishing a Clean Water Trust Fund: how a trust fund should be administered and used; what type of financial assistance should be provided; and what activities should be eligible to receive funding from a trust fund.

While a majority of stakeholders said that a trust fund should be administered through an EPA partnership with the States, they differed in their views on how a trust fund should be used. Some said that a trust fund should be used only to fund the existing Clean Water SRF², while a few suggested that the fund support only a new and separate wastewater program. Some supported using a trust fund to support both the Clean Water SRF² and a separate program, while others opposed the establishment of a trust fund.

A number of financing options were identified in the GAO report to generate revenue for a Clean Water Trust Fund, including excise taxes on specific products that may contribute to the wastewater stream, an additional tax on corporate income (similar to the Corporate Environmental

² Ranking Member John L. Mica was later added as a co-requester of this study.

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Income Tax that traditionally funded the Superfund trust fund), a water use tax, and an industrial discharge tax. However, GAO identified several challenges to the creation of a Clean Water Trust Fund, including: defining the products or activities to be taxed; establishing a collection and enforcement framework; and obtaining stakeholder support for a particular funding option or mix of options.

GAO also suggested that it would be difficult to generate the requested \$10 billion in annual revenue to address the estimated wastewater funding gap from any one source. Rather, it would be more practical (and likely more acceptable) to raise the requested revenue through a combination of funding options. This approach would be consistent with several other Federal trust funds, including the Highway Trust Fund, the Aviation Trust Fund, and the expired Superfund Trust Fund.

A representative of GAO will testify on the results of this study at the July 15, 2009 hearing.

WITNESSES

Panel I

The Honorable Earl Blumenauer
Oregon's Third District
U.S. House of Representatives

Panel II

Ms. Anu Mittal
Director, Natural Resources and Environment
U.S. Government Accountability Office

Dr. Robert M. Summers
Deputy Secretary
Maryland Department of the Environment

Mr. Thomas Walsh
Engineer-Director/Treasurer
Upper Blackstone Water Pollution Abatement District
Testifying on behalf of the National Association for Clean Water Agencies

Ms. Dereth Glance
Executive Program Director
Citizens Campaign for the Environment

Ms. Kristine L. Young
President and Chief Executive Officer
Miller the Driller
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Mr. Bill Hillman
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Jacobson Satchell Consultants, Inc
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Mr. Hamlet J. "Chips" Barry
Manager
Denver Water
Testifying on behalf of the American Water Works Association

OPPORTUNITIES AND CHALLENGES IN THE CREATION OF A CLEAN WATER TRUST FUND

Wednesday, July 15, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WATER RESOURCES AND
ENVIRONMENT,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:17 p.m., in Room 2167, Rayburn House Office Building, Hon. Eddie Bernice Johnson [Chairwoman of the Subcommittee] presiding.

Mrs. NAPOLITANO. [Presiding.] Good afternoon, ladies and gentlemen.

Today, the Subcommittee on Water Resources and Environment will consider the opportunities and challenges in the creation of a Clean Water Trust Fund.

This Subcommittee has long understood the importance of the Nation's wastewater infrastructure in achieving the goals of fishable and swimmable waters under the Clean Water Act. Over the years, this Subcommittee has held numerous hearings on the condition of our wastewater infrastructure and on the adverse impacts of deteriorating infrastructure to the Nation's economy and environment.

In addition, the Subcommittee has documented the growing gap between the need for water infrastructure improvements and the annual expenditures for this purpose. For example, current estimates show an annual investment shortfall of between \$3.2 billion and \$11.1 billion for water-related infrastructure.

This Subcommittee also understands the importance of increased infrastructure investment on jobs creation. While this is not the primary focus of the Clean Water Act, we must recognize the added benefit of the infrastructure investment on job creation and the secondary beneficial impacts on the Nation's economy.

With a national jobless rate of 9.5 percent, the highest it's been for 26 years, including roughly 1.6 million unemployed construction workers, it is clear that an increase in infrastructure investment will have multiple benefits to the Nation at large.

Earlier this year, this Committee approved H.R. 1262, the Water Quality Investment Act of 2009, to reauthorize the Clean Water State Revolving Fund at increased amounts over the next 5 years. This bill, which is awaiting action in the full Senate, would restore the Federal commitment to meeting our wastewater needs in the future. However, assuming that actual Federal appropriations are made to match levels authorized in that bill, there would still be

an annual gap between Federal expenditures and the needs for clean water infrastructure. That is why we are here today to take the first step in a large debate about how best to fund our Nation's water-related infrastructure needs in the future.

Today's conversation focuses on one potential option, other than general revenues, that may be necessary to address the growing water-related infrastructure gaps, the potential creation of a Clean Water Trust Fund. The creation of a national trust fund would provide a deficit-neutral, long-term Federal contribution to protecting the Nation's water. A Clean Water Trust Fund should also provide greater certainty to State and local governments on the availability of sufficient revenues to meet existing and future water needs, both through capital expenditures for wastewater infrastructure repairs and replacements, as well as potentially addressing other Clean Water Act authorities, such as nonpoint source control programs and grants to State water pollution control programs.

This long-term predictability on wastewater infrastructure funding will allow State and local governments to develop long-range planning for wastewater infrastructure projects similar to the planning efforts for the Nation's infrastructure transportation projects funded through the Highway Trust Fund.

Unfortunately, before the debate even started on the benefits of a Clean Water Trust Fund, we heard from interest groups who do not believe they should contribute to the creation of a trust fund. This finger-pointing is reminiscent of the quote attributed to the late Senator Russell Long, who said, "Don't tax you, don't tax me, tax that fellow behind the tree."

I recognize that any debate on identifying potential revenue sources for infrastructure investment will be challenging. This Committee is already engaged in a similar debate to address the current shortfall in the Highway Trust Fund. However, in the opinion of the Chair, we must recognize that the end goal of this debate is an increase in infrastructure spending that will benefit the entire Nation.

It is clear that the need for wastewater infrastructure investment is well documented. It is clear that clean water benefits both the human and ecological health as well as the health of the United States economy. It is clear that we are all beneficiaries of reliable drinking and wastewater infrastructure. Finally, it is clear that the creation of a Clean Water Trust Fund should help close the gap between infrastructure needs and annual investment.

It is the opinion of the Chair if we are going to be successful in creating a long-term, sustainable, and dedicated source of revenue to address our wastewater infrastructure needs, all of the potential revenue sources for a trust fund must be put before Congress and debated. That means all of the potential revenue sources identified by the May, 2009, report of the Government Accountability Office need to be put on the table and debated.

It seems unlikely that interest groups will come to Congress and say, tax me. However, at the same time, we must be able to articulate a logical connection between the source of revenue and the benefit that comes from clean water.

I applaud the gentleman from Oregon, Mr. Blumenauer, for taking the first step in this larger debate by introducing the Water

Protection and Reinvestment Act. I would hope my colleagues agree that a Clean Water Trust Fund would be a useful addition to address the Nation's wastewater infrastructure needs.

I look forward to hearing the witnesses this afternoon and continuing the debate on the opportunities and challenges to the creation of the Clean Water Trust Fund.

I just want to say that we are going to waive any Member minutes to move forward with the hearing.

Mr. Boozman.

Mr. BOOZMAN. Thank you, Madam Chair.

We need to ensure that sound Federal policies are in place that promote responsible management of our Nation's infrastructure, careful usage of our valuable water sources, and protection of the environment.

Today's hearing will be about the first of these priorities, making sure that our Nation has adequate water infrastructure. This has long been an important issue to this Subcommittee.

Today's hearing is the latest in a series of hearings our Subcommittee has held on this important issue over the past several Congresses. It is also our understanding that this hearing will be the first of multiple hearings that the Subcommittee intends to hold on how to finance wastewater infrastructure. Our Nation's health, quality of life, and economic well-being rely on adequate wastewater treatment. Industries that rely on clean water, like farmers, fishermen and manufacturers, contribute over \$300 billion a year to our gross domestic product.

To provide clean water, our Nation already has invested over \$250 billion in wastewater infrastructure, but this infrastructure is now aging, and our population is continuing to grow, increasing the burden on our existing infrastructure. If communities do not repair, replace, and upgrade their infrastructure, we could lose the environmental health and economic benefits of this investment.

Various organizations have quantified wastewater infrastructure needs. The Congressional Budget Office, the EPA, and the Water Infrastructure Network have estimated that it could take between \$300 and \$400 billion to address our Nation's clean water infrastructure needs over the next 20 years to keep our drinking water and wastewaters clean and safe. This is twice the current level of investment by all levels of government. These needs have been well documented in our Subcommittee's prior hearings.

We can reduce the overall cost of wastewater infrastructure with good asset management, innovative technologies, water conservation and reuse, and regional approaches to water pollution problems. But these things alone will not close the large funding gap that now exists between wastewater infrastructure needs and current levels of spending. Increased investment must still take place.

That leads to the question, where is the money going to come from?

There is no single answer to that question. Municipal wastewater services are a State and local responsibility, but there is clearly a strong Federal interest in keeping our waters clean. So what we need is an effective partnership between all of us—Federal, State, and local. That means all partners need to contribute. If we do not

start investing in our wastewater infrastructure now, it is going to cost our Nation billions more in the future.

Recently, the House of Representatives passed legislation that will authorize increased funding for wastewater infrastructure through reauthorization of the Clean Water State Revolving Loan Fund program administered by EPA. This bill is designed to help communities Nationwide meet their growing demand for wastewater infrastructure needs and improved water quality.

When we do invest Federal funds in infrastructure, we need to do it in ways that would give us the best clean water value for the dollar. There are a number of potential ways for the Federal Government to invest. For example, we might provide more loan money to the SRF program or might provide assistance grants. Additionally, we might increase our investment in research and development of new technologies to improve the efficiency of wastewater treatment facilities, or perhaps there are innovative financing options that would make more funds available.

In any event, the Federal Government is not going to be able to solve this problem alone. At the local level, communities need to evaluate their assets, make capital improvement plans, identify sources of capital to implement the plans, and ask for the rate increases that will apply that capital over a period of time. That last part is very difficult. No one likes to spend more. But if citizens understand the relationship between clean water and wastewater infrastructure, they should be willing to make the investment.

Recent surveys show most Americans want a sustainable, dedicated source of funding for water infrastructure projects and would support the creation of a sustainable trust fund for wastewater infrastructure. One of the most complex aspects of moving from the trust fund concept to reality, however, is determining the funding sources for such a trust fund. The water and wastewater community has not supported a user fee for a trust fund, and so far no other water user has stepped forward in support of a fee or tax in their activities either. As a result, it remains unclear how a trust fund would get funded.

A recent GAO report found that stakeholders identified three main issues that would need to be addressed in designing and establishing a Clean Water Trust Fund: how a trust fund should be administered and used, what type of financial assistance should be provided, and what activity should be eligible to receive funding from a trust fund.

While a majority of stakeholders have said that a trust fund should be administered through an EPA partnership with the States, they differed in their views on how a trust fund should be used. Stakeholders vigorously stated that a trust fund should be used only to fund the existing Clean Wastewater Revolving Fund, that it should support only a new and separate wastewater program, or that it should support both the State Revolving Fund and a separate program. Some did not support the establishment of a trust fund at all.

GAO estimated that the revenue could potentially be raised by various taxes on a range of previously proposed products and activities and found that it may be difficult to generate \$10 billion annually from any one option by itself. Rather, it would probably

require a combination of taxes on more than one of the evaluated options to reach the \$10 million target level.

We have requested that GAO conduct an additional study to analyze funding and investment mechanisms and revenue sources from potential alternative public or private sources that could be used to fund investments in wastewater infrastructure and other water pollution control activities under the Federal Water Pollution Control Act. We look forward to those results in a few months.

I hope our witnesses will bring forward ideas on how we can increase funding for wastewater infrastructure, identify potential willing revenue sources, and ensure equitable means for generating revenues. While the trust fund may have the advantage of providing a dedicated source of funds for wastewater treatment, how to structure the tax to feed the fund remains a challenging task.

There is no doubt that the Nation's water infrastructure needs are significant and growing. We need at our disposal a wide range of funding mechanisms and funding sources to meet our considerable clean water needs.

With that, I yield back.

Ms. JOHNSON. [Presiding.] Thank you very much, Congressman.

First, let me apologize for being late. I was really truly detained at the White House by the President, and that is why I was late. It is really the truth.

I am going to bypass all of the opening statements and ask that you just file them for the record and go right to our colleague, Mr. Blumenauer, for his testimony.

STATEMENT OF THE HON. EARL BLUMENAUER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. BLUMENAUER. Thank you very much, Madam Chairman, Ranking Member Boozman, Members of the Subcommittee. It is a pleasure for me to return to the hearing room in which I spent so many pleasurable, challenging hours. And I am reminded, Madam Chairwoman, that for 10 years I was a Member of your Subcommittee; and it was fascinating to scroll back, thinking about all the groundwork that has been laid over the course of a decade with you and former Chairman Jim Duncan, trying to put the spotlight on an urgent national priority.

I am pleased to be testifying today; and behind me are some of the people with whom I have been working on issues dealing with wastewater and drinking water, and how we are going to finance it. I can't think of a better panel to help you frame the issue going forward and people who will be vital partners answering the questions that the Ranking Member just outlined.

I am thinking back to one of our hearings in March of 2003, a hearing entitled, "Meeting the Nation's Wastewater Infrastructure Needs," that detailed in excruciating, fine, granular efforts looking at the gap between wastewater needs and current spending.

In April of 2004 we had another hearing, "Our Aging Water Supply Infrastructure" looking at the needs of drinking water; and it painted a similar picture. The American Water Works discussed a report it had released, *The Dawn of the Replacement Era*.

In 2005, I think there were truly landmark hearings here in this room by the Subcommittee examining the questions that have been

previously raised and talking about where we go from here. And it was fascinating, one of the featured speakers at that hearing was the famous Republican poster, Frank Luntz. And his findings, I think, were telling, indicating that the vast majority of Americans believe clean and safe drinking water is a key national priority and that they would support a sustainable, dedicated source of funding for water infrastructure projects.

I commend your staff for an excellent summary, as usual. This really drills down and captures it. And one element that they have placed before you—and it is one that I think all of us need to raise the banner and try and drive the point home—is that, because of the wide and increasing gap between urgent local needs and available funding source, we are at risk of losing all our progress for the last 40 years.

It is not a case of helping keep pace. It is not a case of trying to keep rates down. The fact is the progress that this Committee helped engineer with the Clean Water Act, for instance, is at risk because we are falling behind growth and aging systems.

These hearings, your report, the work that you have done built a case for a significant increase in Federal funding. Under the Clean Water Act, as we are moving forward—back in the Carter administration, the Federal Government provided 78 percent of the resources necessary to comply with the Act. It is now 3 percent. It is not a sustainable picture.

Now, we had a number of witnesses in the past; and one element of testimony that I thought was very important came from the American Beverage Association. And the Ranking Member again indicated this is not exactly going to be the simplest task before us, because no one wants to be singled out. And they made the point right there and that has guided the legislation that I want to talk to you about and commend to you; and that is, her industry was willing to do its part and pay higher rates that reflected infrastructure needs but didn't think it was fair to make beverages be the sole source of funds. I agree. And that has guided the legislation that is before you.

I won't, I guess, be increasingly redundant talking about the gap. You have some people here that will give you a more immediate, urgent, and local perspective on it. But the fact remains we have got to do something about dealing with the funding.

In 2008, when Mr. Oberstar gave me permission to leave the Transportation and Infrastructure Committee, it was with the understanding that I would go to the Ways and Means Committee to try and find the resources necessary for you to be able to do your important work.

We have been deeply involved for the last 30 months with efforts about how we finance rebuilding and renewing America. There is no more critical issue, in my judgment, in order to restart the economy, protect the environment, and revitalize our communities.

You have referenced the GAO study that the Chair, Mr. Oberstar, and I requested. You will hear about it. Yes, there is no silver bullet, but it did deal with elements that we can weave together to provide a comprehensive approach to funding.

The point is that the local communities are doing their job now. You are going to hear it. And some of you represent communities

where the local fees, utility rates are crushing, and the prospects for the future are of them doubling, tripling, quadrupling in a way that is going to pose a huge problem on people with fixed incomes. It is crippling business development. What is missing is that the Federal Government needs to do a better job, like it did 30 years ago, in helping local communities meet the altogether appropriate requirements of the Clean Air Act.

I have introduced legislation, the Water Protection and Reinvestment Act, H.R. 3202, that will establish such a trust fund. We have spent countless hours over the last year and a half trying to refine the elements. I know it is complex. I think we have given you a very good start for how it would work. It is firewalled, like we do with the Highway Trust Fund. It would be distributed mainly through the Clean Water and Drinking Water State Revolving Funds. But there would be additional resources available for critical grant programs, focusing on addressing current and future needs, things like combined sewer overflow, climate change. Most of the authorizing language will look very familiar to Members of this Committee and your staff because we built on your outstanding work in breaking the logjam over the last 2 years.

We have taken the advice that there not be a single source to finance this. Nobody is going to step forward and voluntarily do it. They have a legitimate point that they don't want to be singled out and given the burden of closing the Federal gap.

So what we have done is look at the four primary areas where they rely heavily on fresh, pure water and they burden the system and they profit from it.

There is a 4 cent per container fee on water-based beverages, not the whole burden on them, but it is hard to think of an industry that is more dependent on an inexhaustible supply of safe, pure water.

The second item is a 3 percent fee on items that are designed to be disposed of in wastewater. There are products—toothpaste, cosmetics, toilet paper—that actually, if it weren't for the ability to dispose of them through our sewer systems, the products would have little or no value, or they would be very expensive if they were required—cooking oil, for instance, you required it to recapture and recycle it. This is directly tied to benefit.

We are in a situation—and some of you have real problems at home—where we are slowly medicating the American population because of all the pharmaceuticals that are getting into the drinking water system, with real serious potential health implications, extraordinarily expensive for municipalities, whether they are large or small, to be able to extract them. This bill would add a small fee on the industry to support programs in the legislation to prevent the drugs from entering the drinking water system and to support research on remediation.

The bill would assess a fee of one-fifteenth of 1 percent on corporate profits over \$4 million. American industry relies on safe drinking water and safe disposal of sewage and stormwater. This is, again, a minuscule fee, but it has broad application.

And, in total, these four sources that have been reviewed in your GAO report are sufficient to generate over \$10 billion a year on an

ongoing basis, doesn't put the primary burden on anyone, and they are all connected to beneficial use. It is a user fee.

President Eisenhower and President Reagan understood the importance of user fees when, in the case of President Eisenhower, they implemented a Highway Trust Fund user fee. And both President Eisenhower and President Reagan increased those user fees because people benefited.

You are going to hear from a wide variety of stakeholders—and I won't go through the list—ranging from the American General Contractors, the environmental community, American Rivers. There have been a wide range of people who really are on top of this, and they will work with you to refine the legislation and to support some of the tough decisions that need to be made.

I am particularly pleased with cosponsorship, the original cosponsor of this legislation, including three alumni of our Committee, Congressman LaTourette, Congressman Simpson—actually, I guess Congressman Petri is not yet an alumni. I don't think he is on the Subcommittee now.

I will conclude with a final point. I referenced the research by Frank Luntz, who talked about how important this was to the American public and how there was broad bipartisan support. Mr. Luntz came out with a new poll in January of this year. He found that a near unanimous 94 percent of the American public are concerned about the state of our infrastructure. He found these concerns cut across all regions—urban, suburban and rural. He found that 84 percent of the American public wanted the Federal Government to spend more money to improve infrastructure; and he found 81 percent, a majority of Democrats, Independents, and Republicans, are personally prepared to pay 1 percent more in taxes for this cause. I would point far, far more—a larger percentage than is included in this legislation.

I deeply appreciate your courtesy in allowing me to testify in support of this bipartisan legislation; and I look forward, Madam Chairman and Members, to working with you and the other three Committees have that been assigned the legislation, to be able to help you meet the amazing task that you have been given as a challenge to make our communities more livable, dealing with the critical water infrastructure.

Thank you.

Ms. JOHNSON. Thank you very much. We won't have questions for you right now.

Mr. BLUMENAUER. Okay.

Ms. JOHNSON. No, we will not.

Mr. BLUMENAUER. Oh, we will not. That's even better.

Ms. JOHNSON. They will come later.

Mr. BLUMENAUER. Yes, ma'am.

Ms. JOHNSON. We will now seat the second panel: Ms. Anu Mittal, Dr. Robert Summers, Mr. Thomas Walsh—

Mr. BOOZMAN. Madam Chair, I just want to thank Mr. Blumenauer. I know he has worked very, very hard on this and is very passionate. And this is not something that he has done in the last month or so. I know you have been working on this for the couple of years. So we do appreciate you coming and we appreciate your testimony.

Ms. JOHNSON. Thank you very much.

Ms. Dereth Glance, Ms. Kristine Young, Mr. Bill Hillman, Mr. Dale Jacobson, Mr. Hamlet J. "Chips" Berry.

I would like to ask each of you to try real hard to keep your remarks at 5 minutes, but you can file your entire statement, and we will have it all.

STATEMENTS OF ANU MITTAL, DIRECTOR, NATURAL RESOURCES AND ENVIRONMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, D.C.; ROBERT M. SUMMERS, DEPUTY SECRETARY, MARYLAND DEPARTMENT OF THE ENVIRONMENT, BALTIMORE, MARYLAND; THOMAS WALSH, ENGINEER-DIRECTOR/TREASURER, UPPER BLACKSTONE WATER POLLUTION, MILLBURY, MASSACHUSETTS, TESTIFYING ON BEHALF OF THE NATIONAL ASSOCIATION FOR CLEAN WATER AGENCIES; DERETH GLANCE, EXECUTIVE PROGRAM DIRECTOR, CITIZENS CAMPAIGN FOR THE ENVIRONMENT, SYRACUSE, NEW YORK; KRISTINE L. YOUNG, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MILLER THE DRILLER, DES MOINES, IOWA, TESTIFYING ON BEHALF OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA; BILL HILLMAN, CHIEF EXECUTIVE OFFICER, NATIONAL UTILITY CONTRACTORS ASSOCIATION, ARLINGTON, VIRGINIA; DALE JACOBSON, P.E., JACOBSON SATCHELL CONSULTANTS, INC., OMAHA, NEBRASKA, TESTIFYING ON BEHALF OF THE AMERICAN SOCIETY OF CIVIL ENGINEERS; AND HAMLET J. "CHIPS" BARRY, MANAGER, DENVER WATER, DENVER, COLORADO, TESTIFYING ON BEHALF OF THE AMERICAN WATER WORKS ASSOCIATION

Ms. JOHNSON. We will start in the same order that we called the names. Ms. Mittal, Director of Natural Resources and Environment, U.S. Government Accountability Office, Washington.

Ms. MITTAL. Madam Chairwoman, Ranking Member Boozman, and Members of the Subcommittee, thank you for inviting us to participate in your hearing on the opportunities and challenges in establishing a Clean Water Trust Fund.

At the request of this Committee, GAO just released a report that you have just heard about that details a variety of issues that will need to be addressed when establishing a Clean Water Trust Fund. My statement today is based on the information contained in this report.

Our report identified three main issues that will need to be addressed when establishing a Clean Water Trust Fund.

First, it is important to decide how the trust fund will be administered. This will involve deciding which agency will manage it and whether the funds will support the existing State Water Revolving Fund or a separate program.

Second, it is essential to determine what kinds of financial assistance the trust fund will provide. This involves deciding whether the trust fund will make grants or loans, or a combination of the two.

Finally, it is necessary to decide which activities will be eligible for trust fund support. These activities could include planning and designing wastewater projects and implementing capital improve-

ment projects, as well as other kinds of activities such as providing ratepayer assistance to low-income households.

The next question you asked us to address was, how can we raise \$10 billion annually to support a Clean Water Trust Fund? We identified various options that could generate this desired level of revenues, but each option poses implementation challenges, and it may be difficult to raise \$10 billion from any single option. Instead, Congress may have to consider a combination of several options that could collectively generate the level of funding needed. I will briefly describe each of the funding options that we have identified and the related challenge.

First, Congress could consider excise taxes on products that may contribute to the wastewater stream. These products include beverages, fertilizers and pesticides, flushable products, pharmaceuticals, and water appliances and plumbing fixtures. The amount of revenue generated by these taxes depends on the number of products taxed and the amount of tax that you apply. For example, raising \$10 billion just from pharmaceuticals would require a tax of 6.4 percent, but raising this amount from water appliances and plumbing fixtures would require a tax of 39.2 percent.

Congress could also consider a per-unit tax. For example, a 5 cent tax on each bottle and can of beverage sold could yield about \$10 billion.

The second option that we identified is to levy an additional tax on corporate income. This tax would be similar to the corporate environmental income tax that helped fund the Superfund program until 1995. Increasing the current corporate income tax by an additional .7 percent could raise \$10 billion. However, this level of taxation would significantly exceed the .12 percent tax that was used to support the Superfund program.

The third option we identified is to levy a tax on water use. A tax on water use could be a volume-based charge or a flat charge added to the utility bills of all households. A volume-base charge of .1 cent per gallon could raise about \$13 billion, or a flat charge similar to Maryland's \$30 flush tax applied to all households nationwide could raise about \$2.6 billion. To raise \$10 billion, you would need to charge each household \$116.

A final option that we identified is an industrial discharge tax. A tax on industrial discharges could be levied in two ways. The first would be to levy a fee on NPDES permits, and the second would be to levy a tax on toxic chemicals released by industrial facilities. However, it is unclear what level of taxation would be needed to generate \$10 billion from either of these options, because there are no good data on which to base these calculations.

Regardless of which revenue options are chosen for a trust fund, we found that each poses implementation challenges. For example, each of these options involves establishing clear and precise definitions of the products or entities to be taxed. In addition, most of these options require establishing a collection and enforcement framework. And, finally, obtaining stakeholder and industry support for these options poses additional challenges. This is because many stakeholders do not perceive a strong connection between some of these options and their impacts on the wastewater infra-

structure, and most industry groups are opposed to the idea of Congress taxing their products.

In conclusion, Madam Chairwoman, while the establishment of a Clean Water Trust Fund is a viable option for addressing the water infrastructure funding gap, establishing such a trust fund comes with a host of challenges; the greatest of which may be obtaining stakeholder support.

This concludes my prepared statement. I would be happy to respond to any questions.

Ms. JOHNSON. Thank you very much.

Dr. Robert Summers.

Dr. SUMMERS. Thank you, Madam Chair, Members of the Committee, for the opportunity to testify today.

I would like to thank Maryland Congresswoman Edwards for her support of the efforts that we in Maryland government are making to restore Chesapeake Bay.

In my testimony today I am going to provide information regarding Maryland's Bay Restoration Fund. And I want to start out by saying, though, that it really would not have been possible to do this without very broad support from Maryland citizens. They are very concerned about the health of our waters, particularly Chesapeake Bay, very interested in the restoration effort, and so there is a long history that this builds on.

More recently, our Governor O'Malley has really championed this through the development of his BayStat Web page, which is actually a very user-friendly source of information regarding the Bay restoration effort. It is very consumer friendly, and it provides what everybody likes to call transparent information that we can use to track our progress in restoring the Chesapeake Bay. And the Bay Restoration Fund is a very important, although relatively small, part of this.

Maryland has a very significant water and wastewater need. Our most recent need survey indicates over 14 billion for both point and nonpoint source pollution control and drinking water infrastructure.

Maryland's Bay Restoration Fund covers about \$1 billion of this need. It is focused on our largest sewage treatment plants and upgrading them to achieve enhanced nutrient removal. It is part of our solution, but it is not the whole solution. Maryland very much depends upon the State Revolving Loan Fund, financed by the Federal Government; and we strongly support your efforts to strengthen these funds.

The staff asked a little bit about how this bill was passed. I have already mentioned that Maryland citizens are very concerned about the Bay. And it really initiated with the signing of the Bay Agreement in 1983. In 1984, Maryland established a General State Obligation Bond Fund to share costs in upgrading our sewage treatment plants in the State. By 2004, about 20 years later, we had achieved significant progress, but everyone acknowledged that it really was not enough to achieve our goals for cleaning up the Bay. And in Maryland's 2004 session, former Governor Robert L. Ehrlich, Junior, introduced legislation creating the Bay Restoration Fund, financed by a \$2.50 monthly surcharge on wastewater bills

and subsequently on the fees paid by owners of septic systems or onsite sewage disposal systems.

It was immediately dubbed the "flush tax." And I would just like to make one correction. We don't call it the "flush tax." It is the "flush fee." And that was a very important aspect of the success of this legislation. And when Governor Ehrlich introduced it, there was quite a lot of interest and support for it. The legislature actually jumped on board and added to the bill and added a \$30-a-year fee on onsite sewage disposal systems, and there has been broad public support for this effort in Maryland.

The structure of the fee is very critical to its success, I believe. It is paid by all users of municipal wastewater treatment facilities, all owners of private onsite sewage treatment systems, and by all commercial and industrial facilities that discharge nutrients to the water. It is, again, directed to the Bay restoration. It is a nutrient-reduction fund.

The fee, as we have heard, is a flat rate, \$2.50 a month or \$30 a year for residential users; and it is paid as a surcharge on sewage bills for people who get sewage bills. For folks who live in the rural areas and are on septic systems, it is paid directly to the county government.

For commercial and industrial users, the fee is based on a sliding scale, depending on how much wastewater they actually produce; and it is as a multiple of the amount that is charged to the individual residential owners.

The fee is being used in two dedicated funds. And it is absolutely critical that those funds be dedicated funds. The citizens watch it very closely, the Governor, the legislature. There is a requirement for an annual report which we have to brief the legislature on every year. So that dedicated fund is absolutely critical.

So, just to sum up, I think the things that we can learn from Maryland's experience for this important effort that we are talking about today, we have broad public understanding, a good public education effort to make sure people understand the connection. The source of the fee is understood to be related to that, and it is broadly and equitably distributed amongst the various users and the fee, just to emphasize, placed in the dedicated fund, absolutely critical.

I think the items we just heard about that GAO has looked at meet a lot of those requirements, and we are very interested in working with you further to try to pursue this. Thank you.

Ms. JOHNSON. Thank you very much.

Dr. Summers, I forgot to give your title as Deputy Secretary of Maryland Department of the Environment in Baltimore.

Ms. JOHNSON. Mr. Thomas Walsh, Engineer-Director, Treasurer—he runs the whole thing there—Upper Blackstone Water Pollution in Millbury, Massachusetts.

Mr. WALSH. Good afternoon, Chairman Johnson and Members of the Committee.

As you said, I am Tom Walsh. Just one small correction, it is not Upper Blackstone Water Pollution. It is Upper Blackstone Water Pollution Abatement District in Worcester, Massachusetts.

I am honored to testify here on behalf of the National Association of Clean Water Agencies regarding the establishment of the Clean

Water Trust Fund to help finance wastewater infrastructure projects. NACWA represents the interests of publicly owned wastewater treatment utilities, and many of our members also provide drinking water services.

Projects financed through the trust fund will help ensure the protection of our vital water resources, improve public health, provide recreational enjoyment for all Americans, and promote economic prosperity.

This hearing and the recently released GAO report on potential ways to finance and structure a Clean Water Trust Fund are important steps toward a long-term, sustainable revenue source to address the serious water and wastewater infrastructure funding gap. We believe a Clean Water Trust Fund is critical to ensuring communities continue to meet the Clean Water Act obligations.

We commend GAO for its fair and objective report, including its review of a water tax. We also commend Congressman Blumenauer for introducing the Water Protection and Reinvestment Act, H.R. 3202, and for appreciating that a water tax does not bring new supplemental money to the table, for recognizing the need to fund wastewater, drinking water and stormwater projects, and for understanding very broadly that water is water.

Municipalities face serious challenges in meeting their clean water goals. Among them are growing population, aging infrastructure, increased regulatory requirements and stepped-up enforcement from EPA, and global competition driving the cost of labor and materials. In order to meet these challenges, all levels of government—Federal, State and local—must commit to a partnership that recognizes the role of science in establishing water quality criteria, utilizes pragmatic planning to prioritize projects, and understands the need for more investment in our Nation's clean water infrastructure.

As the cost of compliance continues to go up, we see an infrastructure funding gap of \$300 to \$500 billion over the next 20 years. Meanwhile, EPA estimates that more than 40 percent of the Nation's water bodies remain impaired, a figure that has not changed in 20 years. In other words, the water quality gains achieved since the Clean Water Act was enacted in 1972 have essentially plateaued. Without a significant recommitment by the Federal Government and a change in the regulatory paradigm, we risk rolling back the water quality gains achieved in the past 37 years.

Federal investment in clean water has declined sharply. Municipalities currently pay about 95 percent of the cost of wastewater infrastructure and 99 percent of the cost of drinking water infrastructure. NACWA's own Triennial Service Charge Index projects a steady rise in the average residential service charges over the next 5 years, and it anticipates that annual average cost to single-family residences will increase nearly 34 percent between 2008 and 2013.

Since 2000, rates at my utility, which provides only treatment services to our members, have increased 450 percent in order to pay debt service for ongoing plant upgrades required to meet more stringent discharge standards. This has resulted in a 110 percent increase in sewer rates to our largest member community, which

has a median household income of \$36,000 per year. It goes without saying the small rural and low-income communities will be hit hardest by these increased costs.

This brings us back to the subject of today's hearing, how to finance the enormous clean water funding need. Momentum is building to address the infrastructure funding gap in a meaningful way. We appreciate this Committee's work to move legislation increasing Federal funding for clean water infrastructure, including bills to reauthorize SRF and to provide \$6 billion in stimulus funding to address our needs.

While this represents solid steps forward, we must remove water infrastructure investment from the realm of uncertain annual appropriations and focus on a dedicated funding system. Municipalities are willing to share and will continue to do so. However, NACWA believes that the Federal Government must do more to address the shortfall facing our Nation's publicly owned wastewater treatment agencies.

If highways merit a trust fund at \$30 billion a year and airports, \$10 billion, why should we not have a water trust fund for a national resource each of us uses every single day.

During deliberations for the Clean Water Act, Congress decided that water infrastructure was a national good that demanded Federal investment. Representative Blatnik, the Chair of this Committee at the time, said the task of cleaning up the Nation's waters was even more monumental than establishing the Interstate Highway Program. Congress created a trust fund to ensure the long-term viability of the Nation's highway system. We ask that Congress do the same for our Nation's waterways.

We look forward to working with you, the water infrastructure network and associations representing drinking water utilities that support the Blumenauer bill. Thank you for your time and for allowing NACWA to share its views on clean water funding for the 21st century.

I would be happy to try to answer any of your questions.

Ms. JOHNSON. Thank you so very much.

Ms. Dereth Glance, Executive Program Director, Citizens Campaign for the Environment, Syracuse, New York.

Ms. GLANCE. Thank you, Chairwoman Johnson, Ranking Member Boozman, and distinguished Members of the Committee. It is my great pleasure to testify before you today on the need to establish a dedicated fund for clean water for all Americans.

My name is Dereth Glance. I am the Executive Program Director with Citizens Campaign for the Environment. We are an environmental and public health advocacy organization supported by over 80,000 members throughout New York and Connecticut. I also serve as the Treasurer and a board member on the National Clean Water Network and I also serve on Governor Paterson's Clean Water Collaborative.

I believe establishing a dedicated fund to ensure that Americans have access to safe drinking water and that American waters are no longer fouled by sewage and polluted runoff is long overdue. The need is overwhelming and urgent. In New York State alone, we are estimated, over the next 20 years, to need \$74 billion to meet our clean water and drinking water needs. Nationally, the EPA puts

that estimate at \$722 billion. To bring that back home, in Syracuse we need \$1 billion to deal with our aging water pipes alone.

I can speak at length about the overwhelming quantities of raw sewage that pour into our waters that happens almost every day. Just on the 4th of July weekend at Lake George, on their million-dollar beach, over 6,000 gallons of raw sewage spewed onto the beaches, closing the beaches, ruining summer vacations and the businesses that depend on those tourists.

The same is true for our water mains. On Mother's Day in Syracuse over 1 million gallons of water flooded downtown churches, day-cares and businesses, closing a day-care permanently.

We have removed lead from gasoline, from paint, and from toys. Now is the time to ensure that our children and Members of Congress and your staff can drink tap water that is not delivered through lead-leaching pipes. Water is a powerful compound and sewage is caustic.

With so many other problems in plain sight, investing in clean water is often ignored for too long until it is too late and it is even more expensive. We must make rebuilding and reinvesting in a fundamental sanitary service a national priority. We need Federal resources to protect Americans and our right to basic sanitation.

Sewage treatment plants are some of the energy-intensive and expensive municipal taxpayer expenses. By investing in energy and water efficiency, we have many benefits to gain, as well as controlling our costs. We can look at an example just in Dallas. They have been able to avoid controversial water projects by providing incentives for both the commercial and residential consumers to practice water efficiency practices.

Now, a dedicated and robust Clean Water Trust Fund will assist States and local municipalities in closing that gap for water infrastructure, and the economic benefits will be felt far and wide. We are going to be improving water quality, creating jobs, and protecting public health. And I applaud Congress, and especially the leadership in this Committee, for including much-needed funding in the American Recovery and Reinvestment Act. In particular, there was key language that was included that encouraged green infrastructure, innovative solutions that promote outside-the-pipe thinking and also provided funding for water and energy efficiency improvements at our treatment plants.

And I am also encouraged by the much-needed funding that is moving forward through the SRF authorizations for both clean water and drinking water. The SRF is an effective and important funding source for American water projects, but its need consistently exceeds funding. The solution is the American Water Protection and Reinvestment Act. It outlines a 21st century approach to deal with our 21st century water needs.

And I want to highlight a few of those key provisions for a successful Clean Water Trust Fund.

First, we need a fix-it-first approach. We need to make sure this fund is not funding pipes to nowhere. We need sensible growth. We need to make sure that we have funding research and development. Our 21st century water infrastructure needs need to be grounded in 21st science and engineering. We need to have national research centers and programs at our universities to develop

those bright minds to bring about a sustainable water future. We need to encourage our innovative clean water solutions.

The EPA tells us to manage water efficiently. We need slow it down, spread it out, and soak it in.

We need to make sure that we are keeping pharmaceuticals out of the water. Our treatment plants are not equipped to deal with removing endocrine-disrupting and estrogen-mimicking medications.

Grants are necessary for our local municipalities that are cash strapped.

We need to deal with climate change and mitigation. These are challenges that water infrastructure has not seen, and they can be part of the solution by generating clean renewable energy on-site.

We need to supplement, not supplant, the SRF. And we need dedicated funding from a variety of sources. The small fees on pesticides, beverages, and users create a sensible and diffuse way to fund this program.

And of all things, water is a public trust. It is necessary for us to drink or we perish. And of all things to hold in public trust what could be more important to Americans than access to save and clean water? Thank you.

Ms. JOHNSON. Thank you very much.

We have a vote and we have five votes. That is going to take at least 30 to 40 minutes, but we will have to take a break and come back. And I apologize if this is going to mess your day up so much, but they don't listen to us on that floor.

With that, we will return and the questions will come after we complete the testimony.

Mrs. NAPOLITANO. [Presiding.] The Water Resources and Environment Subcommittee hearing on Opportunities and Challenges in the Creation of a Clean Water Trust Fund has now reconvened. We will move on to our next witness, Ms. Kristine Young, President and Chief Executive Officer, Miller the Driller, Des Moines, Iowa.

Welcome.

Ms. YOUNG. Hi. As you said, I am Kris Young from Des Moines, Iowa. I would like to thank you for having me here, and we are excited to be a part of this process.

I am part of a family-owned business. We have been in construction for 62 years now, and we have helped municipalities and communities recover when systems have gone down. So we are very much aware of what goes on at the local level, the State level and at the Corps of Engineers. I am a certified DBE in many of the States that we work in, and I am very proud to be here to represent the 33,000 members of AGC of America on the Opportunities and Challenges in the Creation of a Clean Water Trust Fund.

Even before the current economic downturn, many of our cities and towns have experienced substantial challenges repairing and replacing water infrastructure that is quickly reaching the end of its useful life. Many communities do not currently have the resources to make the investments necessary to replace aging infrastructure and meet Federal water quality standards.

As a contractor, I see firsthand what neglecting our infrastructure can do to our communities. As a resident of Des Moines, Iowa,

I also know what it is like to go without water for 30 days, when your water system goes down in a flood in 1993.

Until recently with the passage of the Recovery Act, which is providing over 7.4 billion for EPA and USDA water programs, congressional appropriations for water infrastructure projects have been diminishing steadily over the years, while our needs are ever increasing. Our industry is facing a crisis much like the infrastructure. In June alone construction employment declined by 79,000 jobs while over the past 12 months almost 1 million construction workers have lost their jobs. Overall, unemployment is at 9.7 percent, but 17.4 percent of construction workers are now unemployed.

The GAO report, which is the subject of the hearing today, acknowledges that our Nation faces tremendous challenges in replacing and rehabilitating our water infrastructure. We are all aware of the various studies, projecting needs approaching 600 billion over the next 20 years.

As the GAO's report to this Committee states, the trust fund for water infrastructure would establish a multiyear commitment to address the Nation's pressing water needs. If Congress can develop a fair and defensible system for raising the revenue, a water infrastructure trust fund is achievable, and the benefits to the American people, business and environment would be enormous.

Infrastructure investment enhances our quality of life, provides good-paying jobs for Americans. In fact, a study conducted by AGC, completed in the spring of 2008, estimated that every 1 billion in nonresidential construction spending would add about 3.4 billion to the gross domestic product, about 1.1 billion to personal earnings and create and sustain over 28,000 jobs.

At the Federal level we have used dedicated trust funds to tackle problems too big for States to handle alone. Financing water infrastructure through a trust fund would have advantages over general fund financing. It would be deficit neutral. The funding stream would not be subject to the annual appropriations process, providing the certainty that State and local officials need to commit to long-term infrastructure financing. And it would get the job done, providing the revenues for revision to meet the need.

We as an association have been dedicated to educating our members and the public about the current needs that exist in clear terms that every American can understand. With our support, the Penn State Public Broadcasting documentary *Liquid Assets*, the *State of Our Water Infrastructure*, has been broadcast over 700 times in 94 percent of the PBS stations. We thank the efforts of Chairwoman Johnson and Ranking Member Boozman and all 535 Members of Congress who have received and hopefully looked at the *Liquid Assets* documentary.

The number of Americans who understand the need to improve our water infrastructure is growing, and their patience is diminishing as those who have failed to make investment in water infrastructure a priority. AGC acknowledges that in these tough economic times, raising taxes may be a difficult pill for the American public and corporate America to swallow. However, we think infrastructure is different. It is an investment program, and we have an obligation to provide the American people with the assurance that

the water they drink is clean and safe and that our infrastructure is delivering environmental benefits.

I thank you for the opportunity to speak to this Committee today.

Mrs. NAPOLITANO. Thank you for your testimony.

And in light that Mr. Barry has a plane to catch, we will jump over—gentlemen, if you don't mind.

Mr. BARRY. Thank you, Madam Chairman. I appreciate your letting me testify today and in changing the order a little bit. That is very gracious of you. Thank you.

Mrs. NAPOLITANO. Thank the gentleman.

Mr. BARRY. And I thank the gentlemen to my right who have to suffer through my testimony first. I will keep this very brief.

I am testifying on behalf of the American Water Works Association, which is an association of utilities throughout the United States, more than 50,000 members. There are utilities in every State, and certainly all the large utilities in the country belong to AWWA. That is whom I am representing, although my job is as General Manager of the Denver Water Department.

I just have a couple of things to say about this bill. I am not here to oppose it. I am not here to support it. I want to make some observations and give you some perspective about it.

Number one, the primary responsibility for funding water and wastewater infrastructure in this country has always been local. We think it should remain so. Americans are best served by water systems that they pay for themselves. It is more responsive. It is direct government, it is direct democracy; we don't want to see that change.

Aging water infrastructure in this country is an issue, but I don't think it is a crisis, and all the infrastructure is not crumbling. There are many reports and a lot of numbers out there, but the thing I want the Committee to remember is that the water industry itself now invests \$80 billion a year in water and wastewater infrastructure. That is \$80 billion a year.

Now, this funding gap of 300-some-odd billion, supposedly, after 20 years is, in fact, only a 20 percent funding gap. And EPA itself says that if utilities will increase their water rates at 3 percent above the rate of inflation, that gap is largely closed. Though it is not a crisis and it is not all crumbling, it is an issue that we have to pay attention to on a local, issue-by-issue, State-by-State kind of basis.

Now, there is definitely a role for the Federal Government in lowering the cost of capital. And particularly, in special circumstances, low-income communities, combined sewer overflow problems, small systems, there is a disparity in the ability of different communities to fund their infrastructure, and the Federal Government can help.

I think that is very important to note that they can help, but I am not—one of our concerns is, I don't want to see the Federal Government take over this responsibility. It is a local responsibility and it needs to remain so.

One of our concerns about the bill is, we think that a trust fund is, in fact, not a very good mechanism. I think most of the Com-

mittee knows this, but the words "trust fund" in Federal Government parlance don't mean what they mean to the rest of the world.

Federal trust funds don't have trustees, they don't have beneficiaries and they don't have segregated assets. They are simply accounting entries that Congress can change or eliminate at any time. There are 400 Federal trust funds; I think almost none of them actually spend all the money that comes supposedly to them for the purposes for which they were created.

What I worry about is, we create a trust fund, create an expectation that the Federal Government is going to solve this problem through a trust fund, and in fact that is not the case. The history of trust funds tells you that it is a false promise, it won't work that way; that is one of our concerns. It is not that we oppose these taxes or that we oppose any Federal Government involvement. It is that the promise will be far greater than the performance, and the history of trust funds is very clear about that.

We think there are more effective tools to get Federal help to the communities that need it. One of them is something called a water infrastructure bank. We have—AWWA has written a report about that. That bank could build on and leverage SRF money.

Another thing we think is important, and it is in the bill, is broadening and enhancing the purposes and the mechanisms by which SRF money is administered. SRF money right now can't be used to fix aging infrastructure. That needs to be fixed, and that is in the bill, and we certainly appreciate that.

The last thing I want to say—or almost the last thing, and there was a reference to it in the GAO testimony—is about a water tax. A water tax is something that makes many of us in the utility industry extremely nervous. We are not in favor of a national water tax, partly because it is an inefficient way to collect and spend money, partly because it, in effect, punishes those cities—and there are many of them—municipalities who have maintained their systems to a high degree, who would now be taxed to have that money sent somewhere else.

If this is a local responsibility, let us keep it generally local. We think that is an important concept.

There are many things that AWWA is for in this arrangement and that is listed in the testimony; I won't go into detail about that.

I will conclude with one thought, and that is that this bill, to me, implies—it doesn't say it explicitly, but it implies that clean water and wastewater infrastructure is no longer a local responsibility, the Federal Government is going to take care of it. Well, first of all, that doesn't give me any comfort. Second of all, the mechanism that the Federal Government in this bill was going to use is a trust fund.

The trust funds don't work in the way they are supposed to achieve this objective.

Mrs. NAPOLITANO. Mr. Barry, would you wrap it up please, sir.

Mr. BARRY. Madam Chairman, I am wrapped up. I appreciate your letting me give this testimony. We like some parts of the bill, we don't like others; and you have heard some of our concerns and observations. Thank you.

Mrs. NAPOLITANO. Thank you very much for your testimony. Your concerns are noted. Some would agree; some would disagree. But we very much appreciate the fact that you have been very constructive in criticism. So thank you sir.

And you are dismissed if you need to catch your plane. Thank you, sir.

We will now hear from Mr. Bill Hillman, Chief Executive Officer, National Utility Contractors Association, Arlington, Virginia.

Welcome, sir. And you're on.

Mr. HILLMAN. Thank you, Madam Chair, and thank you so much for including us in this important proceeding today. I want to thank the Ranking Member and the Full Committee, as well as Mr. Blumenauer and GAO, for getting us to where we are today in this discussion. We supported this idea of a trust fund for many years, and it was lonely for a while; and now it is not, and it was due to all your efforts.

At the outset, I want to share that we do support in concept the creation of a trust fund. And I would like to take a few moments to explain the key reasons why we do and, time allowing, some ideas on how it might be structured to be most effective.

But first, at the request of a couple of Subcommittee Members, I would like to discuss for a moment why the investment gap that has been mentioned really matters. Because, for example, some speakers, including the previous witness, don't think it is really a crisis, and they make a case for that; and we have got some Members who think it is not a crisis.

But just because people aren't dying right and left doesn't mean it is not a crisis. Its ramifications are not just inconvenient, they are very serious. And some of the previous testifiers, as well as Mr. Blumenauer, outlined quite succinctly and well some of the environmental protection implications and public health ramifications of our failure to address this growing gap.

However, I want to add one more factor to the mix that we think is very important.

The failure to narrow this gap effectively puts an economic straightjacket on our economy for a number of reasons, which I will explain. We recently, for example, put out a study through our coalition, the Clean Water Council—I think everybody has got a copy—called Sudden Impact, and it has been out for months. We released it with the consideration of the recovery package, but it extends far beyond that.

This shows in the short term only, that is, during the period of construction only, a billion-dollar investment, similar to the AGC study, results in substantial, real changes in economic output; increases personal incomes which are spent on the economy; increases State and local tax coffers; and last, but certainly not least, extensive employment ramifications.

We can create almost 27,000 jobs per billion at an average income of more than \$50,000 per year. And for those of you who may be rolling your eyes after some of the numbers thrown out during the stimulus package hearings, you can stand by—these numbers are based on actual data from 116 jobs completed in the last year, and they are run through two economic models. So we felt we can

look in the mirror in the morning and cite these figures without running away, and we want to point those out to the Committee.

That explains why it is a crisis.

There is another aspect to it. The problem, we believe, is structural. Despite all the efforts by the State and local governments and the SRF and bond referendums and everything else, the gap is not being diminished. And let me illustrate very quickly what I mean.

In 1980, we were told the needs were 125 billion for wastewater. We spent 75 billion in the next 10 years to reduce it. Twelve years later the needs had gone up to 132 billion. That pattern has been continued every 2 to 4 years to the point where the gap is over \$200 billion.

What that says to us, business as usual, it hasn't been working. Furthermore, we believe—and we don't have a study for this, but even if you implement full-class pricing like many want to do and even if you have proper asset management and even if, as this Committee has done and the House has done, you pass a good SRF reauthorization bill and even with the recovery package, you are still going to have a gap.

So something new, fresh and innovative has to be done. I think it is very difficult to argue against that. The big issue is what do you do? That is the big question. And we believe a trust fund, for a couple reasons, is the best mechanism.

One is, it can raise enough money to actually do something about the problem.

Number two—and, Madam Chair, you touched upon this in your opening statement—a trust fund that cites adequate funding provides consistent funding. It is very important for not only private sector contractors and engineers and labor, but also for State and local government. If you can't predict what funding is going to be, if you base your planning off of what the Subcommittee is going to vote on, what the President is going to introduce and what some voters are going to do, you are going to be a lot less likely to ramp up your employment and go out and buy that \$300,000 track hoe and have enough jobs, shovel ready, when the opportunity arises. And I think that is another important point in favor of a trust fund.

The third point is—and I disagree with at least one of the other witnesses on this—I think there is a Federal role to be played. The reason is actually quite simple. Water pollution is an interstate need, and the Federal Government is going to have to be involved in partnership with State and local. But as long as we have got the Pacific Ocean and the Atlantic Seaboard and the Mississippi River and the Great Lakes and the Chesapeake Bay and a hundred others, there is going to be a Federal role to play in financing.

That concludes my 5 minutes. If I get a chance later on, I would be happy to share some ideas about how we would structure this and another idea for including additional stakeholders in the process.

Thank you.

Mrs. NAPOLITANO. Thank you very much for your testimony, sir.

Mr. Dale Jacobson, Jacobson Satchell Consultants, Omaha, Nebraska.

Thank you for your patience, all of you.

Mr. JACOBSON. Good afternoon, Madam Chairwoman, Representative Boozman, and Members of the Subcommittee. My name is Dale Jacobson. I am a licensed professional engineer in Nebraska and Iowa, and the President of Jacobson Satchell Consultants, a consulting firm with offices in Omaha and Denver. I have about 40 years of experience in engineering wastewater and drinking water projects.

Today, I am pleased to appear on behalf of the 146,000 members of the American Society of Civil Engineers to testify on opportunities and challenges in the creation of a trust fund to provide funding for clean and safe water and to discuss the Water Protection and Reinvestment Act introduced by Mr. Blumenauer.

America's drinking water and wastewater infrastructures systems are aging. Many systems are well beyond their design lives. New methods of financing improvements to these critical structures are vitally needed.

ASCE believes that funding for water infrastructure improvements and the associated operations requires a comprehensive program to provide financial support. To that end, ASCE supports the creation of a trust fund to finance the national shortfall in funding of infrastructure systems under the Clean Water Act and the Safe Drinking Water Act.

The Blumenauer bill would create a trust fund for drinking water and wastewater infrastructure needs and raise approximately \$11 billion annually from new sources of revenue, each designed to provide a constant source of funds. The bill would provide a budgetary firewall to ensure that all moneys received into the trust funds would be appropriated into the two State revolving loan funds.

There are some important points to be made about the bill before you. This legislation is vitally needed. If enacted, the Water Protection and Reinvestment Act would begin the process of restoring our Nation's threatened surface water and drinking water resources.

In March, ASCE released its 2009 report card for America's infrastructure. We identified a \$2.2 trillion need for infrastructure funding over the next 5 years with about half of that money assured under current funding arrangements. This leaves a gap of \$1.1 trillion to be met from new sources of revenue.

In our report card, drinking water earned a D- and wastewater also earned a D-. Our annual shortfall of \$11 billion is needed to replace aging facilities that are near the end of their useful life and to comply with new and future Federal regulations. This does not account for growth in demand for drinking water and wastewater services over the next 20 years.

Americans still enjoy some of the best tap water in the world, and as the gentleman from the American Water Works Association pointed out, it is delivered locally. But there are costs for treating and delivering that water that continue to outpace the funds available at the local level. A similar situation for funding exists with our wastewater systems.

The bill would establish a trust fund that would receive money from the new taxes. Unlike other trust funds with a single source of revenue, the water infrastructure fund would have multiple

sources of revenue, thus ensuring a more stable and dependable source of support for essential water systems.

In January, this Committee led the fight to pass the American Recovery and Reinvestment Act. That act, signed into law in February, provided an estimated \$100 billion for all U.S. infrastructure needs as an emergency job creation measure for fiscal year 2009.

The Blumenauer bill will also create badly needed jobs. The Recovery Act and this legislation are more than about jobs. They represent a partial down payment on the \$1.1 trillion, 5-year infrastructure investment gap identified by our report card. That is why ASCE strongly supports the creation a trust fund to finance the national shortfall in funding of infrastructure systems under the Clean Water Act and the Safe Drinking Water Act. Such a trust fund would provide source funding for many decades to come.

Let me close with a few brief points. The Nation's infrastructure faces some very real problems that threaten our way of life if not addressed. We determined in March that these problems are solvable, but we need to have the needed vision and leadership. Raising the grades on our infrastructure will require us to seek and adopt a wide range of structural and nonstructural solutions in every category, including technological advances, funding and regulatory changes and changes in public behavior and support.

ASCE developed several strategic solutions to begin raising the grades. One of these is to increase Federal leadership and infrastructure to address the need for additional funding. This proposal would create a trust fund for water as the first step in that leadership.

Madam Chairwoman, thank you for your time; and I conclude ASCE's testimony and would be pleased to respond to any questions you may have.

Mrs. NAPOLITANO. Thank you, sir, for your testimony.

And that wraps up the testimony and we begin the questions to the panel. There are lots of them. I mean, I don't know where to start. There are certain things that have come up that bear a little bit more enlightenment, if you will.

Mr. Hillman's testimony clearly stated that existing appropriations are insufficient to meet clean water needs, the current clean water needs. But how about the rest of you? What do you think?

And I know it is not necessarily within your realm, Ms. Mittal, but I would appreciate it if you would be able to give some comment on this. Because I agree, there is just not enough in the stimulus, not enough in the ARRA to be able to do the needs of the infrastructure.

And I disagree with Mr. Barry in terms of being able to say that they don't want government to set up a trust fund "because." Well, we need to do something. We need to be able to help small communities that do not have the ability to do it on their own and be able to see, whether it is lead or anything coming out of the infrastructure, how do we deal with it and be able to not tax the people or tax all the businesses?

Everybody calls it a "tax," but certainly it bears a lot of soul searching about what we need to do. So would you, please?

Ms. MITTAL. Sure. As you said, this was not the main focus of our report, but during the course of our work, there were a couple things that came to light.

One is, even though it is very difficult to figure out exactly what the funding gap is, there is a pretty strong consensus that there is a funding gap. Second, the SRF is a very important tool, but over the years the funding for the SRF has been declining; and finally the ARRA provided \$4 billion, but that was, as you know, a one-time deal.

So a couple of things that we did notice, and as you just mentioned, is that with the SRF there are certain limitations, and small communities in particular, as well as very large communities that have mega projects, are not able to get the money that they need from the existing SRF. Stakeholders told us that having a Clean Water Trust Fund that provides a little bit more flexibility to meet those needs would be beneficial.

Mr. SUMMERS. In my written testimony, I address the gap. Specifically, Maryland has a 14 billion need, based on our latest need survey.

We currently, a combination of State, Federal and local funds, have about 130 million a year coming in to meet that need. And I guess a conservative estimate of the gap is about a half a billion a year. That is just for Maryland.

I would also note with the ARRA funding, Maryland received about \$120 million, for which we are extremely grateful. We received \$3.4 billion of requests for that funding.

Mrs. NAPOLITANO. Mr. Walsh.

Mr. WALSH. I can't really speak to absolute numbers in terms of the gap nationally. I can talk a little bit about what goes on in Massachusetts and give you an example of one community in Massachusetts.

In Bedford, which just finished upgrading its wastewater treatment plant and is making major investments in its combined sewer overflow facilities, the debt service on those projects alone has brought New Bedford to the point where it has exceeded the 2 percent of median household income level that the EPA uses as an indication of affordability. So there is New Bedford which is already well above the affordability level, and I suspect there are a number of other communities across the country that are in that situation. Without the help of the Federal Government, it would be very difficult for those communities, I think, to afford further improvements to their infrastructure.

Interestingly, also in the case of New Bedford, the reason that the EPA has decided to impose new stringent standards on them for treatment and is going to require them to go to nitrogen removal, the nitrogen removal is there because of issues in downstream areas such as Buzzards Bay and Narragansett Bay, which are national water resources, not just Massachusetts water resources. So I think what we are doing is we are trying to protect resources that are national in scope.

That also applies to my utility. Most of the reason that I have more stringent effluent standards is to meet water quality requirements in the State of Rhode Island and in Narragansett Bay.

So we have a very broad national scope in what we do and we have broad national need.

Mrs. NAPOLITANO. Thank you, sir.

Ms. Glance.

Ms. GLANCE. Yes. New York has overwhelming needs, \$38 billion in wastewater—\$38 billion in drinking water over the next 20 years, \$36 billion in wastewater over the next 20 years.

I had the privilege of standing with EPA Administrator Jackson, Governor Paterson, Congressman Hinchey and Congressman Tonko to announce EPA's largest wastewater infrastructure grant in history around Earth Day, \$432 million from the stimulus funds. Thank you very much for that.

Those projects—that funding, we were able to leverage that. We almost doubled it to over \$700 million in New York. We still have hundreds of reviewed, ranked, and ready-to-go projects that still await funding. So we can get these projects out the door if we have the funding.

I do want to speak to the economic benefits, too. The Brookings Institution took a look at a \$26 billion Federal investment in just the Great Lakes region alone; and the vast majority of that price tag is tied up, dealing with CSOs, and found that \$80 billion in economic benefits we would gain from that \$26 billion up-front investment. We think that is a pretty good rate of return. And we need additional funding.

New York State provides some funding in our State budget for wastewater infrastructure. We leverage our SRF as much as possible. There is funding from the local municipalities, but there is a clear role for the Federal Government. We have many shared waterways.

Mrs. NAPOLITANO. Thank you.

Ms. Young.

Ms. YOUNG. I can speak particularly on the contractors' level, and in the Midwest where I work, we regularly have communities under boil orders because their water systems have become contaminated. We regularly have problems where old water mains break, streets open up, sinkholes.

Mrs. NAPOLITANO. You hold the thought.

But how do they get the ability those entities to address those contaminations without funding?

Ms. YOUNG. Well, I think many of them don't address it until they have a catastrophe, and then they call construction companies to come out on the weekend and make emergency repairs. And it seems as though, in the municipalities that we are involved with, it is like they don't have the money until they are just forced to fix it and they need to fix it.

The money—the contractors are ready and waiting to help with this, and what is really frustrating is to see municipalities put projects out and literally let us bid them, and then they don't have the funding to support them and the job just sits there and nothing gets done.

Mrs. NAPOLITANO. Mr. Hillman.

Mr. HILLMAN. I testified as to our gap numbers already. I didn't talk about why the gap exists, and you begged that question in your last question. And I don't mean to be flip in saying it, but the

biggest part of the reason for the gap is because the American public is seemingly unwilling to pay for what they want.

We need an attitude adjustment. We need to change the definition of needs and have lower quality or step up to the plate in some way through a trust fund or other accommodations and belt a homer.

Mrs. NAPOLITANO. Thank you.

I beg to differ, though, because the American public doesn't know where to go to complain, one. Two, they don't know what is involved and many of these—the water agencies, the cities—are informed and educated; the general public is not.

If you phrase it the right way, they will agree.

Mr. HILLMAN. Part of the problem is, it is unlike, for example, transportation infrastructure. Ours is more out of sight, out of mind. It just is.

Now, we try to fight that. We put out a blog every day. We started last year. And I bring this up because I asked for some staff—we are going to do a daily blog, and all the catastrophes with sinkholes and collapsed infrastructure, do it once every 2 weeks. Two days later, you had better make it once a week; we have got enough stories already. Within 2 weeks we are doing it every day, but people still don't know.

Mrs. NAPOLITANO. But there should be an education component for the general public to understand. They will support it if they understand it—and if it is dedicated funding.

Mr. Jacobson.

Mr. JACOBSON. I will address your question both from a macro and micro perspective. As I know—and I have been in this business from about the time the Clean Water Act was passed in 1972, and through the years the EPA has generated their needs survey on both water and wastewater infrastructure.

They don't do this by divining it from Washington. They work with the State regulatory agencies, and those regulatory agencies, in turn, work with the cities and the counties and the agencies in their State to determine the needs.

So I believe that the needs surveys that have been generated periodically by the EPA are quite accurate and very reflective of the needs of the water and wastewater infrastructure.

To answer from a micro perspective, my hometown is Omaha, and as has been noted by some other people, the combined sewer overflow is quite an issue. In Omaha, we have a \$1.5 billion tab facing us for combined sewer overflow treatment or mitigation, and that doesn't address any of the other needs of the wastewater system within the community, whether it is within the collection system or the treatment system.

So the need for a trust fund to help assist in such a funding mechanism is definitely something that we believe is necessary.

Mrs. NAPOLITANO. Thank you very much for your testimony. It was enlightening.

Mr. Boozman.

Mr. BOOZMAN. Thank you, Madam Chair. I would like to kind of get back into the GAO report a little bit.

GAO found that stakeholders identified three main issues that would need to be addressed in designing and establishing a Clean

Water Trust Fund, namely, how the trust fund should be administered and used, what type of financial assistance should be provided, and what activity should be eligible to receive funding from the trust fund.

How would you recommend that each of these issues be addressed? Mr. Walsh?

Mr. WALSH. I don't know that I could tell you how I think the trust fund should be administered, say, from the top, but I think that there is a tremendous mechanism that is already in place that has worked very well in distributing funds for wastewater treatment systems, and that is the State revolving loan fund operation.

Mr. WALSH. That is basically the same operation that was distributing funds during the construction grants stage. That program worked tremendously towards bringing our wastewater infrastructure up to the level that it is today. So I think that there is quite a bit of the administrative capability is there to run that sort of a fund.

Mr. BOOZMAN. And the type of financial assistance?

Mr. WALSH. You are saying, should it be a grant? Should it be a loan? Is that the question?

Mr. BOOZMAN. Well, Mr. Summers is talking about having a fund that is really designed to reduce nutrients in a sense. We have other problems with aging pipes and infrastructure. I guess what I want to know is, if we have this trust fund, Mr. Blumenauer, in his testimony, talked about the fact that we are getting small, very minute quantities of drugs. That is very, very expensive to take out. So, again, I guess if we had this infrastructure fund, what are we talking about using it for?

Mr. WALSH. I think that there are sufficient needs in terms of more stringent standards that are coming along, such as nutrient removal, such as better management, combined sewers, such as better management of sanitary sewer overflows, all of which are sort of new Federal mandates that the funds could be targeted for.

I think local municipalities, local communities are capable of managing the maintenance of their systems, have been managing the maintenance of their systems. Frankly, I think they would manage the maintenance of their systems a lot better if these Federal mandates were funded better.

I think many of us do tend to reduce the money that we spend on maintenance in order to spend money meeting the more stringent standards that are coming at us. So I think if we got relief on the newer mandates that would help us tremendously in being able to keep our systems in much better condition.

Mr. BOOZMAN. Thank you, Mr. Walsh. And whoever else would like to comment is fine.

Ms. Glance.

Ms. GLANCE. I think using the existing mechanisms through the SRF managers is a very good system. It is already set up. I do think that with establishing a trust fund that transparency and the public understands exactly where that money is going is going to be incredibly important to maintain public support. And I think that a diffuse funding source, the more funding sources that we can tap to help build the solid trust fund I think the more solid it is going to be. And I think pollution prevention activities are so much

more cost effective. If we can prevent that pollution before we have to deal with it, it is going to be a lot cheaper in the long run.

So we do need to have a holistic look at managing water where it falls and before it goes to the treatment plant so that we can stay on top of this and reduce our overall costs.

And one of the things I do really like about this legislation is it deals with both drinking water and wastewater. This is our water infrastructure, and we need to look at them holistically together.

Mr. BOOZMAN. Ms. Young.

Ms. YOUNG. I would agree that you have three basic elements with water: You have the treatment, you have the rehab of existing systems, and then replacement or adding new systems to accommodate growing populations in certain areas.

Education is real important for not only, like she said, how the water is handled before it gets to the treatment. AGC did that with liquid assets. We had people say, we didn't know that stuff.

And I think the funding, the formulas are in place in most States to handle this. They just don't have enough money. And if they had money, it is like any business or any homeowner or individual. It is those capital improvements. They don't have the money to do it.

Mr. BOOZMAN. Since you bring that up, some of you have quoted Mr. Luntz on his opinion polls and things. The reality, though, is that, despite the surveys, despite what he says, it is really very, very difficult to raise utility rates, to get people to pay for the wastewater programs that we have.

You gave us your views, Mr. Hillman. Does anybody else want to comment on that? I mean, like you said, it is one thing to—it is kind of like bus mass transit. Everybody loves it, but they want their neighbor to ride it versus themselves.

Mr. Summers.

Mr. SUMMERS. I would say that it is definitely true that there is a big resistance to raising rates, but in the case of Maryland, where we have invested a lot of time and effort in educating the public regarding the need for Bay restoration, I mentioned Governor O'Malley's BayStat Web page that gives a transparent, easily understandable accountability mechanism. There really is very broad support. I am not going to say there aren't people who object, certainly, but there is broad support.

I live in Baltimore City. Baltimore City is subject to a judicial Federal consent decree, and we are spending over \$1 billion on SSO problems in the city. My rates have been going up steadily. And the Mayor just raised rates again this year, and really there was not the kind of outcry you might expect. People, when they really understand what is going on, they are supportive.

Mr. BOOZMAN. Let me just ask one more thing—and, again, Dr. Summers, you are alluding to it. Is it possible for municipalities to become self-sustaining without full cost pricing? Now, you mentioned Baltimore, and I don't know the particulars of that, but evidently, because they had resisted increasing rates, they got themselves in trouble. And then you have this crisis, and then everybody understands that if you don't get this done, then the Feds, through the Justice Department, step in and everything else. But is it possible to do that without full cost pricing?

Mr. SUMMERS. Well, in our case, we are doing it with a combination of grant funds through the State, the different programs that I have mentioned. The State is putting hundreds of millions of dollars into this problem already. The Federal SRF, as has been mentioned, has been going down, but it has been a major part of our effort.

But there definitely needs to be also an increase in rates, and we are seeing that across the State rates are going up. We are doing more and more comparison and education of rates. And so I really do think that it is a multi-phased solution here. We are not going to do it based on the trust fund alone. It is definitely going to have a major rate component to it. But I think there are Federal mandates, and the Feds have a role in helping deal with the problem. So it has got to be a joint effort.

Mr. BOOZMAN. I need to yield back so we can go to Ms. Edwards, but I agree. The unfunded mandate aspect of this thing can be a huge problem.

I yield back, Madam Chairman. Thank you.

Mrs. NAPOLITANO. Ms. Edwards.

Ms. EDWARDS. Thank you, Madam Chairman; and thank you, also, Mr. Boozman, for your inquiry.

My question is first to Dr. Summers—and it is always good to greet someone from the great State of Maryland. But I think that what Maryland has done is really instructive for us about how you can really engage the public with a broad public commitment to clean water, to a clean and healthy Chesapeake Bay, and then people are willing to invest in it.

I live in the metropolitan area here just outside of Washington. And you would think you wouldn't be able to make a connection between the people who live in the immediate D.C. suburbs to the Bay, and yet people have an incredible connection to the Bay. They understand that what we do in the Potomac River has an impact on the Chesapeake Bay. We have embraced that, and we are willing to pay for it. So I don't actually buy the argument that people are not willing to pay for clean water, for healthy rivers.

And because I was sitting here playing with my BlackBerry, I pulled up BayStat because I go to it often. And I looked and I noticed that many of the rivers that are tributaries into the Bay have a D, D plus, F rating. These are rivers that I fished in for 20-something years. And so it just highlights—I think a tool like this for consumers, for average citizens that is easily accessible and useable highlights for us what our responsibility is to our water and our water supply and engages us in the debate about the need to pay for it.

And so I want to ask you, Dr. Summers, there is a tension I think between the opposition in some sectors to water use and funding a national water infrastructure initiative. And I wonder if you have specific recommendations of how you engage the public and create a sense of national support for infrastructure investment in the way that you have experienced in Maryland.

Mr. SUMMERS. Well, I think that is where the partnership that we have been talking about comes from. Each region of the country has a water problem of some sort or the other; and I think by having the Federal Government actively involved, providing the tech-

nical and financial support to the State organizations, which in turn work with our local governments, it has got to be a joint educational effort.

The EPA has wonderful information on their Web page, which we use for educational opportunities. The interlinking these days with the worldwide Web—you were just looking at BayStat. One of the things we tried to do with BayStat is tie that in to other sources of information to help educate the public.

So I think the interconnection amongst the various organizations—and I should also mention our nongovernmental organizations, Chesapeake Bay Foundation and the Riverkeepers and others, have really helped with the educational effort as well.

So it has really got to be multi-pronged. The legislation, No Child Left Inside, has been something that I think Congressman Sarbanes has been working on; and the education of the youth is something that is absolutely critical.

Ms. EDWARDS. In any case, I think that what you have highlighted is that it really takes a full-scale engagement. And this has been leadership that has cut across Republican and Democratic administrations in the State of Maryland; and I think that is instructive, too.

I want to go on to a question to Ms. Mittal, and it has to do with your written testimony. I looked through it, and I culled out a quote, and I want you to clear up what I thought was a little bit of confusion.

On page four of your testimony, you mention that, while past proposals for funding a Clean Water Trust Fund have identified these products—referring to certain beverages, fertilizers, pesticides, et cetera—as contributing to the wastewater stream, limited research has been done on their specific impact on wastewater infrastructure, according to EPA.

And then on page seven of your testimony you say that, in addition, industry groups who are consistently opposed to attacks on their specific product groups to support a Clean Water Trust Fund, in their view their products did not contribute significantly to the deterioration of wastewater infrastructure and therefore should not be taxed.

And I just want to make sure that you are not suggesting that the only reason that one should be identified—or an industry or a sector should be identified to contribute to clean water has to do with the deterioration of the infrastructure and that that has to be the only logical linkage in terms of identifying funding. Because that would be very problematic. I think we heard earlier testimony from Mr. Blumenauer that, in fact, we need to sort of spread the responsibility across multiple arenas and sectors to come up with the amount of money, the billions and billions that we need. So I just want to make sure that that is not what you were saying in your testimony.

Ms. MITTAL. Not at all. What we were saying was that there is no empirical data currently available that directly links some of these products to the wastewater infrastructure system. So although there is a general recognition that they do contribute to the wastewater infrastructure issues that we are dealing with, there is no good, solid, empirical evidence that says this is the exact impact

that a particular product or pesticide or whatever has on the wastewater infrastructure system. So that is one thing.

The other thing that I wanted to emphasize is we asked the stakeholders that we questioned about the linkages between some of these options that we identified and where there is a stronger linkage between the wastewater system and these products we found a much greater level of support for the tax. So nobody is going to step up to the plate and say, yes, tax my products, but where they see that linkage between the wastewater system and their product, they are much more willing to support the idea of a tax.

Ms. EDWARDS. I just want to conclude here. I think it is certainly the opinion of this Member that if we were only looking at sectors that had an identifiable impact on deterioration, one, it would be very limited and, two, there are consumers like me who would say, well, heck, I don't fish, so why should I contribute to cleaning up the Bay or river? Or I don't produce as much waste as my neighbor does, and so why should I have to contribute more? I think if we go down that route, we run the risk that we will never be able to fund the Nation's water infrastructure needs.

We have significant gaps, and so, at the very least, the Federal Government, I think, ought to be a partner in closing that gap so that then local responsibility and State responsibility can take over in the way that it needs to and fund things annually so that we don't run the risk 20 years from now that we have an even greater gap.

And I will yield. Well, I don't have anything to yield, but I will just be quiet.

Thank you, Madam Chair.

Mrs. NAPOLITANO. Ms. Edwards, if you need to continue, there is only us up here. If you feel compelled to continue—

Okay. You give up. Thanks.

The question for Ms. Mittal, in your testimony you suggest that there are challenges that need to be overcome for the creation of a Clean Water Trust Fund. Do you believe there would also be challenges to enactment of any other measure, whether a CSRS, for increasing the funding levels for wastewater infrastructure?

For example, would there be a challenge to the concept of lifting the cap on productivity bonds, on creation of a national infrastructure bank? I mean, all of them would have challenges. So, because of that, all increases in water infrastructure would face legislative scrutiny and challenges, as you well know, but the challenge is in creating a trust fund surplus to those increases. How would that be able to be the best plan? What would be, in your estimation? More challenges? Less challenges?

Ms. MITTAL. We haven't actually done the comparison. All of those things that you identified were options that we identified during the course of our review, and we currently have a review ongoing for Congressman Mica where we are looking at the challenges that some of those other funding mechanisms could pose.

So in about 4 or 5 months we will have a much better sense of what some of the positives and what some of the negatives are with applying some of those other alternatives for raising funding. At that point in time, we would definitely be able to look across all

of the funding options and give you a better sense of which ones would pose greater challenges.

Mrs. NAPOLITANO. I specifically request that this Subcommittee be given that update if and when it comes. I appreciate it. Because that would be enlightening insofar as the different options and their challenges.

Ms. MITTAL. We would be happy to.

Mrs. NAPOLITANO. Thank you, ma'am.

Mr. Hillman, in what ways does the lack of available financial resources to construct clean water infrastructure hurt the Nation economically? What economic benefits can be realized from the investment in water infrastructure? How would the creation of a Clean Water Trust Fund increase those benefits?

Mr. HILLMAN. To follow up on my earlier comments, I think this gap does represent a huge lost opportunity to allow the economy to flourish. Comparing it to, for example, the creation of the Highway Trust Fund in '56, once you have created that, you have not only brought the country together, but the economy grew massively for half a century because of it. I think you can unleash the same type of results here.

For example, in many communities where there is dilapidated infrastructure—and often it is because it is just old. It is nobody's fault. It is just old. And everyone should have some skin in the game. And they should. Because, often, upgrading that infrastructure, replacing it, is literally a precondition for a growing economy.

I will give you what I think is a good example, but I am winging it a little bit here. Driving to work yesterday on Arlington Boulevard in Arlington to our office—and I would notice something like this—there is a utility contractor starting a job. I like to know who it is, are they pay-induced, and I couldn't see. But you have flaggers on Arlington Boulevard for safety. You have a gal watching the swing radius on a backhoe unloading relatively large diameter pipe on the side of the road. You have a couple of engineers with blueprints unrolled on their SUV. They are starting the job. And during that job you are going to create all of these results in here that are enumerated. I won't repeat them.

But the minute that job is over, the sudden impact is over. But what happens is—and I have to do this by illustration because quantifying it is very difficult to do—for most of the life expectancy of that new infrastructure you are constantly adding on new things. In fact, I can pretty much guarantee that job is designed for redevelopment. For the next 5, 10, 15 years, they are going to be knocking down these vacant buildings; they are probably going to be putting in housing units, entertainment, recreation, medical care, who knows what.

And every time you do that it takes place because of the investment you are making now. If you don't make the investment now, if you don't close the gap, you don't get any of that.

Mrs. NAPOLITANO. Thank you, sir. That is very well put. But I would go even further than saying the contractor is creating those jobs. I would go to the laundry, food service, transportation. I mean, the list goes on. It creates a domino effect.

Mr. HILLMAN. It is. And I am really glad you corrected me on that, because I forgot something. On page 10 of this, there is a

graphic that illustrates—this is the short-term only—it summarizes some of the induced—not the direct and indirect jobs but the jobs that are induced by the creation of the infrastructure.

And I am very proud of this, first of all, because it was my idea to put it in, but, more importantly, what it does is it really illustrates this induced multiplier effect. What this chart does is it lists out of those 20,000 jobs created, it just shows you the breadth of the employment. Actually, \$1 billion creates jobs in 325 different employment categories. It is virtually everything in the economy. Unless your job classification is hermit, you are going to get some impact from this.

And when we have the story line in here, "everything in here from tires to tortillas", we are not being smart. It is actually true.

And I don't have it today, but if you go out 325 industries, it makes sense. You put \$1 billion in something, you are going to be buying enough stuff that a plant is going to put somebody else on the tire line.

Mrs. NAPOLITANO. Thank you, Mr. Hillman. And, yes, that is very, very true.

Thank you for being so patient, to the panel, for sticking with us while we had to go vote. If you have any additional testimony, please submit it to this Subcommittee. The record is being kept open for 10 business days. Based on the input of the testimony given, if you have any additional points to submit, please do so.

We thank you very much, and this hearing is adjourned.

[Whereupon, at 5:10 p.m., the Subcommittee was adjourned.]



Rep. Tim Bishop
Opening Statement
Water Resources & Environment Subcommittee
Creating a Clean Water Trust Fund
July 15, 2009

Thank you Chairwoman Johnson for holding this hearing, and I thank today's panelists for appearing before us, including my friend from Oregon, Congressman Blumenauer.

As this committee fully understands, water infrastructure is critical for sustainable economic development, protection of human health, and protection of the environment. Yet too often, improving water infrastructure is paid little attention by the public and many elected officials.

Perhaps this is due to the fact that unlike highways and bridges, we cannot point to sewer pipes and treatment facilities and marvel at our accomplishments. However, each aspect of our nation's infrastructure is equally important to ensuring that commerce can flourish.

Even some in Congress do not fully appreciate the necessity of water infrastructure. The Congressional Budget Office estimates that there is an *annual* - I repeat, *annual* - investment need of between \$12 billion and \$20 billion to ensure a safe, clean supply of drinking water; and an additional annual investment need of \$13 billion to \$21 billion in wastewater treatment.

We must rethink our strategy of consistently underfunding our water infrastructure. This course of action will only delay a predictable, but avoidable, future of unclean, unsafe, and unhealthy waters. That is why I offered an amendment to the American Recovery and Reinvestment Act during its consideration in the House to increase funding for the Clean Water SRF from \$6 billion to the Committee proposed level of \$12 billion; however, this amendment was not accepted. And while I am pleased with the inclusion of \$4 billion in SRF funding in the final bill, this one time spike should be made permanent.

Our nation is facing tough economic times. We cannot afford to shy away from investments that will have lasting effects on our communities and our economy simply because we do not fully appreciate them.

I look forward to working with my colleagues to promote increased awareness of the importance of water infrastructure and to ensure that our adequate funding is available to states and municipalities to strengthen and expand our economy.

Thank you Chairwoman Johnson and I yield back the balance of my time.



**OPENING STATEMENT OF
THE HONORABLE RUSS CARNAHAN (MO-03)
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON WATER RESOURCES AND ENVIRONMENT
U.S. HOUSE OF REPRESENTATIVES**

Hearing on
Opportunities and Challenges in the Creation of a Clean Water Trust Fund

**Wednesday, July 15, 2009, 2:00 pm
2167 Rayburn House Office Building**

Chairwoman Johnson, thank you for holding this hearing today regarding the opportunities and challenges in the creation of a Clean Water Trust Fund.

Since the passage of the Clean Water Act in 1972, our country has witnessed measureable improvements in water quality, largely because of the significant investments in wastewater infrastructure. Improvements in this type of infrastructure have decreased effluent discharge of pollutants, increased the number of fishable and swimmable waters, and promoted the growth of many industrial sectors—the economic contributions of which depend on the effective usage of clean water resources.

This impressive progress, which has taken decades, can only be maintained and enhanced through further improvements in wastewater treatment infrastructure and through increased investments that account for projected needs and population growth. It is not adequate to merely fund the current upkeep of wastewater treatment infrastructure, which indicates the necessity for a reliable fund that addresses projected needs in this area. A fund of this type will allow protection of existing water resources as well as progress toward future water management goals.

A Clean Water Trust Fund can instill a greater level of funding confidence in state and local governments. With increased funding certainty, municipalities will be able to develop more long-term, comprehensive improvement plans, which are conducive to coordination with other capital investment funds.

While the benefits of a Clean Water Trust Fund are apparent and far reaching, it is necessary to scrutinize the costs and administration of such a fund. Although a general consensus has been reached on an administrative partnership between the Environmental Protection Agency and the states, there are many different views on appropriate targets for funding as well as efficient combinations for the acquisition of such capital. I hope that the panelists will contribute their own findings on these matters and answer further questions regarding revenue options and targets for a Clean Water Trust Fund.

In closing, I'd like to reiterate my appreciation for the presence of the witnesses today. I hope that this hearing will promote a comprehensive understanding of a Clean Water Trust Fund.



**Opening Remarks of U.S. Representative Phil Hare for
the House Subcommittee on Water Resources and
Environment Hearing on “Opportunities and
Challenges in the Creation of a Clean Water Trust
Fund”**

July 15, 2009

I want to thank Chairwoman Johnson and Ranking Member Boozman for holding this important hearing.

Since the passage of the 1972 Clean Water Act, investment in wastewater infrastructure has provided significant environmental, public health, and economic benefits throughout our country.

These successes, however, are now at risk. Due to population growth and aging wastewater infrastructure, bold action from the U.S Congress is now needed to ensure that we continue to protect our water resources and ensure our nation meets uniform water quality goals.

For example, the EPA has projected that by 2016, wastewater treatment plants nationwide may discharge certain pollutants into US waters at levels similar to those that existed in the 1970s, just after the enactment of the Clean Water Act.

Also, many cities and communities are relying on sewer pipes that are more than 100 years old.

Additionally, more than half of our states, including my home state of Illinois, are relying on combined sewage and stormwater sewers, which cause tremendous overflow problems after periods of heavy rain, releasing hazardous, untreated sewage.

Furthermore, there are a significant number of small, rural and disadvantaged towns throughout our country, and in my district especially, that are facing hurdles in financing their wastewater infrastructure either due to a lack of sufficient financial resources, or a declining base of ratepayers. In many of these communities, even with the

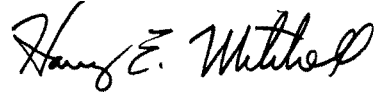
assistance of below-market rate loans from the state revolving fund, they still face difficulties affording the increase in local wastewater rates that would otherwise be necessary to finance wastewater infrastructure needs. In many of these cases, addressing these affordability issues may require an increased level of Federal assistance through additional technical assistance, financial flexibility, or subsidization to targeted communities or ratepayers.

As a solution, I believe that the creation of a Clean Water Trust Fund with a dedicated source of Federally-generated revenue to underserved areas is an important step in making the necessary investments in our wastewater infrastructure and improving national water quality.

I realize there are significant challenges in establishing such a trust fund for clean water –namely, how the trust fund should be administered and used; what type of financial assistance should be provided; what activities should be eligible to receive funding from trust fund; and what funding mechanisms would make the most sense. I

look forward to hearing suggestions from today's witnesses on how to address these and other related challenges.

Thank you again, Chairwoman Johnson.



Statement of Rep. Harry Mitchell
House Transportation and Infrastructure Committee
Subcommittee on Water Resources and Environment
7/15/09

--Thank you, Madam Chair.

--As you know I have been extremely concerned about the funding formula that is currently used to distribute federal assistance to State Clean Water Revolving Funds. (SRFs)

--Because the formula remains tied, in part, to Census data from 1970, Arizona's been getting significantly short-changed.

--Arizona ranks 9th in the nation in terms of need, but we rank 37th in receipt of federal funding for SRFs. On a per capita basis, Arizona ranks 53rd. Even the territories do better than we do.

--As we consider, today, the creation of a Clean Water Trust Fund, I am eager to learn what kind of assurance a state like Arizona would receive to ensure that it gets its fair share of federal wastewater financing.

--I look forward to hearing from today's witnesses. At this time, I yield back.



**American Water Works
Association**

The Authoritative Resource on Safe Water SM

**Statement
of Mr. Chips Barry, Manager, Denver Water,
on behalf of the American Water Works Association**

**Regarding
Financing Water Infrastructure**

**Before the House Subcommittee on Water Resources
and Environment
July 15, 2009**

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of Mr. Chips Barry, Manager, Denver Water,
on behalf of the American Water Works Association**

**Regarding
Financing Water Infrastructure**

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House Subcommittee on Water Resources and Environment**

July 15, 2009

Summary Points

1. The primary responsibility for funding water infrastructure has always been local, and should remain so. Americans are best served by water and wastewater systems that are self supporting through rates and other local charges. This important principle fundamentally shapes our approach to the issue of water infrastructure finance.
2. Aging water infrastructure is an issue in the United States, but it is not a crisis, and it is not all "crumbling;"
3. There is a role for the federal government in lowering the cost of capital and in special circumstances such as very low-income communities, combined sewer overflow issues, and very small systems. But the problems of aging water infrastructure, though widespread, are not primarily federal problems;
4. AWWA has evaluated a number options for improving water infrastructure finance, and concluded that a water trust fund is not the most effective or efficient option. Key factors in this view include the overhead costs of sending money to Washington instead of retaining and spending it locally; the encouragement of delay in adopting full-cost-of-service rates as local officials wait for trust fund assistance; and Congress' history, after creating hundreds of trust funds over the years, of not spending all revenues raised on the purpose for which they were collected. According to a recent AWWA analysis, the unspent balance in existing trust funds adds up to billions of dollars.
5. More effective tools for financing water infrastructure include enhancement of the existing state revolving loan fund (SRF) programs. It is particularly important to ensure that large water systems have guaranteed access to and meaningful participation in SRF programs. Other effective tools include removal of the annual volume caps for private activity bonds for water projects, full-cost pricing for water

service, and creation of a dedicated federal water infrastructure bank (to be described in more detail later). And

6. AWWA strongly opposes a national water tax, because it is inefficient, regressive, highly inequitable, and punishes those communities that have done the hard work of paying for and maintaining their infrastructure through local revenues. We make this point because we see a difficult road ahead in achieving the specific taxes described in the legislation under discussion today, absent a water tax.

Opening

Good afternoon, Mr. Chairman and members of the subcommittee. My name is Chips Barry and I am Manager of Denver Water. I have been involved in natural resources and water issues since 1969, as either a practicing attorney or as a state official or city official. Prior to becoming Manager of Denver Water in 1991, I was in then-Gov. Roy Romer's cabinet as Executive Director of the Colorado Department of Natural Resources. That department concerns itself with water mining, parks, wildlife, geology, and oil and gas. I graduated cum laude from Yale College in 1966 and obtained a law degree from Columbia University Law School in 1969.

The American Water Works Association (AWWA) applauds this committee for taking up issues surrounding financing water infrastructure, and we appreciate having the opportunity to comment on these issues. We also applaud Congressman Earl Blumenauer for focusing Congress' attention on water infrastructure and for his search for solutions. He and his staff have conducted discussions on this in an open, collegial manner.

Background on Water Infrastructure Challenges

AWWA's policy with regard to financing of drinking water utilities is that "the public can best be provided water service by self-sustained enterprises adequately financed with rates and charges based on sound accounting, engineering, financial, and economic principles." This policy was adopted in 1965 and affirmed over the years, most recently in 2005.

In February the U.S. Environmental Protection Agency (EPA) issued its fourth "Drinking Water Infrastructure Needs Survey and Assessment." That report concluded that drinking water utilities will need to invest \$334.8 billion over the next 20 years, above the level of current spending, to continue to provide safe and sufficient water to the American public. A needs survey is in progress for wastewater, but we can note that previous wastewater needs surveys have shown wastewater needs almost equal to drinking water needs. While these are large numbers, they need to be placed in the perspective of over \$80 billion annually that local officials now spend on water and wastewater infrastructure. Thus, the so-called infrastructure gap represents a shortfall of about 20 percent relative to current spending. While significant, this is hardly a crisis and certainly does not justify some of the alarmist rhetoric we have been hearing about crumbling water systems. In the past, EPA officials have noted that if water and wastewater utilities were to increase their customer charges by the rate of inflation plus

3 percent annually, the gap between needed investments and investments already taking place would all but disappear.

We appreciate this committee's interest in water infrastructure because it has been a subject of keen concern to us for some time. In 2001, AWWA issued its report, "Dawn of the Replacement Era: Reinvesting in Drinking Water Infrastructure," which showed that while the United States is not in a water infrastructure crisis right now, we need to begin very soon to ramp up our efforts to maintain and replace our current infrastructure. We followed that report with the following publications:

- "Avoiding Rate Shock: Making the Case for Water Rates," to help water utilities make the case to local decision-makers, customers, and other stakeholders about the need for sustainable local financing of water infrastructure improvements, operations, and maintenance.
- "Thinking Outside the Bill: A Utility Manager's Guide to Assisting Low-Income Water Customers," to assist utilities that need to raise their rates and that are concerned about the affordability of water for all of their customers.
- "Water Infrastructure at a Turning Point: The Road to Sustainable Asset Management," to provide an understanding of water infrastructure issues and how asset management can be used to address infrastructure challenges we face now and in the years to come.
- "Financing Water Infrastructure: A Water Infrastructure Bank and Other Innovations," to find the financing option or options for water utilities with the greatest opportunity to provide significant, subsidized capital for water infrastructure projects, while limiting the cost to the federal government.

I will come back to this last report in more detail later.

I would like to note that the Aspen Institute recently convened a group of noted experts in the field of water infrastructure and completed a series of discussions on this subject. I served on this group. The Institute has just released our report titled, "Sustainable Water Systems: Step One – Refining the Nation's Infrastructure Challenge." The report has 10 recommendations with regard to water infrastructure, and I believe three of them are particularly applicable for today's discussion. Those three points are as follows:

- The water management and policy community must redefine "water infrastructure" as one that integrates built infrastructure components with the protection and restoration of its supporting natural watershed infrastructure and the use of emerging small-scale water technologies and water management solutions.
- Utility and system managers as well as regulators and governing boards should ensure that the price of water services fairly charges ratepayers or customers the total cost of meeting service and sustainable water infrastructure requirements, subject to concerns about affordability. Funding for water utilities should generally rely on cost-based rates and charges, and water revenues should not be diverted to unrelated purposes.
- Water utilities should employ a variety of practices on the path to sustainability, including: transparency in governance and operation; public outreach and consultation; integrated water management; asset management; workforce

management; conservation and efficiency (both water and energy); advanced procurement and project delivery methods; adaptation to and mitigation of climate change; research and development; and technological and managerial innovation.

AWWA recommends the Aspen report to the committee as a thorough and thoughtful treatise on the subject at hand. I also note that, after much discussion and analysis, the Aspen project did not recommend the creation of a trust fund to address water infrastructure challenges.

The Water Protection and Reinvestment Act of 2009

With regard to today's discussion of the Water Protection and Reinvestment Act of 2009, AWWA does have some thoughts to share. We were glad to see that the bill recognizes the existing state revolving loan fund (SRF) programs for drinking water and wastewater infrastructure as worthy programs in channeling additional funding into those programs. Because the SRFs are loan programs, in the long term they do provide additional pools of funding to assist communities with their water infrastructure challenges. We are particularly pleased to see that large drinking water systems are assured a meaningful percentage of the funds that would be disbursed through the trust fund. We also applaud the programs of assistance for climate change adaptation, workforce development, and water-related research. These are important and deserve federal attention, whether through a trust fund or some other mechanism.

We were also glad to see that greater weight would be given to applicants who can show that they are implementing asset management practices and long-term financial planning. AWWA has long sought such improvements to the SRF programs, including increased funding, explicit eligibility of SRF loans for infrastructure rehabilitation or replacement, and encouragement of better utility management.

Having said this, we do have certain reservations about federal trust funds in general, and are not prepared to support the Water Protection and Reinvestment Act at this time. Federal trust funds are designed to provide dedicated sources of revenue to fund specific programs, but they are not guarantees that the monies raised will actually be spent on the intended purpose. Rather, federal trust funds are accounting entries that Congress is free to ignore in the annual appropriations process.

In most instances, as in the Water Protection and Reinvestment Act of 2009, a federal trust fund needs an annual appropriation from Congress in order to spend money collected into the fund. Congress may appropriate more or less than the amount of revenues available in the trust fund. In practice, federal trust funds routinely collect more in revenue than they are allowed to spend by Congressional appropriation. The extra funds collected are "loaned" to the general fund of the Treasury and used to pay for non-trust programs. At the present time, the Treasury owes many billions of dollars to federal trust funds, not counting the vastly larger sums that are owed to the Social Security and Medicare Trust Funds. Although trust funds generally earn "interest" on their loans to the Treasury, the only way that money can be repaid is if Congress raises taxes by that amount, cuts other spending by that amount, or increases the deficit by that amount to redeem these "balances." When Congress does not pay out all that is collected for a dedicated purpose, it represents a broken trust, not a trust-worthy approach. We believe a water trust fund bill, regardless of the revenue sources it

employs, should include a guaranteed or automatic appropriation of all monies collected to the EPA for the program's intended purposes.

A particular concern with regard to a water trust fund is the source of funding. AWWA has long been and remains staunchly opposed to a national water tax. We appreciate that the authors have no intention of assessing a national water tax or user fee, and that the Water Protection and Reinvestment Act does not include one. However, obtaining the taxes being sought will likely be a long, difficult task, and in the end, we remain concerned that Congress could institute a national water tax or user fee that local water utilities must assess to pay for the trust fund at least in part. This will likely have the unintended consequence of making it more difficult for local utilities to assess more realistic water rates.

If a water utility collects a federal tax or user fee to support a water trust fund, its customers are likely to believe that they have made sufficient payment for that purpose. If the utility tries to raise its own rates to address local infrastructure needs, customers and local elected officials are apt to question why that is necessary, since they are already paying the federal levy for water infrastructure. Even if they understand the need, many will likely want to hold off rate increases in the hopes of obtaining a grant from the trust fund. Thus the federal trust fund is likely to have the perverse effect of slowing or discouraging local investments in water infrastructure. Furthermore, a community that does address its own needs with local resources will only find itself subsidizing those communities that have declined to adopt needed rate hikes, better asset management, and better financial planning practices. To at least some extent, this effect is likely regardless of the revenue sources used to finance the trust fund. They all create the expectation that someone else will pay for what is an important local responsibility.

Again, AWWA is strongly opposed to a national water tax or user fee because it would siphon away local funds that would be used more effectively if they stayed local; would erode away local responsibility for infrastructure; and would result in communities that have implemented realistic rates subsidizing those that have not. We acknowledge that there are communities in difficult economic circumstances, particularly small communities, and larger communities having to deal with regulations for combined sewer overflows that need special assistance. However, a national water tax is not the way to address these problems.

So, What are We For?

AWWA has expressed its concerns about a water trust fund before. We have then been challenged with the question, "So, what are you for?" That is a fair question and we have answers.

First, as stated previously, we support a stronger SRF program with administrative improvements. President Obama supported more funding for the SRFs in his budget proposal, and House and Senate appropriations committees are increasing levels of appropriation for these programs, though not yet by enough. In addition, there is an SRF reauthorization bill that the Senate Environment and Public Works Committee has passed, S. 1005, that would substantially increase authorized funding for the SRFs. That bill would also give greater weight to loan applicants that can demonstrate that they are implementing asset management plans and responsible financial planning. S.

1005 would have EPA study ways to make the SRF programs more efficient and user friendly for local communities that want to apply for loans. These are steps we endorse.

Second, we believe that local communities and their utilities have the primary responsibility for maintaining, rehabilitating, and replacing water infrastructure. Utilities need to educate their customers and governing boards about the true cost of safe and sufficient water. Utilities must also work with the public and governing entities to increase awareness of the infrastructure challenges ahead, assess local rate structures, and adjust rates where necessary. AWWA supports the principle that water rates and other local fees should reflect the full cost of service, including infrastructure renewal. AWWA has invested considerable amounts of our own resources to produce materials that can assist utilities through the rate-setting process. We have also developed a sophisticated campaign helping to educate customers and the general public about the value of water. We have made most of these materials available to water utilities without charge.

Third, we support efforts to remove the annual volume caps from private activity bonds (PABs) used for water infrastructure projects, as H.R. 537 would do. AWWA released a study this June on the potential impacts of such action, following an independent analysis which found that removing PABs from the state volume cap could lower the cost of capital for water projects and that removing the cap would not be expected to raise interest rates on traditional municipal bonds or have any effect on the possible privatization of water systems, which can be controversial.

Fourth, a Federal Water Infrastructure Bank

We know that the SRF does not meet all of the water infrastructure needs in this country. That brings us to our fourth recommendation: creation of a federal water infrastructure bank. We have recently released a report on a water infrastructure bank that would provide the same amount of financial assistance being proposed in the water trust fund, but at a very low cost to the federal government and without the need for new taxes. There is precedent for looking in this direction. Congress has floated proposals for infrastructure banks in the past, and in his budget proposal for Fiscal Year 2010, President Obama proposed such a bank as well. AWWA's study only looks at a water infrastructure bank because that is the area of infrastructure we can speak to best.

The model for a water infrastructure bank we have takes a two-pronged approach to providing assistance to water utilities. To help small to medium-sized utilities, the infrastructure bank would help leverage state SRF programs. Twenty-seven states issued almost \$3 billion in leveraged bonds in 2008 to expand their pool of funds in their SRF programs. The water infrastructure bank could purchase or guarantee SRF bonds, lowering their interest rates to a level at or below the U.S. Treasury bond rate. These reduced interest rates would allow SRF programs even greater leverage and thus expand the pool of SRF capital. To further assist small, rural communities, the bank could be structured to loan funds for water infrastructure projects to the U.S. Department of Agriculture's Rural Development program, similar to how the SRF programs would be assisted.

As has been noted previously, large utilities are often left out of SRF programs altogether. This is a significant limitation and must be addressed. The federal water infrastructure bank would provide direct low interest financing or loan guarantees for projects of regional or national significance, or which were simply too large for the state to accommodate. With loans at the Treasury bond rate, communities would typically save 10 to 20 percent compared to their current borrowing rates, and would save significantly more if the bank were authorized to provide additional subsidies.

I have briefly mentioned the financing options the bank would use. Here is additional explanation of the three tools the federal water infrastructure bank could utilize:

- Treasury-rate loans / purchase of SRF bonds. Last December, 20-year municipal bonds traded at rates of 1 to 2.5 percent higher (depending on credit rating) than Treasury bonds with similar terms. Reducing the interest rates on municipal bonds to the Treasury bond rate could result in savings between 9 and 19 percent for borrowers.
- Loan guarantees. A federal guarantee would provide savings to borrowers and SRF programs because the additional security would result in interest rates close to the Treasury bond rate. Obtaining a tax exemption on earnings on SRF and municipal bonds with a federal guarantee would provide significant additional savings, as investors would be willing to accept a lower interest rate.
- Subsidized lending. Allowing the federal water infrastructure bank to access subsidized borrowing from the federal banking system, including interest-free loans for a limited term or partial principal forgiveness, could dramatically increase benefits to communities. For example, if the federal banking system forgave 20 percent of its loan to the bank, the bank would be able to reduce its lending rate to communities and SRFs to approximately 2 percent, with savings amounting to hundreds of millions of dollars a year in the overall cost of water infrastructure investment.

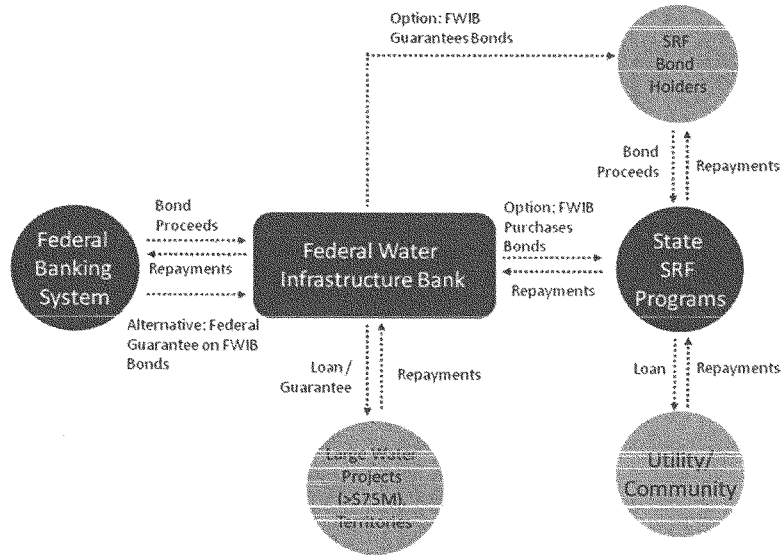
The cost to the federal government of a federal water infrastructure bank would be relatively small. Fitch Ratings calculates the historical default rate on water and sewer bonds as only 0.04 percent, and SRF bonds are considered among the safest on the market. Thus the cost of federal guarantees through the water infrastructure bank would be exceedingly low. In addition, unless Congress authorized subsidized lending, all monies provided to large systems and SRFs would be repaid with interest to the bank, and repaid by the bank to the Treasury, making the cost of the bank essentially zero.

As financing by this bank would be in the form of loans and loan guarantees, the main federal budgetary impact of the bank would be from any additional subsidies provided to reduce interest rates below the Treasury bond rate for communities and SRFs. This impact is small, however. Calculations show that if the federal banking system were to forgive 20 percent of the principal on \$10 billion in financing to the water infrastructure bank (i.e., a 20-percent grant), the cost to the federal government would be only \$150 million a year. That is, the federal government would appropriate \$150 million each year in order to forgive 20 percent of the principal on a 20-year, \$10 billion loan to the federal water infrastructure bank. That is a small amount relative to the large number of projects that could benefit from \$10 billion in low-cost financing. As a result, the federal water infrastructure bank would be able to provide significant cost savings,

including subsidies, to a wide variety of water and wastewater projects with a very modest impact on the federal budget.

A chart of our bank model is below:

Figure 1: Federal Water Infrastructure Bank Model, Flow of Funds



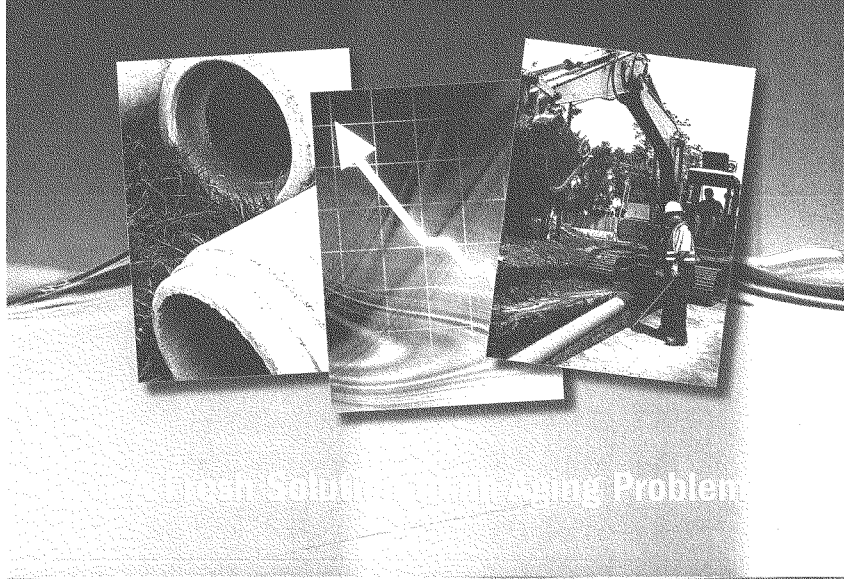
AWWA would be happy to share copies of our report on a federal water infrastructure bank with committee members or other interested Members of Congress.

Thank you for the opportunity to comment on this and other water infrastructure finance issues. We would eagerly work with Congress to help pass legislation to create such a bank.

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AWWA is an international non-profit, scientific and educational society dedicated to the improvement of drinking water quality and supply. Our 60,000 members include more than 4,600 utilities that supply roughly 80 percent of the American people with safe drinking water. Many of our utility members also provide sewer and sanitation services.

WATER INFRASTRUCTURE BANK



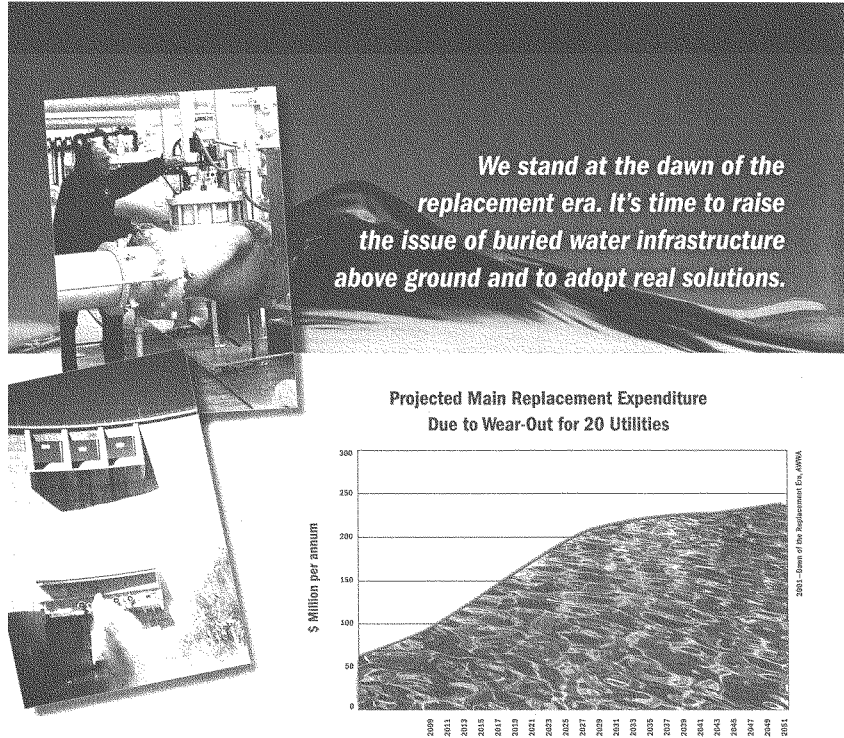
Proven Solutions to an Aging Problem



**American Water Works
Association**

The Authoritative Resource on Safe Water

Advocacy
Communications
Conferences
Education and Training
Science and Technology
Sections



The Challenge

Throughout the United States, a significant amount of buried water infrastructure—the underground pipes that make safe water available at the turn of a tap—is nearing the end of its expected life span. The pipes laid down at different times in our history have different life expectancies, and thousands of miles of them will need to be replaced in the years just ahead.

USEPA's recent estimate suggests the nation's water utilities will need to invest an estimated \$334.8 billion over the next 20 years on drinking water infrastructure. It's an enormous challenge we cannot afford to ignore.

Today a new age has arrived. We stand at the dawn of the replacement era. It's time to raise the issue of buried water infrastructure above ground and to adopt real solutions.

WATER INFRASTRUCTURE BANK

A Fresh Solution to an Aging Problem

MANY OF OUR COMMUNITIES use bonds to finance water and sewer infrastructure projects—and collectively, we pay billions of dollars in interest every year. To reduce these interest expenses and help our communities accelerate the rate of infrastructure repair and replacement, the American Water Works Association (AWWA) proposes the creation of a federal Water Infrastructure Bank.

In recent years, Congress has twice moved to pass legislation to create a National Infrastructure Bank, which would raise low-cost funds for infrastructure investments. The Water Infrastructure Bank idea is based on this concept but adds features such as assistance to State Revolving Fund programs.

Today, utilities' major sources of revenue typically include payments collected through user charges and the issuance of municipal bonds. Federal and state loan programs—State Revolving Funds—supplement these resources. While SRF loans are helpful for small and moderate-sized projects, they are generally not available for larger projects.

SAVINGS FOR COMMUNITIES

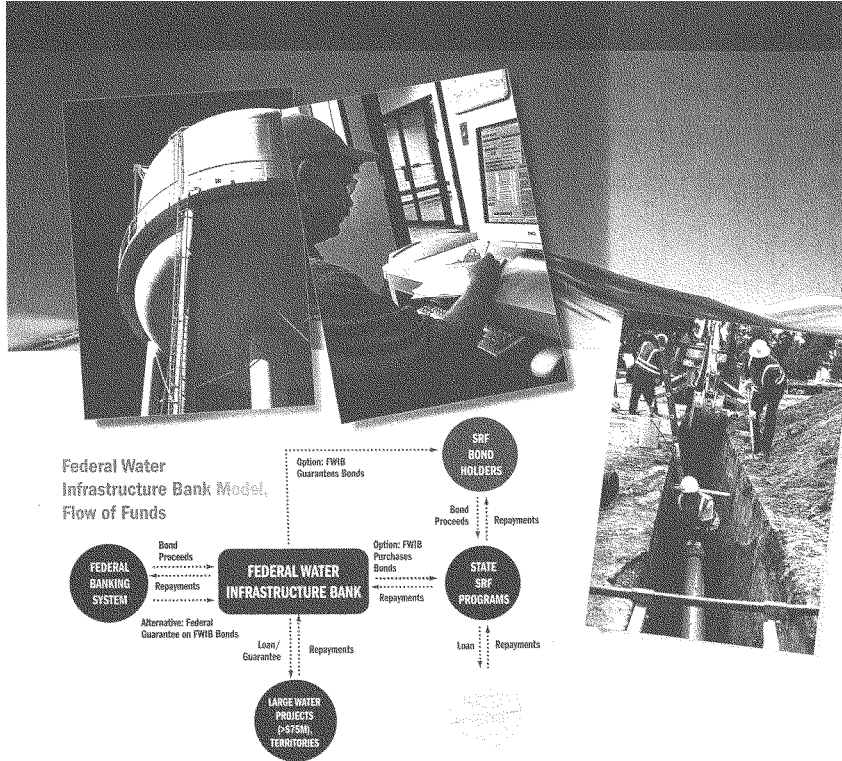
Communities would save 10 to 20 percent compared with current borrowing rates using the proposed Water Infrastructure Bank model.

LEARN MORE ...

You can learn more about the Water Infrastructure Bank idea in the publication *Financing Water Infrastructure*, available for download on AWWA's Web site at AWWA.org/InfrastructureBank.

The Water Infrastructure Bank's two-pronged approach would

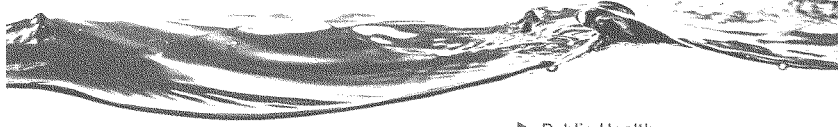
- **Provide financial assistance for large water infrastructure projects**
The bank would provide direct financing through loans or loan guarantees to larger projects at interest rates at or below the US Treasury bond rate.
- **Reduce the cost of leveraging for State Revolving Fund programs**
SRF programs issued almost \$3 billion in leveraged bonds in 2008. The Water Infrastructure Bank could purchase or guarantee SRF bonds, lowering their interest rates and allowing SRF programs to make more loans and increase subsidies to communities.



Low Impact, Highly Effective

The Water Infrastructure Bank proposal represents an important way the federal government can assist in water infrastructure investment. Lending to communities at the Treasury bond rate could save millions of dollars in financing costs. Providing a subsidy would save even more—at a modest cost to the federal government. For example, providing 20 percent principal forgiveness on the bank portfolio would allow the bank to lend at about half the current Treasury bond rate. Passing those savings on to communities through a 20-year loan is the equivalent of making a grant to the community of 26–34 percent, depending on a community’s market interest rate. Moreover, the default rate on water and sewer bonds is miniscule, and SRF bonds are among the safest on the market. That means the risk of default on Water Infrastructure Bank assistance is exceedingly low.

For more information on the federal Water Infrastructure Bank proposal, contact Tommy Holmes, AWWA Legislative Director, at 202.326.6128, tholmes@awwa.org, or Greg Kail, AWWA Director of Public Affairs, at 303.734.3410, gkail@awwa.org.

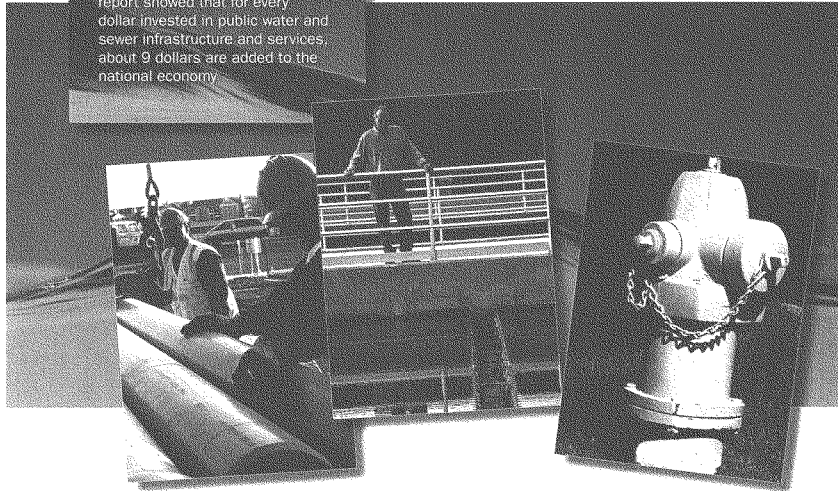


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DID YOU KNOW?

A 2008 US Conference of Mayors report showed that for every dollar invested in public water and sewer infrastructure and services, about 9 dollars are added to the national economy.



Water Infrastructure Bank: The right balance between local responsibility and federal assistance

The American Water Works Association (AWWA) firmly believes the most efficient and sustainable way to pay for water service and infrastructure projects is through customer rates and local charges that reflect the full cost of the service. However, in many cases, investment needs are simply too high to be met by traditional means alone.

The federal government can help, with very little impact on our national budget. Simply put, the federal government can make it easier and less expensive for American communities to access capital. A smart way to do that is by creating the federal Water Infrastructure Bank.

AWWA is the authoritative resource for knowledge, information, and advocacy to improve the quality and supply of water in North America and beyond. We are the largest organization of water professionals in the world. AWWA advances public health, safety, and welfare by uniting the efforts of the full spectrum of the water community. Through our collective strength we become better stewards of water for the greatest good of the people and the environment.

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Opportunities and Challenges in the Creation of a Clean Water Trust Fund
Rep. Earl Blumenauer
Written Testimony
July 15, 2009

Chairwoman Johnson, Ranking Member Boozman, and members of the Subcommittee, thank you for the opportunity to testify today and thank you for holding this very important hearing.

This Committee has done a fantastic job over the years, under the leadership of both former Chairman John Duncan and current Chairwoman Eddie Bernice Johnson, in highlighting the aging water infrastructure challenges our nation faces. Back when I was a member of this Subcommittee, it held a number of fascinating hearings on this topic.

For example, in March of 2003, I attended a hearing entitled “Meeting the Nation’s Wastewater Infrastructure Needs,” which examined the gap between wastewater needs and current spending. At that time, a recently released EPA report found that the gap between current and needed annual spending could be as high as \$9.5 billion per year. A CBO report suggested that it could be as high as \$11 billion a year. A number of the same organizations present today testified that the needs faced by communities large and small were high and that increased federal funding would be necessary to maintain the continued success of the Clean Water Act.

A little over a year later, in April of 2004, the Subcommittee held a hearing entitled “Aging Water Supply Infrastructure,” which looked at the needs of our nation’s drinking water infrastructure. The story for drinking water was very similar. Jerry Johnson, former General Manager of the DC Water and Sewer Authority, testified that a survey conducted by the Association of Metropolitan Water Agencies found that just 32 metropolitan systems alone reported that they must spend \$27 billion over the next five years on drinking water and wastewater infrastructure. Indeed, the American Water Works Association had just released a report calling this the “Dawn of the Replacement Era.”

In June of 2005, the Committee held two hearings to examine the question that previous hearings had raised – where do we find the money to make these additional investments and close the infrastructure spending gap? Republican pollster Frank Luntz testified about a recent poll he had done which showed that most Americans believe clean and safe water is a national priority, and would support a sustainable, dedicated source of funding for water infrastructure projects. In fact, he found that the public sees dedicated clean water funding as an even higher priority than investments made in the more high profile areas of transportation and airways. When asked which they thought was most important, 71% prioritized investing in clean and safe water, yet dedicated trust funds currently exist only for surface and air transportation.

Those hearings built a case for a significant increase in federal spending, and also made it clear that continuing to rely upon the limited and unpredictable yearly appropriations for the State Revolving Funds was not going to be enough. At the June hearings, a number of the witnesses called for the creation of a national clean water trust fund to provide a long-term, sustainable funding stream for water infrastructure. I was impressed when the witness from the American Beverage Association very reasonably indicated that her industry was willing to do its part and

pay higher rates that reflect infrastructure needs, but didn't think it was fair to make beverages the sole source of these funds.

So here we are again, a little over four years later, trying to answer the same questions. Over the past few years, the situation has gotten even worse. We have a witness here from the American Society of Civil Engineers who will talk about an infrastructure report card that the Society releases every few years. Recently they released a new report card and found that water infrastructure continued to receive dismal ratings, having received a D- in 2005 and in 2009. The EPA's most recent *Clean Water and Drinking Water Infrastructure Gap Analysis* estimates nationwide a \$534 billion gap between current investment and projected needs over the next 20 years.

In the 110th and 111th Congress, this Committee continued to demonstrate its leadership on this issue by passing legislation to reauthorize the Clean Water State Revolving Loan Funds. I was pleased to support H.R. 1262, the Water Quality Investment Act, when it passed the House earlier this year and hope that the Senate acts to pass it soon.

Members of this Committee are fully aware of the water infrastructure needs out there, and the witnesses testifying today will no doubt highlight them even further. What I'd like to do is focus on what I think is the most important question we now face – how do we pay for the investments that will be necessary over the next 20 years to close the current gap in funding and make sure communities can continue to provide clean and safe water to our constituents? How do we make the necessary repairs to the pipes and treatment facilities installed decades ago and paid for by past generations that are reaching the end of their useful lives?

In 2008, I left the Transportation and Infrastructure Committee to become a member of the Ways and Means Committee. One of the main reasons I was willing to leave the Committee that I loved was to help answer this question about how to finance the rebuilding and renewing of America. Repairing and upgrading water infrastructure is an important piece of this puzzle, and I have been working to identify funding sources for the past two years.

In January of 2008, I joined Chairman Oberstar and Chairwoman Johnson in requesting that the Government Accountability Office (GAO) undertake a study of potential funding mechanisms and revenue sources to finance a Clean Water Trust Fund. We asked them to look for sources that could be efficiently collected, are broad based, equitable, and that support annual funding levels of at least \$10 billion. The GAO released this report last month, and today you will hear from one of its authors.

Not surprisingly, the GAO found that there is no silver bullet. A solution will involve a contribution from all parties that impact and have a stake in our water systems. While it's probably the case that some water agencies could and should charge more for the water services they provide, we can't expect individuals to shoulder the entire burden of upgrading our nation's seriously neglected infrastructure with their water bills. This could mean a doubling or tripling of rates, which in many communities have already increased at double the rate of inflation in past years. To me it is unconscionable that in this country, something as essential to life as water could become unaffordable.

You will hear from the GAO today that they did identify a number of options for revenue that could support a \$10 billion water trust fund. Although each option involves issues that need to be refined and complexities that need to be sorted out, these are options that form the foundation of a workable solution.

After closely examining the GAO report and working with a broad coalition of stakeholders, I have introduced legislation to create and finance a water trust fund. My bill, the Water Protection and Reinvestment Act, H.R. 3202, would establish, within the federal Treasury, a trust fund to finance clean water and drinking water infrastructure. The funding will be distributed mainly through the Clean Water and Drinking Water SRFs. There will be a few new grant programs focused on addressing current and future needs, such as combined sewer overflows and climate change, but most of the authorizing language in the legislation will look familiar to this Committee. You have worked hard to pass legislation reauthorizing the Clean Water SRF and my legislation is mostly consistent with H.R. 1262, the Water Quality Investment Act of 2009.

Where I've focus my efforts as a Member of the Ways and Means Committee is on the revenue sources. My bill includes some of the fees that were identified by the GAO as being the most popular amongst stakeholders and the easiest to administer. The financing mechanisms in the Water Protection and Reinvestment Act include:

- Four cent per container fee on water-based beverages. Water-based beverages are defined as beverages that are water or created by mixing water with other liquids, flavoring, vitamins, or other ingredients where the resulting product is at least 50 percent water by weight. This means the tax would include soft drinks but would not include juice or milk. Alcoholic beverages and pharmaceutical drinks would be exempted. Bottled beverages rely on drinking water as their major input and result in both increased flows and increased waste into our waters.
- Three percent fee on items disposed of in wastewater, such as toothpaste, cosmetics, toilet paper and cooking oil. These products wind up in the waste stream and require clean up by sewage treatment plants.
- One-half of one percent excise fee on pharmaceutical products. Drug residues found in our nation's water bodies are an increasing concern for clean and drinking water utilities. This fee on the industry will support programs in the legislation to prevent drugs from entering water systems and to support research into remediation.
- One-fifteenth of one percent fee on corporate profits over \$4 million. All corporations use drinking and wastewater infrastructure and depend on it functioning to conduct their business. A similar tax was used to fund the Superfund program until it expired in 1995.

All of these taxes would be assessed at the manufacturer level, so any increase in prices to consumers would be minimal.

This bill includes four separate sources so as not to place the entire burden on one industry or group of consumers. With this mix of funding, everyone will contribute a small amount to the solution.

The number of industries, experts, individuals, and other stakeholders we have consulted over the years on this legislation is staggering. I have deeply appreciated the input of so many people who were willing to step up and deal with the tough questions. I am pleased that the legislation

we introduced today has the support of a diverse group of stakeholders, from the Associated General Contractors to American Rivers to the National Association of Clean Water Agencies to the Rural Community Assistance Partnership. I am also pleased to be joined by a group of bipartisan original co-sponsors, Reps. Steven LaTourette, Michael Simpson, and Norm Dicks.

Despite this broad stakeholder support, we should be under no illusions that this will be easy. But the American public is with us. In January of this year, pollster Frank Luntz released the results of a new poll. He found that a near unanimous 94% of Americans are concerned about the state of our nation's infrastructure. He found that this concern cuts across all regions of the country and across urban, suburban and rural communities. He found that 84% of the public wants the federal government to spend more money to improve America's infrastructure. And most importantly, he found that 81% of Americans are personally prepared to pay 1% more in taxes for the cause – much more than the increases in this bill.

Thanks again for the opportunity to join you today for this critical hearing. I look forward to working with you to move this bill through the process and to help make sure the Ways and Means Committee is a partner in your efforts to rebuild and renew America.

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OPPORTUNITIES AND CHALLENGES IN THE CREATION OF A CLEAN WATER TRUST FUND

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COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
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TESTIMONY BY DERETH GLANCE, EXECUTIVE PROGRAM DIRECTOR
CITIZENS CAMPAIGN FOR THE ENVIRONMENT
JULY 15, 2009

Chairwoman Johnson, Ranking Member Boozman, and distinguished members of the Committee, thank you for the privilege of testifying today on establishing a dedicated trust fund for clean water. My name is Dereth Glance, I am the Executive Program Director for Citizens Campaign for the Environment (CCE). CCE is an environmental and public health advocacy organization, supported by over 80,000 citizens throughout New York and Connecticut. I also am the treasurer and board member of the national Clean Water Network and serve on Governor Paterson's Clean Water Collaborative.

I believe establishing a dedicated fund to deliver safe drinking water to Americans and to ensure American waters are no longer regularly fouled from sewage and polluted run-off is long overdue.

AMERICA'S CLEAN WATER CRISIS

There is an overwhelming need for investment and modernization of our drinking water and clean water infrastructure and management. In New York State alone, the clean water and drinking water needs will exceed \$74 billion over the next 20 years.^{1,2} My city, Syracuse, needs \$1 billion alone to address cracking and crumbling water infrastructure.³ The EPA estimates our national drinking and clean water needs exceed \$722 billion over 20 years.

I could speak at length about the overwhelming quantity of raw sewage that contaminates our waters, as it happens almost everyday. Daily, communities struggle to comply with consent orders and need federal resources to protect Americans and our right to basic sanitation. For example, in New York:

- In Buffalo, combined sewer overflows are a long-standing problem that occurs about 68 times a year. An estimated 4 billion gallons of raw sewage and storm water pour out of

¹ http://www.dec.ny.gov/docs/water_pdf/infrastructurerpt.pdf

² http://www.health.state.ny.us/environmental/water/drinking/docs/infrastructure_needs.pdf

³ http://www.syracuse.com/news/index.ssf/2009/05/syracuse_struggles_to_keep_on.html

Buffalo's 58 combined sewer overflow outlets each year, and it is estimated to cost \$1 billion to fix the problem.

- In Utica and Oneida County, the sewer systems are under a state consent order to upgrade clean water infrastructure to stop dumping untreated sewage into the Mohawk River estimated to cost between \$150 to \$310 million for this work.
- Westchester County is facing a \$230 million mandate to upgrade the Mamaroneck and New Rochelle Treatment Plants to reduce nitrogen contributions to the Long Island Sound by 58.5%.
- On Long Island, the Bay Park Sewage Treatment plant in Nassau County pours 58 million gallons per day of treated effluent into an embayment known as "The Western Bays" which is a sub-region of the South Shore Estuary Reserve. The Western Bays is listed by the DEC as an impaired for pathogens and nutrients. Nassau County assessed upgrades to cost over \$200 million.
- In Suffolk County, the Bergen Point Sewage Treatment Plant has an outfall pipe to the Atlantic Ocean. However, this pipe is exhibiting stress fractures and is in need of repair. The estimated cost is \$150 million. If the pipe breaks before the necessary repairs are accomplished then treated sewage will flow into the Great South Bay, jeopardizing public health and the recovering hard shell clam industry.

Just before Christmas, over 28 million gallons of sewage poured into the Long Island Sound from a broken pipe in Greenwich, CT.⁴ During the Independence Day weekend, more than 6,000 gallons of sewage bargaged Lake George, closed the Million Dollar Beach, and fouled the day for summer vacationers and surrounding businesses.⁵

The same is true for our potable drinking water mains. On Mother's Day, in Syracuse, a water main burst, flooding downtown streets, churches, daycares, and businesses with over 1 million gallons of water.⁶ It shut down business for days and closed a daycare center permanently. The 250 miles of pipes, originally laid by teams of men and horses over a century ago, pose huge environmental and economic liabilities.

Water is a powerful compound and sewage is caustic. The pipes running underground are "out of sight, out of mind". With so many other problems that we can see, investing in clean water infrastructure is too often ignored, until it too late. It seems that upgrades to our clean water infrastructure only happen as a result of legal action. We must make rebuilding and reinvesting in the fundamental sanitary service for our society a national priority.

Our tap water is an amazing and affordable resource, however too many of our older urban communities are still receiving water through lead-leaching pipes. We have removed lead from

⁴ http://www.wtnh.com/dpp/news/news_ap_epa_greenwich_sewage_spill_among_largest_200812300855

⁵ http://www.northcountrygazette.org/2009/07/06/sewage_spill/

⁶ http://www.syracuse.com/news/index.ssf/2009/05/syracuse_struggles_to_keep_on.html

gasoline, paint, toys, and now it is time to ensure our children, members of Congress and their staff are not drinking tap water contaminated by lead pipes.

Wastewater may be a misnomer as water is nothing to waste. It is a resource, with value capable of producing energy and restoring the local economy and environment. It takes tremendous energy and resources to purify our drinking water and treat our sewage. Sewage treatment plants are some of the most energy intensive and costly municipal taxpayer expenses. By investing in energy and water efficiency improvements, the taxpayers have much to save and even more benefits to gain. Just look at our friends in Dallas, Texas, who have been able to address water shortages, and avoid controversial and expensive new water systems, by providing incentives for residential and commercial water efficiency practices.⁷

A dedicated and robust Clean Water Trust Fund will assist states and local municipalities in closing the gap for waste infrastructure needs, and the economic benefits will be felt far and wide. It creates jobs, improves water quality, and protects public health. In the Great Lakes region alone, the Brookings Institution considered the economic benefits from \$26 billion restoration investment—with the bulk of the price tag to address sewer overflows—would bring at least \$80 billion in regional economic benefits.⁸

THE CLEAN WATER AND SAFE DRINKING WATER STATE REVOLVING LOAN FUND

This is not to say that Congress is sitting idly by. I applaud Congress for including much needed funding for water infrastructure in the American Recovery and Reinvestment Act (ARRA). In particular, ARRA included language that advanced sustainable water management by encouraging green infrastructure, energy and water efficiency improvements, and innovative—and often cheaper—‘outside the pipe’ solutions.

As a result of Congressional leadership, New York State revamped its Intended Use Plan and added ‘Category G’ to fund green innovative water projects. Just after Earth Day, I stood with EPA Administrator Jackson, Governor Paterson, Congressman Hinchey and Congressman Tonko to announce the largest grant for wastewater infrastructure in EPA’s history. Over \$432 million dollars was awarded to New York and this much-needed down payment was quickly allocated to the projects at the top of the list. However, hundreds of reviewed, ranked, and ready-to-go clean water projects wait with baited breath for funding.

I am encouraged by the reauthorization and much needed funding increases moving through Congress for both the drinking water and clean water state revolving loan funds (SRF). The SRF is an effective and important funding source for American water projects, but need consistently exceeds available funding. Our cities and rural communities especially struggle with taking additional debt load and need access to grants to proactively address near and long term water infrastructure investments.

⁷ http://savedallaswater.com/index_english.htm

⁸ http://www.brookings.edu/~media/Files/rc/reports/2007/0904gleiecosystem_austin/0904gleiecosystem_austin.pdf

THE AMERICAN WATER PROTECTION AND INVESTMENT ACT

The draft American Water Protection and Investment Act outlines a 21st century approach to address our 21st century water needs. I would like to highlight the following key provisions that will be critical to a successful American Clean Water Trust Fund:

- **'Fix it first' smart growth approach:** Only existing communities are eligible for funding, preventing the trust fund from being used to fuel unsustainable sprawling development and building 'pipes to nowhere.'
- **Funding Research and Development:** Our 21st century water infrastructure needs to be grounded in 21st century science and engineering. Creating national research centers and providing resources to university water infrastructure programs is critical to develop the bright minds to implement our sustainable water future.
- **Encouraging innovative clean water solutions:** To manage water efficiently, the EPA tells us to: slow it down, spread it out, and soak it in. Using natural infiltration and capturing water where it falls reduces demand at the treatment plant. Incorporating non-potable water for non-drinking water uses further reduces strains on natural resources and the cost of our water bills.
- **Preventing pharmaceutical pollution:** Keeping pharmaceuticals out of the water is critical, as our treatment plants are not equipped to remove the endocrine disrupting and estrogen mimicking medications. Requiring labels on medicines for proper disposal and enacting drug-take back programs is essential to protect fish, wildlife, and people.
- **Providing grants** to our cash-strapped municipalities to provide the investments sorely needed for our public water infrastructure.
- **Climate change adaptation and mitigation:** With sea level rising and more intense storms, local communities will need resources to address new challenges to our water infrastructure from our changing climate. Generating renewable energy at our treatment plants can help mitigate greenhouse gas pollution while stabilizing electricity costs.
- **Supplement, not supplant, the SRF:** The American Water Protection and Investment Act, builds upon the existing SRF programs and provides for the low-to-no interest revolving loan funds to continue. The overwhelming national water needs require more funding and grant opportunities to ensure the promise of the Clean Water Act and the Safe Drinking Water Act.
- **Dedicated funding:** Enacting small fees on pesticides, water dependent products, beverages, and users is a sensible and diffuse way to generate resources.

I have one recommendation for consideration. Source Water Assessment Plans should be explicitly eligible for funding. Protecting drinking water at the source is a cost-efficient and important program to reduce harmful byproducts from the treatment process and other contaminants.

Water is a public trust, it is necessary for us to drink, or we perish. Access to clean and affordable water is a right and it is essential for our nation to have a sustainable way to pay for it. Every day, another tragic sewage spill fouls local beaches, pollutes our lakes, rivers and estuaries. Report after report documents that our aging and failing water infrastructure is crumbling and cannot fix itself.^{9,10} Federal trusts exist for highways, airports, harbors, and Medicare to name a few.

Of all things to hold in public trust, what could be more important to Americans than access to safe and clean water?

⁹ <http://www.infrastructurereportcard.org/fact-sheet/wastewater>

¹⁰ http://www.citizenscampaign.org/special_features/sewer_scorecard.asp

Resolution in Support of Need for More Federal Funding for Clean and Safe Water
Infrastructure

Whereas, New York State's vast water resources are vital to 18 million New Yorkers for drinking, swimming, fishing, farming, recreation and industrial production, and are home to national treasures such as Long Island's beaches, New York City's massive water supply, the Hudson River, and the Great Lakes;

Whereas, these critical resources are now in peril because many treatment systems are old and exceed their designed life; need enhancements to meet federal standards; or need to be upgraded in order to control stormwater, combined sewer and/or sanitary overflows;

Whereas, earlier investment in wastewater and drinking water infrastructure resulted in marked improvements in water quality and public health protection and this improvement would be put at serious risk without further investment;

Whereas, the New York State Department of Environmental Conservation's March 2008 report estimates that at least \$36.2 billion is needed to fund New York State's wastewater infrastructure over the next 20 years and the New York State Department of Health estimates that at least \$38 billion is needed to fund New York State's drinking water infrastructure needs over the same period;

Whereas, since 2004 the federal government has reduced funding for New York State's vital wastewater infrastructure by 50%, while funding for drinking water infrastructure has been cut by 40%, shifting the burden of paying for this infrastructure onto local governments;

Whereas, New York State's water quality monitoring data indicates that 68% of the waters sampled do not meet or are at risk of not meeting the fishable and swimmable goals of the federal Clean Water Act, often due to sewage, combined sewer overflows and/or urban and stormwater runoff;

Whereas, New York State's urban communities are disproportionately impacted, as they are often adjacent to the most impaired waters and served by the oldest water infrastructure;

Whereas, it is estimated that between 30,000 and 47,500 jobs are created for each \$1 billion of federal investment in infrastructure projects, providing an unparalleled opportunity for economic recovery and long-term growth in New York State communities;

Whereas, New York State has 412 wastewater projects and 497 drinking water projects that serve over 11 million citizens that have been reviewed, ranked and are ready-to-go as soon as more state revolving loan funding is available;

Whereas, investments in New York State's infrastructure should be prudent and sustainable and support green infrastructure; and

Whereas, the cost of emergency repairs to wastewater and drinking water infrastructure is three to five times more than properly planned capital improvements;

Now therefore, the Clean Water Collaborative finds that:

A significant increase in federal funding is needed to address New York State's and other state's wastewater and drinking water infrastructure crisis. Federal funding for state revolving loan programs must be increased commensurately with existing need and should include the availability of grants; and

New York State should adopt a new, more viable program to sustain wastewater and drinking water infrastructure that provides for proper maintenance and reinvestment; supports water conservation, energy efficiency and the use of green infrastructure techniques; and promotes updated and innovative technologies.

Passed by the Clean Water Collaborative on November 6th, 2008.

Robert F. Kennedy, Jr. Chairman
Waterkeeper Alliance, Co-chair

Ross Pepe, President
Construction Industry Council and Building
Contractors Association, Co-chair

Stephen Acquario, Executive Director
New York State Association of Counties

Judith Enck, Deputy Secretary for the
Environment
Executive Chamber of Governor David
A. Paterson

Sandra Allen, Director
Clean and Safe Water Infrastructure
Funding Initiative
New York State Department of
Environmental Conservation

Marcus Ferguson, Director of
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Peter Baynes, Executive Director
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Patricia Cerro-Reehil, Executive
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Eric Goldstein, Director of New York
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Hon. Robert Sweeney, New York State
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Environmental Conservation Committee

Beryl Thurman, President/Executive
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James Tierney, Assistant Commissioner
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New York State Department of
Environmental Conservation

Stephanie Tyree, Sustainability Policy
Coordinator
WE ACT for Environmental Justice, Inc.
(WE ACT)



Advancing the water, sewer, gas and telecommunications construction industries

Written Testimony
by

Bill Hillman

Chief Executive Officer
National Utility Contractors Association

before the

House Subcommittee on Water Resources and Environment

addressing

“Opportunities and Challenges in the Creation of a Clean Water Trust Fund”

July 15, 2009

NATIONAL UTILITY CONTRACTORS ASSOCIATION

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Chairman Johnson, Ranking Member Boozman, the National Utility Contractors Association (NUCA), appreciates the opportunity to testify before the subcommittee today on the many opportunities and challenges to be considered when assessing the creation of a clean water trust fund.

NUCA is oldest and largest national trade association working solely for the utility construction industry, consisting of a nationwide network of chapters and member companies that provide the workforce and materials to advance the water, sewer, gas, electric, telecommunications and construction site development industries across the country. NUCA also serves as the managing member of the Clean Water Council (CWC), a coalition of 35 national organizations representing underground construction contractors, design professionals, manufacturers and suppliers, labor representatives and others committed to ensuring a high quality of life through sound environmental infrastructure. These industries work collectively to improve critical underground systems that unquestionably enhance America's quality of life.

NUCA commends the past efforts of this subcommittee to advance legislation that would increase federal investment in wastewater infrastructure, and we look forward to working with you on several water infrastructure initiatives, including the possible establishment of a clean water trust fund. NUCA believes a long-term, dedicated source of revenue is needed to meet the skyrocketing national needs facing our water and wastewater infrastructure and is eager to participate in the discussion as the issues and challenges are vetted, debated and resolved.

A NEW APPROACH IS NEEDED TO ADDRESS A STRUCTURAL "NEEDS" GAP

NUCA is often asked to testify before this subcommittee and others on the overwhelming needs facing America's wastewater infrastructure. While that is not the focus of this hearing, it is important to first understand why a dedicated source of funding for the refurbishing of that infrastructure is so sorely needed.

The needs estimates by the U.S. Environmental Protection Agency (EPA) are nothing short of staggering. EPA's 2002 *Clean Water and Drinking Water Infrastructure Gap Analysis* forecasted a \$534 billion gap between current investment and projected needs over 20 years for water and wastewater infrastructure if federal funding was not increased. Two years later, the EPA's 2004 *Clean Watersheds Needs Survey* documented existing nationwide wastewater infrastructure needs at \$202.5 billion. Considering the fact that since the 2004 estimates were released, annual federal funding for this infrastructure has been virtually cut in half (not increased), it is clear that much needs to be done to even begin to address this dilemma.

Additionally, the American Society of Civil Engineers (ASCE), an active member of the CWC, evaluates the nation's infrastructure and reports on the status of it every few years. For the past several years, America's wastewater infrastructure has been graded a "D minus" in the ASCE's *Report Card for America's Infrastructure*. There is a clear consensus among both government and industry professionals that the state of this infrastructure is quickly going from bad to worse.

In essence, the wastewater infrastructure "Gap" has become pernicious or structural. The documented needs outpace financing capacity year after year, decade after decade, despite the continued albeit reduced capitalization of the Clean Water SRF Program, investment from other federal programs such as the RUS Water and Waste Disposal Grant and Loan Program as well as significant state and local efforts, including the call for "full cost pricing."

A host of factors have exacerbated the situation. Market forces, such as steadily increasing costs for labor and materials, reduce the purchasing power of public works dollars and diminish the number of completed projects. Cuts in federal funding for many years have also played a role. Lastly, the current economic recession has hammered the housing market and local budgets dependent on property taxes.

A new approach based upon a dependable and dedicated source of revenue is needed to meet this financing gap.

THE GAP HAMPERS SHORT-TERM AND LONG-TERM ECONOMIC GROWTH

Although water and wastewater projects are generally recognized for their effectiveness in enhancing public health and environmental protection, the *economic* benefits that result from this work are often overlooked. Those benefits are real and can now be demonstrated. A new report by the Clean Water Council does just that.

The CWC recently released the findings of an economic impact study on the job creation and other financial benefits that accompany funding for water and wastewater infrastructure projects. The study, *Sudden Impact: Assessment of Short-Term Economic Impacts of Water and Wastewater Projects in the United States* demonstrates that the construction of these facilities creates significant, immediate economic benefits in terms of job creation, increased demand for goods and services, rise in personal income and the generation of state and local tax revenue.

The findings of the study are based on data collected from 116 water and wastewater construction projects in five demographically diverse states, including 73 different counties. Completed in 2006 and 2007, the projects also encompass a broad range of project types, sizes, materials, construction methods and labor markets. Specifically, the study shows that a \$1 billion investment in water and wastewater infrastructure results in the creation of up to some 27,000 new jobs (with average annual earnings for the construction portion of the jobs at more than \$50,000), total national output (i.e., demand for products and services in all industries) of between \$2.87 and \$3.46 billion, and generation of personal or household income of between \$1.01 and \$1.06 billion. Importantly, each \$1 billion invested also generates approximately \$82.4 million in state and local tax revenue.

The study also underscores the “ripple effect,” that is, how this investment impacts industry sectors outside of construction. Each \$1 billion invested in water and sewer projects generates measurable national employment in 325 other standard industry classifications. In fact, a \$1 billion investment results in the hiring of at least 100 workers in 25 industry segments outside of construction, including retail markets, wholesale trade, real estate, insurance carriers, health care, food services, and accounting, just to name a few. Notably, all of these economic benefits occur during the time period of construction only.

In addition, a 1990 CWC study entitled *America’s Environmental Infrastructure*, demonstrates the long-term economic benefits of investment including increased labor productivity, increases in private profitability, increases in private investment in facilities and equipment and an enhanced tax base.

Elimination of the gap will unleash tremendous economic growth. Failure to manage the gap diminishes the economy and our quality of life.

GAO ASSESSES ISSUES TO CONSIDER WHEN DESIGNING A CLEAN WATER TRUST FUND

The General Accountability Office (GAO) recently released its report on issues that would need to be addressed as Congress moves to establish a dedicated source of revenue for our environmental infrastructure. The report, *Clean Water Infrastructure: A Variety of Issues Need to be Considered When*

Designing a Clean Water Trust Fund, identifies three such issues: 1) how a trust fund should be administered and used; 2) what type(s) of financial assistance would have to be provided; and 3) what activities should be eligible to receive funding from a trust fund. Of course, how such a trust fund would be financed is the underlying question and will undoubtedly be the toughest issue to tackle.

The findings of the report are based on the results of a GAO questionnaire sent to 28 stakeholder groups (including NUCA) that represent the wastewater and drinking water industries, state and local governments, engineers and environmental groups. NUCA believes the findings in the report support the need for a trust fund, and that it should be administered through a partnership with EPA and the states. However, the issue of how to fund it will surely be the crux of the debate. After noting that “several obstacles will have to be overcome in implementing these options,” not the least of which is the difficulty of generating “\$10 billion from any one option by itself,” the GAO evaluated the following funding sources for a clean water trust fund: a variety of excise taxes on several products (certain beverages, fertilizers and pesticides, flushable products, pharmaceuticals, water appliances and plumbing fixtures); a corporate income tax; and a water use tax. In this regard, the report touches on the EPA’s “Four Pillars” initiative, which “calls for water and wastewater utilities to charge rates for the service they provide that are high enough to enable them to fund future capital needs in addition to their routine operations and maintenance.”

In its report, the GAO also discusses increased funding for the existing EPA State Revolving Fund (SRF) programs. Unfortunately, these programs, which are dependent on federal appropriations, have fallen victim to major cuts in annual funding over the past recent years—despite a proven track record of success. NUCA is a strong supporter of the SRF programs and has strongly advocated for increased SRF appropriations, as well as robust reauthorization of the programs. We thank the subcommittee for its work toward House passage of the Water Quality Investment Act (HR 1262), which would authorize approximately \$14 billion for the Clean Water SRF over five years. NUCA is currently pushing for Senate passage of the Water Infrastructure Financing Act (S 1005), which would authorize \$20 billion for the Clean Water SRF and \$15 billion for the Drinking Water SRF programs over five years. And, NUCA supports “full cost pricing” by water and sewer utilities, as well as effective asset management to ensure the biggest bang for taxpayer bucks.

However, as important as these measures are they will not by themselves provide the resources required to meet our water and wastewater needs. Constant and consistent funding is needed to rebuild this critical infrastructure and keep the construction industry working and contributing to the health of the American economy. America needs a dedicated source of revenue through the establishment a long-term, self-sustaining clean water trust fund. Obstacles facing such an endeavor include determining how a clean water trust fund would be administered, what activities should be eligible to receive support from trust fund revenues, and of course, the most effective and equitable way to pay for it.

NUCA PERSPECTIVES

Administration

NUCA supports the idea of a clean water trust fund administered through a partnership between EPA and the states, not unlike the current SRF partnership. While we recognize concerns with the SRF approach in terms of providing resources to areas with the largest need, fairness issues with regard to providing adequate resources to both urban and rural areas, and the need for more operational consistency, the SRF model would give both federal and state governments a role to play. Flexibility will be needed for states to address their unique infrastructure needs, but a consistent federal application of the rules is also needed to ensure an equitable program. Additionally, the fiscally-sound “revolving” nature of SRF loans, which

are credited for providing four times the purchasing power of direct grants, would lend credibility to efforts to establish a new federal funding program for this infrastructure.

NUCA also supports the distribution of trust fund resources through a combination of loans and grants. Despite the fact that in general loans promote fiscal responsibility on the part of borrowers, it is clear that some low-income localities simply do not have the capacity to repay loans with even very little interest attached. Therefore the entity(ies) overseeing the trust fund should establish a funding system that provides resources through a combination of the two, adapted to meet the needs and wherewithal of the applicant.

Eligibility

Resources from a clean water trust fund should be used exclusively to serve its purpose—to repair and rebuild the infrastructure that is fundamental to providing clean water. Capital costs should be the highest priority and addressing infrastructure needs, as well as the most severe environmental problems, should be the main focus. Eligible capital costs should include: replacement, rehabilitation or expansion of wastewater collection or treatment facilities; construction of new wastewater facilities; projects related to secondary and advanced wastewater treatment; and projects to reduce combined sewer and sanitary sewer overflow.

If the goal of establishing a trust fund is to improve infrastructure, investment of its resources should center on those improvements. Because planning and design are integral parts of water and/or wastewater infrastructure rehabilitation, design/engineering activities should also be eligible. Routine operations and maintenance costs incurred by local utilities should not be eligible for trust fund resources. These costs should be paid through appropriate rates charged by the utility.

Funding Options

GAO makes it very clear that determining the most effective and equitable funding option(s) for a clean water trust fund will not be easy. The report states that “although a variety of options have been proposed in the past to generate revenue for a clean water trust fund, generating \$10 billion from any one of these alone may be difficult. In addition, each funding option poses various implementation challenges, including defining the products or activities to be taxed, establishing a collection and enforcement framework, and obtaining stakeholder support.”

We agree. Although we do not necessarily oppose any of the funding options evaluated by GAO, it is apparent that no single option will serve as the “silver bullet” in terms of serving as the sole source of funding for wastewater infrastructure improvements. Indeed, the most equitable and politically palatable resolution will most likely be a broad-based combination of existing and new funding sources.

The excise taxes investigated in the GAO report offer an interesting approach to help pay for the trust fund. According to the report, products that “contribute to the wastewater stream could be used to generate revenue for a clean water trust fund.” The products considered in the GAO report are beverages, fertilizers and pesticides, “flushable” products, over-the-counter prescription drugs, water appliances and plumbing fixtures. The amount of revenue that would be generated would depend on the tax rate levied on each product. While these products may contribute to the wastewater stream in terms of effluent content, the impact that each product actually has on our wastewater infrastructure is unclear at best. Furthermore, federal tax law requires that when applying excise taxes, precise and apparent definitions of the taxable products must be provided. This presents formidable challenges since these definitions help determine if taxes will be levied on the manufacturer or consumer and how much tax will be owed. The GAO also

notes problems with determining exemptions, as well as challenges in revising forms and other paperwork difficulties that would come with establishing new excise taxes.

Another often-discussed funding option is implementing a new and wide-ranging corporate income tax. GAO estimates that an increase in the current corporate income tax by 0.1 percent could annually generate approximately \$1.4 billion. Some advocates for a corporate tax point to the fact that American businesses need reliable water and wastewater systems to remain viable and benefit from sound environmental infrastructure. While this is absolutely true, could not the same be said for all American households?

One concept addressed in the GAO report, but opposed by a majority of the groups that responded to their questionnaire, was that of implementation of a water use tax and/or a flat fee on the wastewater bills of the vast majority of American households. This option would no doubt require several considerations—the structure of such a tax, its impact on local tax bases and the difficulties of establishing a national collection system.

That said, NUCA believes there are several concepts that need to be evaluated. Implementing an additional water and/or sewer charge on all Americans could be a relatively inexpensive and far more equitable means of financing a trust fund that will benefit everyone. Groups pushing a water trust fund commonly point to the Highway Trust Fund, which is paid for by *all* highway users who purchase gasoline or diesel fuel in order to use the roads. Looking at equitable financing, shouldn't *all* those who benefit from the infrastructure that ensures their quality of life pay their share for the repair and rebuilding of it? Consistent with a long-held principle regarding the "user-fee," a trust fund should ensure that the amount paid by each customer is related to the burden placed on the system by that customer/user.

According to GAO, a mere 0.01 cent per-gallon tax on water use by domestic, commercial and industrial users would generate \$1.3 billion annually. Alternatively, a flat fee of \$30 annually (or \$2.50 a month) on the 86 million American households that receive wastewater service from utilities would raise an impressive \$2.6 billion a year.

Establishing a national water use and/or wastewater fee presents challenges of its own—many of which are similar to those that would come with the levy of new excise taxes. Structuring a new comprehensive user-fee while adjusting the existing billing systems for 50,000 community water systems that would be affected are among them. And, especially if this option were considered combined with *additional* corporate taxes, the relationship among household, commercial and industrial tax rates would be controversial. Despite these challenges, NUCA believes that a broad-based user-fee should be studied.

Finally, another factor to consider is that of water conservation. A main goal echoed in the water infrastructure debate is what will promote the conservation of our water resources. NUCA believes the GAO report begs the question of which of the funding sources evaluated really promotes the *conservation* of water? We suggest a user-fee on the use of the resource itself will discourage its waste.

OTHER CONSIDERATIONS

Although not fully addressed in terms of costs, benefits and challenges, the GAO did briefly refer to other funding options in its report. Regardless of what needs estimates you read, it seems that there is ample room for any and all viable funding options to be included in the long-term solution. We need hundreds of billions of dollars just to scratch the surface of this problem. Other options NUCA believes should be on the table include:

- Establishing a *National Infrastructure Bank* to finance a variety of infrastructure projects, including wastewater infrastructure projects. Such a bank would independently evaluate projects and determine the most effective means (loans, grants, etc.) to finance them.
- Enhancing opportunities for *Public-Private Partnerships* (PPPs), which allow for private investment and participation in water and wastewater infrastructure projects. PPPs allow private entities to participate in several areas of a public works project, such as design, construction or operation of an infrastructure project. In recent years, these partnerships have become common in the transportation sector.
- Lifting the volume cap on *Private Activity Bonds* (PABs) is a relatively easy way to inject considerable capital into the water infrastructure market with no significant cost to the federal government. Private activity bonds are tax-exempt bonds issued by state or local governments for qualified projects that are exempt from federal taxes, and thus subject to lower interest rates. However, the amount of private activity bonds that states can issue annually are limited, and projects that bring a higher profile generally win out in the bidding process. Removing the cap would inevitably increase the financing available for wastewater projects.

CONCLUSION

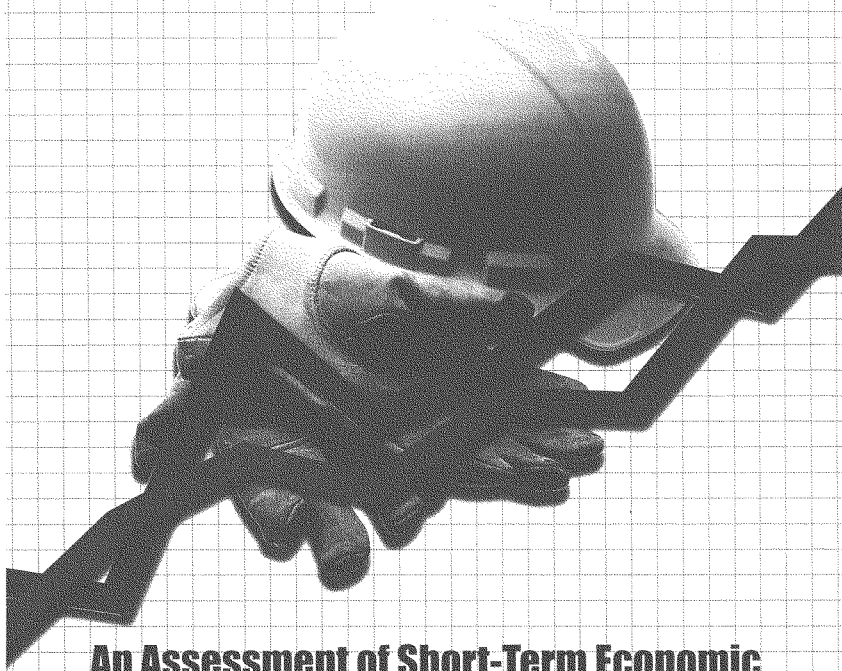
Madame Chairman, NUCA fully supports efforts to establish a dedicated source of revenue to rebuild America's underground environmental infrastructure. The GAO report effectively addresses the issues needed that need to be considered as these discussions progress. You, as well as Chairman Oberstar, Rep. Blumenauer, and likeminded others in Congress are commended for helping to bring us to where we are today. Without your dedication and foresight, the neglect of this infrastructure would continue—a neglect that only contributes to a problem that has become a ticking time bomb. NUCA members see the results of deteriorating water and wastewater infrastructure in their everyday work, and the view from the trenches has gone from ugly to deplorable.

The progress made this year with the environmental infrastructure provisions included in the *American Recovery and Reinvestment Act*, proposed funding increases contained in budget resolutions and current FY2010 appropriations measures, and in efforts to reauthorize the existing SRF programs, should be supported and heralded. This subcommittee is to be commended in leading the charge in a number of these efforts. However, let's keep our eye on the prize. The fight to ensure sound underground infrastructure for America is going to be a marathon, not a sprint. We will need long-term contributions from all facets of government—from the White House to the U.S. Congress to state and local government entities to make it work.

Finally, underlying NUCA's position on a clean water trust fund is a concern for fairness. The association therefore strongly suggests that any proposed trust fund legislation should not inadvertently encourage local and municipal government organizations to do less than their part in investing in the nation's fundamental environmental infrastructure. Additionally, we suggest that a modest water/sewer user fee (paid by all beneficiaries of the infrastructure) should be a significant source of funding for any water infrastructure trust fund. While this option might present a variety of administrative and political challenges, it would seem the most equitable approach.

I thank you for the opportunity to testify before the subcommittee today, and I look forward to answering any questions you might have.

Sudden Impact



An Assessment of Short-Term Economic Impacts of Water and Wastewater Construction Projects in the United States



CLEAN WATER COUNCIL
Committed to America's Water Infrastructure

Acknowledgement

This assessment was prepared for the Clean Water Council (CWC), a coalition of 35 national organizations dedicated to protecting and enhancing America's water and wastewater infrastructure. The report was prepared by PA Consulting Group, a leading global management, systems and technology consulting firm.

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- American Council of Engineering Companies
- American Road and Transportation Builders Association
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- Association of Equipment Manufacturers
- Caterpillar
- Ductile Iron Pipe Research Association
- John Deere Construction Equipment Company
- Laborers-Employers Cooperation and Education Trust
- National Stone, Sand and Gravel Association
- National Utility Contractors Association
- Plastics Pipe Institute
- Portland Cement Association
- The Vinyl Institute
- Water and Sewer Distributors of America















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Please visit www.waternewsupdate.com for additional information about the CWC.



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Background and Purpose

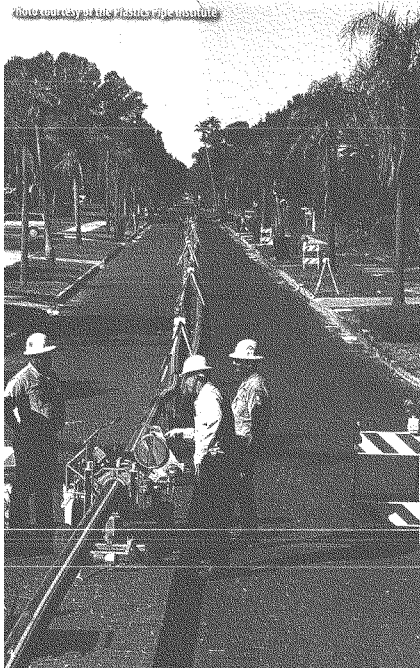
Water and wastewater pipelines, treatment plants and related facilities are core components of our environmental infrastructure. The condition of our nation's environmental infrastructure has deteriorated significantly as a direct result of perpetual underinvestment. Water and wastewater capital "needs estimates" produced by the U.S. Environmental Protection Agency (EPA) are nothing short of staggering. In fact, the EPA's *2002 Clean Water and Drinking Water Infrastructure Gap Analysis* forecast an alarming \$534 billion gap between current investment and projected

needs over 20 years for water and wastewater infrastructure if federal funding was not increased. (That funding has in fact been significantly cut over the past few years.) Two years later, the EPA's *2004 Clean Watersheds Needs Survey* documented existing nationwide wastewater infrastructure needs alone at \$202.5 billion. In 2009, EPA projected 20-year needs for drinking water infrastructure alone at \$334.8 billion.

In addition, the American Society of Civil Engineers (ASCE) has given America's wastewater infrastructure and drinking water infrastructure letter grades of "D minus" in their most recent (January, 2009) *Report Card for America's Infrastructure*. Clearly, there is a consensus among government, industry and academic professionals that the condition of this infrastructure has gone from bad to worse. This consensus is supported by the first-hand experiences of communities across the land as they manage the fallout from collapsed and deteriorated water and wastewater facilities. (See www.waternewsupdate.com for daily reports highlighting environmental infrastructure failures.)

In light of the size and scope of the documented national needs, legislators, policy makers and planners at all levels of government need to know the short-term economic impacts and value added to local economies by construction projects pertaining to water treatment and distribution, and wastewater collection and treatment. This assessment provides data demonstrating that water, sewer and storm water management projects do in fact add immediate value to the local economy in three well-defined ways during the time period of construction:

1. Direct impacts through jobs and the purchase of materials and supplies directly related to the construction and operation of





the project.

2. Indirect impacts through jobs and the purchase of equipment, materials and supplies by vendors indirectly related to the construction and operation of the project.
3. Induced impacts supported by spending and re-spending of the income earned by workers in 1 and 2 above, often described as the "multiplier effect."

There are also long-term economic benefits that result from these projects during the multi-decade life expectancy of each facility, including higher private sector profitability, increased private investment in plant and equipment, improved labor productivity, a stronger tax base and future employment.

These benefits are summarized in *America's Environmental Infrastructure* (1990), which is available by request from the CWC. In addition, these projects generate a number of quality of life benefits, such as a reliable supply of clean water for human consumption and household use, public safety (fire protection and flood control), and environmental protection (safeguarding our waterways, fisheries, recreational lands, and flora and fauna from sewage, contaminated storm water runoff and other forms of pollution). While these lasting benefits are not the focus of this short-term economic assessment, it is important to recognize that they occur.



Key Findings

Investments in water and wastewater infrastructure have immediate, substantial and far-reaching effects on the economy.

- At the national level, an investment of \$1 billion almost triples in size as total demand for goods and services reaches an estimated \$2.87 to \$3.46 billion.
- The total effect on economic demand is

smaller at the state level, but direct investments in water and wastewater infrastructure can nearly double as expenditures for necessary supplies and household spending impact the economy.

- Spending to rebuild our infrastructure affects a wide range of economic sectors. Engineering services, heavy equipment, truck

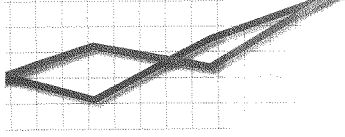
transport, and pipe materials are needed to complete infrastructure projects, but businesses and households, in turn, spend money on goods and services across a wide array of sectors.

- An estimated 20,003 to 26,669 jobs can result from a national investment of \$1 billion. These opportunities are spread across the economy with more than one-half of the jobs in industries other than water and wastewater construction.

- Personal incomes and economic security are impacted by infrastructure investment. An increase in total employee compensation accompanies job creation at the national, state, and local levels.

- State and local revenues increase as infrastructure is built or improved, though the size of effects vary by location, size, and type of project.





Methodology

Our study is designed to estimate the economic impacts of water and wastewater infrastructure on local, state, and national economies. Key objectives included quantifying the following effects:

- What is the indirect effect of infrastructure investment? That is, what is the economic impact on industries that supply necessary products and services, such as engineering services, truck transport, or pipelines?
- What is the impact on economic demand as households re-spend income in the local economy? That is, to what extent are other businesses (e.g., retail establishments, professional and personal services, housing) affected as infrastructure projects provide jobs and personal income to households?
- How many jobs can be attributed to infrastructure investment? Are these jobs primarily in water and wastewater construction sectors or are relatively large numbers of jobs also created in other sectors?

To address these questions, the study uses data from recently completed projects across 5 states, draws on regional input-output models that allow us to differentiate among impacts, and utilizes local data as well as hypothetical scenarios to estimate effects at local, state, and national levels of analysis.

We defined a study area comprised of five states: California, Georgia, Minnesota, New Mexico, and Pennsylvania. These states were selected to capture a range of economic conditions as well as regional variation in climate and labor markets.

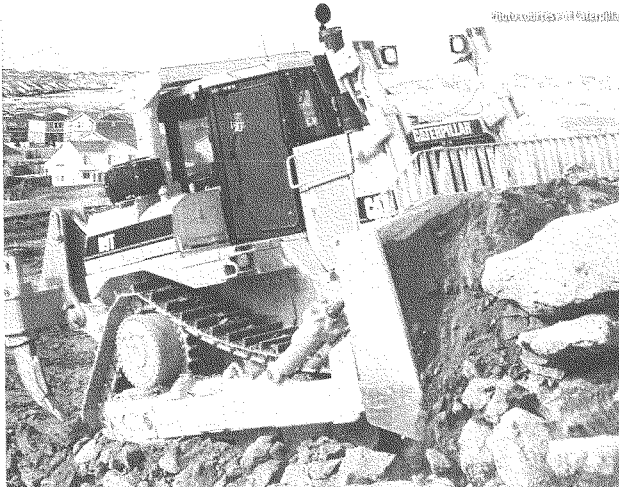
Estimates of local economic impacts are based on data from recently completed projects. While limited to only 5 states, these projects capture variation in size (fairly small to very large) and type (e.g., replacing, rehabilitating, or installing new water and wastewater pipes or treatment facilities). State- and national-

estimates are based on hypothetical investments of \$1 billion to facilitate comparison.

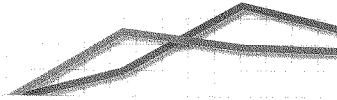
We invited members of the National Utility Contractors Association in the five target states to provide data on water and wastewater projects. Data on project type, location, contract value and costs were gathered for 116 projects from 35 contractors and represented 73 counties across the five states.

Project cost data were analyzed using input-output models. These models are a technique for quantifying the transactions between industries: When a firm in Industry A receives a \$1M order to install new water pipes, it must purchase supplies and services from firms in Industries B, C, and D. Input-output models capture these relationships and make it possible to estimate economic effects above and beyond the initial investments.

We used IMPLAN – a computer software package for input-output modeling – to estimate the indirect effects of infrastructure investment (impact on industries that are related to water and wastewater construction) as well as the secondary effects of household spending in the local economy. Using IMPLAN, we can also estimate impacts on jobs, employee compensation, and



Methodology



state and local tax revenues.

We also used RIMS II (Regional Input-Output Modeling System) to examine the national and state-level effects of infrastructure investment. Like IMPLAN, RIMS II is a method for accounting for interindustry relationships within a geographic region using I-O tables that show, for each industry, the distribution of the inputs purchased and the outputs sold. Because the methodologies underlying IMPLAN and RIMS II differ, we use both approaches to estimate the range of impacts on jobs, employee compensation, and output.

Design Study

The study is designed to reflect regional and local variation.

Study area: California, Georgia, Minnesota, New Mexico, and Pennsylvania define the geographic boundaries over which economic impacts were measured. These states were selected to reflect variation in

region, local economies, climate, and labor conditions.

Case Studies: Actual construction projects within each state capture variation in project size and local economies. In addition, taking inventory of what is known about actual projects fuels the models with real-world data and more accurately reflects existing activity.

Time frame for analysis: Projects completed in 2006 and 2007 were eligible for selection to ensure results were based on recent construction activity.

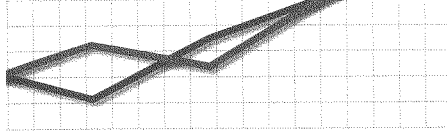
Develop Model

Transparency is essential for building a credible model.

Software: IMPLAN and RIMS II are computer software packages that consist of procedures for estimating local input-output models and associated databases.

Input-Output models: Input-output models are a technique for quantifying interactions between firms, industries, and social institutions within a local economy. IMPLAN models include outputs and inputs





from 440 industrial sectors, value added, employment, wages and business taxes paid, imports and exports, final demand by households and government, capital investment, business inventories, marketing margins, and inflation factors. RIMS II provides multipliers for nearly 500 industries.

Multipliers: Multipliers quantify how certain changes (i.e., in jobs, earnings, or sales) in one industry will have effects on other industries in the region. Multipliers are aptly called estimators of the 'ripple effect' and are available at the national, state and county levels.

Data sources: The economic source data for IMPLAN models includes the system of national accounts for the US based on data collected by the US Department of Commerce, US Bureau of Economic Activity, US Bureau of Labor Statistics, and other federal and state agencies. All analyses used 2007 IMPLAN data (released in October 2008). RIMS II uses national and regional I-O tables from the US Bureau of Economic Activity.

Industry: The 2007 IMPLAN data classifies water and wastewater pipe construction activity in the 'Construction of other new non-residential structures' which corresponds to the updated classification used by the US Bureau of Economic Activity. The corresponding RIMS II sector is construction.

Collect Case Studies

Actual project data provide real world results.

Sample: Members of the National Utility Contractors Association in the five target states were invited by phone and email to provide data on water and wastewater pipe construction projects completed in 2006 and 2007. In total, data from 116 projects were analyzed, representing 35 contractors, 5 states, and 73 counties.

Data collection: Respondents reported project data electronically or by fax. Information was collected on type and location of project, contract value and project costs, and year of completion. As needed, follow-up phone calls were made to clarify questions about the data or try to obtain additional information.

Data checks: County-level data can be unreliable if the county has sparse economic activity or is thinly populated. Internal checks were conducted to ensure case data and local level inputs used were reliable and in-line with state inputs.

Estimate Impacts

Economic impact results help prioritize planning &

investment decisions.

The economic impacts at the state level, and county level for actual pipe construction projects, were estimated using IMPLAN software and economic multiplier data. Briefly, the analysis produced the following estimates:

Direct effects: The output, jobs, and income that are directly related to the construction of the project.

Indirect effects: The additional output, jobs, and incomes for suppliers and vendors indirectly related to the construction project. These reflect the broader impacts in the community such as expanding business among local vendors and suppliers.

Induced effects: The expansion of local commercial business as a result of income re-spent by persons employed by the construction project sector or by the suppliers and vendors that indirectly support that sector.



Results and Analysis - United States

A \$1 billion investment in water and wastewater infrastructure at the national level has substantial and far-reaching effects throughout the economy.

- The total effect of a \$1 billion investment almost triples in size to an estimated \$2.87 to \$3.46 billion in economic demand.
- Industries indirectly related to water and wastewater infrastructure experience an estimated \$918 million in demand. These industries are indirectly affected by investments in water and wastewater infrastructure because they provide services that support project design (e.g., architectural and engineering services) or products and supplies essential for project completion (e.g., industrial machinery and equipment, truck transport).



Photo courtesy of the American Society of Civil Engineers

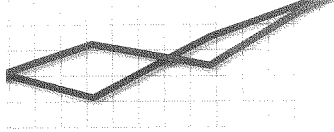
- Ripple effects on economic demand can range across a number of industries and amount to an estimated \$949 million. A wide range of industries that are not related, directly or indirectly, to building or improving water and wastewater infrastructure nonetheless see demand for their products or services increase as households re-spend income in the economy. These effects occur in sectors as varied as bookkeeping services,

energy and telecommunications, health care, motor vehicles, food retail stores, dining establishments, and amusement and recreation services.

What Jobs?

Besides construction jobs, a \$1 billion investment in water and sewer projects generates measurable national employment in 325 other standard industry classifications, everything from tires to tortillas. For every 20,000 jobs created, at least 100 workers are hired in the short-term, in each of the following industry segments:

Construction other new non-residential	8,366
Architectural, engineering, and related services	851
Food services and drinking places	738
Wholesale trade	498
Real estate	469
Employment services	420
Offices of physicians, dentists, and other health practitioners	273
Hospitals	266
Services to buildings and dwellings	229
Truck transportation	224
Retail - General merchandise	222
Retail - Food and beverage	218
Automotive repair and maintenance, except car washes	194
Legal services	178
Nursing and residential care facilities	178
Monetary authorities and depository credit intermediation	166
Retail - Motor vehicle and parts	159
Management of companies and enterprises	153
Securities, commodity contracts, investments, and related activities	151
Accounting, tax preparation, bookkeeping, and payroll services	145
Civic, social, professional, and similar organizations	145
Private households	145
Retail - Nonstore	136
Maintenance and repair construction of nonresidential maintenance and repair	127
Retail - Clothing and clothing accessories	117
Insurance carriers	114
Retail - Miscellaneous	109



- An estimated 20,003 to 26,669 jobs are created. About one-half of these jobs are in industries outside of water and wastewater construction, further illustrating the broad reach of the initial investment.
- The economic security of households is strengthened. Total employee compensation – a category that includes wages and salaries as well as contributions to social insurance programs such as Social Security – is enhanced by an estimated \$1 billion. Job creation includes an estimated 8,366 jobs in the pipe construction sector where average earnings of more than \$50,000 exceeds median household income for the US.

A \$1B investment in pipe construction in the

United States results in the following economic impacts:

Total output	2867.5-3461.7 M
Business expenditures	1000.0 M
Sales of suppliers	918.5 M
Household spending	949.0 M
Personal Income	1011.2-1062.9 M
State and local tax revenue	82.4 M
Employment	20,003-26,669 jobs
Pipe construction	8,366 jobs
Other	11,637 jobs
Average Earnings	\$50,396



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Results and Analysis - California

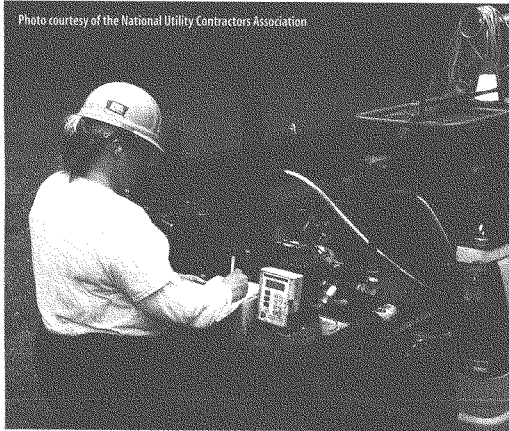


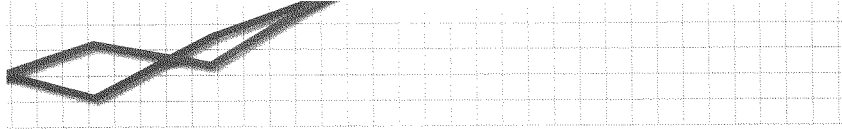
Photo courtesy of the National Utility Contractors Association

- An investment of \$1 billion in California's water and wastewater infrastructure would result in an estimated \$1.8 to 2.5 billion demand for goods and services across the state's economy.
- Industries that provide goods and services in support of infrastructure projects would experience over \$370 million in economic demand. A wide range of other industries would sell an estimated \$448 million in goods and services as businesses and households spend money in the economy.
- 12,390 to 19,574 jobs would be created. About 7,000 of these jobs would be in the pipe construction sector where average earnings of \$68,000 exceed the statewide median household income of about \$50,000.
- We analyzed data on 16 recently completed projects that ranged in size from \$250,000 to \$60 million and covered 12 counties.

A new 84" groundwater replenishment project in Orange County illustrates the local economic impacts of these investments in the water and wastewater infrastructure. The \$2.5 million project fell just short of generating another \$2 million in demand for goods and services across other economic sectors. Industries that support water and wastewater construction by providing services and supplies experienced \$780,000 in demand. Re-spending of income in the local economy generated \$950,000 in sales. About 28 jobs were created, 17 of which were in the construction sector. An estimated \$1.8 million in employee compensation (wages, salaries, and payroll contribution to social insurance programs) derived from the initial \$2.5 million project, which also raised state and local tax revenues by approximately \$110,000.

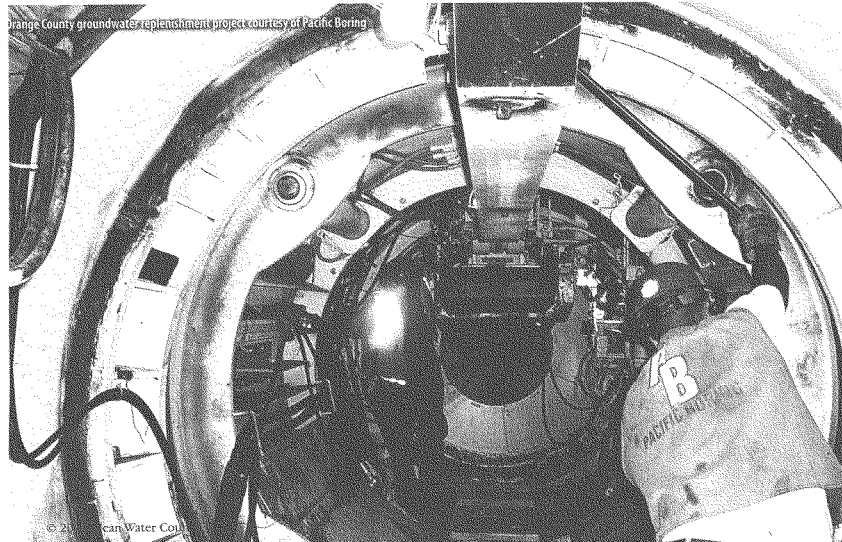
A \$1B investment in pipe construction in California results in the following economic impacts:

Total output of the region	1826-2511.3 M
Local business expenditures	1000.0 M
Sales of suppliers	377.5 M
Household spending	448.5 M
Personal Income	775.2-815.2 M
State and local tax revenue	47.5 M
Employment	12,390-19,574 jobs
Pipe construction	7,085 jobs
Other	5,305 jobs
Average Earnings	\$68,099



Case Studies

Project Name	Booster Pump Station	Bypass Mud Outlets	Interceptor Overflow Structures	Force Main Reconstruction
County	Alameda	Alameda	Alameda	Contra Costa
Total output of the region	11.98 M	2.94 M	1.61 M	5.06 M
Local business expenditures	7.22 M	1.77 M	0.97 M	3.17 M
Sales of suppliers	2.06 M	0.51 M	0.28 M	0.89 M
Household spending	2.70 M	0.66 M	0.36 M	1.00 M
Personal income	5.49 M	1.35 M	0.74 M	2.29 M
State & local tax revenue	0.31 M	0.07 M	0.04 M	0.11 M
Employment	79	19	11	33
Pipe construction	47	12	6	21
Other	32	7	5	12



Orange County groundwater replenishment project courtesy of Pacific Boring

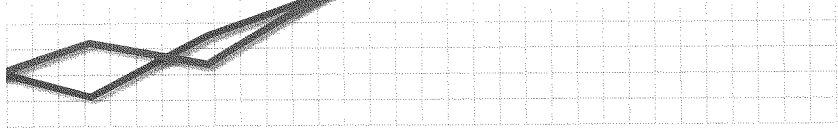
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Results and Analysis - California

Case Studies

Project Name	Sewer Lines	Water/Sewer Replacement	GWRS Unit II	Force Main
County	Kern	Merced	Orange	Sacramento
Total output of the region	0.65 M	1.65 M	4.17 M	55.66 M
Local business expenditures	0.40 M	1.17 M	2.45 M	34.9 M
Sales of suppliers	0.13 M	0.22 M	0.78 M	9.91 M
Household spending	0.12 M	0.27 M	0.95 M	10.9 M
Personal income	0.27 M	0.66 M	1.84 M	24.7 M
State & local tax revenue	0.02 M	0.03 M	0.11 M	1.35 M
Employment	5	13	28	412
Pipe construction	3	9	17	251
Other	2	4	11	161





Project Name	36" Waterline	Upper NW Interceptor	WWTP Improve.	Transmission Main
County	Sacramento	Sacramento	San Benito	San Francisco
Total output of the region	2.28 M	1.83 M	0.33 M	0.52 M
Local business expenditures	1.43 M	1.15 M	0.25 M	0.35 M
Sales of suppliers	0.41 M	0.33 M	0.04 M	0.09 M
Household spending	0.48 M	0.36 M	0.04 M	0.08 M
Personal income	1.01 M	0.81 M	0.14 M	0.25 M
State & local tax revenue	0.05 M	0.04 M	0.01 M	0.01 M
Employment	17	14	3	3
Pipe construction	10	6	2	2
Other	7	6	1	1

Project Name	Storm Drainage Improvements	Interceptor Rehab	Sanitary Sewer Trunk Line	Force Main
County	San Joaquin	Santa Clara	Tulare	Yolo
Total output of the region	6.14 M	6.75 M	7.75 M	90.85 M
Local business expenditures	3.97 M	4.47 M	5.35 M	60.79 M
Sales of suppliers	0.92 M	1.12 M	1.10 M	16.53 M
Household spending	1.25 M	1.16 M	1.30 M	13.53 M
Personal income	2.64 M	3.18 M	3.26 M	40.66 M
State & local tax revenue	0.15 M	0.16 M	0.17 M	2.05 M
Employment	46	43	63	663
Pipe construction	29	29	42	429
Other	17	14	21	234

Results and Analysis - Georgia

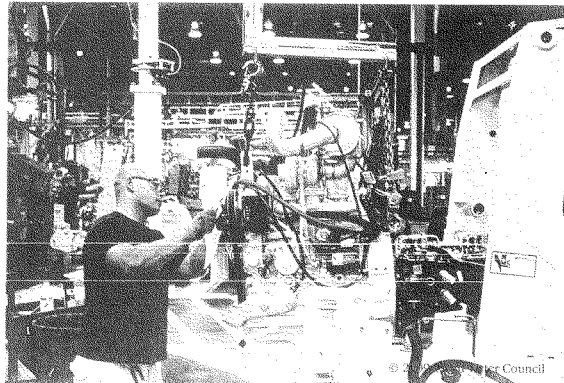
- An investment of \$1 billion in Georgia's water and wastewater infrastructure would result in an estimated \$1.76 to 2.6 billion demand for goods and services across the state's economy.
- Industries that provide goods and services in support of infrastructure projects would experience over \$390 million in economic demand. A wide range of other industries would sell an estimated \$365 million in goods and services as households spend money in the economy.
- 14,867 to 22,254 jobs would be created with slightly fewer than 6,000 occurring in sectors other than water and wastewater construction. Nearly 9,000 jobs would be in the pipe construction sector where earnings average \$44,260.
- We analyzed data on 33 recently completed projects that ranged in size from \$100,000 to \$164 million and covered 20 counties.

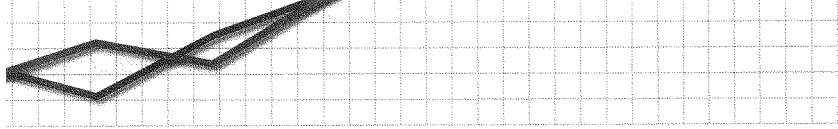
A \$4.3 million wastewater treatment plant in Chatham County illustrates the local economic impacts of these investments. The plant generated another \$2.6 million in demand for goods and services across other economic sectors. Slightly less than \$1.5 million was spent on goods and services that support construction of treatment plants, such as engineering services, industrial machinery, and other equipment and supplies. As households paid for goods and services as varied as telecommunications and child care services, the local economy experienced an estimated \$1 million in demand. More than

60 jobs were created, more than 20 of which were in industries other than pipe construction. An estimated \$2.6 million in employee compensation (wages, salaries, and payroll contribution to social insurance programs) results from the initial \$4.3 million investment, and state and local tax revenues increase an estimated \$160,000.

A \$1B investment in pipe construction in Georgia results in the following economic impacts:

Total output of the region	1758.6-2601.8 M
Local business expenditures	1000.0 M
Sales of suppliers	392.9 M
Household spending	365.7 M
Personal Income	667.9-811.1 M
State and local tax revenue	44.5 M
Employment	14,867-22,254 jobs
Pipe construction	8,959 jobs
Other	5,908 jobs
Average Earnings	\$44,260





Case Studies

Project Name	12" DIP Water Main	New Sewer & Water Lines	Wastewater Treatment Plt	Wastewater Treatment Plt
County	Barrow	Bibb	Chatham	Chattooga
Total output of the region	0.28 M	1.77 M	6.94 M	9.90 M
Local business expenditures	0.20 M	1.09 M	4.31 M	8.13 M
Sales of suppliers	0.04 M	0.39 M	1.46 M	0.98 M
Household spending	0.04 M	0.29 M	1.17 M	0.79 M
Personal income	0.10 M	0.66 M	2.66 M	3.28 M
State & local tax revenue	0.01 M	0.04 M	0.16 M	0.14 M
Employment	3	16	62	103
Pipe construction	2	10	39	83
Other	1	6	23	20

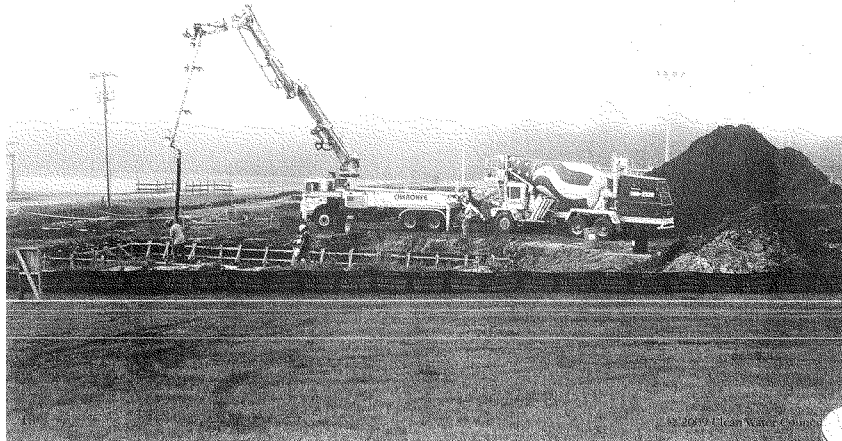
Project Name	Pump Station	WWTP Improvements	Sewer & Water Line Replace.	New Sewer & Water Lines
County	Cherokee	Clarke	Cobb	Cobb
Total output of the region	0.60 M	43.03 M	1.50 M	1.09 M
Local business expenditures	0.42 M	31.07 M	0.93 M	0.67 M
Sales of suppliers	0.10 M	6.93 M	0.30 M	0.22 M
Household spending	0.07 M	5.03 M	0.28 M	0.20 M
Personal income	0.22 M	16.10 M	0.61 M	0.44 M
State & local tax revenue	0.01 M	0.85 M	0.04 M	0.03 M
Employment	6	397	13	9
Pipe construction	4	286	8	6
Other	2	111	5	3

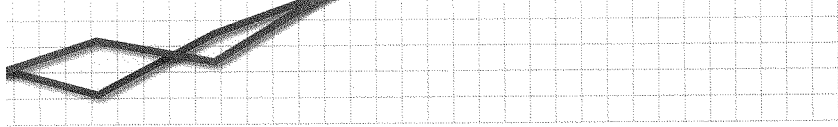
Results and Analysis - Georgia

Case Studies

Project Name	WWTP Expansion	Water Filter Plant	New Water & Sewer Lines	New Sewer & Water Lines
County	Coweta	Dekalb	Dekalb	Dekalb
Total output of the region	17.74 M	267.2 M	0.55 M	0.34 M
Local business expenditures	12.6 M	164.9 M	0.34 M	0.21 M
Sales of suppliers	2.86 M	51.6 M	0.11 M	0.06 M
Household spending	2.27 M	50.7 M	0.10 M	0.06 M
Personal income	6.39 M	107.0 M	0.22 M	0.13 M
State & local tax revenue	0.36 M	6.68 M	0.01 M	0.01 M
Employment	169	2246	5	3
Pipe construction	120	1410	4	2
Other	49	836	1	1

Within county water treatment plant construction project.





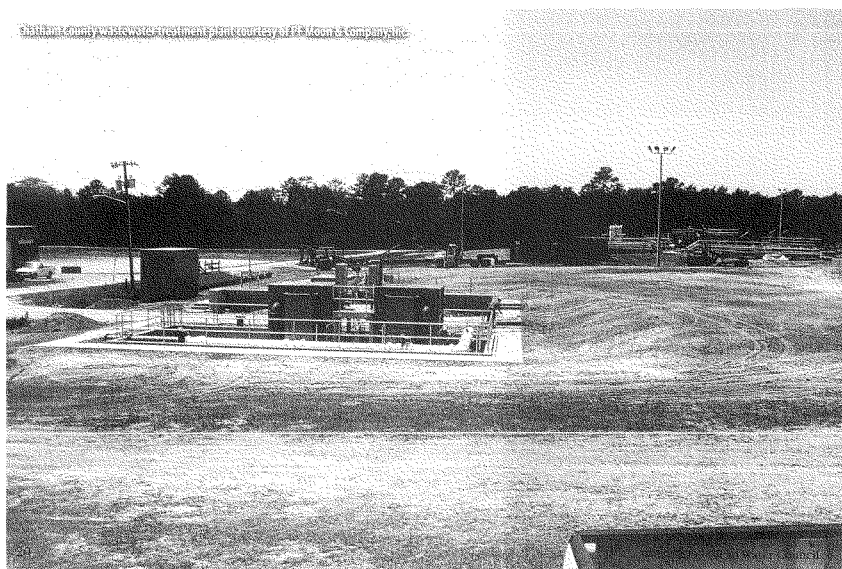
Project Name	Storm Drain Improvements	New Sewer & Water Lines	Wastewater Treatment Pit	Pump Station
County	Dougherty	Fayette	Floyd	Floyd
Total output of the region	4.46 M	0.20 M	6.15 M	1.33 M
Local business expenditures	3.00 M	0.13 M	4.20 M	0.91 M
Sales of suppliers	0.92 M	0.04 M	0.97 M	0.21 M
Household spending	0.55 M	0.03 M	0.97 M	0.21 M
Personal income	1.73 M	0.08 M	2.15 M	0.47 M
State & local tax revenue	0.09 M	<0.01 M	0.13 M	0.03 M
Employment	42	2	58	13
Pipe construction	27	1	40	9
Other	15	1	18	4

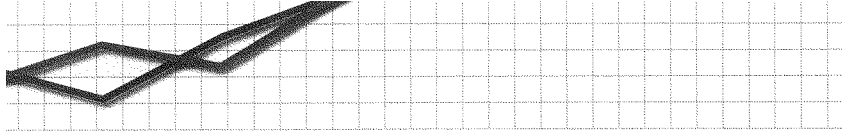
Project Name	Pump Station	Sanitary Sewer	Gravity Sewer	Sewer & Water Line Rehab
County	Floyd	Forsyth	Forsyth	Fulton
Total output of the region	0.60 M	4.37 M	0.20 M	0.84 M
Local business expenditures	0.41 M	2.95 M	0.14 M	0.55 M
Sales of suppliers	0.10 M	0.81 M	0.04 M	0.17 M
Household spending	0.10 M	0.61 M	0.03 M	0.11 M
Personal income	0.17 M	1.84 M	0.09 M	0.34 M
State & local tax revenue	0.01 M	0.10 M	<0.01 M	0.02 M
Employment	6	34	2	7
Pipe construction	4	24	1	5
Other	2	10	1	2

Results and Analysis - Georgia

Case Studies

Project Name	New Sewer & Water Lines	Gravity Sewer	Reuse Pipeline and Diffuser	Water Line Improvements
County	Fulton	Gordon	Gwinnett	Gwinnett
Total output of the region	0.16 M	0.23 M	42.87 M	29.20 M
Local business expenditures	0.11 M	0.18 M	26.25 M	17.88 M
Sales of suppliers	0.03 M	0.03 M	8.35 M	5.69 M
Household spending	0.02 M	0.03 M	8.27 M	5.63 M
Personal income	0.07 M	0.08 M	17.64 M	12.02 M
State & local tax revenue	<0.01 M	<0.01 M	1.09 M	0.75 M
Employment	1	2	339	231
Pipe construction	1	2	211	144
Other	0	0	128	87





Project Name	Sanitary Sewer	Sanitary Sewer Replacement	Water & Sewer Utility Relocations	Sewer & Water Line Repairs
County	Gwinnett	Gwinnett	Gwinnett	Gwinnett
Total output of the region	15.25 M	6.66 M	4.90 M	0.83 M
Local business expenditures	9.34 M	4.08 M	3.00 M	0.51 M
Sales of suppliers	2.97 M	1.30 M	0.95 M	0.16 M
Household spending	2.94 M	1.28 M	0.95 M	0.16 M
Personal income	6.28 M	2.74 M	2.02 M	0.34 M
State & local tax revenue	0.39 M	0.17 M	0.13 M	0.02 M
Employment	120	53	39	7
Pipe construction	75	33	24	4
Other	45	20	15	3

Project Name	Pump Station	WWTP Expansion	Water Extension	Water Main Connections	35,000 LF 12" Water Main
County	Henry	Newton	Putnam	Richmond	Troup
Total output of the region	10.72 M	16.50 M	7.03 M	1.35 M	1.44 M
Local business expenditures	7.32 M	12.50 M	5.44 M	1.00 M	1.06 M
Sales of suppliers	1.84 M	1.92 M	0.86 M	0.20 M	0.18 M
Household spending	1.56 M	2.08 M	0.73 M	0.15 M	0.19 M
Personal income	3.94 M	6.19 M	2.40 M	0.52 M	0.54 M
State & local tax revenue	0.23 M	0.31 M	0.13 M	0.03 M	0.03 M
Employment	101	149	68	12	13
Pipe construction	69	113	54	9	10
Other	31	36	14	3	3

Results and Analysis - Minnesota

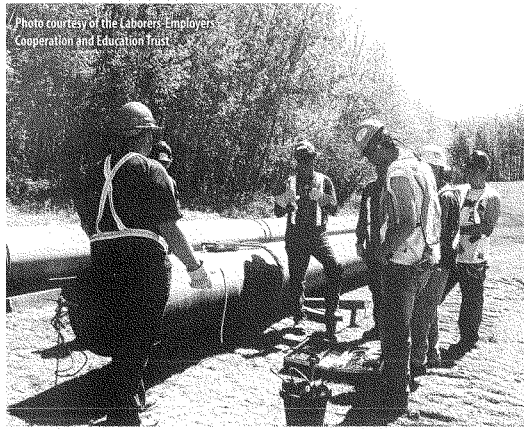


Photo courtesy of the Laborers' Employer Cooperation and Education Trust

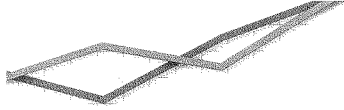
- An investment of \$1 billion in Minnesota's water and wastewater infrastructure would result in an estimated \$1.8 to 2.4 billion demand for goods and services across the state's economy.
- Industries that provide goods and services in support of infrastructure projects would experience over \$400 million in economic demand. A wide range of other industries would sell an estimated \$396 million in goods and services as households spend money in the economy.
- 14,698 to 20,397 jobs would be created with about 6,000 occurring in sectors other than water and wastewater construction and 8,500 jobs in the construction sector where earnings average \$48,122.
- We analyzed data on 11 recently completed projects that ranged in size from \$900,000 to \$14 million and covered 10 counties.

A \$1.8 million storm water treatment project

in Hennepin County illustrates the local economic impacts of these investments. The storm water treatment project generated another \$1.1 million in demand for goods and services across other economic sectors. About \$600,000 was spent on goods and services needed to complete the project, including engineering services, industrial machinery, and other equipment and supplies. Another \$500,000 of other goods and services were sold as a result of household spending. More than 20 jobs were created, 15 in the water pipe construction sector. An estimated \$1.2 million in employee compensation (wages, salaries, and payroll contribution to social insurance programs) derived from the initial \$1.8 million investment, and state and local tax revenues were affected an estimated \$70,000.

A \$1B investment in pipe construction in Minnesota results in the following economic impacts:

Total output for the region	1802.3-2409.4 M
Local business expenditures	1000.0 M
Sales of suppliers	406.3 M
Household spending	396.0 M
Personal Income	685.2-758.3 M
State and local tax revenue	44.1 M
Employment	14,698-20,397 jobs
Pipe construction	8,591 jobs
Other	6,107 jobs
Average Earnings	\$ 48,122



Case Studies

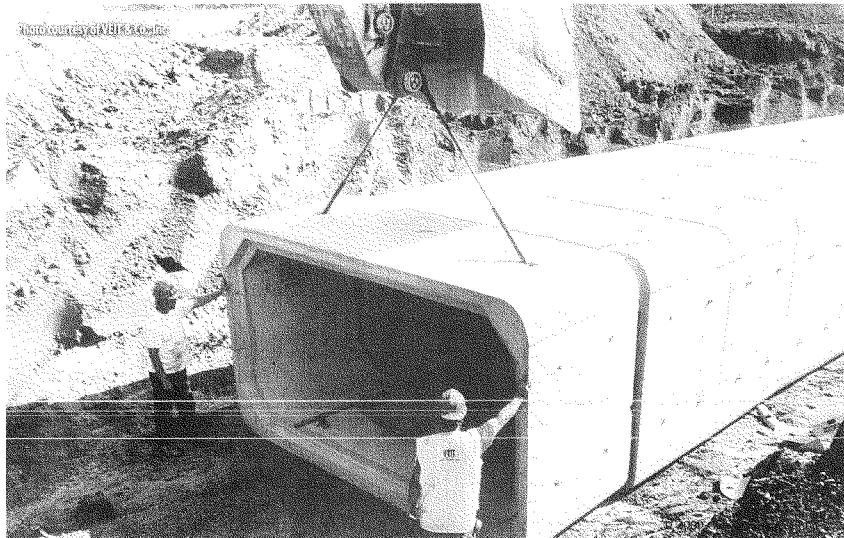
Project Name	Utility Line Reconstruction	Collection Sys Improvements	Storm water Treatments	Water Collection Sys	Wastewater System
County	Blue Earth	Douglas	Hennepin	Kandiyohi	Wabasha
Total output of the region	1.75 M	4.39 M	2.97 M	2.21 M	1.74 M
Local business expenditures	1.14 M	2.98 M	1.89 M	1.56 M	1.44 M
Sales of suppliers	0.32 M	0.73 M	0.59 M	0.34 M	0.15 M
Household spending	0.29 M	0.68 M	0.49 M	0.31 M	0.15 M
Personal income	0.67 M	1.60 M	1.27 M	0.85 M	0.56 M
State & local tax revenue	0.04 M	0.10 M	0.07 M	0.05 M	0.02 M
Employment	16	43	23	21	18
Pipe construction	10	28	15	14	15
Other	6	15	8	7	3



Results and Analysis - Minnesota

Case Studies

Project Name	Sewer Lining	Sewer Lining	Sanitary & Storm Sewer Improve.	Storm Sewer Replacement	Utility Rehabilitation	Water Main Extension
County	Ramsey	Ramsey	Renville	St. Louis	Wadena	Wright
Total output of the region	2.06 M	1.88 M	17.72 M	1.67 M	3.53 M	1.25 M
Local business expenditures	1.33 M	1.22 M	14.4 M	1.12 M	2.59 M	0.90 M
Sales of suppliers	0.37 M	0.34 M	1.78 M	0.27 M	0.54 M	0.18 M
Household spending	0.35 M	0.32 M	1.54 M	0.28 M	0.41 M	0.17 M
Personal income	0.91 M	0.83 M	5.95 M	0.65 M	1.14 M	0.48 M
State & local tax revenue	0.05 M	0.04 M	0.26 M	0.03 M	0.07 M	0.03 M
Employment	15	14	179	15	37	11
Pipe construction	10	9	145	10	27	8
Other	5	5	34	5	10	3



Results and Analysis - New Mexico

- An investment of \$1 billion in New Mexico's water and wastewater infrastructure would result in an estimated \$1.7 to 2 billion demand for goods and services across the state's economy.
- Industries that provide goods and services in support of infrastructure projects would experience almost \$390 million in economic demand. A wide range of other industries would sell an estimated \$320 million in goods and services as households spend money in the economy.
- 15,329 to 20,901 jobs would be created with 6,000 occurring in sectors other than water and wastewater construction and more than 9,000 jobs would be in the pipe construction sector where earnings average \$40,930.
- We analyzed data on 18 recently completed projects that ranged in size from \$120,000 to \$9.2 million and covered 10 counties.

A \$2.6 million project to install new water and sewer lines in Dona Ana County illustrates the local economic impacts of these investments. Altogether the infrastructure investment resulted in slightly less than \$4 million in demand for products and services. In addition to the \$2.6 million investment for the water and sewer lines, about \$730,000 were spent on supplies and services necessary to complete such work. Re-spending of income resulted in another \$610,000 in local economic demand as households paid for goods and services ranging from rent, motor vehicles, and gasoline to amusement centers and beverage establishments. More than 40 jobs were created, including an

estimated 27 in water pipe construction sector and another 15 across other economic sectors. An estimated \$1.3 million in employee compensation (wages, salaries, and payroll contribution to social insurance programs) derived from the initial \$2.6 million investment, and state and local tax revenues were affected an estimated \$80,000.

A \$1B investment in pipe construction in New Mexico results in the following economic impacts:

Total output of the region	1711-2014.5 M
Local business expenditures	1000.0 M
Sales of suppliers	389.2 M
Household spending	321.8 M
Personal Income	607.6-662.1 M
State and local tax revenue	39.4 M
Regional Employment	15,329-20,901 jobs
Pipe construction	9,272 jobs
Other	6,057 jobs
Average Job Compensation	\$40,930

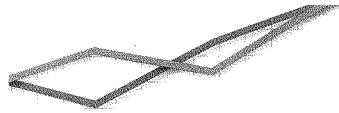


Results and Analysis - New Mexico

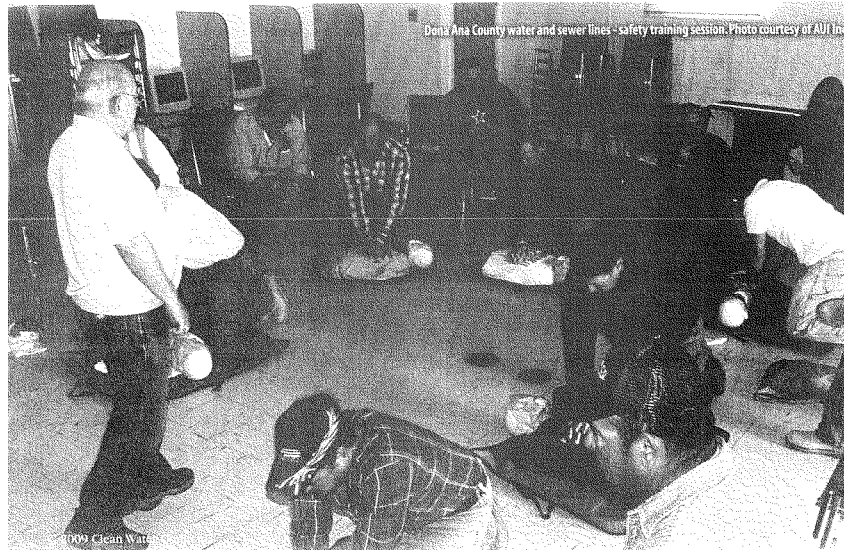
Case Studies

Project Name	Water & Wastewater Trans Lines	New 36" & 60" Water Lines	Water & Sewer Lines	Water & Sewer Line Improve.
County	Bernalillo	Bernalillo	Bernalillo	Bernalillo
Total output of the region	14.45 M	5.27 M	4.94 M	0.50 M
Local business expenditures	9.21 M	3.36 M	3.15 M	0.32 M
Sales of suppliers	2.82 M	1.03 M	0.96 M	0.10 M
Household spending	2.42 M	0.88 M	0.83 M	0.08 M
Personal income	5.58 M	2.03 M	1.91 M	0.20 M
State & local tax revenue	0.31 M	0.11 M	0.11 M	0.01 M
Employment	130	47	44	4
Pipe construction	82	30	28	3
Other	48	17	16	1

Project Name	Sewer Line & Storm Drain Improve.	Water Line Replacement	Pipe Bursting	Sewer Line & Lift Station	Wastewater Treatment Pit
County	Dona Ana	Guadalupe	Otero	Rio Arriba	San Juan
Total output of the region	0.81 M	1.66 M	0.72 M	0.39 M	4.92 M
Local business expenditures	0.54 M	1.46 M	0.56 M	0.30 M	3.33 M
Sales of suppliers	0.15 M	0.12 M	0.08 M	0.05 M	0.81 M
Household spending	0.12 M	0.08 M	0.08 M	0.04 M	0.78 M
Personal income	0.27 M	0.59 M	0.24 M	0.13 M	1.88 M
State & local tax revenue	0.02 M	0.02 M	0.01 M	0.01 M	0.11 M
Employment	8	16	8	4	42
Pipe construction	5	14	6	3	28
Other	3	2	2	1	14



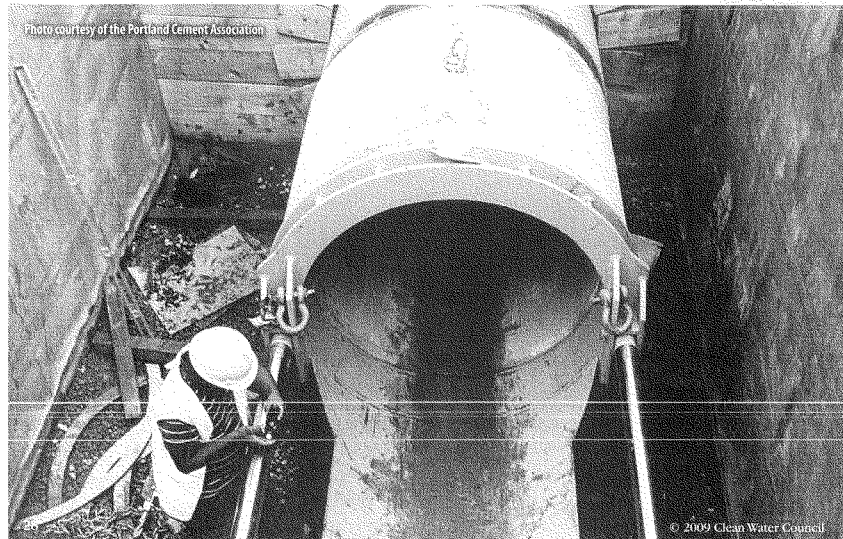
Project Name	Water & Sewer Line Improve.	Water & Sewer Line Improve.	WWTP Upgrade	New Water & Sewer Lines
County	Bernalillo	Cibola	Cibola	Dona Ana
Total output of the region	0.47 M	0.69 M	0.56 M	3.98 M
Local business expenditures	0.30 M	0.54 M	0.44 M	2.65 M
Sales of suppliers	0.09 M	0.06 M	0.05 M	0.73 M
Household spending	0.08 M	0.08 M	0.07 M	0.61 M
Personal income	0.18 M	0.26 M	0.22 M	1.35 M
State & local tax revenue	0.01 M	0.01 M	0.01 M	0.08 M
Employment	4	6	5	42
Pipe construction	3	5	4	27
Other	1	1	1	15



Results and Analysis - New Mexico

Case Studies

Project Name	New Well Bldg, Pump, & Lines	Sewer Improvements	WWTP Expansion	Water Storage Tank Upgrade	WWTP Upgrade
County	Sandoval	Sandoval	Santa Fe	Santa Fe	Taos
Total output of the region	1.62 M	0.16 M	4.93 M	0.31 M	2.34 M
Local business expenditures	1.20 M	0.12 M	3.27 M	0.20 M	1.72 M
Sales of suppliers	0.24 M	0.02 M	0.90 M	0.06 M	0.29 M
Household spending	0.18 M	0.02 M	0.76 M	0.05 M	0.33 M
Personal income	0.62 M	0.06 M	1.73 M	0.11 M	0.79 M
State & local tax revenue	0.03 M	<0.01 M	0.10 M	0.01 M	0.04 M
Employment	15	2	50	3	24
Pipe construction	11	1	32	2	17
Other	4	1	18	1	7



Results and Analysis - Pennsylvania

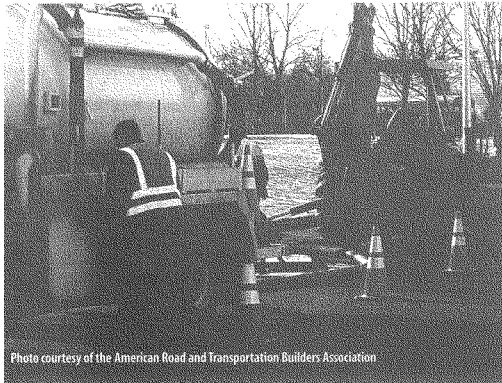


Photo courtesy of the American Road and Transportation Builders Association

- An investment of \$1 billion in Pennsylvania's water and wastewater infrastructure would result in an estimated \$1.8 to 2.6 billion demand for goods and services across the state's economy.
- Industries that provide goods and services in support of infrastructure projects would experience almost \$430 million in economic demand. A wide range of other industries would sell an estimated \$438 million in goods and services as households spend money in the economy.
- 14,524 to 20,037 jobs would be created with more than 6,000 in sectors other than water and wastewater construction and more than 8,000 jobs in the pipe construction sector where earnings average \$52,037.
- We analyzed data on 38 recently completed projects that ranged in size from \$80,000 to \$10.3 million and covered 21 counties.

A \$2 million pumping station in Bucks County illustrates the local economic impacts

of these investments. Altogether the infrastructure investment resulted in about \$3.2 million in demand for products and services. In addition to the \$2 million investment for the pumping station, about \$640,000 were spent on supplies and services necessary to complete such work. Re-spending of household income resulted in another \$570,000 in demand for goods and services in the local economy. More than 20 jobs were created, most of which (17) were in the water pipe construction sector and another 9 across other economic sectors. An estimated \$1.3 million in employee compensation (wages, salaries, and payroll contribution to social insurance programs) derived from the

initial \$2 million investment, and state and local tax revenues were affected an estimated \$80,000.

A \$1B investment in pipe construction in Pennsylvania results in the following economic impacts:

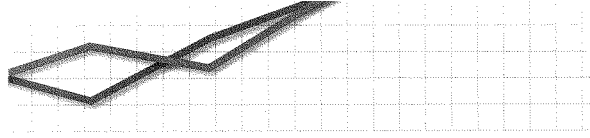
Total output of the region	1867-2609.7 M
Local business expenditures	1000.0 M
Sales of suppliers	428.9 M
Household spending	438.2 M
Personal Income	725.9-790 M
State and local tax revenue	46.6 M
Regional Employment	14,524-20,037 jobs
Pipe construction	8,247 jobs
Other	6,277 jobs
Average Earnings	\$ 52,037

Results and Analysis - Pennsylvania

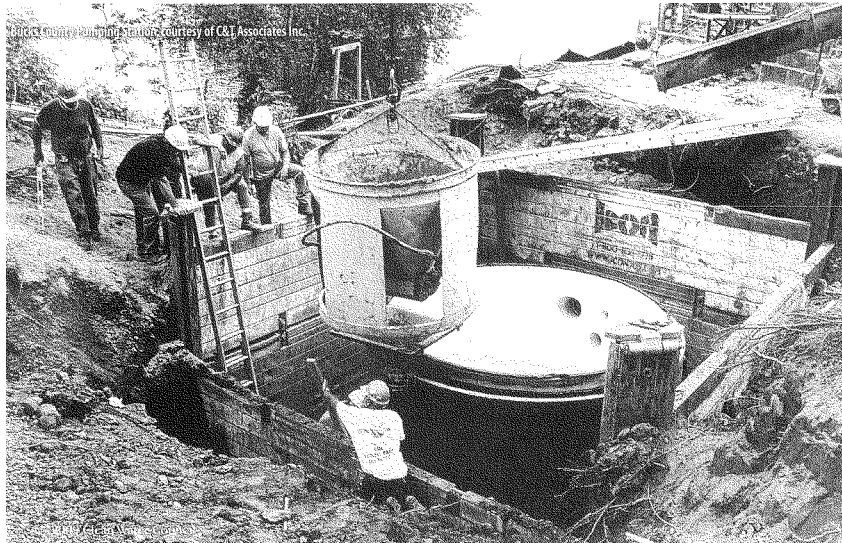
Case Studies

Project Name	Sanitary Sewer System Improvements	Interceptor Replacement	Water Line & Services	Sanitary Sewer Replacement
County	Adams	Allegheny	Beaver	Beaver
Total output of the region	0.78 M	0.79 M	1.87 M	1.70 M
Local business expenditures	0.55 M	0.48 M	1.24 M	1.13 M
Sales of suppliers	0.11 M	0.16 M	0.33 M	0.30 M
Household spending	0.12 M	0.15 M	0.30 M	0.28 M
Personal income	0.30 M	0.33 M	0.75 M	0.69 M
State & local tax revenue	0.02 M	0.02 M	0.04 M	0.03 M
Employment	7	6	16	15
Pipe construction	5	4	11	10
Other	2	2	5	5

Project Name	Valve Vault & Tie-ins	Water & Sewer Extension	Sewer & Water Lines	Pipe Bursting, Reline & Rehab
County	Beaver	Bedford	Bedford	Blair
Total output of the region	0.12 M	1.89 M	0.39 M	7.57 M
Local business expenditures	0.08 M	1.43 M	0.29 M	4.92 M
Sales of suppliers	0.02 M	0.21 M	0.04 M	1.38 M
Household spending	0.02 M	0.26 M	0.05 M	1.26 M
Personal income	0.05 M	0.73 M	0.15 M	2.84 M
State & local tax revenue	<0.01 M	0.04 M	0.01 M	0.16 M
Employment	1	17	4	72
Pipe construction	1	12	3	46
Other	0	5	1	26



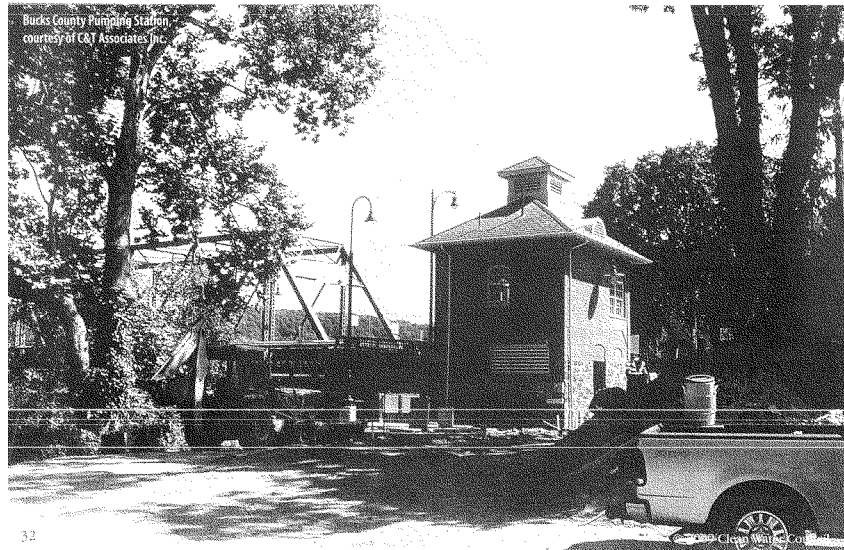
Project Name	Wastewater Treatment Plant	New Pumping Station	Pumping Station Rehab.	New Collector Sewer
County	Bucks	Bucks	Bucks	Butler
Total output of the region	3.95 M	3.22 M	1.87 M	16.45 M
Local business expenditures	2.45 M	2.00 M	1.16 M	10.35 M
Sales of suppliers	0.79 M	0.64 M	0.37 M	3.48 M
Household spending	0.70 M	0.57 M	0.33 M	2.63 M
Personal income	1.59 M	1.30 M	0.75 M	6.34 M
State & local tax revenue	0.09 M	0.08 M	0.04 M	0.36 M
Employment	32	26	15	136
Pipe construction	21	17	10	87
Other	11	9	5	49

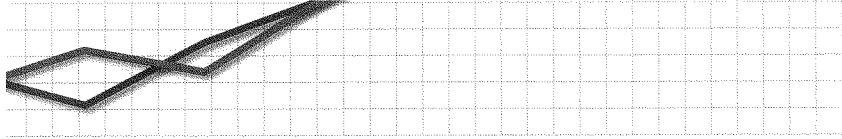


Results and Analysis - Pennsylvania

Case Studies

Project Name	New Collector Sewer & Appurt.	Sewer Main & Lateral Rpl.	Sewer Main & Lateral Rpl.	Waste Water Collection Sys
County	Butler	Clearfield	Clearfield	Clearfield
Total output of the region	14.9 M	10.89 M	8.07 M	4.67 M
Local business expenditures	9.35 M	7.39 M	5.48 M	3.12 M
Sales of suppliers	3.13 M	1.92 M	1.43 M	0.82 M
Household spending	2.37 M	1.57 M	1.17 M	0.67 M
Personal income	5.72 M	4.00 M	2.97 M	1.71 M
State & local tax revenue	0.32 M	0.21 M	0.15 M	0.09 M
Employment	122	105	78	45
Pipe construction	78	70	52	30
Other	44	35	26	15





Project Name	Pump Station Sludge Tank	Sanitary Sewer Replacement	Sewer Lines	Sewer Extension
County	Dauphin	Dauphin	Fayette	Franklin
Total output of the region	4.19 M	1.94 M	7.57 M	0.55 M
Local business expenditures	2.75 M	1.27 M	5.12 M	0.37 M
Sales of suppliers	0.81 M	0.37 M	1.32 M	0.09 M
Household spending	0.63 M	0.29 M	1.13 M	0.09 M
Personal income	1.77 M	0.82 M	2.90 M	0.21 M
State & local tax revenue	0.09 M	0.04 M	0.15 M	0.01 M
Employment	34	16	70	5
Pipe construction	22	10	46	3
Other	12	6	24	2

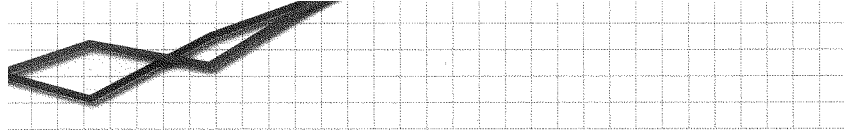
Project Name	Sanitary Sewer	Wastewater System Improvement	Sewer Lines & Appurt.	Wastewater Treatment Plt
County	Huntingdon	Jefferson	Jefferson	Jefferson
Total output of the region	1.50 M	8.31 M	3.65 M	1.49 M
Local business expenditures	1.13 M	6.16 M	2.70 M	1.11 M
Sales of suppliers	0.17 M	1.15 M	0.51 M	0.21 M
Household spending	0.20 M	1.00 M	0.44 M	0.18 M
Personal income	0.54 M	2.84 M	1.25 M	0.51 M
State & local tax revenue	0.03 M	0.14 M	0.06 M	0.03 M
Employment	14	84	37	15
Pipe construction	11	62	27	11
Other	3	22	10	4

Results and Analysis - Pennsylvania

Case Studies

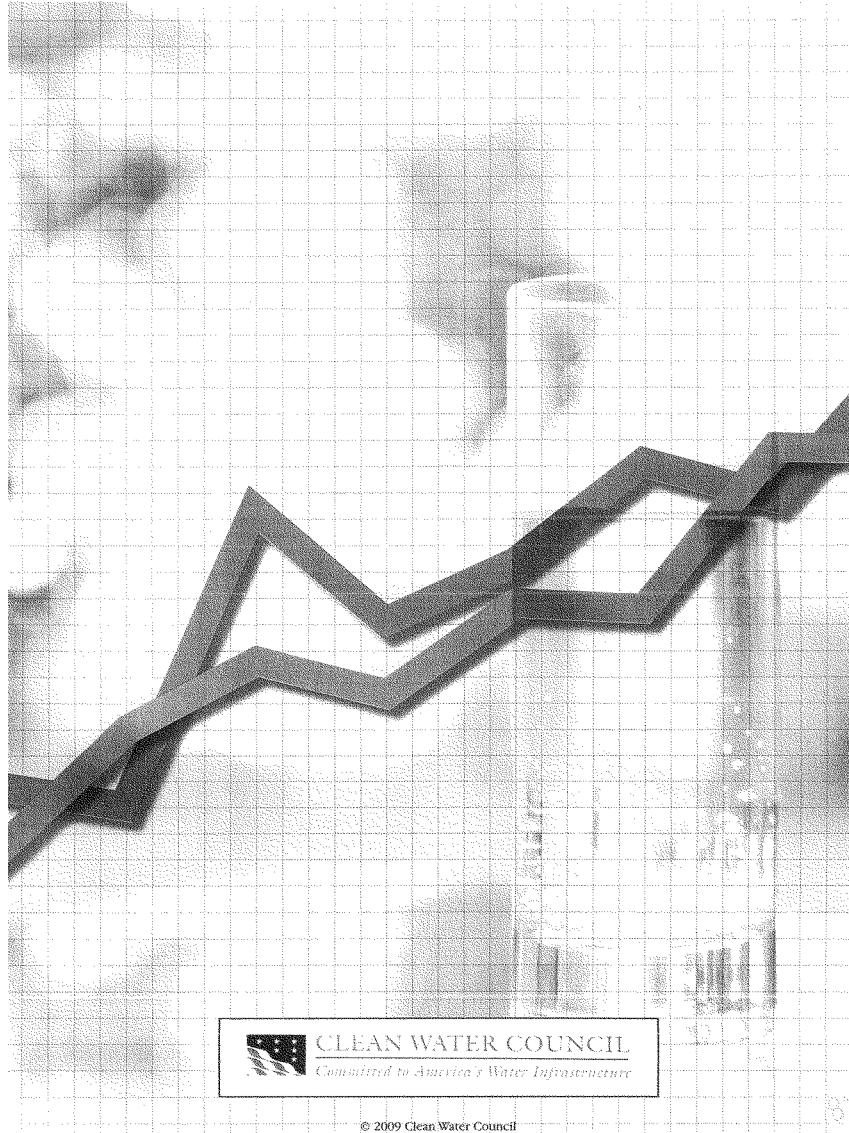
Project Name	Storm Sewer	Sludge Holding Tank Filter Building w/ UV	Storm Water Pump Station Improvement	Interceptor Replacement
County	Jefferson	Lebanon	Lycoming	Mercer
Total output of the region	0.35 M	10.45 M	1.39 M	3.04 M
Local business expenditures	0.26 M	7.07 M	0.91 M	2.07 M
Sales of suppliers	0.05 M	1.69 M	0.24 M	0.48 M
Household spending	0.04 M	1.69 M	0.24 M	0.50 M
Personal income	0.12 M	4.02 M	0.54 M	1.16 M
State & local tax revenue	0.01 M	0.22 M	0.03 M	0.06 M
Employment	4	93	13	28
Pipe construction	3	62	8	18
Other	1	31	5	10

Project Name	WWTP Renovation	Renovation of Primary Sed Tank	Water Distribution Lines	Sewer Lines & Appurtenances
County	Montgomery	Philadelphia	Schuylkill	Westmoreland
Total output of the region	5.42 M	6.05 M	8.73 M	7.41 M
Local business expenditures	3.37 M	4.07 M	6.2 M	4.64 M
Sales of suppliers	1.02 M	0.98 M	1.29 M	1.48 M
Household spending	1.03 M	1.00 M	1.24 M	1.30 M
Personal income	2.30 M	2.76 M	3.26 M	2.92 M
State & local tax revenue	0.13 M	0.13 M	0.15 M	0.17 M
Employment	41	43	79	65
Pipe construction	27	28	56	40
Other	14	15	23	15



Project Name	Sewage Coll Sys & Pump Station	Water Main Transmission	Underground Water Tanks	Water Filtration Plant Rehab
County	Westmoreland	Westmoreland	Westmoreland	Westmoreland
Total output of the region	7.36 M	4.58 M	4.22 M	4.11 M
Local business expenditures	4.60 M	2.86 M	2.64 M	2.57 M
Sales of suppliers	1.47 M	0.91 M	0.84 M	0.82 M
Household spending	1.29 M	0.80 M	0.74 M	0.72 M
Personal income	2.89 M	1.80 M	1.66 M	1.61 M
State & local tax revenue	0.17 M	0.10 M	0.10 M	0.09 M
Employment	64	40	37	36
Pipe construction	40	25	23	22
Other	24	15	14	14

Project Name	Wastewater Treatment Plant	Force Main and Trunk Sewer Upgrade
County	York	York and Adams
Total output of the region	4.91 M	1.18 M
Local business expenditures	3.09 M	0.74 M
Sales of suppliers	0.92 M	0.22 M
Household spending	0.90 M	0.22 M
Personal income	2.01 M	0.48 M
State & local tax revenue	0.11 M	0.03 M
Employment	41	10
Pipe construction	25	6
Other	16	4





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**Testimony of
The American Society of Civil Engineers
Before The Subcommittee on Water Resources and Environment
House Transportation and Infrastructure Committee
On Opportunities and Challenges in the Creation of a Clean Water
Trust Fund
July 15, 2009**

Good afternoon, Madame Chairwoman and Representative Boozman:

My name is Dale Jacobson. I am a licensed Professional Engineer in Nebraska and Iowa. I am president of Jacobson Satchell Consultants, a consulting engineering firm with offices in Omaha, Nebraska, and Denver, Colorado. I have 40 years' experience in the engineering of municipal and industrial wastewater, drinking-water, groundwater, solid waste, hazardous waste, and low-level radioactive waste.

I am pleased to appear today on behalf of the American Society of Civil Engineers* (ASCE) to testify on opportunities and challenges in the creation of a trust fund to provide funding for clean and safe water and to discuss the Water Protection and Reinvestment Act introduced by Mr. Blumenauer.

* ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 146,000 civil engineers individually in private practice, government, industry, and academia who are dedicated to the advancement of the science and profession of civil engineering.

I. SUMMARY

America's drinking-water and wastewater infrastructure systems are aging. Many systems are well beyond their design lives. New methods of financing improvements to these critical structures are vitally needed. ASCE believes that funding for water infrastructure improvements and associated operations requires a comprehensive program to provide financial support for all systems. To that end, ASCE supports the creation of a trust fund to finance the national shortfall in funding of infrastructure systems under the Clean Water Act and the Safe Drinking Water Act, including stormwater management and other projects designed to improve the nation's water quality.

The Blumenauer bill would create a trust fund for drinking-water and wastewater infrastructure needs and raise approximately \$11 billion annually from a number of new revenue sources, each designed to provide a stable source of funds. The bill would create a budgetary firewall to ensure that all monies received into the trust fund would be appropriated for the two State Revolving Loan Fund (SRF) programs.

This legislation is vitally needed. If enacted, the Water Protection and Reinvestment Act would begin the process of restoring our nation's threatened surface water and drinking-water resources.

II. THE ISSUE TODAY

In March, ASCE released its 2009 Report Card for America's Infrastructure. A total of 15 separate infrastructure systems earned an overall grade of D. Moreover, ASCE identified a \$2.2 trillion need for infrastructure funding over the next five years, with about half of that money assured under current funding arrangements. This leaves a gap of \$1.1 trillion to be met from new sources of revenue.

In our *Report Card*, drinking-water earned a D-. America's drinking-water systems face an annual shortfall of at least \$11 billion to replace aging facilities that are near the end of their useful life and to comply with existing and future federal water regulations. This does not account for growth in the demand for drinking-water over the next 20 years. Leaking pipes lose an estimated seven billion gallons of clean drinking-water a day. Although Americans still enjoy some of the best tap water in the world, the costs of treating and delivering that water where it is needed continue to outpace the funds available to sustain the system.

Meanwhile, aging wastewater treatment systems discharge billions of gallons of untreated wastewater into U.S. surface waters each year. The U.S. Environmental Protection Agency estimates that the nation must invest \$390 billion over the next 20 years to update or replace existing systems and build new ones to meet increasing demand. Wastewater continues to be among the lowest grades on the *Report Card*, earning a D- in 2009.

III. THE IMMEDIATE NEED

In January, this Committee led the fight to pass the American Recovery and Reinvestment Act. That act, signed into law in February, provided an estimated \$100 billion for all U.S. infrastructure needs as an emergency job-creation measure for Fiscal Year 2009. But the Recovery Act was more than just a jobs bill, as important as that effort was to the economy. The funding in the law represented a partial down payment on the \$1.1 trillion, five-year infrastructure investment gap identified by the *Report Card*—a gap that threatens our economic strength at least as much as the recession and endangers our environment and public health as well.

That is why ASCE strongly supports the creation of a trust fund to finance the national shortfall in funding of infrastructure systems under the Clean Water Act and the Safe Drinking Water Act. Such a trust fund would provide a steady source of funding for many decades.

The trust fund should provide a deficit-neutral, dependable source of revenue to help states and local communities replace, repair, and rehabilitate critical drinking-water and wastewater treatment facilities. The fund should contain budgetary firewalls to ensure that a reliable amount of financial aid goes to state and local governments annually.

There are a variety of financial mechanisms that may be suitable to provide revenue for the trust fund. These include annual appropriations from general treasury funds; issuance of revenue bonds and tax exempt financing at state and local levels; public-private partnerships; state infrastructure banks; user fees on certain consumer products; and other innovative financing mechanisms, including broad-based environmental restoration taxes, to address problems associated with water pollution, wastewater management and treatment, and stormwater management. Some of these sources are found in the Blumenauer legislation. We should point out, however, that we do not endorse a specific approach to financing a trust fund.

IV. LOOKING TO THE LONG TERM

The nation's infrastructure faces some very real problems that threaten our way of life if they are not addressed. We concluded in March that these problems are solvable if we have the needed vision and leadership. Raising the grades on our infrastructure will require us to seek and adopt a wide range of structural and non-structural solutions in every category, including technical advances, funding and regulatory changes, and changes in public behavior and support.

ASCE has developed five key solutions to begin raising the grades. They are:

- Increase federal leadership in infrastructure to address the crisis.

- Promote sustainability and resilience in infrastructure to protect the natural environment and withstand natural and man-made hazards.
- Develop national, state, and regional infrastructure plans that complement a national vision and focus on system-wide results.
- Address life-cycle costs and ongoing maintenance to meet the needs of current and future users.
- Increase and improve infrastructure investment from all stakeholders.

Thank you, Madame Chairwoman and Members of the Subcommittee. That concludes ASCE's testimony. I would be pleased to answer any questions that you may have.

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

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CLEAN WATER INFRASTRUCTURE

Design Issues and Funding Options for a Clean Water Trust Fund

Statement of Anu K. Mittal, Director
Natural Resources and Environment



July 15, 2009

CLEAN WATER INFRASTRUCTURE

Design Issues and Funding Options for a Clean Water Trust Fund



Highlights of GAO 09-933T, a testimony before the Subcommittee on Water Resources and Environment, Committee on Transportation and Infrastructure, House of Representatives

Why GAO Did This Study

Many of the wastewater systems that Americans rely on to protect public health and the environment are reaching the end of their useful lives. The Environmental Protection Agency (EPA) has estimated that a potential gap between future needs and current spending for wastewater infrastructure of \$150 billion to \$400 billion could occur over the next decade. Various approaches have been proposed to bridge this potential gap. One is to establish a clean water trust fund.

This testimony summarizes findings of a May 2009 report (GAO-09-657), where GAO was asked to examine (1) stakeholders' views on the issues that would need to be addressed in designing and establishing a clean water trust fund and (2) potential options that could generate about \$10 billion annually in revenue to support a clean water trust fund. GAO administered a questionnaire to 28 national organizations representing stakeholders from the wastewater and drinking water industries, state and local governments, engineers, and environmental groups and received 22 responses; reviewed proposals and industry papers; and used the most current data to estimate revenue on a range of products and activities.

While the May report identified a number of funding options for policymakers to consider, GAO did not endorse any option and does not have a position on whether or not a trust fund should be established. GAO did not make any recommendations in its report.

View GAO-09-933T or key components. For more information, contact Anu Mittal at (202) 512-3641 or mitala@gao.gov.

What GAO Found

Stakeholders identified three main issues that would need to be addressed in designing and establishing a clean water trust fund: how a trust fund should be administered and used, what type of financial assistance should be provided; and what activities should be eligible to receive funding from a trust fund. While a majority of stakeholders said that a trust fund should be administered through an EPA partnership with the states, they differed in their views on how a trust fund should be used. About one-third of stakeholders responded that a trust fund should be used only to fund the existing Clean Water State Revolving Fund (CWSRF), which is currently funded primarily through federal appropriations, while a few said it should support only a new and separate wastewater program. A few stakeholders supported using a trust fund to support both the CWSRF and a separate program, while others did not support the establishment of a trust fund. In addition, more than one half of the stakeholders responded that financial assistance should be distributed using a combination of loans and grants to address the needs of different localities. Finally, although a variety of activities could be funded, most stakeholders identified capital projects as the primary activity that should receive funding from a clean water trust fund.

GAO identified a number of options that could generate revenue for a clean water trust fund, but several obstacles will have to be overcome in implementing these options, and it may be difficult to generate \$10 billion from any one option alone. Funding options include a variety of excise taxes as shown in the table below.

Estimated Revenue from Excise Taxes on Products That May Contribute to the Wastewater Stream (2009 dollars in millions)

Product group	Tax base	1% tax	5% tax	10% tax	Tax rate to generate \$10 billion
Beverages	\$95,551	\$956	\$4,778	\$9,555	10.5%
Fertilizers and pesticides	26,088	261	1,304	2,609	38.3
Flushable products, including soaps, detergents, cooking oils, and toiletries	63,241	632	3,162	6,324	15.8
Pharmaceuticals	156,069	1,561	7,803	15,607	6.4
Water appliances and plumbing fixtures	25,517	255	1,276	2,552	39.2

Source: GAO analysis of Census data from the 2006 Annual Survey of Manufactures and Foreign Trade Division.

In addition, Congress could levy a tax on corporate income. An additional 0.1 percent corporate income tax could raise about \$1.4 billion annually. Congress also could levy a water use tax. A tax of 0.01 cent per gallon could raise about \$1.3 billion annually. Regardless of the options selected, certain implementation obstacles will have to be overcome. These obstacles include defining the products or activities to be taxed, establishing a collection and enforcement framework, and obtaining stakeholder support for a particular option or mix of options. Obtaining stakeholder support may be particularly challenging where the link between a funding option and the wastewater stream is not apparent.

Madam Chairwoman and Members of the Subcommittee:

We are pleased to be here today to discuss our recently issued report on a clean water trust fund.¹ More than 220 million people in the United States are served by wastewater systems. These systems are composed of a network of pipes, pumps, and treatment facilities that collect and treat wastewater from homes, businesses, and industries before it is discharged to surface waters. However, many of these systems were constructed more than 50 years ago and are reaching the end of their useful lives. Although federal, state, and local governments invest billions of dollars annually in wastewater infrastructure—about \$40 billion in fiscal year 2006—the Environmental Protection Agency (EPA) and others have estimated that current spending levels may not be adequate to cover the costs of maintaining and replacing pipes, treatment plants, and other parts of this infrastructure. According to EPA's estimates, a potential gap of about \$150 billion to \$400 billion between projected future infrastructure needs and current levels of spending could occur over the next decade.² Without additional investment in the nation's wastewater infrastructure, EPA and other groups have asserted that the environmental and public health gains made under the Clean Water Act³ during the last three decades could be at risk.

A variety of approaches have been proposed to help bridge a potential gap between projected future infrastructure needs and current levels of spending. For example, one approach would be to increase federal funding for the Clean Water State Revolving Fund (CWSRF) program, which is the largest source of federal assistance for wastewater infrastructure.⁴ Under the CWSRF program, EPA provides capitalization grants to the states, which in turn use these funds to make loans to local communities or

¹GAO, *Clean Water Infrastructure: A Variety of Issues Need to Be Considered When Designing a Clean Water Trust Fund*, GAO-09-657 (Washington, D.C.: May 29, 2009).

²EPA, *The Clean Water and Drinking Water Infrastructure Gap Analysis* (Washington, D.C.: September 2002). In the report, EPA noted that this gap is not inevitable and could be addressed, in part, if wastewater utilities raised the rates they charge consumers. EPA estimates a potential gap for drinking water infrastructure as well.

³The Federal Water Pollution Control Act Amendments of 1972, Pub. L. No. 92-500, § 2, 86 Stat. 816 (commonly referred to as the Clean Water Act).

⁴About \$689 million was appropriated in both fiscal years 2008 and 2009 for the CWSRF program, and an additional \$4 billion was appropriated by the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, div. A, title VII, 123 Stat. 115, 169.

utilities for various water quality projects. Still another approach that has been considered is to establish a clean water trust fund. In general, federal trust funds collect revenue and distribute funds that have been set aside for specific purposes. A clean water trust fund would provide a dedicated source of funding for wastewater infrastructure that would be similar to some of the trust funds that Congress has established for other infrastructure and environmental programs, such as highway infrastructure construction and coastal wetlands restoration. Some of the revenue for federal trust funds is generated through federal excise taxes.⁵

My testimony today summarizes the issues that we were requested to examine for our May 2009 report: (1) stakeholders' views on the issues that would need to be addressed in designing and establishing a clean water trust fund and (2) potential options that Congress could consider that could generate revenues of about \$10 billion annually to support a clean water trust fund. In conducting this work, we administered a questionnaire to 25 national organizations representing the wastewater and drinking water industries, state and local governments, engineers, and environmental groups and received 22 responses; reviewed proposals and industry papers; and interviewed federal, state, local, and industry officials. To estimate the revenue that could be raised by potential options, we used the most current data available to estimate the value of products or activities that could be subject to a federal tax and applied a range of tax rates—based on current or past taxation policies—to these values. The estimates presented in our May report are not official revenue estimates as would be prepared by the Joint Committee on Taxation. Moreover, we do not endorse any option and do not have a position on whether or not a clean water trust fund should be established.

We conducted our work from June 2008 to May 2009 in accordance with all sections of GAO's quality assurance framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

⁵An excise tax is a tax levied on the manufacture, sale, or consumption of various commodities.

Stakeholders Identified Three Key Issues That Would Need to Be Addressed in Designing and Establishing a Clean Water Trust Fund

According to stakeholders we contacted, three main issues would need to be addressed in designing and establishing a clean water trust fund: how a trust fund should be administered and used, what type of financial assistance should be provided, and what activities should be eligible to receive funding from a trust fund.

Administration and use of a trust fund: Stakeholders told us that designing a clean water trust fund would involve deciding what agency or entity would administer the fund and whether the trust fund would be used to fund the CWSRF program or a separate program. A majority of stakeholders (15 of 20) responding to our questionnaire expressed the view that a trust fund should be administered through an EPA-state partnership like the current CWSRF program.⁶ However, the stakeholders differed in their views on how a trust fund should be used. About one-third of stakeholders (7 of 20) responded that a trust fund should be used only to fund the existing CWSRF, which is currently funded primarily through federal appropriations, while 3 stakeholders said it should support only a new and separate wastewater program. In addition, 5 of 20 stakeholders supported using a trust fund to support both the CWSRF program and a separate program. These stakeholders said that the CWSRF needed a dedicated source of funding but that the flexibility of a new program could help to address some of the CWSRF's limitations. Finally, 3 of 20 stakeholders were opposed to the creation of a clean water trust fund.⁷

Type of financial assistance: Another design issue that stakeholders identified was specifying the type of assistance—grants or loans—that a clean water trust fund would provide. Over one-half of the stakeholders responding to our questionnaire (13 of 21) favored distributing funding to wastewater infrastructure projects using a combination of loans and grants. The remaining stakeholders favored using either loans or grants or another form of distribution.

Eligible activities: Finally, stakeholders said that designing and implementing a clean water trust fund would involve determining the type of wastewater infrastructure activities that the fund would support. Most

⁶Twenty-two stakeholders responded to our questionnaire; however, because not all stakeholders responded to each question, the total number of responses varied for each question.

⁷Two stakeholders responded to the questionnaire but did not provide a specific position regarding how a trust fund should be used.

stakeholders who responded to our questionnaire supported using a trust fund for planning and designing wastewater projects (18 of 21) and for capital costs (19 of 21).

Various Options for Funding a Clean Water Trust Fund Could Generate a Range of Revenues, but Each Option Poses Certain Obstacles

Various funding options—including excise taxes on products that may contribute to the wastewater stream, an additional tax on corporate income, a water use tax, and an industrial discharge tax—could generate a range of revenues for a clean water trust fund. However, it may be difficult to raise \$10 billion annually for a clean water trust fund from any one of these options because of the small size of the tax bases of many of these options. In addition, each funding option poses various implementation challenges, including defining the products or activities to be taxed, establishing a collection and enforcement framework, and obtaining stakeholder support.

A Variety of Options Are Available That Could Generate a Range of Revenue to Support a Trust Fund

Excise taxes on products that may contribute to the wastewater stream could be used to generate revenue for a clean water trust fund. These products include beverages, fertilizers and pesticides, flushable products, pharmaceuticals, and water appliances and plumbing fixtures. While past proposals for funding a clean water trust fund have identified these products as contributing to the wastewater stream, limited research has been done on their specific impact on wastewater infrastructure, according to EPA.⁸ Raising \$10 billion from a tax on any individual product group would require tax rates ranging from a low of 6.4 percent for pharmaceuticals to a high of 39.2 percent for water appliances and plumbing fixtures.⁹ Alternatively, a lower tax rate could be levied on a number of these product groups that would collectively generate about

⁸A 1996 study by EPA provided information on using some of these products to provide funding for wastewater infrastructure. The study noted the following: "Currently, little empirical data exist by which to document the volume and toxicity of most potential fee targets. This limitation, which research might address over time, results in a significant selection bias when products are selected for their link to water pollution." EPA, *Alternative Funding Study: Water Quality Fees and Debt Financing Issues* (June 1996).

⁹If any of the products in these product groups were excluded or exempted from an excise tax, the tax base would decline and higher tax rates would be needed to raise similar amounts of money. For example, if the excise tax on beverages did not include alcoholic beverages, the tax base for this product group would decline by over 50 percent to about \$44 billion, and the tax rate required to raise \$10 billion would increase to about 25 percent.

\$10 billion. Table 1 shows the tax bases for the product groups, along with the revenue that could be generated from a range of tax rates.

Table 1: Estimated Revenue from a Range of Excise Tax Rates on Products That May Contribute to the Wastewater Stream

2009 dollars in millions

Product groups	Tax base*	1% tax	3% tax	5% tax	10% tax	Tax rate to generate \$10 billion
Beverages	\$95,551	\$956	\$2,867	\$4,778	\$9,555	10.5%
Fertilizers and pesticides	26,088	261	783	1,304	2,609	38.3
Flushable products	63,241	632	1,897	3,162	6,324	15.8
Pharmaceuticals	156,069	1,561	4,682	7,803	15,607	6.4
Water appliances and plumbing fixtures	25,517	255	766	1,276	2,552	39.2

Source: GAO analysis of Census data from the 2006 Annual Survey of Manufactures and Foreign Trade Division.

*The tax base includes the value of products manufactured domestically as well as those imported, but excludes exports.

Alternatively, a per unit excise tax could be levied on these products. For example, according to the Container Recycling Institute, about 215 billion bottled and canned beverages were sold in 2006.¹⁰ Levying a 1-cent tax on these bottles and cans could yield about \$2.2 billion, and raising \$10 billion would require a tax of about 5 cents.

Other options that could generate revenue for a clean water trust fund include the following:

Tax on Corporate Income: Another option that could be used to fund a clean water trust fund is to levy an additional tax on the incomes of corporations. This tax would be similar to the Corporate Environmental Income Tax that was used to fund the Superfund program until 1995. An additional 0.1 percent corporate income tax on the \$1.4 trillion in corporate taxable income could raise about \$1.4 billion annually. Higher tax rates would be needed to generate a larger amount of revenue. For example, a 0.5 percent tax could raise \$6.9 billion and to raise \$10 billion from this option, an additional tax of about 0.7 percent would need to be levied.

¹⁰Container Recycling Institute, *Wasting and Recycling Trends: Conclusions from CRT's 2008 Beverage Market Data Analysis* (Glastonbury, Conn.: December 2008).

Water Use Tax: Another option to fund a clean water trust fund is a tax on water use. A tax of 0.01 cent per gallon on the 13.4 trillion gallons of water delivered to domestic, commercial, and industrial users from public supplies in 2000 could raise about \$1.3 billion annually, while a tax of about 0.1 cent per gallon could raise about \$13 billion annually. Alternatively, a flat charge could be added to household wastewater bills, similar to Maryland, which charges households \$30 annually to help fund wastewater infrastructure in the state. At a national level, imposing a flat charge of \$30 annually on the approximately 86 million households that receive wastewater service could raise about \$2.6 billion annually. Raising \$10 billion from a flat charge on households would require a charge of about \$116 per year, per household.¹¹

Industrial Discharge Tax: A final option we identified that could raise revenue is an industrial discharge tax. However, it is unclear what level of taxation could be levied to generate \$10 billion from an industrial discharge tax because of data limitations.

**Each Funding Option
Poses Certain
Implementation
Challenges**

Regardless of the options selected to provide revenue for a clean water trust fund, certain implementation obstacles will have to be overcome. These challenges include defining the products or activities to be taxed, establishing a collection and enforcement framework, and obtaining stakeholder support for a particular option or mix of options. For example, implementing excise taxes on products that may contribute to the wastewater stream would require the Internal Revenue Service (IRS) to develop clear and precise definitions of the products to be taxed, as authorized by Congress. In addition, any exemptions to the excise tax would also need to be defined. According to IRS officials, the administrative costs associated with designing and implementing any new excise taxes could be substantial, and this process could take more than 1 year to complete. In addition, once taxable product(s) have been defined, the IRS would also need to modify its excise tax collection and enforcement framework. Similar challenges would be faced in implementing a corporate income tax, a water use tax, or an industrial discharge tax.

¹¹A flat charge could also be applied to industrial and commercial users, but data are not available on the number of these system users.

Furthermore, obtaining stakeholder and industry support for these funding options could pose additional challenges. While a majority of stakeholders supported three of the eight funding options—excise taxes on beverages, fertilizers and pesticides, and flushable products—some stakeholders have not yet taken a position on these options, making it difficult to gauge their level of support for these options. In addition, because many stakeholders do not perceive a strong connection between the products and activities that we identified as potential funding options and wastewater infrastructure use, it may be difficult to obtain widespread stakeholder support. Table 2 shows stakeholders' views on the extent of the connection between wastewater infrastructure use and the product groups or activities.

Table 2: Stakeholder Views on the Extent of the Connection between Wastewater Infrastructure Use and Product Groups or Activities

Product group or activity	Stakeholder responses				Included multiple responses	Total
	Great extent or very great extent	Moderate extent	Little or no extent	Don't know/ no opinion		
Beverages	8	4	3	2	1	18
Fertilizers and pesticides	12	2	1	2	1	18
Flushable products	12	3	0	2	1	18
Pharmaceuticals	6	7	2	3	0	18
Water appliances and plumbing fixtures	5	7	3	2	1	18
Additional tax on corporate income	4	0	11	3	0	18
Water use tax	5	6	1	2	1	15
Industrial discharge tax	11	2	3	2	0	18

Source: GAO analysis of stakeholder responses.

Note: Not all stakeholders responded to each question, so the total number of responses varied. In addition, one stakeholder provided multiple responses.

In addition, industry groups were consistently opposed to a tax on their specific product groups to support a clean water trust fund. In their view, their products did not contribute significantly to the deterioration of wastewater infrastructure and, therefore, should not be taxed.

In conclusion, Madam Chairwoman, while the funding gap for clean water infrastructure is significant, there is no easy solution to address this gap. Of the many options that we have identified, each poses its own set of implementation challenges, and, ultimately, overcoming the resistance of industry, taxpayers, and others to these funding options may be difficult.

This concludes my prepared statement. I would be happy to respond to any questions that you or members of the Subcommittee may have at this time.

**GAO Contact and
Staff
Acknowledgments**

For further information about this statement, please contact me at (202) 512-3841 or mittala@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Sherry McDonald, Assistant Director; Janice Ceperich; and Scott Heacock also made key contributions to this statement.

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Committee on Transportation and Infrastructure
Subcommittee on Water Resources and Environment
Wednesday, July 15, 2009

"Maryland's Experience with the Bay Restoration Fee"

Chairman Johnson, and honorable members of the Committee, thank you for the opportunity to share Maryland's experience with the Bay Restoration Fund. In this testimony I am providing information requested by your staff regarding Maryland's experience with the Bay Restoration Fund that I hope will be of value in your deliberations regarding creation of a federal fund to address the critical national issue of restoring our nation's water and wastewater infrastructure.

Maryland has a very significant water and wastewater infrastructure need, estimated to be approximately \$14 billion total. Maryland's federal and state water and wastewater capital funding is currently \$130 million per year. If we hope to meet the projected need over the next 20 years, we will have to identify additional revenue to fill an annual funding gap of over \$500 million. Maryland's Bay Restoration Fund covers a small part of this need -- that related to upgrading the State's 67 largest sewage treatment plants to achieve Enhanced Nutrient Removal -- but between now and 2029 (the time needed to pay back the revenue bonds issued) the fund is fully committed and will meet only about \$1 billion of the total \$14 billion estimated need. The Bay Restoration Fund is an important part of Maryland's solution, but it is not the whole solution. Maryland depends upon the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) and **strongly** supports President Obama's (and many of your) efforts to strengthen these critical federal programs.

How did we overcome political and other obstacles in order to get the Bay Restoration Fund bill passed?

The majority of Maryland's citizens have always been very concerned and interested in the restoration of Chesapeake Bay and Maryland has a long history of strong support for State programs to restore the Bay. In 1983 the first Chesapeake Bay Agreement between the federal government, Maryland, Virginia, Pennsylvania and the District of Columbia was signed. In 1984, former Governor Hughes and the State legislature created a comprehensive legislative package to initiate the Bay restoration, including establishing a State cost-share funding program for wastewater treatment plant upgrades to remove nutrients, promoting a relatively new technology known as Biological Nutrient Removal (BNR). In 2000, former Governor Glendening had signed the Chesapeake 2000 Agreement with the federal government that increased Maryland's Bay commitments further and established a restoration deadline of 2010.

By 2004, MD had achieved significant levels of nutrient reduction at its sewage plants (52% nitrogen removal and 62% phosphorus removal), but it was clear to everyone that significant additional steps would be needed to meet the Bay restoration goals. As one of the largest and most cost-effectively controlled sources, Maryland's sewage plants once again became the focus. In Maryland's 2004 legislative session, former Governor Robert L. Ehrlich, Jr. introduced legislation creating the Bay Restoration Fund, which is financed by a \$2.50 monthly surcharge on wastewater bills. The Bay Restoration Fund legislation created a revenue stream to fund up to 100% of the cost of upgrades to existing BNR plants to achieve Enhanced Nutrient Removal (ENR).

When it was initially proposed it was immediately dubbed "the flush tax" by the local press, but in reality it was specifically designed by Governor Ehrlich to be a user fee. As the first Republican governor in Maryland in 40 years, and someone who had been labeled as being unsympathetic to environmental issues, the proposed legislation took the Democratically controlled Maryland House and Senate by surprise. However, given the strong public support for Bay restoration, the legislature quickly came to a position of nearly full support for the Governor's legislation. In addition, the Democratic leadership of the legislature amended the bill to include a similar user fee for owners of onsite sewage disposal systems (primarily septic systems) that supports a grant program for voluntary onsite system upgrades to remove nitrogen homeowners and businesses by that are not served by public sewer systems.

The legislation clearly built upon Maryland's previous Bay restoration efforts and in testimony and in the press the Governor and the legislature emphasized the fact that that the users were paying a reasonable fee to mitigate their personal impacts on the Bay. With over 20 years of emphasis on Bay restoration, education and outreach, there was general public understanding of the need and strong support from the environmental community. The business and agricultural communities were strong supporters of Governor Ehrlich and he was able to marshal their support as well. The bill passed with little significant opposition.

How is the fee structured?

The Bay Restoration fee is paid by all users of municipal wastewater treatment facilities, all owners of private onsite sewage treatment systems and by all commercial and industrial facilities that discharge nutrients to the waters of the State. The fee is structured as a flat rate (\$2.50 per month or \$30 per year) for residential wastewater treatment system users and is paid as a surcharge on the water or sewer bill. For private onsite systems, the fee is paid annually directly to the County government. For commercial and industrial users, the fee is a multiple of the residential rate based on the amount of sewage discharged. For example, a 500 room hotel that uses 15,000 gallons per day, which is 60 times the amount of water used by the typical residence (250 gallons per day), would pay \$150 per month. The fee is capped for very large water users (mostly industrial processes) and discharges that do not contain nutrient are exempt (e.g. cooling water). The local government or other water/sewer billing authority may retain

up to 3% of the annual surcharge to cover administrative expenses associated with the billing process. The State agency responsible for administering the grant program and reviewing and approving the construction of the upgraded facilities retains 1.5%. The legislation also requires that the Governor appoint an independent advisory committee to oversee the Fund and provide an annual report to the Governor and the legislature.

How is it being used?

The revenue the Bay Restoration fee is paid into two different dedicated funds, one for the municipal wastewater user's fee and one for the private onsite sewage system owner's fee. Both are special, non-lapsing funds that may only be used for specified purposes. The Wastewater users fund is used to provide grants to local governments and sanitary commissions to fund up to 100% of the cost of upgrading treatment plants that are already achieving advanced BNR wastewater treatment levels to achieve ENR levels of nitrogen and phosphorus removal. If a plant to be upgraded is not yet achieving BNR levels of treatment, the grant only pays for differential between a BNR upgrade and an ENR upgrade. The legislation mandates that the funds be used to upgrade the facilities that will result in the most cost-effective nutrient reduction.

The onsite sewage system user's fee is split; 60% is used to provide grants to owners to upgrade their onsite systems to remove nitrogen and 40% is directed into the Maryland Department of Agriculture's cover crop program that provides financial support to farmers that plant winter cover crops on their fields. Cover crops are eligible for funding since they are a much more cost-effective means of controlling nutrient losses from cropland to groundwater in rural areas of the state where onsite systems are used. Onsite systems must be upgraded with technology approved by the Maryland Department of the Environment that meets certain nutrient removal requirements.

To date, the wastewater user's fee has generated over \$219 million and is currently projected to continue to generate over \$55 million per year. The dedicated revenue stream is supporting the issuance of 20-year revenue bonds that will raise nearly \$1 billion needed to upgrade the State's 67 largest sewage treatment plants. The investment in these upgrades will reduce nitrogen loading the Bay by an additional 7.5 million pounds per year, which is roughly 1/3 of the total nitrogen reduction needed to meet Maryland's commitment for the Chesapeake Bay restoration.

The onsite sewage system owner's fee has generated over \$50 million and is expected to continue to generate over \$14 million per year. The funding will support upgrades of another 650 to 700 onsite sewage disposal systems each year and provide \$5 - \$6 million per year to supplement the State's cover crop program, which together will reduce nutrient loading by over 1.5 million pounds per year.

Observations based on Maryland's experience regarding the proposed Clean Water Trust Fund

The public support for the Bay Restoration Fund is based on several key factors. First, the long history of the Bay restoration effort in Maryland over the past two decades prior to the proposal of the 2004 Bay restoration fee legislation resulted in public understanding and support for the Bay restoration effort in general. Second, the source of the fee, a surcharge on wastewater bills, is understood to be directly related to the impact and the solution – wastewater treatment plant upgrades. Third, the fee is reasonable and is equitably distributed since larger users are assessed a higher fee. Finally, the fee is capped, so that no single user pays a disproportionate share.

The potential funding options discussed in the General Accounting Office report range from a fee based on water use, similar to the Bay restoration fee, to a general corporate income tax. Based on the Maryland experience, the more closely the fee or tax is associated with the problem, the better it will be received. The water use fee, industrial discharge fee and excise taxes on flushable products, water appliances and fixtures and fertilizers and pesticides seem most closely related. Also related, although perhaps not as clearly understood by the public, are the excise taxes on beverages and pharmaceuticals. Least acceptable are likely to be the corporate income tax and other more general taxes.

Finally, the fee or taxes must be perceived as fair. Maryland's fee is distributed across all sectors that contribute to the wastewater problem and is scaled to the level of impact. This can be most readily accomplished with the fee based on wastewater use. Excise taxes that necessarily focus on one or even several sectors are often perceived as unfairly singling out those sectors

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Testimony of

Thomas K. Walsh

Engineer-Director/Treasurer

For the Upper Blackstone Water Pollution Abatement District

Upper Blackstone WPAD

50 Route 20

Millbury, MA 01527 – 2199

On behalf of the

National Association of Clean Water Agencies (NACWA)

1816 Jefferson Place, NW

Washington, DC 20036-2505

(202) 833-2672

July 15, 2009

House Committee on Transportation and Infrastructure

Subcommittee on

Water Resources and Environment

Introduction

Good morning, Chairwoman Johnson and Members of the subcommittee. My name is Tom Walsh, and I am the engineer-director and treasurer for the Upper Blackstone Water Pollution Abatement District in Worcester, Mass. I am honored to be here today to testify on behalf of the National Association of Clean Water Agencies (NACWA) regarding the establishment of a clean water trust fund to help finance wastewater infrastructure projects. These projects help ensure the protection of our vital water resources, improve public health, provide recreational enjoyment for all Americans, and promote economic prosperity through the creation of good jobs. NACWA is the only organization dedicated solely to the interests of the nation's public wastewater treatment agencies. Our members are dedicated environmental stewards who work to carry out the goals of the Clean Water Act (CWA) and who treat and reclaim more than 18 billion gallons of wastewater each day.

This hearing and the report released last week by the Government Accountability Office (GAO)¹ outlining potential financing mechanisms and a structure for a national clean water trust fund are important steps toward establishing a long-term, sustainable revenue source to address the serious water and wastewater infrastructure funding gap. We believe a clean water trust fund is critical to ensuring communities can continue to meet their CWA obligations, which are so vital to the protection of public health and the environment as well as for economic prosperity.

NACWA appreciates GAO's hard work in researching this important report and was honored to be one of the many stakeholder organizations providing data and information used in the report. NACWA is also grateful to Reps. James Oberstar (D-Minn.), chairman of the full House Transportation and Infrastructure Committee; Eddie Bernice Johnson, chair of this subcommittee; and Earl Blumenauer, member of the House Ways and Means Committee, for requesting the report and seeking sound funding solutions to address the gap and the numerous 21st century clean water challenges facing our public wastewater, stormwater, and drinking water utilities moving into the 21st century.

¹ U.S. Government Accountability Office. *CLEAN WATER INFRASTRUCTURE: A Variety of Issues Need to Be Considered When Designing a Clean Water Trust Fund* (GAO-09-657), May 2009

As the GAO report notes, municipalities face serious challenges in our continued efforts to meet the goals of the CWA. Among them, are a growing population, aging infrastructure, increased regulatory requirements with stepped-up enforcement activity from EPA; and global competition driving up the cost of labor and materials. In order to meet these challenges and ensure continued water quality improvements, all levels of government – federal, state, and local – must reignite a sustainable, long-term partnership that is dedicated to thoughtful application of science to identify needs; that utilizes pragmatic capital planning to prioritize projects; and that recognizes the need for more investment in our nation’s clean water infrastructure.

Massachusetts Coalition for Water Resources Stewardship

There have been an abundance of recent media stories about problems caused by the aging of our infrastructure. As our communities struggle to pay for the needed maintenance, repair, and replacement of critical elements of our wastewater and water systems, state and federal regulators continue to impose more and stricter requirements, yet do not provide additional financial assistance. Take the example of my own state of Massachusetts. My agency is one of a number of municipalities and publicly owned wastewater treatment plants that make up the Massachusetts Coalition for Water Resources Stewardship (the coalition). We released a report in December 2008, *Report to the Massachusetts Congressional Delegation on Regulatory Reform* (attached), outlining a number of significant concerns and recommended ways to address them. The coalition members are concerned about: 1) the impacts of stringent Clean Water Act (CWA) permit requirements and related costs on communities that can ill-afford the expense due to the competing needs of their citizens; 2) increasingly stringent controls and the high cost to meet them that do not necessarily generate corresponding improvements to the environment; and 3) regulations that result in permits based on inadequate science. The report includes recommendations to rectify these problems.

As the cost of compliance continues to go up, the U.S. Environmental Protection Agency (EPA), the Congressional Budget Office (CBO), the Water Infrastructure Network (WIN), and GAO have estimated an infrastructure funding gap of \$300-\$500 billion over the next 20 years. Meanwhile, EPA estimates that more than 40 percent of the nation’s waterbodies remain impaired, a figure that has remained unchanged for about 20 years. In other words, the water quality gains achieved since

the CWA was enacted in 1972 have essentially plateaued. This is at least in part due to much needed changes to the act to permit a more scientific approach to river basin water quality planning that includes all pollution sources. Without a significant recommitment by the federal government and a change in the regulatory paradigm, we face the serious risk of mismanaging the water quality issues this important law was enacted to address.

Most significantly, federal investment in clean water has declined sharply. According to a recent report² by the US Conference of Mayors, municipalities currently pay about 95 percent of the cost of wastewater infrastructure and 99 percent of the cost for drinking water infrastructure. NACWA's own triennial 2008 *Service Charge Index* shows that the average cost of wastewater services for a single-family residence increased by about 5.3 percent in 2008, compared to the rate of inflation, which was 3.9 percent. This trend of rate increases above the rate of inflation has been true for nearly a decade now, and more than 60 percent of the public agency members responding to the NACWA survey indicated they have approved or planned rate increases in each of the next five years. The NACWA *Index* further projects a steady rise in average residential service charges over the next five years and anticipates the average annual cost to single-family residences will be \$430 by 2013, a nearly 34 increase from 2008 levels

Since 2000, rates for Upper Blackstone Water Pollution Abatement District have increased 450 percent in order to pay debt service for on-going plant upgrades required to meet more stringent discharge standards. This has been largely responsible for a 110 percent increase in sewer rates in our largest member community, Worcester – a community with a median household income of \$36,000 per year.

With the economic slowdown at hand, it is becoming more difficult for some of our customers to pay these higher costs with more than a third of U.S. households being required to pay more than 2 percent of their income—EPA's benchmark for determining a community's ability to afford

² U.S. Conference of Mayors. *Who Pays for the Water Pipes, Pumps and Treatment Works? – Local Government Expenditures on Sewer and Water - 1991 to 2005* (<http://www.usmayors.org/urbanwater/07expenditures.pdf>)

wastewater services—for sewer services. It goes without saying that small, rural, and low-income communities would be hit hardest.

This cash shortfall is not only true for public utilities. Reduced state and federal water quality budgets have impaired the ability of regulatory agencies to fully evaluate water quality issues, and they must instead rely on the national standards that do not apply in each region, or on insufficiently funded assessments whose results are of questionable scientific value. For the District, this has meant that we have had to fund costly river basin analysis in order to evaluate the need for stringent nutrient limits have been set based on national standards and on previous evaluations that were judged inadequate by the EPA Science Advisory Board.

This brings us back to the subject of today's hearing – how to finance this enormous and growing clean water funding need. The release of the GAO report follows a series of important legislative activities that move us closer to addressing the nation's clean water needs.

- This year Congress passed the *American Recovery and Reinvestment Act* (H.R. 1) to provide \$4 billion in supplemental funds to the Clean Water State Revolving Fund (CWSRF).
- The House passed the *Water Quality Financing Act* (H.R. 1262) to reauthorize the CWSRF with \$13.8 billion over five years; the Senate Environment and Public Works (EPW) Committee approved the *Water Infrastructure Financing Act* (S. 1005) to authorize \$20 billion for the CWSRF and approximately \$18 billion for the DWSRF.
- The House and Senate Appropriations Committees authorized fiscal year 2010 budgets for the U.S. Environmental Protection Agency (EPA) that include \$2.3 and \$2.1 billion, respectively, for the CWSRF.

Clearly, momentum is building to address the infrastructure funding gap in a meaningful way. We appreciate the speed with which this committee worked to move these bills. While they represent solid steps toward a long-term funding solution, it is critical to take the issue of water infrastructure investment out of the realm of uncertain annual appropriations and into the more certain arena of a dedicated funding stream.

Municipalities are willing to pay their share and will continue to do so. However, NACWA believes that the federal government must do more to ensure long-term, sustainable funding to address the shortfall facing our nation's publicly owned wastewater treatment agencies. If highways merit a trust fund with \$30 billion per year, and airports \$10 billion per year, why should we not have one for water, a resource each of us uses every single day?

Advantages of a trust fund

A clean water trust fund is deficit-neutral and would require no general revenue funds. Currently, states and local governments face the uncertainty of the annual appropriations process, which can make planning future projects more difficult. In addition, the clean water trust fund could be set up so that the revenues would be fire-walled—not accessible to other programs.

The external benefits are equally appealing. These include more progress toward achieving the broad environmental and public health benefits that all Americans value and have indicated they are willing to pay for. A survey conducted by Frank Luntz, commissioned by NACWA several years ago, showed that the American people are overwhelmingly supportive of a dedicated revenue stream for their water infrastructure — in fact, the survey demonstrated that the American people are more supportive of this than of the trust funds for highways or airports.

In the report released last week, GAO reviewed a wide variety of potential revenue sources to capitalize a new federal clean water trust fund at a target level of \$10 billion annually. Potential revenue sources include fees on beverages, fertilizers and pesticides, flushable products, pharmaceuticals, and water appliances and plumbing fixtures; a tax on corporate income; and an industrial discharge tax.

While raising \$10 billion from a tax on any individual beneficiary or polluter group amongst these could prove unreasonable, GAO reported that fees could be kept low by spreading them broadly across industry sectors to capitalize a much-needed trust fund. NACWA, WIN, and others have long advocated for such an approach that would provide a long-term, sustainable revenue stream to help communities address their water quality challenges well into the future, create green, sustainable jobs, and minimize potential public health and/or economic impacts. This hybrid approach would

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broaden the revenue base for the trust fund substantially, reducing individual sector fees, and in turn, spreading the payments across the widest possible group of activities that either rely on clean water or benefit from it in some way.

Conclusions

During deliberations of the original CWA, Congress decided that water infrastructure was a national good that demanded federal investment. Rep. John Blatnik, the chair of this committee at that time, said the task of cleaning up the nation's waters was even more monumental than establishing the interstate highway program, which linked our nation's cities and coastlines. He went on to state that "whatever the difficulties, we must commit ourselves to the task: our waters can be cleaned, they must be cleaned, and they will be cleaned." Congress then went on to create a trust fund to ensure the long-term viability of the nation's highway system. We ask that Congress do the same for our nation's waterways.

The federal government needs to recommit to the partnership with states and localities that led to the significant improvements in our nation's water quality over the past 37 years. That partnership is critical to ensuring those successes continue. Otherwise, we risk a return to the days when our rivers and lakes were deemed too polluted for swimming, fishing, and other recreational activities. Ensuring continued progress in cleaning up our precious waterways is critical to public health, environmental protection, and economic prosperity. We must not allow the nation's great waterways to again become the poster-children for a Nation's water quality in crisis.

Your leadership, Madam Chair, and the foresight of this committee's members can make such a partnership a reality again. The GAO report, the work of Rep. Blumenauer and his staff, and this hearing are all moving us closer to developing a fair and sustainable system for raising the revenue for a clean water trust fund. NACWA is very appreciative of your continuing commitment to clean water and looks forward to working with the committee on legislation establishing a Clean Water Trust Fund.

Thank you for your time and for allowing NACWA to share its views on clean water funding for the 21st century. I would be happy to answer any questions.



TESTIMONY OF

Kristine L. Young
President & CEO, Miller the Driller
Des Moines, Iowa

ON BEHALF OF ASSOCIATED GENERAL CONTRACTORS OF
AMERICA

BEFORE THE SUBCOMMITTEE ON WATER RESOURCES AND
ENVIRONMENT
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES

ON

Opportunities and Challenges in the Creation of a Clean
Water Trust Fund
July 15, 2009

**TESTIMONY OF KRISTINE L. YOUNG
BEFORE THE SUBCOMMITTEE ON WATER RESOURCES
AND ENVIRONMENT
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES
JULY 25, 2009**

Chairwoman Johnson, Ranking Member Boozman and Members of the Subcommittee:

My name is Kris Young. I am the President and CEO of Miller the Driller located in Des Moines, Iowa. I am presently serving as Vice President of the Associated General Contractors of America (AGC). In addition to serving in my present capacity as Vice President of AGC of America, I have served as Chairwoman of the AGC's Municipal and Utilities Division, Chair of the AGC Trenchless Technology Committee, and President of the AGC of Iowa in 1995.

My company Miller the Driller is a family owned and operated business founded by my father Gene Miller in 1948. We are a full service underground construction company that performs horizontal auger boring, tunneling, pipe ramming and a variety of other services. Miller the Driller is WBE/DBE certified in Iowa, Illinois, Indiana, Missouri and Kansas. We are

union operation signatory to agreements with Operating Engineers and Laborers. Our clients include Municipal Water Authorities, private developers, State Departments of Transportation and the U.S. Army Corps of Engineers.

I am pleased to respond to the Subcommittee's invitation to appear and testify on behalf of the Associated General Contractors of America on the Opportunities and Challenges in the Creation of a Clean Water Trust Fund.

Like many other AGC members across the nation, our clients are municipal governments and water authorities. My company Miller the Driller has seen firsthand what a strong commitment to infrastructure investment means for our Nation's well being having been a part of the infrastructure boom that took place in our great nation after World War II. I have also personally witnessed the positive impact federal investment can make in our water and wastewater infrastructure.

Even before the current economic turndown, many of our cities and towns which include large urban and small rural communities had experienced substantial challenges repairing and replacing water infrastructure that is

quickly reaching the end of its useful life. Many communities do not currently have the financial resources to make the investments that are direly needed and necessary to meet federal water quality standards and face significant practical and political challenges enacting rate structures that would raise adequate capital to make the improvements that are needed. As a contractor I see firsthand what neglecting our infrastructure can do to our communities.

Contractors, engineers and water authorities know all too well that *continuing to neglect our water infrastructure is a cost we cannot afford.* The American Society of Civil Engineers' (ASCE) recent report card gave our drinking water and clean water infrastructure a D minus. This is shameful and Congress must demonstrate leadership in finding solutions to finance this enormous water infrastructure funding gap.

The Challenge

Our water infrastructure is on the brink of disaster from aging systems and deferred maintenance and upgrades. Until recently with the advent of the American Recovery and Reinvestment Act, which is providing \$4 billion and \$2 billion for the Environmental Protection Agency's Clean Water and

Drinking Water State Revolving Loan Funds, respectively, Congressional appropriations for water infrastructure projects has been diminishing steadily over the years while our needs are increasing. Despite of the investments made in the Stimulus and significant increased levels of appropriations for fiscal year 2010, AGC of America believes that a more stable revenue stream is required to ensure that we are adequately investing in our water infrastructure.

Recent polling has shown that 86 percent of Americans support legislation by the U.S. Congress that would create a long-term, sustainable, and reliable federal trust fund for clean and safe drinking water infrastructure. The Government Accountability Office (GAO) report which is the subject of this hearing today acknowledges that our Nation faces tremendous challenges in replacing and rehabilitating our water infrastructure. As the GAO's report to this committee states, a trust fund for water infrastructure may not be the only solution to our water infrastructure needs in America but it would establish a multiyear commitment to address the nation's pressing water needs. If Congress can develop a fair and defensible system for raising the revenue, a water infrastructure trust fund is achievable. The benefits for the American people, business and the environment would be enormous.

A Clean Water Trust Fund Could Supplement Infrastructure Needs

The nation has staggering needs for clean drinking water and wastewater treatment infrastructure. The U.S. Environmental Protection Agency's Clean Water and Drinking Water Infrastructure Gap Analysis found a \$540 billion gap between current spending and projected needs for water and wastewater infrastructure (combined) over 20 years. In fact, a recent EPA study released in March 2009 stated that drinking water needs alone are almost \$335 billion, with transmission and distribution projects representing the largest category of need totaling \$200.8 billion.

Other public studies conducted by the GAO and the Congressional Budget Office (CBO), and a private study produced by AGC partner, the Water Infrastructure Network (WIN), have similarly estimated the nation's water infrastructure needs to range between \$400 and \$600 billion over a 20-year period.

Again, with annual appropriations for the Clean Water and Safe Drinking Water State Revolving Loan Fund (SRF) programs diminishing year after year, AGC supports creation of a long-term, sustainable, off-budget source

of funding for water infrastructure such as a trust fund to finance construction and maintenance of this critical infrastructure. Establishing a stable revenue stream to supplement federal funds will guarantee funding for critical water infrastructure projects.

Precedent for Infrastructure Trust Funds Exist

At the federal level, we have used dedicated trust funds to tackle problems too big for states to handle alone. The GAO has identified more than 120 federal trust funds in operation. These trust funds help ensure funding for other critical projects, including Highways, Airports, Harbor Maintenance, even Oil Spill cleanup. Currently running pilot clean water trust funds have also gained measured success in the areas where they have been implemented.

Financing water infrastructure through a trust fund would have several advantages over general fund financing. First, it would be deficit neutral. It would pay for itself. Second, the funding stream would not be subject to the vagaries of the annual appropriations process, thereby providing the certainty that State and local officials need to commit to long-term infrastructure financing. And third, it would get the job done provided revenues were sufficient to meet the need.

Like the transportation trust funds, a water infrastructure trust fund would possess several attributes:

- A system of user taxes would be established;
- The revenues generated by these user taxes would be credited to the trust fund, ensuring that the revenues are spent for their intended purpose;
- Budget authority (e.g., contract authority) provided from the trust fund would not be subject to the annual appropriations process; and
- The trust fund would either be outside the unified budget or subject to a guaranteed funding mechanism to ensure a linkage between revenues and spending.

Stable, Sustainable Funding Source Needed

We need a dedicated, stable source of funding for our nation's water infrastructure needs that is free from political interference and partisan squabbles. The fund should be budget neutral and not increase our national debt, as it would be responsible for its own revenue generation. The sooner water is depoliticized, the sooner we can ensure access to this critical resource for all Americans.

Congress Should Explore Other Options

Other Options included in the GAO study have merit and deserve Congress' full attention including several mentioned in the GAO report such as lifting private activity bond restrictions on drinking water and wastewater projects.

Infrastructure Investment Creates Jobs

Finally, Madame Chairwoman, infrastructure investment not only enhances our quality of life, but it also provides good paying jobs for Americans. In fact, a study conducted by AGC Chief Economist Ken Simonson and Professor Stephen Fuller from George Mason University estimated that for every \$1 billion in nonresidential construction spending would add about \$3.4 billion to the Gross Domestic Product (GDP), about \$1.1 billion to personal earnings and create or sustain 28,500 jobs.

- 9,700 jobs would be direct construction jobs located in the state of investment.
- 4,600 jobs would be indirect jobs from supplying construction materials and services.
- The majority of these jobs would be located within the state of investment but there would be some out of state jobs supported.

- 14,300 jobs would be induced when workers and owners in construction and supplier businesses spend their incomes locally and nationwide.

Unfortunately, the current state of employment in our industry is marked by the fact that in June alone, construction employment declined by 79,000 jobs, seasonally adjusted, while over the past twelve months 992,000 construction workers have lost their jobs. Indeed, while overall unemployment is 9.7 percent, over 17.4 percent of construction workers are now unemployed. While there is little doubt that the stimulus has helped slow the decline, the fact remains the construction industry has many long, slow and difficult months ahead as the one trillion dollar construction market continues to suffer from declining state and local revenue, little demand for commercial or retail facilities and shrinking orders for new factories and facilities.

Dependable and steady funding for infrastructure which could be provided by a trust fund will ensure that we not only maintain a skilled workforce, but that contractors will be able to invest in new technologies and more efficient equipment.

Conclusion

Congress should take this GAO report very seriously and consider where our lack of investment has gotten us today and what dangers exist if we fail to answer the challenge of investing in our water infrastructure. AGC has been doing its part by educating our members and the public by providing funding for the Penn State Public Broadcasting documentary *Liquid Assets: The State of Our Water Infrastructure*. Over twenty thousand copies of *Liquid Assets* have been distributed. Working with our members and other stakeholder groups we have ensured that *Liquid Assets* has been broadcasted over 700 times and according to Penn State PBS has potentially been broadcast in 94 percent PBS stations across America as of July 2009. In fact, thanks to your efforts Chairwoman Johnson and Ranking Member Boozman, the entire House of Representatives was alerted about a local broadcast of *Liquid Assets* in Washington, DC and you worked with Penn State to ensure that all 535 members of Congress have received copies of *Liquid Assets*.

AGC members and Chapters have used *Liquid Assets* in their communities to educate their employees and business peers, and continue to use this documentary to educate the public about the need for investment in our water infrastructure which is taken for granted. The response that AGC has

gotten from the public has been overwhelming. The number of Americans who understand the need to improve our water infrastructure is growing, and their patience is diminishing for those who have failed to make investment in water infrastructure a priority.

AGC acknowledges that in these tough economic times raising taxes may be a difficult pill for the American public and corporate America to swallow. However, we think infrastructure is different. It is an investment program. We have an obligation to provide the American people with the assurance that the water they drink is clean and safe. Congress needs to explore the idea of a trust fund and ensure that if we do pursue a trust fund in the future that there is a correlation between how the revenues are generated and used to maintain the public's trust and confidence.

Thank you for the opportunity to address the committee today.

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July 13, 2009

The Honorable James L. Oberstar
Chairman
Transportation & Infrastructure Committee
U.S. House of Representatives
Washington, D.C. 20515

Attention: Jenna Tatum (jenna.tatum@mail.house.gov)

**RE: Statement for the Record
Subcommittee on Water Resources & the Environment
Hearing on Opportunities and Challenges in the Creation of a Clean Water Trust Fund
July 15, 2:00 pm, 2167 Rayburn House Office Building**

Dear Chairman Oberstar:

The American Beverage Association respectfully requests to submit for the record the attached testimony of its President and Chief Executive Officer, Susan K. Neely. This testimony is for the July 15 Water Resources & the Environment Subcommittee hearing on the creation of a Clean Water Trust Fund.

Should there be any questions or additional information needed, please contact Barbara Hiden, Vice President of Federal Affairs directly at (202) 463-6740.

Sincerely,

A handwritten signature in cursive script, appearing to read "Judith L. Thorman".

Judith L. Thorman
Senior Vice President
Government Affairs

The American Beverage Association (ABA) was founded in 1919 as the American Bottlers of Carbonated Beverages, and renamed the National Soft Drink Association in 1966. Today the ABA represents hundreds of beverage producers, distributors, franchise companies and support industries. ABA's members employ more than 220,000. They market hundreds of brands, flavors and packages, including regular and diet soft drinks, bottled water and water beverages, 100-percent juice and juice drinks, sports drinks, energy drinks and ready-to-drink teas.

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**Statement of Susan K. Neely
President and CEO
American Beverage Association**

**Water Resources and Environment Subcommittee
House Committee on Transportation and Infrastructure**

“Opportunities and Challenges in the Creation of a Clean Water Trust Fund”

July 15, 2009

Introduction

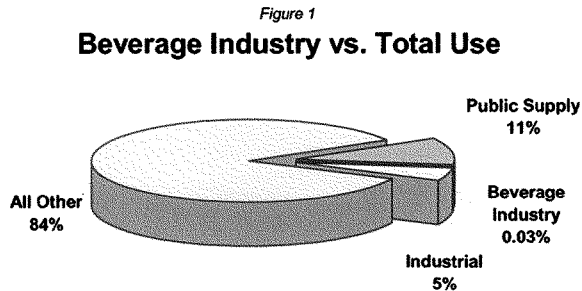
The American Beverage Association has been the trade association for America's non-alcoholic refreshment beverage industry for more than 85 years. Founded in 1919 as the American Bottlers of Carbonated Beverages, renamed the National Soft Drink Association in 1966. Today, the ABA represents hundreds of beverage producers, distributors, franchise companies and support industries in every corner of the United States. ABA's members employ more than 220,000 people who produce U.S. sales in excess of \$110 billion per year.

According to John Dunham and Associates, Inc., direct, indirect and induced employment attributable to our industry supports 2.9 million jobs throughout the economy, creating \$448 billion in economic activity. Beverage industry firms pay \$50 billion in state and federal taxes, and have contributed nearly \$1.5 billion to charitable causes across the country.

ABA members market hundreds of brands, flavors and packages, including carbonated soft drinks, ready-to-drink teas and coffees, bottled waters, energy drinks, fruit juices, fruit drinks, dairy-based beverages, and sports drinks. As the providers of a significant share of what Americans drink, we agree that it is critical that we manage water resources wisely to insure the quality and quantity of future supplies. In short, water is vital to humans, vital to consumers, and vital to our member companies.

The Beverage Industry – Efficient Water Users and Good Customers

Considering that our industry's products account for almost half of what America drinks, we account for only a tiny fraction of total water use. Of the more than 400 billion gallons withdrawn each year in the US (*USGS*) the beverage industry uses about 3/100 of one percent or about one gallon out of every 3,300 gallons withdrawn from ground or surface water sources (Figure 1).



Our industry is constantly improving production systems and incorporating reuse and reduction measures into our facilities to become more efficient. On average it takes about a gallon and a half or two gallons of water to make a gallon of finished product. This represents a water use ratio of about 1.5-2:1. That number has been improving over the last several decades as we continually strive to implement conservation efforts in our plants and increase efficiency. Beyond the water that goes directly into the product, we use water on the production line; we use it to clean production equipment, in washing our fleets, and in everyday employee use in the plants. Examples of our water conservation efforts include use of de-ionized air to rinse cans and bottles prior to filling; reclamation of backwash water from our sand and carbon filtration processes; and conversion to automated "clean in place" systems that employ a closed loop for water. Our current water use ratio is a dramatic reduction from the "old days" in the beverage industry where refillable packaging consumed vast amounts of water and produced high volumes of caustic waste water. Looking ahead, our members will continue to evaluate new processes and technologies that can lead to even more efficient use of water.

Beverage producers draw the overwhelming majority of their water from public water supplies; the remainder is self-supplied. Even if we assumed that *all* bottling uses came from public supplies, the total withdrawals for beverage companies would still only be about 1/3 of one percent of all public uses.

Our industry has grown keenly aware of the importance of efficient water use. We account for a surprisingly small share of withdrawals from the total public water supply. And we are good contributors to our community systems, participating in planning activities and paying fair rates for our water.

Taxing Beverages Is a Bad Idea

We acknowledge the substantial needs identified for our country's water supply and waste water systems. We also recognize that we, along with other commercial, residential, industrial, and agricultural users, must do our part to fund necessary improvements and expansion to the infrastructure.

We know some in Congress advocate a federal tax on beverages to generate revenue for the creation of a federal clean water trust fund. And the Government Accountability Office recently released a report outlining potential funding sources for such a trust fund, including a tax on beverages. But it's worth noting this same report points to other approaches to address funding including full cost rate structures (user pays), increasing funding for the Clean Water State Revolving Loan Fund, establishing a national infrastructure bank, and raising caps on private activity bonds to permit broader use for wastewater projects.

Levying a tax on packaged beverages is an inequitable and regressive way to raise funds for environmental infrastructure for three reasons.

First, targeting our industry and consumers of our products places the burden only on a very small share of water users. As I stated, products made by ABA members consume less than 1/3 of one percent of water supplied by public systems. Placing such a large tax – GAO highlights a 10.5% excise tax – on so few users is not equitable.

Second, a tax on beverages is a tax on food. Beverages are a staple in the family grocery cart. Questions remain surrounding the administration and collection of the tax. It may be necessary to set up a whole new bureaucracy to collect this tax. We all know food taxes are regressive, placing the greatest burden on working families, the poor and the elderly.

Finally, our industry supports equitable user-fee-based programs to fund infrastructure needs. Many other commercial and industrial establishments use water as an input to their products: just as beverage companies buy water as a factor of production, so, too, do circuit board manufacturers, paper companies, and food processors. Meeting critical infrastructure needs requires a shared approach, ensuring efficiency among users, equitable user fees, and cost-effective management of our water assets. A discriminatory tax on beverages is not an appropriate policy.

Summary

Water resource management is a critical area of concern for our members and for our customers. We are committed to wise and efficient use of water to insure a safe and ample supply for our future. Though we produce much of what consumers drink every day, our use of water is minor compared to others. We encourage this committee to reject an inequitable and regressive tax on our products and consumers and look to fair, broad-based, comprehensive mechanisms to address funding needs instead.

James L. Oberstar, Minnesota,

Chairman of the Committee on Transportation and Infrastructure
U.S. House of Representatives

and

Eddie Bernice Johnson, Texas,

Chairwoman of the Subcommittee on Water Resources and Environment
U.S. House of Representatives

Please accept the following testimony as part of the hearings on "Opportunities and Challenges in the Creation of a Clean Water Trust Fund" held on Wednesday, July 15, 2009 at 2:00 p.m., in room 2167 of the Rayburn House Office building.

Testimony by Mr. Gregory Baird, Chief Financial Officer, Aurora Water, City of Aurora, Colorado (15151 E. Alameda Parkway, Suite 3600 Aurora, Co, 80012; 303-739-7320)

Regarding Financing Water Infrastructure: **Strategic Loan Requirements for Accountability**
for the House Subcommittee on Water Resources and Environment

Sincerely,

Gregory Baird, Chief Financial Officer, Aurora Water

City of Aurora, Colorado

15151 E. Alameda Parkway, Suite 3600 Aurora, Co, 80012

303-739-7320

**Written Testimony by Mr. Gregory Baird, Chief Financial Officer,
Aurora Water, City of Aurora, Colorado**

**Regarding Financing Water Infrastructure: Strategic Loan
Requirements for Accountability
for the House Subcommittee on Water Resources and Environment**

July 18, 2009

**15151 E. Alameda Parkway, Suite 3600
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Summary Points

This House Subcommittee on Water Resources and Environment has a unique duty and responsibility—and the opportunity to change the aging infrastructure dilemma for assets that do have an enterprise fund structure paid through local rates, fees and charges.

1. The responsibility for aging water and sewer infrastructure is at the local level. 86% of water utilities are owned by municipalities. Local elected officials do not have short term incentives to address long term sustainability issues. They will approve rates for current operations to meet legal debt coverage requirements but not for the adequate funding for the repair and replacement of aging infrastructure. As a result, the EPA's findings of overwhelming funding gaps exist across the nation.
2. The issue of aging infrastructure and the increasing funding gaps will only continue to grow until a fundamental shift in responsibility and accountability occurs at the governance level.
3. The Federal Government's role can be a positive force by adopting policies which offer practical incentives to local agencies to follow infrastructure sustainability best practices. The Government Finance Officers Association (GFOA) recommended best practice for Capital Maintenance and Replacement <http://www.gfoa.org/downloads/capmaintenance.pdf> is a great example of planning and stewardship which begins to address the issue of aging infrastructure sustainability. It introduces the practices of asset inventory and condition analysis to develop policies for capital maintenance and replacement in order to allocate sufficient funding. The GFOA Committee on Economic Development and Capital Planning represents local government finance directors throughout the US and Canada. Federal and State incentives can be in the form of low interest rates from the existing State Revolving Funds (SRF) programs, Federal Water Infrastructure Bank or additional "Trust Funds".

4. New Strategic Loan Requirements which creates incentives and accountability should be mandatory for all future loans and grants.

- A) Cost of Service Study preformed on current rate base**
- B) 10 Year Historical Minimum CPI Average Rate Increase**
- C) Asset Management Program**
- D) Condition Assessment**
- E) Oath of Sustainability by Local Legislators**

- A) A utility should know the true cost of the water or wastewater service and have a financial plan. This plan should include an adequate level of repair and replacement. Rate firms that follow the guidelines in AWWA's M1 Manual on The Principles of Water Rates, Fees, and Charges, such as Stepwise Utility Advisors <http://www.stepwiseadvisors.com> and many others are available to meet this requirement and answer the public's question of "what does it really cost to serve me?"
- B) Utilities that have not increased rates for years have not addressed the aging infrastructure issue and are the poster child of what not to do. The EPA's research has suggested that rates may need to increase 2-3 times the CPI to address the funding requirements over the next 20 years. As an incentive for a low interest loan, local elected officials could increase rates at a minimum CPI level each year or can play catch up called "rate shock" to qualify for a SRF loan.
- C) A formal Asset Management program is the only way a utility can understand the risks and issues of its current and aging infrastructure and the only way to begin to address this long term problem. Utilities can begin to develop and implement a program following guidelines in a new innovative program called "SIMPLE" for sustainable infrastructure management developed by the Water Environment Research Foundation (WERF) <http://www.werf.org>. For more complex utilities, asset management firms like MWH <http://mwhglobal.com> have created dynamic models to plan for and make decisions to reduce the risks of failure based on the useful life of an asset. http://www.mwhsoft.com/page/p_news/press/2008/press032708.htm
- D) ***Condition Assessment is the strategic financing keystone in order to replace only what needs to be replaced.*** Many utilities look for funding for infrastructure that is at the end of its useful life based on engineering and manufacturing estimates. If an asset really has some remaining life and it is replaced, money is wasted. If the asset is run to critical failure, the emergency funding costs of replacing the asset is nearly double. The true need is to find the sweet spot where the capital investment actually reduces the risk and the limited dollars available are allocated efficiently. The EPA's publication through the Water Research Foundation on "Improving Water Utility Capital Efficiency" discusses the need for both asset management and condition assessment.
- E) An Oath of Sustainability from Local Legislators should commit the elected office not just the individual, so that current and future elected or appointed official understands and accepts the responsibility and accountability for all of the utility infrastructure realizing that increasing rates is a part of the oath. Hopefully, in the future, credit agencies and legal debt documents incorporate minimum debt coverage ratios with aging infrastructure funding requirements.

5. New Technology has been developed in recent years which target the issue of condition assessment for in use, pressurized, large diameter pipe. The application of which now offers utilities the ability to address some of the most expensive cost issues with underground assets.

The Pressure Pipe Inspection Company (PPIC), <http://www.ppic.com> as an example, applies science to answer risk probability questions before the capital investment decision is made. http://www.ppic.com/about/articles/home-top_six_reasons.shtml

Top Six Reasons To Implement A Large Diameter Pipeline Condition Assessment Program

1. **Avoid replacing pipelines that are still in good condition.** PPIC inspections of over 175,000 lengths of **Prestressed Concrete Cylinder Pipe (PCCP)** have shown active distress in only 4% of the pipes. Customers were delighted to know that in the majority of cases an entire pipeline replacement was not necessary. The cost of advanced condition assessment is only a small fraction of the total cost of a full line replacement. Every utility is looking to stretch/maximize their budget. By identifying individual pipe at risk of failure and selectively addressing those pipe, a utility can obtain the dreamed of 50-100 year asset—without replacing the entire line.
2. **Rehabilitate individual pipes for a fraction of the full line replacement cost.** On average, a strategic repair and replace program based on the results of a PPIC condition assessment program costs up to 80% less vs. replacement of an entire pipeline. This strategic approach allows you to cost-effectively manage your underground water infrastructure.
3. **Minimize the risk of significant pipeline failures.** Condition assessment programs can significantly minimize the risk of large diameter pipeline ruptures that can have serious consequences on many fronts including public health and safety, economic, political and litigious. The cost of a PPIC inspection program is only a small fraction compared to the potential cost of a large diameter pipeline break.
4. **Increase revenue by stopping water loss and illegal connections.** The bigger the pipe, the bigger the return on leak and tap detection programs. On average PPIC inspections have shown 1.1 leaks per mile of large diameter pipe in North America and 2.2 leaks per mile in Europe, England, Middle East and Africa. The average volume of a leak is 40,000 gallons per day. Large municipalities have been able to achieve an ROI of over 500% from ongoing programs.
5. **Ensure regulatory compliance.** Water and wastewater pipeline operators are expected to meet stringent government regulations to ensure public safety and environmental protection. Condition assessment programs provide you with critical information about the integrity of your line – when and where you need it. PPIC services can inspect operating lines, there is no need for dewatering or service shutdown.
6. **Understand the true valuation of your underground infrastructure.** Condition assessment is a quick and simple way to understand the up-to-date value of your underground infrastructure, allowing you to comply with GASB 34 accounting standards.

The water infrastructure space is very organized and even proactive in dealing with sustainability issues.

The National Association of Water Companies (NAWC) <http://www.nawc.org> has been responsible from the private water company view point, in its request to help people understand the true cost of water in order to efficiently use this valuable and life sustaining resource.

The Association of Metropolitan Water Agencies (AMWA) <http://amwa.net> is an organization of the largest publicly owned drinking water systems in the United States to ensure safe and cost-effective federal drinking water laws and regulations that protect public health.

The American Water Works Association (AWWA) <http://www.awwa.org> is very involved at all levels and continues to support drinking water funding through adequate rates and charges at the local level and has presented many financial models by which low interest loans can be effectively attained and distributed.

The Water Environment Federation (WEF) <http://www.wef.org> works to provide its members, public officials and the general public with the necessary tools to engage in or learn ways to improve quality of life through the sustainable management of water resources, water protection, and water and wastewater treatment.

Thank you for promoting this important discussion of infrastructure sustainability. Please consider these strategic loan funding requirements as prudent measures of creating incentives and accountability by allowing the issue to be addressed cooperatively at both the local and federal level. It is likely that in some cases these incentives may not provide enough local level motivation or it may already be too late and federal assistance is required. However, before the creation of a new national "water tax", the steps outlined are designed to both close the funding gap and even offer a strategic long term sustainable solution for our aging infrastructure for water, wastewater and storm drain operations. This testimony is an overview of a presentation I gave at the GFOA Annual Conference in Seattle on June 28, 2009 on Creating Sustainable Infrastructure.

Sincerely,

Gregory Baird, CFO Aurora Water, City of Aurora, CO; AWWA Rates and Fees Committee; GFOA CIP Planning Committee; WEF; CGFOA; CSMFO

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GFOA Recommended Practice

Capital Maintenance and Replacement (2007) (CEDCP)

Background. Capital assets comprise major government facilities, infrastructure, equipment and networks enabling the delivery of public sector services. The quality and continued utilization of these capital assets are essential to the health, safety, economic development and quality of life of those utilizing such assets.

Budgetary pressures may impede capital program investments for maintenance and replacement purposes, making it increasingly difficult to sustain existing capital asset condition and avoid functional obsolescence. Yet deferring such essential reinvestments reduces vital public services and may even endanger public safety. The financial result is increased cost as the physical condition of these assets declines. Government entities should therefore establish capital planning, budgeting and reporting practices to encourage adequate capital spending levels. A government's financial and capital improvement plans should address the continuing investment necessary to properly maintain its capital assets. Such practices should include proactive steps to promote adequate capital maintenance and reinvestment in existing public capital assets.

Recommendation. The Government Finance Officers Association (GFOA) recommends that local and state governments establish a system for planning, budgeting and periodic assessment of their capital maintenance/replacement needs. The following actions should be considered:

1. Develop and maintain a complete inventory of all capital assets. This inventory should contain essential information including engineering description, location, physical dimensions and condition, "as-built"

documents, warranties, maintenance history, book value and replacement cost. Operating cost information could also be included. Database and geographic information technologies should be employed to assist in this task.

2. Develop a policy to require periodic measurement of the physical condition of all existing capital assets. Document the established methods of condition assessment. Periodically evaluate the capital program using data driven analysis of asset condition as well as past expenditure levels.
3. Establish condition/functional performance standards to be maintained for each component of capital assets. Such standards may be dictated by mandated safety requirements, federal or state funding requirements or applicable professional standards. Use these standards and a current condition assessment as a basis for multi-year capital planning and annual budget funding allocations for capital asset maintenance and replacement.
4. Develop financing policies for capital maintenance/replacement which encourage a high priority for those capital programs whose goal is maintaining the quality of existing assets. Consider earmarking fees or other revenue sources to help achieve this goal.
5. Allocate sufficient funds in the multi-year capital plan and annual operations budget for routine maintenance, repair and replacement of capital assets in order to extend the useful life of these assets and promote a high level of performance throughout the target period.
6. At least annually, report on capital infrastructure, including:
 - a. Condition ratings jurisdiction-wide
 - b. Condition ratings by geographical area, asset class, and other relevant factors
 - c. Indirect condition data (e.g., water main breaks, sewer back-up complaints)
 - d. Replacement life cycle(s) by infrastructure type
 - e. Year-to-Year changes in net infrastructure asset value
 - f. Actual expenditures and performance data on capital maintenance compared to budgeted expenditures performance data (e.g., budgeted street miles reconstructed compared to actual)
7. Report trends in infrastructure spending and accomplishments in the jurisdiction's Capital Improvements Program including trends in spending, replacement cycle, and other important factors for each major infrastructure category.

References

- John Vogt, *Capital Budgeting and Finance: A Guide for Local Governments*, ICMA, 2004.
- Nicole Westerman, *Managing the Capital Planning Cycle: Best Practice Examples of Capital Program Management*, Government Finance Review, 2004.
- GFOA & National Advisory Council on State and Local Budgeting Best Practices in Public Budgeting (Practice #s 2.2, 5.2, 6.2, 11.5). – www.GFOA.org/services/nacslb.
- GFOA Recommended Practice, *Capital Project Budget (2006)*; www.GFOA.org.
- GFOA Recommended Practice, *Establishing the Estimated Useful Lives of Capital Assets (2002, 2007)*; www.GFOA.org.
- GFOA Recommended Practice, *Considerations on the Use of the (GASB 34 Reporting Model) Modified Approach to Account for Infrastructure Assets (2002)*; www.GFOA.org.

Approved by the GFOA's Executive Board, October 19, 2007.



CLEAN WATER CONSTRUCTION COALITION

Combining Resources To Promote Federal Legislation That Improves
Water and Wastewater Infrastructure Nationally

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Chairman

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UCA of Anne Arundel County
Utility Contractors Association
of New England *
Utility & Transportation Contractors
Association of New Jersey *
Contractors Association
Of West Virginia
Wisconsin Underground
Contractors Association
* Steering Committee Member

July 24, 2009

The Honorable James L. Oberstar
Chairman
Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the Clean Water Construction Coalition, I am writing to respectfully request that the attached statement be made part of the official record on the July 15 hearing held by the Subcommittee on Water Resources and Environment entitled "Opportunities and Challenges in the Creation of a Clean Water Trust Fund."

As always, the Coalition supports your leadership and efforts in securing enactment of the Clean Water and Safe Drinking Water authorization legislation. Per the enclosed statement, we also endorse creation of a Federal Clean Water Trust Fund which, we believe, would go a long way in alleviating the funding and planning challenges of the current program.

Thank you again for this opportunity and we look forward to continue working with you.

Sincerely,

Robert Briant

Robert A. Briant
Chairman



CLEAN WATER CONSTRUCTION COALITION

“Opportunities and Challenges in the Creation of a Clean Water Trust Fund”

Subcommittee on Water Resources and Environment

Committee on Transportation and Infrastructure

U.S. House of Representatives

July 15, 2009 Hearing

Statement for the Record

Robert A. Briant

Clean Water Construction Coalition

Madam Chairwoman and Members of the Subcommittee:

On behalf of the Clean Water Construction Coalition – an organization of construction associations from throughout the United States committed to securing much-needed funding for the Nation's clean water and safe drinking water programs – I want to express our sincere appreciation for the opportunity to submit for the record our views on a National Clean Water Trust Fund.

Clean, healthy, affordable water is something every American should be able to rely on. However, as the Nation's population grows and its infrastructure ages, our public clean water systems are facing grim realities. The American Society of Civil Engineers has given the Nation's clean water infrastructure a D- rating. Our pipes – some 72,000 miles of which are over 80 years old – are failing and need replacing. Outdated sanitation facilities are inadequate to handle new standards. Sewers are overflowing, causing environmental damage and beach closings. Federal agencies, states, and local municipalities all acknowledge that spending on clean water has fallen far behind systems needs. The Environmental Protection Agency estimates the funding gap for total water infrastructure works at more than \$22 billion per year.

Congress does provide some money for maintaining infrastructure through the Clean Water State Revolving Fund. The SRF gives states seed money for low interest loans to municipalities, which then use those loans for the upkeep of their systems. However, in recent years the SRF has been perpetually underfunded and congressional appropriations are always subject to political pressure. In addition, pre-FY10 Presidential budget requests for SRF appropriations have dropped by more than half over the years, from \$1.6 billion in 1995 to less than \$600 million in 2008. In fact, the overall Federal government contribution to total clean water spending has shrunk dramatically, from 78% in 1978 to barely 3% today. States spend approximately \$63 billion to compensate, but their efforts hardly keep pace with current needs, let alone future ones.

To address the challenges facing our clean water infrastructure, the Coalition believes that a public trust fund utilizing money collected and apportioned by the Federal government represents the best, and most realistic, solution. A national trust fund can address needs across the country, not just locally. It can address issues equitably, including the needs of small and rural communities. A trust fund will enable the Nation to reach water quality goals uniformly instead of focusing issue by issue. Clean water investments ensure that social and environmental objectives are met – as well as creating jobs across the country.

As you know, trust funds are widely used to address problems too big for states alone to handle. The General Accountability Office has identified more than 120 Federal trust funds currently in operation. In addition to support for pollution abatement, interstate highways and harbors, trust funds also finance botanical gardens, maintain the U.S. Capitol grounds, and restore wildlife habitats.

Clean water, a public resource utilized by all Americans, certainly deserves the same protection. While state programs can help, they are few and far between. More importantly, clean water issues cross state borders – discharges from one state's sewers may contaminate rivers, streams, and lakes in another. Current and future problems surrounding clean water infrastructure are serious and broad enough to warrant Federal intervention. A clean water trust fund would represent a dedicated and steady source of funding to begin addressing the Nation's public water needs. It would be free from political interference, would not contribute to the national debt and would ensure all American's continued access to an essential resource.

The Coalition recommends that the revenue for a clean water trust fund should be broad-based, equitable, and secure. That rules out residential sewer or water bills, because nearly all the funds for infrastructure are already collected from those bills. Imposing yet more of a burden on households alone is hardly equitable.

The following are suggested funding sources for a Clean Water Trust Fund:

- **Polluters**
Funding sources for a Clean Water Trust Fund should follow the pattern established by most Federal trusts and come from industries that profit from, or damage the quality of, clean water. A natural solution would be a "polluter pays" approach – industries and companies that hamper water quality (for example, industrial pollutant discharges) in the course of conducting their business would pay to maintain the systems they harm.
- **Pressure Industries**
Many industries put pressure on our clean water systems. Manufacturers of "flushable products" such as soaps and detergents, toiletries, toilet tissue, water softeners, and cooking oils depend on access to clean water to keep their businesses afloat. The same goes for the toxic chemical industry. Research indicates that most consumers would support fees on these types of industries to fund clean water projects.
- **Directly Benefiting Industries**
Many industries benefit directly from our clean water systems. A contemporary and obvious example of this is the bottled water industry. Profits for this industry are huge, and the market continues to grow. Benefiting from our clean water system should also include the responsibility for financially supporting that system.
- **Consumers**
The trend for most Federal trust funds is to financially support them through user fees. User fees are fees imposed for providing current services or for the sale of products (i.e., fees paid for the consumption of goods) in connection with general government activities. In the case of clean water, examples of consumer goods which may be candidates for user fees include bottled water, flushables, pesticides and fertilizers. Examples of services which may be candidates for user fees include water-based recreational fees such as fishing licenses or park entrance fees.
- **Property Developers**
Impact fees are one-time payments from property developers for off-site improvements necessitated by new development. Based upon many factors, impact fees usually fund capital expenditures. To the extent that new development imposes new costs and demands related to water quality, developers should bear at least some of the financial burden of such costs and demands.
- **State, County, and Local Governments**
State, county, and local governments also benefit from clean water and should pay for it; for example, from a dedicated portion of state-county and/or local government taxes or fees.

Public Community Water Systems

The owner or operator of a public community water system should be required to pay a water consumption fee (for example, an amount per thousand gallons) for water delivered to a consumer.

· Diverters

Individuals who take or impound water from a river, stream, lake, pond, aquifer, well, other underground source, or other water body, whether or not the water is returned thereto, consumed, made to flow into another stream or basin, or discharged elsewhere, should pay a water diversion fee (for example, an amount per thousand gallons of water diverted for consumption use).

· Corporations

Fees on corporate income across sectors discharging to wastewater treatment plants are another potential funding source.

The Coalition wishes to note that the funding sources suggested above are not necessarily mutually exclusive. Rather, the goal of a National Clean Water Trust Fund should be to reflect in its financing mechanism a true public/private partnership. Clean water is a benefit enjoyed by all, and so, too, should the responsibility of financing a National Clean Water Trust Fund; i.e., it should be a combination of various funding sources, public and private.

Madam Chairwoman, our clean water infrastructure needs help now. Instead of irresponsible private investment schemes, we need to plan ahead for future generations and create a dedicated source of public funding so that communities across America can keep their water clean, safe and affordable. Water is a vital resource, critical for all of us. It deserves no less than the trust funds that help finance our highways, harbors, and wildlife habitat. It is time for a trust fund for clean and safe water.

Thank you.

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P. 002



July 23, 2009

The Honorable Eddie Bernice Johnson
Chairwoman
House Subcommittee on Water Resources
and Environment
B-376 Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

I respectfully request the following testimony be included as part of the transcript of the House Subcommittee on Water Resources and Environment hearing entitled "Opportunities and Challenges in the Creation of a Clean Water Trust Fund" held on July 15, 2009.

Sincerely,

A handwritten signature in black ink, appearing to read "Jay Vroom".

Jay Vroom
President and CEO

cc: Chairman James L. Oberstar
Ranking Member John Boozman

• Representing the Plant Science Industry •

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Testimony of Mr. Jay Vroom
President and Chief Executive Officer
CropLife America
House Subcommittee on Water Resources and Environment
“Opportunities and Challenges in the Creation of a Clean Water Trust Fund”
July 15, 2009

Established in 1933, CropLife America (CLA) is the nation’s largest trade organization for agriculture and pest management. We represent more than 80 developers, manufacturers, formulators and distributors of virtually all crop protection products used by American farmers and growers. Our industry works to ensure the responsible use of pesticides in order to provide a safe, affordable and abundant food supply.

CLA member companies understand how critical water quality is for the environment and the future of agriculture and society. Our members work with their farmer customers to conserve and protect these resources through the proper use of crop protection products. These products are used carefully by America’s farmers and many pesticide applications are designed to improve water quality – such as herbicides coupled with conservation tillage – or improve crop water-use efficiency. Farmers own and manage two-thirds of the nation’s land, so natural resource conservation is an integral part of production agriculture.

On July 15, 2009, the House Subcommittee on Water Resources and Environment hearing, entitled “Opportunities and Challenges in the Creation of a Clean Water Trust Fund,” heard testimony from Members of Congress, a representative of the Government Accountability Office (GAO), representatives of State and local governments, and other stakeholders from the water industry on issues related to the creation of a Clean Water Trust Fund (“trust fund”) to create a dedicated source of revenues to finance wastewater infrastructure projects. Witnesses uniformly supported additional funds for clean water infrastructure, but did not uniformly support a trust fund established through excise taxes on selected industries. CLA also does not support the establishment of a clean water trust fund, and urges Congress to look to other funding mechanisms we describe below for the funds it seeks for clean water infrastructure.

The GAO Report: The hearing on July 15 followed the May 2009 publication of a report by the General Accountability Office (GAO), which evaluated potential funding mechanisms and revenue sources available to establish a Clean Water Trust Fund (“trust fund”) as a possible means to fund the maintenance of our country’s clean water infrastructure. The GAO report requested in 2008 by Committee Chairman James L. Oberstar, Subcommittee Chairwoman Eddie Bernice Johnson, and Representative Blumenauer was to evaluate options that can be “efficiently collected, are broad based, equitable, and that support annual funding levels of at least \$10 billion.”

Needed is a Connection Between Fees and the Services Provided: The GAO report revealed that it would not be easy to meet such large funding levels by levying excise taxes on individual industries such as water appliances, fertilizers and pesticides, flushable household products, beverages or pharmaceuticals. The GAO concluded that, at best, a trust fund would likely be only part of the solution, and identified several implementation obstacles that would have to be overcome in legislation, regardless of the funding route chosen, such as defining the products or activities to be taxed, establishing a collection and enforcement framework, and obtaining stakeholder support for a particular option or mix of options. A key consideration stressed by the GAO is the relationship between any funding source and use of wastewater infrastructure, and "...whether taxpayers view a tax as being transparent, credible, and logical." (p. 21). Rep. Blumenauer's testimony at the hearing on July 15 echoed that, stating: "Not surprisingly, the GAO report found there is no silver bullet [for funding]. An equitable solution should involve a contribution from all parties that impact and have a stake in our water systems." Chairwoman Johnson agreed, observing in her opening testimony, "...we must be able to articulate a logical connection between the source of revenue and the benefit that comes from clean water." The GAO report noted that many believe it is unlikely that fertilizers and pesticides applied on agricultural land would enter a municipality's wastewater infrastructure system.

Fertilizers and Pesticides Are Unlikely Funding Sources: Less than half the 22 organizations surveyed by GAO viewed fertilizer and pesticide use as highly connected to wastewater infrastructure use and, by inference, system deterioration (table 13). Furthermore, municipal wastewater utility (POTW) operators responded to a GAO question on fertilizers and pesticides as a funding source by stating that these "are nonpoint source pollutants that affect surface water and do not necessarily go through wastewater treatment plants" (p. 24). Those survey respondents that were opposed to a tax on fertilizers and pesticides stated "[t]his would be an unfair tax on a product that does not impact wastewater infrastructure." It would also seem inappropriate to tax for clean water infrastructure maintenance purposes those rural nonpoint sources that are explicitly exempted by the Clean Water Act's agricultural stormwater provisions. When interviewed by GAO, representatives of CLA also described the extensive State and Federal fees already attached to pesticide registration, reregistration and use. These fees ultimately affect the costs farmers incur in growing crops, and the prices consumers pay for the foods they eat, and an excise tax for a trust fund would also affect food production costs and prices.

A Water Trust Fund is Not the Most Effective or Efficient Funding Option: The principal option evaluated by GAO and reviewed in this hearing was the clean water trust fund, although other funding sources were recognized by GAO and by witnesses in this hearing. In her opening statements, Chairwoman Johnson described a trust fund as "...one potential option, other than general revenues, that may be necessary to address the growing water-related infrastructure gaps..." Mr. Chips Barry, Manager, Denver Water, and spokesperson for the American Water Works Association (AWWA), stated "[T]he problems of aging water infrastructure, though widespread, are not primarily federal problems." "AWWA has evaluated a number of options for improving water infrastructure finance, and concluded that a water trust fund is not the most effective or efficient option." "Key factors in this view include the overhead costs of sending money to Washington instead of retaining and spending it locally; the encouragement of delay in adopting full-cost-of-service rates as local officials wait for trust fund assistance; and Congress'

history, after creating hundreds of trust funds over the years, of not spending all revenues raised on the purpose for which they were collected. According to a recent AWWA analysis, the unspent balance in existing trust funds adds up to billions of dollars." CLA agrees with AWWA's perspective, and supports its testimony on the importance of Congress' consideration of other options for raising funds for clean water infrastructure maintenance.

The Water Protection and Reinvestment Act of 2009: CLA agrees with the intent of Mr. Blumenauer and cosponsors to increase clean water infrastructure funding, however disagree that a federal trust fund is the most efficient and effective method to achieve this goal. We have reservations about federal trust funds that we describe below, and do not support the funding of clean water infrastructure maintenance with excise taxes on industry in general and on fertilizers and pesticides in particular. Having said that, we agree with the authors that the existing state revolving loan funds (SRFs) for wastewater and drinking water is an important means to provide additional funding for these efforts, and that greater weight would be given to applicants who can show that they are implementing asset management practices and long-term financial planning. We note the large contribution to these SRFs Congress provided in the American Recovery and Reinvestment Act of 2009. We also note that the House passed H.R. 1262, the Water Quality Investment Act of 2009, which would provide \$13.8 billion in additional SRF funds from 2010 – 2014, and await the Senate's action on this. SRFs provide pools of loaned funds to assist communities with their long-term infrastructure needs, and should be an important part of the solution for state and local clean water infrastructure maintenance.

Other Sources of Funding Exist and Should Be Pursued Before a Trust Fund: CLA believes that more effective tools exist for financing water infrastructure than a trust fund. Many of these were identified by the GAO report (pp. 7-8), testimony by AWWA's spokesperson, and other sources: (a) Enhancement of the existing SRF programs' funding of capitalization grants to states for wastewater and drinking water infrastructure. The American Recovery and Reinvestment Act of 2009 appropriated \$4 billion in funding for the CWSRF and \$2 billion for the DWSRF, reversing the downward trend of recent years. Large infrastructure projects should be eligible for SRF funds; (b) Removal of the annual volume caps for private activity bonds for water projects, increasing the level of low-interest financing for wastewater projects; (c) Implement EPA's "Four Pillars" Initiative to encourage POTWs and drinking water utilities to improve the management of their systems, to systematically plan ahead for infrastructure needs, and to charge the full cost of the service they provide to customers. Funding for water utilities should generally rely on cost-based rates and charges, and water revenues should not be diverted to unrelated purposes; (d) Creation of a dedicated federal water infrastructure bank that would create the same amount of financial assistance being proposed in the water trust fund, but at a very low cost to the federal government and without the need for new taxes. AWWA testified that in 2008 twenty-seven states issued almost \$3 billion in leveraged bonds to expand their pool of funds in their SRF programs. Congress has floated proposals for infrastructure banks in the past and in his budget proposal for Fiscal Year 2010, President Obama proposed such a bank with treasury-rate loans, purchase of SRF bonds, loan guarantees, and subsidized lending for infrastructure projects. CLA supports AWWA's position of the creation of a federal water infrastructure bank, as described in its testimony before this Subcommittee and in previous publications; (e) Encourage public-private partnerships among water systems traditionally owned and operated by local municipalities and other public entities.

CLA and its member companies have a strong belief that clean water requires ongoing effort and commitment of resources to *maintain water quality protections*. However, we have reservations about federal trust funds in general and the notion of a clean water trust fund in particular. We ask that our comments be included as part of the record of the House Subcommittee on Water Resources and Environment hearing entitled "Opportunities and Challenges in the Creation of a Clean Water Trust Fund" held on July 15, 2009.

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July 15, 2009

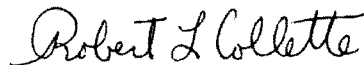
The Honorable James Oberstar
Chairman, Transportation and Infrastructure Committee
U.S. House of Representatives
Washington, DC 20515

Re: Subcommittee on Water Resources and Environment - July 15 hearing on
"Opportunities and Challenges in the Creation of a Clean Water Trust Fund"

Dear Chairman Oberstar:

The Institute of Shortening and Edible Oils and eight allied food and agriculture organizations request that the attached statement be included in the hearing record. Thank you for the opportunity to offer our comments and concerns with funding of a clean water trust fund.

Sincerely,



Robert L. Collette
President

Enclosures:

- (1) Statement for the hearing record
- (2) List of allied organizations

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Statement for the Record

Robert L. Collette on behalf of

Institute of Shortening and Edible Oils and Allied Industry Organizations

Subcommittee on Water Resources and Environment

"Opportunities and Challenges in the Creation of a Clean Water Trust Fund"

July 15, 2009

Written Statement of the
Institute of Shortening and Edible Oils and Allied Industry Organizations
Submitted to the Subcommittee on Water Resources and Environment
U.S. House of Representatives
July 15, 2009

The Institute of Shortening and Edible Oils (ISEO) and the undersigned allied industry associations¹ thank Subcommittee Chairwoman Eddie Bernice Johnson, Members of the Subcommittee and James Oberstar Chairman of the Committee on Transportation and Infrastructure for the opportunity to submit a public statement regarding “Opportunities and Challenges in the Creation of a Clean Water Trust Fund.” We offer the information in our statement as evidence for the Subcommittee that the refined oils and fats industry should not be subjected to an excise tax on its products.

The May 2009 Government Accountability Office (GAO) report entitled “Clean Water Infrastructure—A variety of Issues Need to Be Considered When Designing a Clean Water Trust Fund” examines issues in designing and establishing a trust fund. In addition, the report outlines eight funding options to support a trust fund. Five of these options are excise taxes on selected products and three options explore non excise tax approaches. One of the excise tax options includes refined oils and fats as part of a category of “flushable” items. GAO does not recommend any of the eight options and acknowledges that reaching a \$10 billion annual revenue target using any one option will be difficult. With a \$10 billion target, ISEO estimates that an excise tax on refined oils and fats could range from one to five cents per pound depending on how many candidate products are taxed. A five cent excise tax added to current cash prices for refined oil (e.g. soybean oil at about 30 cents per pound) would represent nearly a 17% increase.

The nationwide burden placed on wastewater treatment systems results from a combined use of these systems by more than 220 million Americans, according to GAO. GAO identified new excise taxes on certain products as an option to support a Clean Water Trust Fund with an apparent assumption that the identified products contribute to the wastewater stream entering these systems, presumably in a significant way. Inclusion of edible oils and fats in a group of “flushable products,” implies that oils and fats are typically flushed or poured down drains, thus are potentially significant contributors to the wastewater stream. This assumption does not reflect

¹ A brief description of the allied industry groups and a list of contacts are provided in the Appendix.

the true end use and/or disposition of refined oils and fats. In fact, refined oils and fats are not significant flushable products, and present a very minimal burden on the nation's wastewater systems.

ISEO believes refined oils and fats should not be included in an excise tax on flushable products for several reasons:

1. Refined Oils and Fats Are Not Significant "Flushable" Products

Very little refined oil and fat is flushed or otherwise enters U.S. wastewater treatment facilities. ISEO's examination of these products shows that nearly all of the refined oil and fat manufactured by our industry is either directly consumed by humans and animals, used in industrial applications where they are completely incorporated into finished goods or exported.

ISEO estimates that about 13 percent of the edible oil and fat produced in 2007 was consumed outside the U.S. and never entered U.S. commerce. In 2007, about 31 percent of the fats and oils used in the U.S. were incorporated into industrial products. Refined oils and fats, when used in industrial products, are intended to be incorporated entirely into the finished products, thus losses are expected to be negligible.

Regarding the consumption of oils and fats in food, a vast majority is used by commercial food processors and foodservice operators. Edible fats and oils used for these commercial purposes rarely enter water treatment systems. When formulated into processed food products and restaurant menu items, the oil and fat is largely incorporated into the food and is consumed directly and entirely by the consumer. For example, in large commercial frying operations frying oils are constantly added to fryers because the oil is absorbed into the food moving through the fryers. There is typically no oil discarded.

In both food processing and foodservice/restaurant cooking operations any used oil is reclaimed and/or recycled because it has significant monetary value for a variety of uses. For example, U.S. mandates for renewable fuels call for greater production of biodiesel over the next several years, which will help assure the strong demand for used oil and greases as a biodiesel fuel stock.

Consumer use of refined oils and fats accounts for only a very small portion of the U.S. production (i.e. less than 10 percent). When consumers use oils they are incorporated into various food items, similar to what occurs in preparing restaurant menu items, and are consumed. ISEO is confident losses are very small (e.g. a few drops left behind in a salad bowl). Interestingly, the excise tax options do not cover other small sources of fat, oil and grease (FOG) from households such as animal fat and greases left over after cooking.

Only a minute amount of refined oil and fat reaches the drain.

2. Refined Oils and Fats Do Not Present Unique Burdens

The GAO study mentions that cooking oils can cause pipe blockages, however, the increasing monetary value of used grease and oil and effective educational programs have brought dramatic increases in the capture and recycling of FOG materials by commercial users. The refined oils and fats industry has spent millions of dollars in recent years to ensure that the wastewater systems in its plants meet state and federal regulations. In addition to the industry's recycling programs, and equipment investments, water treatment operators have instituted their own measures to minimize the introduction of oils and fats to their systems. Operators routinely require businesses to have and manage grease traps; set FOG limits as low as 100 ppm, which sufficiently dilutes FOG to avert problems in the treatment systems; and enact surcharges to penalize firms exceeding established limits.

Refined oils and fats do not cause problems for wastewater treatment systems because they are effectively managed and regulated leaving very little to be treated by these systems.

3. An Excise Tax on Refined Oils and Fats Is Unjustified and Disproportionately Burdensome

Not only is the inclusion of refined oils and fats in the flushable products category unjustified because they are not typically flushed, but an excise tax would place a very heavy and disproportionate financial burden on the industry and its customers.

The GAO estimates revenues from candidate excise taxes based on the Annual Survey of Manufacturers conducted by the U.S. Census Bureau. As previously described, the total production value of the products within this code provides a poor correlation to the minimal burden edible oils and fats have on wastewater treatment systems. Tax revenue calculations are unfair because they are based on the dollar sales value for the total amount of oil and fat refined despite the fact that the vast majority of this product will never enter water treatment systems. ISEO calculates that an excise tax might increase the cost of a pound of oil by one to five cents per pound if a \$10 billion revenue target is established (i.e. one cent, if all five product categories are taxed and five cents, if only flushable products are taxed). Refined edible oils are a most important food ingredient for U.S. consumers and an unwarranted excise tax on these products would constitute an unnecessary and regressive food tax.

Conclusion

GAO acknowledges that limited research has been done to determine the impacts on wastewater infrastructure associated with the various products under consideration for an excise tax. ISEO has shown that edible oils and fats are very minute contributors to the total burden placed on wastewater treatment facilities relative to the universe of materials that are processed in wastewater. Therefore, the financial burden to maintain and upgrade wastewater infrastructure should not be borne by the refined oil and fat manufacturers and their customers who contribute so little to the overall wastewater burden compared to the far larger universe of materials entering treatment facilities.

For the reasons set forth in this statement, ISEO and the undersigned allied industry associations, urge the Subcommittee to exempt fats and oils from the “flushable products” group, if you choose to seek excise taxes to support a Clean Water Trust Fund. Thank you for considering our concerns.

Respectfully Submitted,

American Soybean Association
Association of Dressings and Sauces
Corn Refiners Association
Institute of Shortening and Edible Oils
National Association of Margarine Manufacturers
National Institute of Oilseed Products
National Oilseed Processors Association
National Sunflower Association
U.S. Canola Association

APPENDIX

<p>American Soybean Association 600 Pennsylvania Avenue, SE, Suite 320 Washington, D.C. 20003 Phone: 202-969-8900 Contact: Bev Paul</p> <p>The American Soybean Association (ASA) represents 22,000 producer members on national issues of importance to all U.S. soybean farmers.</p>	<p>Association for Dressings and Sauces 1100 Johnson Ferry Road, Suite 300 Atlanta, GA 30342 Phone: 404-252-3663 Contact: Pamela Chumley</p> <p>The Association for Dressings and Sauces (ADS) represents manufacturers of salad dressing, mayonnaise and condiment sauces and suppliers of raw materials, packaging and equipment to the food industry.</p>
<p>Corn Refiners Association 1701 Pennsylvania Avenue NW, Suite 950 Washington, DC 20006 Phone: 202-331-1634 Contact: Audrae Erickson</p> <p>The Corn Refiners Association (CRA) is the national trade association representing the corn refining (wet milling) industry of the United States. Corn refiners manufacture sweeteners, ethanol, starch, bioproducts, corn oil, and feed products from corn components such as starch, oil, protein, and fiber.</p>	<p>Institute of Shortening and Edible Oils 1750 New York Avenue NW, Suite 120 Washington, DC 20006 Phone: 202-783-7960 Contact: Robert Collette</p> <p>The Institute of Shortening and Edible Oils (ISEO) is a trade association representing the refiners of edible fats and oils in the United States. Its members represent approximately 90-95% of the edible fats and oils produced domestically that are used in baking and frying fats (shortening), cooking and salad oils, margarines, spreads, confections and toppings, and ingredients in a wide variety of foods.</p>
<p>National Association of Margarine Manufacturers 750 National Press Building 529 14th Street, NW Washington, DC 20045 202-785-3232 Contact: Rick Cristol</p> <p>The National Association of Margarine Manufacturers (NAMM) is a non-profit trade association formed in 1936. For 60 years, NAMM has been serving health conscious consumers and the margarine industry.</p>	<p>National Institute of Oilseed Products 750 National Press Building 529 14th Street, NW Washington, DC 20045 Phone: 202-785-8450 Contact: Carol Freysinger</p> <p>The National Institute of Oilseed Products (NIOP) is an international trade association with the principal objective of promoting the general business welfare of persons, firms and corporations engaged in the buying, selling, processing, shipping, storage and use of vegetable oils and raw materials.</p>

<p>National Oilseed Processors Assn. 1300 L Street, NW, Suite 1020 Washington, DC 20005 Phone: 202-842-0463 Contact: David Hovermale</p> <p>The National Oilseed Processors Association (NOPA) represents sixteen (16) regular member firms engaged in the actual processing of oilseeds, and ten associate member firms who are consumers of vegetable oil or oilseed meal, including some refiners and mixed feed manufacturers.</p>	<p>National Sunflower Association 600 Pennsylvania Avenue, SE Suite 320 Washington, D.C. 20003 Phone: 202-969-8900 Contact: Dale Thorenson</p> <p>The National Sunflower Association (NSA) is a non-profit commodity organization working on problems and opportunities for the improvement of the sunflower industry. Membership in the NSA includes growers and industry.</p>
<p>U.S. Canola Association 600 Pennsylvania Avenue, SE Suite 320 Washington, D.C. 20003 Phone: 202-969-8900 Contact: Dale Thorenson</p> <p>The US Canola Association (USCA) is a non-profit commodity organization whose mission is to promote and encourage the establishment and maintenance of conditions favorable to the production, marketing, processing, and use of canola in the United States. Membership in the USCA includes growers and industry.</p>	



Statement of the
National Association of Water Companies

Before the
House Committee on Transportation and Infrastructure

Regarding Opportunities and Challenges in the Creation of a Clean Water Trust Fund

July 15, 2009

The National Association of Water Companies (NAWC) represents all aspects of the private water service industry. The range of our members' business includes ownership of regulated drinking water and wastewater utilities and the many forms of public-private partnerships and management contract arrangements. Seventy three million Americans – nearly one in four - receive service from a private water service provider.

THE INFRASTRUCTURE REPLACEMENT CHALLENGE

NAWC commends Chairman Oberstar, Ranking Member Mica, Chairman Johnson, Ranking Member Boozman and this Committee for tackling the complex issue of providing guidance and funding for the Nation's environmental and water pollution control infrastructure for the 21st Century. We commend Rep. Blumenauer for his dedication to raising the profile of water and wastewater infrastructure issues over the past several years.

This Committee has responded to many water challenges over the past four decades through the successful implementation and oversight of the Clean Water Act. In 1972, the EPA Construction Grants Program created an operational framework and wastewater infrastructure system unparalleled elsewhere in the world. In the 1980s and throughout the past two decades this Committee continued its commitment to the Clean Water Act by creating and funding a sustainable Clean Water State Revolving Loan Fund program. This loan program is a successful federal, state and local partnership that provides incentives for communities to leverage and innovate to meet water infrastructure, water protection and community health needs. By encouraging communities and states to take ownership in their water pollution management, the SRF loan program has broadened the scope of stakeholders involved in and committed to water pollution protection.

Water and natural resource leaders, managers and stakeholders need to think critically and innovatively about the challenges our nation's environmental infrastructure is facing in the 21st Century. As water becomes an increasingly scarce natural resource, all stakeholders must be committed to 1) changing utility, household, and industrial behavior

with regards to water use and conservation and, 2) the sustainability of our nation's environmental infrastructure. These goals are not mutually exclusive.

NAWC actively supports federal policies that provide utilities with the incentives to set prices that both sustain infrastructure investments and encourage conservation by household and industrial water users. The State Revolving Loan Fund programs and other low-interest, financing tools can help utilities to make affordable investments in their 21st century infrastructure priorities while still sending accurate price signals to household and industrial water users about the value of the resource.

A recent report by the Aspen Institute representing the consensus of a diverse group of renowned experts in the field of water and wastewater recommends that stakeholders "ensure that the price of water services fairly charges the total cost of meeting service and sustainable infrastructure requirements, subject to concerns about affordability. Funding for water utilities should generally rely on cost-based rates and charges, and water revenues should not be diverted to unrelated purposes."

CONCERNS ABOUT A TRUST FUND

NAWC has serious concerns with the Water Protection and Reinvestment Act of 2009, and will likely not be able to support it. In short, our concerns are that the trust fund mechanism created by this bill would serve to further mask the value of water through taxes on unrelated activities and discourage responsible water use and conservation through heavy, broad utility subsidizations.

Aggregate water use can only be reduced by changing the way people think about flushing their toilets, watering their lawns, washing their dishes and how industries think about water as an input cost. Similarly, public support for spending on environmental infrastructure can only be increased by changing the way people and businesses think about those very same activities. Neither goal can be achieved by creating opaque ways to fund water initiatives that allow users to continue thinking of water as a disposable resource.

As noted by the author of the Water Protection and Reinvestment Act of 2009, all corporations in America use drinking water and clean water infrastructure and depend on its functioning to support their business. These corporations should be expected to spend more on their water and sewer utility bills to support infrastructure that is essential to their business. Facing higher input costs, corporations could reasonably be expected to seek cost saving and water use reduction technologies. Conversely, it is unclear if a .15% tax on corporate profit would create any incentive for companies to install water efficient fixtures or technologies. Likewise, it is unclear if a tax on consumer products at the register will have any affect on the way consumers think about water at the faucet. The correlation is simply too abstract.

ALTERNATIVE OPTIONS FOR FUNDING INFRASTRUCTURE

The EPA Gap Analysis of 2002 found that a significant gap could develop if the nation's clean water and drinking water systems maintain current spending and operations practices. However, this gap largely disappears if (*on average*) municipalities increase clean water and drinking water spending at a real rate of growth of three percent per year.

If properly priced, environmental infrastructure projects can obtain loans based on existing dedicated user fees and forecasted revenue streams. Water and wastewater utilities currently have the cost structure in place to support debt financing and loan repayment and are not in need of grants funded through dedicated tax revenue.

During this time of economic uncertainty all water service providers must do their best to mitigate rate shock to customers in the face of expensive but much needed infrastructure investments. NAWC is supportive of several low-interest financing programs that allow for utilities to fund debt repayment and properly price and value water services while achieving modest savings for our customers. By lowering the interest on debt, Congress can reduce the cost of infrastructure projects to the public and help to finance certain priority environmental infrastructure investments.

*H.R. 537, The Sustainable Water Infrastructure Investment Act:
Expanding the Availability of Private Activity Bonds for Water Projects*

One low-interest tool is the use of tax exempt securities known as exempt facility bonds or private activity bonds ("PABs"). These tax exempt bonds, which were used extensively during the 1980's to help resolve the nation's solid waste disposal crisis, leverage federal dollars and provide lower cost financing for environmental infrastructure projects.

Currently, private activity bonds can be used by states and communities for housing, student loans and infrastructure investment such as water and wastewater investment. However, the use of the bonds is restricted in a way that disfavors water projects. PAB issuance subject to a state volume cap is dominated by housing and housing-related purposes, comprising some 65% or \$18.2 billion of total PABs issued in 2007. By comparison, PABs for water and sewer related purposes comprised a mere 1.3% of issuance (\$374.1 million) in 2007.¹ The good news is that in 2008, amidst the housing market turmoil, PAB issuance for exempt facilities increased slightly by \$119 million against a sharp decrease in housing issuance.² NAWC does not believe that water and wastewater providers should be competing with housing developers and mortgage insurers for low-interest funding options.

With the elimination of the bond cap for water and wastewater projects, experts have projected that \$1 to \$2 billion of PABs would initially be issued annually and that number could double or triple annually to \$4-6 billion over time. Rep. Bill Pascrell from

¹ American Water Works Association, *Study on Private Activity Bonds and Water Utilities*, June 2009.

² The Bond Buyer, *2008 PAB Issuance Fell 52% to \$13.7B*, July 8, 2009.

New Jersey has taken the lead on introducing a bill, H.R. 537 that would free up this funding. We encourage members of the Transportation and Infrastructure Committee to support this effort by co-sponsoring Rep. Pascrell's legislation.

Drinking Water and Clean Water State Revolving Loan Funds

NAWC has historically been supportive of the State Revolving Loan Funds. By providing primarily a modest subsidy on interest, these loan programs adhere to the principals of helping utilities to make affordable investments in their infrastructure while still sending accurate price signals to household and industrial water users about the value of the resource.

The State Revolving Loan Funds are also a great tool for Congress to set priorities about water and wastewater utility spending. NAWC is supportive of the process to reauthorize these funds. Specifically, NAWC supports making the benefits of the SRF available to all wastewater utility customers through an expanded scope of eligible wastewater purveyors. Likewise, NAWC supports expanding the scope of eligible projects to include 21st Century priorities such as treatment works security, water conservation, water reuse, energy efficiency, asset and utility management improvement plans, and watershed improvement plans.

NAWC believes that the SRFs should encourage the use of public-private partnerships, regionalization, and consolidation, where appropriate, to address viability problems and infrastructure replacement challenges. Provisions encouraging full cost of service rates and sound asset management are essential. Similarly, NAWC supports provisions to preclude non-compliant treatment works from receiving the benefit of SRF funding unless there is a plan to take corrective action, resolve violations and move towards compliance with health and environmental laws.

Private Utility Access to the Clean Water State Revolving Fund (CW-SRF)

Private water service providers own about 20 percent of all wastewater utilities and, manage and operate many more. Ten million Americans are served by a private wastewater utility. However, current law prohibits privately-owned wastewater utilities from obtaining Clean Water State Revolving Loan Fund low-interest loans, therefore barring millions of Americans from the benefits of the Clean Water SRF which their tax dollars fund. Furthermore, be assured that the financial benefits of CW-SRF eligibility would be passed on to our customers. The various state Public Utility Commissions that oversee and set the rates our members charge would assure this, and are on record supporting full CW-SRF eligibility.

Private water service providers routinely work closely with state environmental and health agencies to assist failing systems meet their public health and environmental requirements and extending service to under served areas. These underserved or unsewered communities may rely on septic systems that discharge sewage directly to surface waters. One NAWC member tells a vivid story of children who actually played

in the overflowing wastewater puddles before her company extended sewer service to this low-income community. States should be allowed to facilitate this much-needed environmental and public health assistance through equal funding opportunities.

NAWC congratulates Chairman Oberstar and members of the Committee on the House passage of HR 1262 – the Water Quality Investment Act of 2009. While NAWC is unable to support the legislation due to our concerns stated above, we look forward to working with this Committee and the Senate as this bill proceeds through the legislative process in order to ensure funding parity to all Americans in the Clean Water SRF.

WaterSense

In addition to promoting federal policies that encourage conservation and accurate pricing, NAWC is supportive of EPA's WaterSense program. We commend the efforts made by Representatives George Miller, Rush Holt and Jerry McNerney to fully authorize the program. WaterSense is an important tool using market-based incentives to encourage consumers to conserve water. NAWC and many of our member companies are proud to be WaterSense Partners.

PRIVATE WATER SERVICE PROVIDERS

Almost twenty five percent of Americans receive water or wastewater service from a private water service provider. Privately owned utilities have successfully provided service to the public since the early 1800s. It is a proven model. Many may not be aware though that public-private sector collaboration occurs in almost every aspect of the water provision, treatment and discharge process. From full ownership, to management, to green building planning, to energy saving implementation, to meter reading. Private water service professionals have broad expertise. The range of public-private partnership models can be adapted to the unique needs of individual communities.

Studies by the National Association of Water Companies and others have shown that creative public-private partnerships and other arrangements can increase environmental compliance and simultaneously reduce operating costs by 10 to 40%.

Private water service providers are on the cutting edge of technical innovation and research. Furthermore, in this time of economic uncertainty, our members continue to make needed investments that support employment as well as environmental and public health requirements.

CONCLUSION

We appreciate the Committees continued leadership. These are long-term challenges, and we look forward to working with the Committee to achieve long-term solutions that will allow the water and wastewater providers to meet their present and future infrastructure investment needs.



July 31, 2009

The Honorable Eddic Bernice Johnson
 Chairman
 Subcommittee on Water Resources
 and Environment
 Committee on Transportation and Infrastructure
 U.S. House of Representatives
 Washington, D.C. 20515

The Honorable John Boozman
 Ranking Member
 Subcommittee on Water Resources
 and Environment
 Committee on Transportation and Infrastructure
 U.S. House of Representatives
 Washington, D.C. 20515

Dear Chairman Johnson and Representative Boozman:

On behalf of the members of the Water and Wastewater Equipment Manufacturers Association (WWEMA), I welcome the opportunity to offer our comments on H.R. 3202, the Water Protection and Reinvestment Act of 2009.

WWEMA is a national, non-profit trade organization founded in 1908 to represent the interests of companies that manufacture and supply products and services to the water and wastewater industry. The comments provided herein reflect the views of the Association and its members who serve a vital role in bringing technological solutions to meet our nation's water and wastewater needs.

We commend Congressman Earl Blumenauer for his efforts in addressing the financial needs facing our nation in managing its water resources and infrastructure and in defining what he believes to be the appropriate role of the federal government in that pursuit. We further applaud the work of your subcommittee and the leadership you provide in support of the environment and the infrastructure required to protect and enhance our precious, life-sustaining resource -- water.

While we are in agreement that our communities must have the financial resources available to them to meet their many water-related challenges in a sustainable fashion, we do not believe that creation of a Clean Water Trust Fund is the best mechanism for achieving that goal.

In our opinion, a trust fund creates a market distortion by subsidizing the costs of providing essential drinking water and wastewater treatment services, perpetuating what is already a gross undervaluing of water in the minds of the consumer. Subsidization of water rates further discourages conservation and sound resource management -- critical tools in meeting our future water challenges. Until such time as the general public understands and appreciates what it costs to provide these life-sustaining services, there will be little tolerance for full cost-of-service rates, which is the only true source of sustainable financing over the long run.

S A F E G U A R D I N G T H E I N T E R E S T S O F I T S M E M B E R S S I N C E 1 9 0 8 .
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A trust fund would require creation of a costly federal bureaucracy to collect fees and monitor and enforce compliance, draining funds away from their intended purpose.

The unpredictability of funding associated with trust funds, as is clearly evidenced by the Highway Trust Fund, would place our industry in a constant state of chaos, never knowing for certain whether funds will exist when projects are ready to move forward. Our member companies experienced this during the days of the EPA Construction Grants Program, where the only thing constant was the uncertainty associated with funding levels. In a climate of financial uncertainty, it was impossible for companies to predict their resource needs for any given year and prevented any long-term investment in research and development.

Of grave concern is what impact such a trust fund would have on the corpus of the state revolving fund programs. These programs have proven to be a highly effective means of providing low-cost financing to communities of all sizes and have been emulated by other countries given their success in ensuring a long-term source of stable and affordable funding. We acknowledge that they remain woefully underfunded, and we appreciate that this legislation would assist in significantly increasing the capitalization of these SRF programs.

However, we are deeply concerned with the fact that 50% of the funds will be made available in the form of grants, and of the remaining 50% available in the form of loans, 30% of these loans could contain additional subsidization, such as principal forgiveness and negative interest loans. Why would a community apply for a loan, when they stand the chance of receiving a grant, which would allow them to avoid any rate increases? Instead of helping to expedite projects moving forward, we can envision the marketplace coming to a halt as communities wait their turn for a grant. This is not a negative reflection of our community leaders; it is simply a fact that a grant is more politically palatable than other options.

The stimulus program is a prime example of the "law of unintended consequences" where our marketplace has, in fact, come to a screeching halt as a result of communities waiting in line for a grant and state and local governments struggling to comply with new protectionist language that restricts their purchasing options. A trust fund based primarily on grants and other forms of subsidies will only perpetuate market disruption and project delays.

Fewer loans also means less monies being returned to replenish the SRF programs and being made available to meet other communities' needs – placing these programs in jeopardy by striking at the very heart of what makes them succeed, their perpetual nature. Without market stability, the companies that these communities depend upon to provide their technology needs may not survive, or they may choose to focus on other markets whose predictive nature lends toward more satisfactory returns.

From a public policy standpoint, grants serve to subsidize all customers' rates, even those that can afford the full cost of service. This is an inappropriate use of taxpayers' dollars.

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Even if the source of funds comes from corporate taxes and fees on beverages, pharmaceuticals and disposable items, as proposed in the legislation, the consumer will ultimately end up bearing the additional costs that will be passed along by these targeted industries. Their monies will go toward rewarding one community - or subset of a community - for failure to pay what they can afford at the expense of others who have met their obligations.

Grants to municipalities further place private companies at a disadvantage when, in fact, they might be an appropriate alternative for improving efficiencies as well as quality of service. Subsidies and grants can have the perverse effect of supporting otherwise inefficient operations. Our economy is driven by productivity and efficiency and a system of federal subsidization can serve to undermine these objectives.

What Do We Support?

WWEMA wholeheartedly endorses the application of full cost-of-service rates, *where affordable*, as well as use of sound asset management practices and incentives to employ innovative technologies. WWEMA supports increased funding of the SRF programs for their intended purpose of making low-interest loans, or subsidized loans in rare cases, as a means of ensuring their long-term viability as a low-cost funding source.

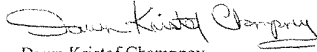
Any subsidies that are provided should be targeted for impoverished communities or economically-disadvantaged households based on affordability criteria. Grants, if any, should be made available for regional clean water challenges, such as combined sewer overflows.

We encourage the Committee to consider other funding mechanisms as well that can bring new sources of financing to meet our nation's water and wastewater needs, including removing the volume cap on private activity bonds used for water and wastewater projects, as well as consideration of a national water infrastructure bank that would provide loan and loan guarantees at a nominal cost to the Treasury.

Most of all, we urge the Committee to make certain that whatever financing mechanisms are pursued, they embrace the use of value-based procurement methods to ensure that the communities are able to secure the best technologies that offer the greatest return for the life of the project at the lowest total cost of ownership.

Thank you for this opportunity to present our views. We stand ready to assist you in any way possible as you move forward with consideration of this legislative proposal.

Sincerely,



Dawn Kristof Champney
President