

INNOVATIVE WATER AND WASTEWATER INFRASTRUCTURE FINANCING

California cities' water and wastewater systems need a significant overhaul to keep the world's eighth largest economy moving. Much of the State's public infrastructure was designed and built to serve a population half the size of California's 38 million residents today, and there has been almost no new investment in California's water and wastewater systems in more than 30 years. This delay puts increasing pressure on the State for action as California's population is expected to grow by 10 million to a staggering 48 million people by 2020. All the while the State's aging infrastructure continues to deteriorate, raising maintenance and repair costs as the State simultaneously works to meet new, more stringent standards for safe drinking water and clean water.

Beyond the financial costs imposed by aging infrastructure, these old systems place very real costs on economic development. Investment in infrastructure is vital to our State's productivity, competitiveness and economic well-being. Communities with efficient road systems, good schools and water delivery and wastewater systems can better attract residents and businesses to improve economic activity. In short, infrastructure maintenance and renewal is critical for sustaining the economic engine of California. However, funding limitations continue to severely restrict the improvements that are absolutely necessary for the continued upkeep of our infrastructure.

For years, the federal government played a large role in collecting and distributing funds for infrastructure improvements. Increasingly, however, this responsibility has been turned over to State and local governments, who have sought to finance infrastructure projects through bonds, sales taxes or general tax revenues through appeals to individual voters. These efforts have met with mixed results, especially as the national economic downturn has put many voters in difficult financial situations and unable to support increased user fees or taxes to fund infrastructure improvement projects. Still the State has sought to improve its infrastructure systems. In 2006, California voters passed almost \$42 billion worth of infrastructure measures, and although that was a good start, these measures represent only a drop in the bucket compared to the \$650 billion needed to move California in the right direction over the next 10 years as estimated by the American Society of Civil Engineers (ASCE).

According to a recently released ASCE report, California needs total spending of \$266 billion over 10 years to meet its water infrastructure maintenance and improvement commitments. This total includes:

- \$8 billion per year in funding to maintain the State's solid waste management systems over the next 10 years at an ASCE B grade level.

- \$6.7 billion per year for the next 10 years to improve the State's urban runoff infrastructure from its current ASCE D+ grade level. Investment in key program areas include infrastructure, regulation, and the control of sources of pollutants in our environment.
- \$4.5 billion annually over the next 10 years to improve the State's wastewater infrastructure from an ASCE grade of C+ to B. California's 100,000 miles of sewers and over 900 wastewater treatment plants must be improved to protect the water resources of the State by better managing the approximately 4 billion gallons of wastewater generated every day by California's citizens and businesses.
- \$4.6 billion per year over the next 10 years to improve California's clean water delivery systems and move from an ASCE grade of C to C+. Significant investments are still needed to address renewal and replacement, maintenance, security and reliability for the State's water infrastructure. These investments will move water supply and related infrastructure closer to a path of sustainability.
- \$2.8 billion per year over the next 10 years to protect thousands of homes, businesses and critical community infrastructure from potential catastrophic disaster to life and property from the failure of fragile levee systems.

A creative and committed Federal, State and local partnership must be revived if we are to meet our national infrastructure obligations that are necessary for our country's economy to thrive. The League urges Congress to:

- Provide adequate and reliable long-term financing solutions for municipal water delivery, maintenance and treatment needs (including the Clean Water and Drinking Water State Revolving Loan Funds) to meet federally mandated water quality standards and maintain the vital infrastructure necessary to ensure the availability of clean water for an increasing population.
- Enact legislation that would exempt Private Activity Bonds for water and sewage facilities from the State volume caps. Amending the Internal Revenue Code (26 USC 146) to remove the volume cap applicable to private activity bonds for public-purpose water and wastewater projects would allow local communities to leverage private capital markets in combination with other finance mechanisms and provide an influx of low cost private capital to finance water infrastructure projects. The local users would in turn repay the bond issuances over time.
- Reauthorize the Water Resources Development Act (WRDA) and create within the Act a Water Infrastructure Finance and Innovation Authority (WIFIA), modeled after the successful Transportation Infrastructure Financing and Innovation Act (TIFIA). Such a mechanism could lower the cost of capital for water utilities while having little or no long term effect on the federal budget. WIFIA would access funds from the U.S. Treasury at long-term Treasury rates and use those funds to provide loans or other credit support for water projects. Funds could flow from the Treasury, through WIFIA, to larger water projects or to State Revolving Funds to create larger capital pools. Loan repayments, with interest, would flow back to WIFIA and into the Treasury.