LEAGUE® OF CALIFORNIA CITIES

1400 K Street, Suite 400 • Sacramento, California 95814
Phone: (916) 658-8200 Fax: (916) 658-8240
www.cacities.org

INNOVATIVE WATER AND WASTEWATER INFRASTRUCTURE FINANCING

As California continues to navigate through one of the worst droughts in state history, the need for innovative water and wastewater infrastructure financing tools has never been greater. The drought has exasperated longstanding water challenges facing the state such as stark regional differences in water availability and mounting pressure from a thirsty growing population. While California has taken great strides in reducing per capita water usage and developing new efficiency policies, our cities' water and wastewater systems need a significant overhaul to keep the world's eighth largest economy moving.

Much of California's public infrastructure was designed and built to serve a population half the size of California's 38 million residents today. Expanding and/or repairing aging infrastructure must be a greater priority as major investments in California's water and wastewater systems have been lacking since the 1970s. This delay puts increasing pressure on the state and cities' for action as California's population is expected to grow to nearly 42 million people by 2020. The longer needs go unmet, the more our water infrastructure deteriorates and the cost to maintain, update and repair this precious infrastructure increases.

Beyond the financial costs imposed by aging infrastructure, these old systems place very real costs on economic development. Investment in infrastructure is vital to California'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 with bonds, sales taxes or general tax revenues through appeals to voters. In November 2014, California voters approved about $7.5 billion in general obligations bonds for state water supply infrastructure projects. Despite these welcomed funds, more are needed.

How much funding does California need? In a 2012 report, the American Society of Civil Engineers (ASCE) estimated the total 10 year investment needed to reflect the cost of water infrastructure maintenance and capital improvements to address new growth, replace deteriorating and aging facilities is $46billion. For wastewater infrastructure renewal, replacement and/or maintenance, the ASCE estimated that $4.5 billion annually is needed over the next 10 years to improve California's 100,000 miles of sewers and over 900 wastewater treatment plants that manage approximately 4 billion gallons of wastewater generated every day by California's citizens and businesses. In addition, ASCE has identified the following funding needs:

- $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.
- $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 collaborative and committed partnership between federal, state and local officials is necessary to meet our national infrastructure obligations that are vital for our country's economy to thrive. The League commends President Obama and Congress for working together to reauthorize the Water Resources Reform and Development Act (WRRDA) and create a Water Infrastructure Finance and Innovation Authority (WIFIA), modeled after the successful Transportation Infrastructure Financing and Innovation Act (TIFIA). This legislation lowers the cost of capital for water utilities while having little or no long term effect on the federal budget. WIFIA accesses funds from the U.S. Treasury at long-term Treasury rates and uses those funds to provide loans or other credit support for water projects. While this progress is celebrated, there is still more work to be done. 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.