



Ken Kirk  
Executive Director  
National Association of Clean Water Agencies

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## Bridging the Funding Gap

The need for greater federal investment in  
wastewater infrastructure



## My Message Today

Everyone (EPA, GAO, CBO, WIN) agrees that the cost of meeting the nation's water quality goals and wastewater service standards exceed current spending by about \$10B a year.

The solutions discussed at this conference all have their place, but even if we did everything, we'd still fall short by billions a year.

Because of their public goods characteristics, economies of scale, or national priorities, the US has committed to fund nearly every other type of critical national infrastructure through trust funds and dedicated taxes.

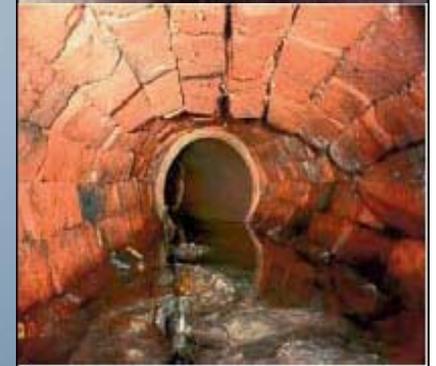
America's network of wastewater treatment systems deliver broad public goods to the nation as a whole, and more important, we all agree that water quality is just as high a national priority as safe and efficient transportation.

**America Deserves a Clean Water Trust Fund**



# The Problem

- Our waterways are at risk because much of our clean water infrastructure is in need of repair and replacement
- Many communities use pipes that are over one hundred years old
- The American Society of Civil Engineers (ASCE) graded the nation's water/wastewater infrastructure a D-
- According to ASCE, many systems have reached the end of their useful lives





# The Problem

- Billions of gallons of untreated sewage flow into U.S. surface waters each year
- Older systems are plagued by chronic overflows during major rain storms and heavy snowmelt:
  - Combined sewer overflows: 850 billion gallons per year of untreated sewage and stormwater into our waterways
  - Sanitary sewer overflows: 3-10 billion gallons per year of raw sewage discharged





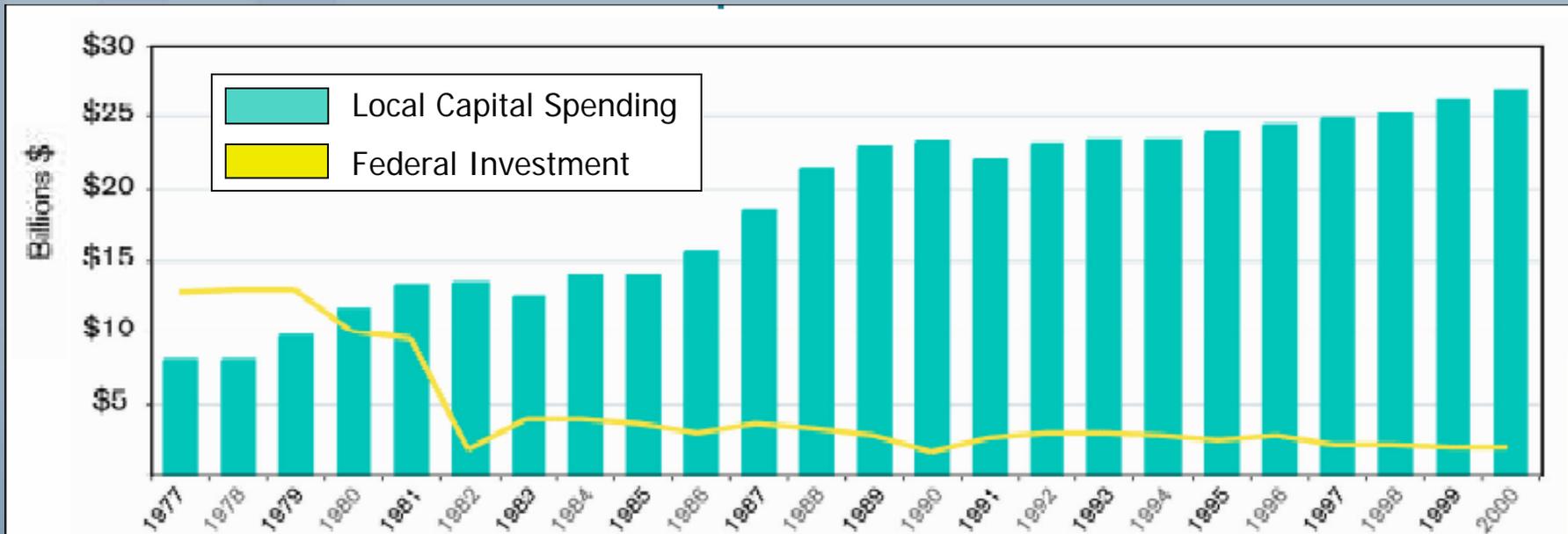
# Funding Gap



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



## Need Grows -- Federal Share Falls



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



## But, What About All of EPA's Solutions?

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

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





# Better Utility Management



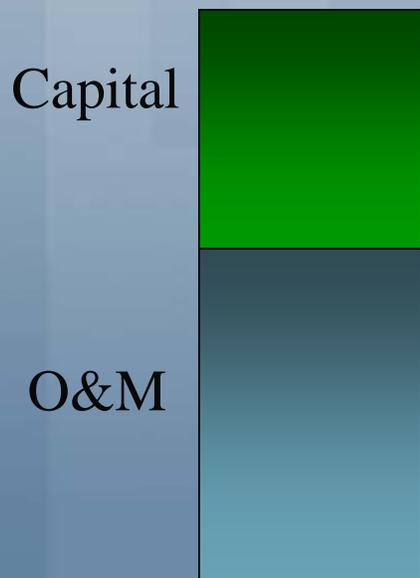
- **What:** Asset management, EMS, cost-effective technologies, design-build delivery, public-private partnerships
- Sure, all of these approaches can reduce costs of capital and/or O&M
- But, much of the gains have already been captured and estimates of “the gap” already take O&M efficiencies into account,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



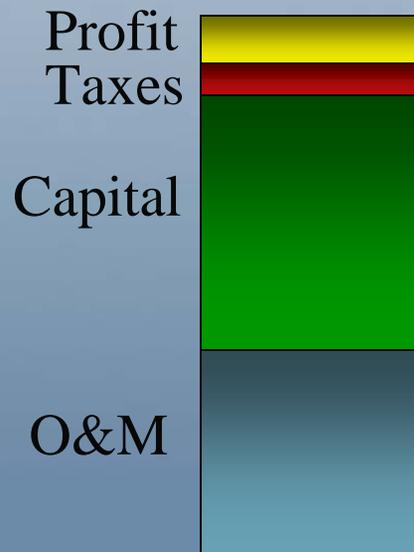
# Let's Be Clear About Public-Private Partnerships

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

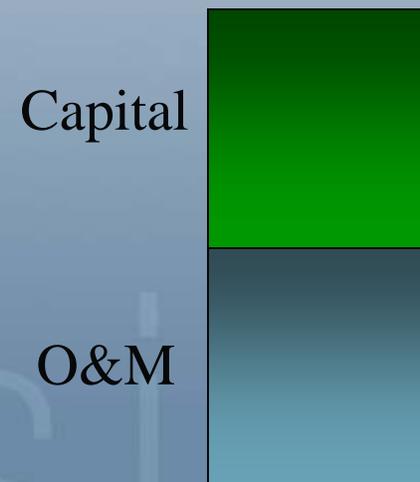
Inefficient Public



Efficient Private



Efficient Public





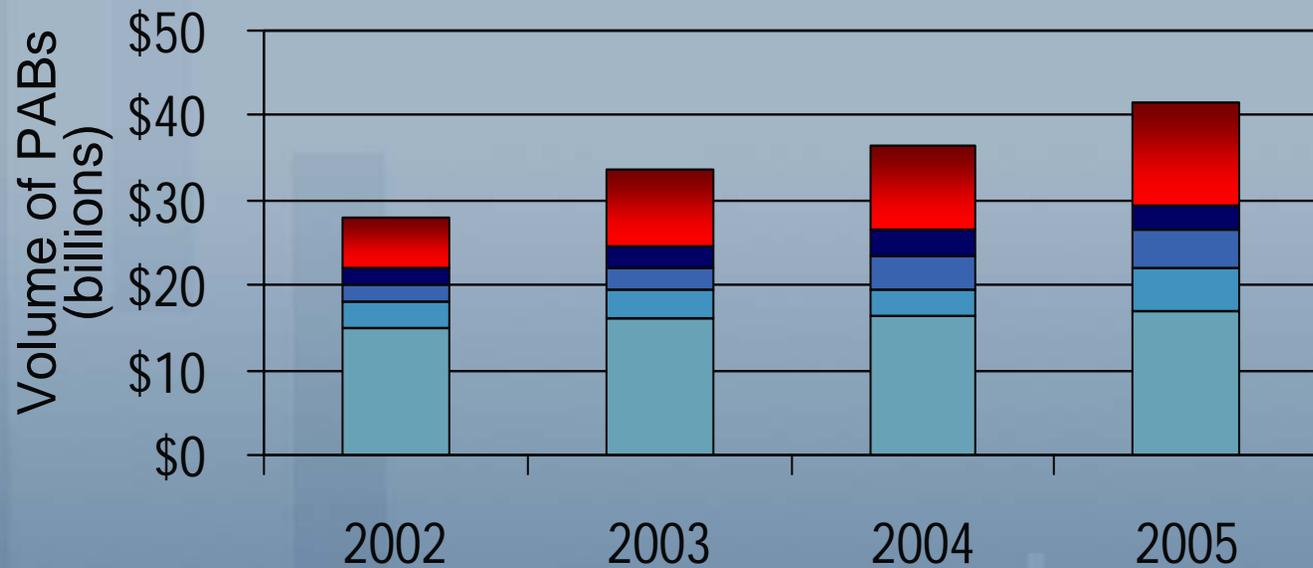
# Customized Financing Tools and Approaches

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



# Let's Be Clear About Private Activity Bonds

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



## Number of States with Unused Capacity By Year

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





# More Efficient Water Use

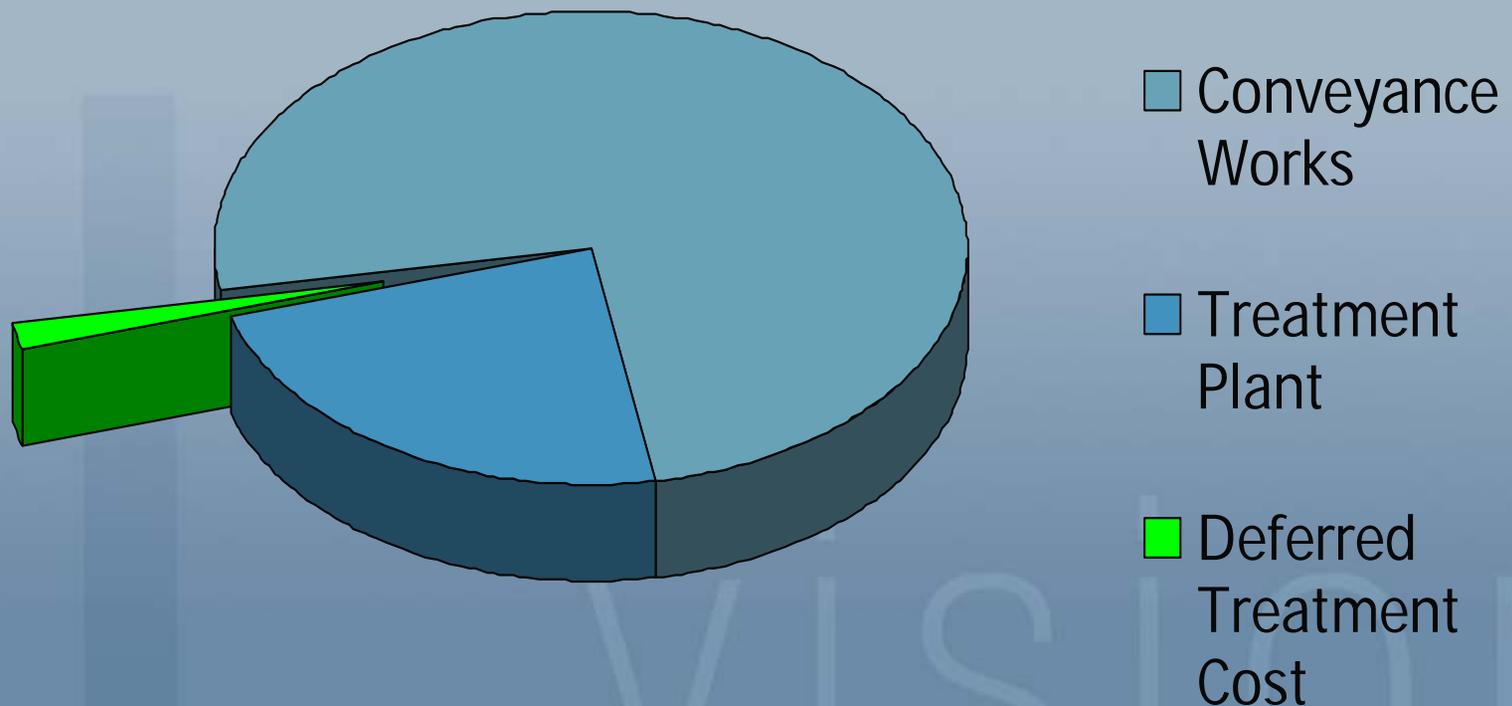
- **What:** household, commercial, and industrial water conservation and use efficiency programs
- Great idea to cut O&M costs in the short run, freeing up capital to fund more infrastructure
- But it's a short-run adjustment, which reduces need to invest today in growth-related infrastructure – but,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





# Let's Be Clear About Water Conservation

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



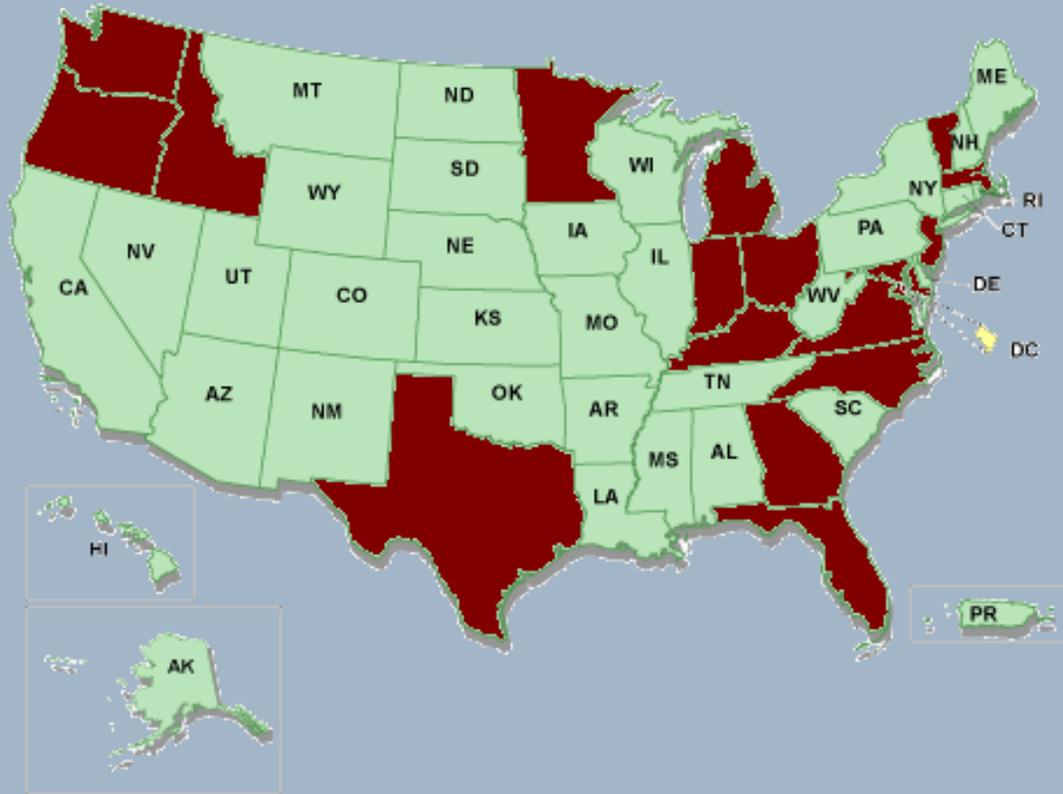


# Watershed-Scale Solutions

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



# Let's Be Clear About Watershed-Scale Solutions



- EPA identified only 17 states as having a high-potential for watershed-based NPDES permitting
- Tradable rights work poorly where water quality limitations require point sources to take actions subject to enforcement
- Watershed solutions including tradable permits do not address the majority of wastewater infrastructure needs



## A Clean Water Trust Fund

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

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

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



# Why a Federal Trust Fund?

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

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

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



# Why Not Offer Federal Tax Subsidies?

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



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



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

## Essential Criteria

- Fair & Equitable
- Minimize Burden
- Funds Are Firewalled

## Options

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

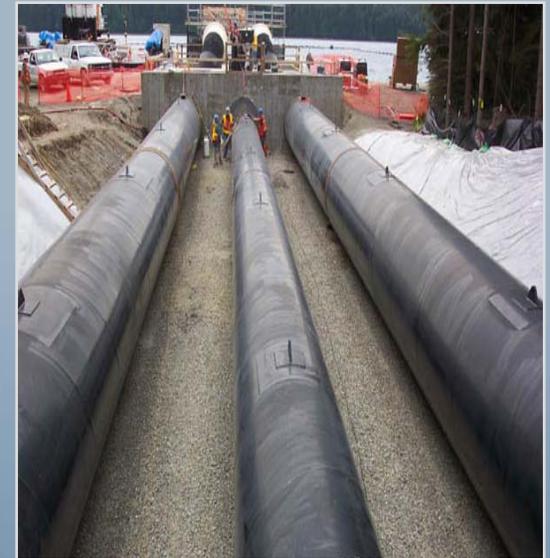
*Thinking about only one option, target revenues could be raised with a fee of less than one half of one percent on flushables, bottled beverages, and corporate income, with negligible effects on the US economy. **This would raise approximately \$8 billion/year.***





# What Would the Trust Fund Finance?

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





# Final Thoughts on Achieving Sustainability



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

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# Questions?



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