Advocating for Alternative Financing of Our Aging Water Infrastructure

By Scott Cattran

It's no longer a secret that our nation's aging water infrastructure is nearing a crisis point. In 2009, the American Society of Civil Engineers (ASCE) released a report card for America's infrastructure, rating our drinking water and wastewater infrastructures a D-. But since then, what's really changed? Throughout the country, water utilities and municipalities have enormous amounts of pent-up demand for capital projects and even simple repairs, but the reality is they simply don't have access to the funding necessary to perform the work.

Standard operating procedures have changed drastically for utilities in recent years. Previously, most municipalities and utilities could use their bonding capacity to fund yearly capital and operational programs; growth was occurring in many cities and states and revenues were on the rise. Now, with shrinking to non-existent budgets, development generally still languishing and the battle cry for austerity growing louder with November elections looming, progressive utilities are starting to think differently about how to fund much needed future programs. In this article, I will touch upon some hopeful possibilities on the horizon that will allow them to fund the critical projects and, as a result, fulfill one of their most important missions: to protect the health and safety of their citizens.

Woolpert, and other firms like us, are looking to help solve this funding challenge and become advocates on behalf of our industry. We're spending more and more time working with our members of Congress and professional organizations that are actively promoting alternative financing methods, most notably: NACWA, ACEC, ASCE, WEF, APWA and AWWA. While each of these organizations has differing priorities and agendas, they all recognize the importance of finding fresh approaches to financing and helping promote infrastructure improvements and protect our nation's environment.

Presently, I am closely monitoring the development of several new bills that promise innovative new funding options. Specifically, the following financing alternatives were recently presented as testimony to the House of Representatives Subcommittee on Water Resources and the Environment Transportation and Infrastructure Committee:

- Water Infrastructure Financing Innovations Authority (WIFIA)
- Private Activity Bonds (PABs)
- Clean Water Trust Fund
- Ongoing funding of the Federal Clean Water State Revolving Fund (SRF)

Of these, I'm most optimistic about the potential for PABs and WIFIA to help alleviate the funding stasis. Here's a brief overview of these two initiatives and how they may impact our clients.

Private Activity Bonds (PABs). Proposed expansion of the PAB program, which enables private equity partners to seek the advantage of tax-exempt bonds, could have an important role to play in closing the water infrastructure funding gap. Currently, each state is limited by federal law in the amount of PABs that may be issued for 19 categories of projects, ranging from housing projects to student loans. This volume cap results in water infrastructure projects having to compete with more visible projects. As we well know, water and sewer projects don't attract public attention until there are disruptive water main brakes or massive sewer overflows. Lifting the volume cap on PABs for water infrastructure projects would give communities the option to access private equity partners, potentially infusing billions of dollars of private capital investment for water and wastewater projects at a nominal cost to the federal government.

In the past, the federal government lifted similar volume caps to PABs when our nation was facing a financing crisis in the development of adequate solid waste disposal facilities. By lifting the volume cap for financing landfill projects, a significant amount of funding was made available for landfill and waste facility construction. Similarly, lifting the volume cap for water infrastructure projects could be a boon to communities in desperate need of financing options.

Water Infrastructure Financing Innovations Authority (WIFIA). Like PABs, WIFIA also has a historical precedent of success with 1998s TIFIA Act, a federal credit program for transportation-based initiatives on which WIFIA is being modeled. At its heart, the goal of WIFIA is to provide a mechanism for debt financing of water-related projects through low-interest loans and other credit support.

To give you an idea of the measure of its success, TIFIA has converted \$122 million in annual funding into \$2.2 billion in annual funding for transportation projects since 2005. And unlike highway construction projects where new tolls and fees are used to generate financing, water and wastewater treatment utilities already impose usage rates and charge fees to their customers. In this type of program, any debt financing for capital replacement, expansions and repaying loans is based upon and guaranteed by dedicated revenues raised for those purposes. Because of this built-in fee collection structure, it's estimated that more than 90 percent of water projects across the nation could have the appropriate financing profile to participate in a WIFIA program.

There are currently two members of Congress on the Subcommittee on Water Resources and Environment who will have significant influence on the passage of this bill: Congressman Bob Gibbs (R-Ohio) and Congressman Tim Bishop (D-NY), also the ranking Democrat on the subcommittee. As could be expected, each House member has a different view on how the final bill should be constructed and which objectives should be met.

While very promising overall, WIFIA's current bill proposals are not without inherent concerns. One makes the EPA responsible for administering, assessing and distributing these funds, rather than leaving that under the management of the Department of Treasury, where funds could be distributed as direct loans to the 50 State Referral Fund (SRF) financing authorities. Another proposes a \$20 million minimum eligibility requirement for projects, which would take several of our clients' important projects out of consideration. If the administration of these funds falls back into the hands of the SRFs, then WIFIA can act more like a direct loan program and enable state-selected loans for projects of any size.

Our nation is at a crossroads with respect to how state and local governments, in partnership with the federal government, are going to fund our nation's water infrastructure projects. Frankly, the time might be right to completely re-write the EPA's Clean Water Act, enabling programs and funding to mirror the holistic approach to water management as advocated in the EPA's integrated municipal planning approach. But for now, new methods of financing would certainly be a step in the right direction.

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