



**American Water Works
Association**

Dedicated to the World's Most Important Resource®

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November 16, 2016

President-Elect Donald J. Trump
1717 Pennsylvania Avenue, NW
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Dear President-Elect Trump,

Congratulations on your election as the 45th President of the United States of America.

As you have noted during your successful campaign, our nation is facing many challenges. Among the most critical are renewing our country's water systems and assuring high drinking water quality for all Americans.

Safe drinking water is vital to public health protection, fire prevention, economic prosperity, and our quality of life. Water is truly our lifeblood. Without adequate supplies of safe and affordable water and well-maintained systems to deliver it, no country can rank among the best.

The American Water Works Association's (AWWA) 50,000 members represent the full spectrum of water utilities – small and large, rural and urban, municipal and investor-owned. From this diverse perspective, we would like to bring to your attention several issues, shared priorities and opportunities for collaboration. Working closely with your administration, we hope to encourage reinvestment in water infrastructure, top-shelf cybersecurity, protection of source water, smart approaches to affordability, an efficient energy-water nexus, and a focus on scientific integrity in our regulatory processes.

As you and your administration embark on this journey, we stand ready to assist in any way possible. Please don't hesitate to call on us for further information or assistance.

Thank you for your consideration, and congratulations once more.

Sincerely,

G. Tracy Mehan, III
Executive Director, Government Affairs

“We’re going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it.”

*-- President-Elect, Donald J. Trump
November 9, 2016*

Water Infrastructure Investment = Economic Prosperity

The top priority facing our nation's drinking water and wastewater systems is financing the repairs, replacement and expansion necessary to support our communities and assure a vibrant economy.

Water infrastructure protects public health and the environment, supports local businesses, protects us from fires, and brings us a high quality of life. The Bureau of Economic Analysis (BEA) at the US Department of Commerce estimates that for every dollar spent on water infrastructure, \$2.63 is generated in the private economy. And for every job added in the water workforce, the BEA estimates that 3.68 jobs are added in the national economy.

AWWA estimates that approximately \$1 trillion dollars will be needed for the repair, replacement and expansion of existing drinking water distribution systems over the next two decades. This figure does not include the estimated \$30 billion that would be required to replace U.S. lead service lines to protect against incidents such as the one in Flint, Michigan.

One innovative solution is a new credit program, the Water Infrastructure Finance and Innovation Act (WIFIA). We are hopeful that once it is fully implemented and funded, it can provide much-needed access to low-interest financing for larger water infrastructure projects or projects outside the scope of the State Revolving Funds. A WIFIA loan will support up to 49% of eligible project costs, which might also involve municipal bonds, cash financing, an SRF loan, and/or private capital. Just like in the already-successful transportation program called TIFIA, Congress only has to appropriate funds for the risk factor for loans. Historically, the default rate for water utilities nationwide is 0.04 percent. **Based on calculations from the Office of Management and Budget, Congressional appropriations could be leveraged at a ratio of 67:1. For example, if the WIFIA program were to receive the \$50 million, it could cover \$3.35 billion in credit assistance. This program provides an exceptional vehicle to stimulate the investments needed to sustain our nation's drinking water and wastewater infrastructure.**

To finance the remaining 51% of a WIFIA project loan, a utility has several options, including federal tax-exempt private activity bonds. Congress provides states an annual allocation of federal tax-exempt private activity bonds, based upon population. In 2015, the state allocation or volume cap was the greater of \$100 per resident or \$301.52 million. Historically, most of the tax-exempt bonds have been issued to short-term projects such as housing and education loans. The annual volume cap hinders the use of private activity bonds (PABs) for water and wastewater infrastructure, which are generally multi-year projects. On average, only 1% of exempt facility bonds are issued to water and wastewater projects annually.

See the attached description of WIFIA for further details.

Existing federal programs such as the Drinking Water State Revolving Fund (DWSRF) and Clean Water State Revolving Fund (CWSRF) are designed to assist community water and wastewater systems access lower-cost financing for infrastructure projects. We support robust funding for these very successful programs. Under the SRF programs, states make loans to a

utility, which must be repaid, and those funds are then lent to other communities, and so on. While the SRFs are excellent programs, their efficiency could be improved by working with stakeholders to streamline the approval process.

Recommendations

- Reinvestment in America’s buried water infrastructure should be a top national priority.
- Support strong funding for the Water Infrastructure Finance Innovation Act (WIFIA) and State Revolving Funds (SRF) programs. Allow these programs to be combined with the use of tax-exempt financing, such as municipal bonds.
- Eliminate the cap on private activity bonds for financing water infrastructure projects to further promote necessary investments.
- These funding programs should be structured to ensure that communities can expedite infrastructure projects and are not overly burdened with “red tape.”

Cybersecurity for Critical Infrastructure

Continued advances in automation and information technologies have brought great economic advantages to many sectors. However, these capabilities also introduced the specter of cyber-attacks, a new and faceless threat to individuals, businesses and the critical infrastructure upon which our economy depends. A punitive, compliance-based approach to cybersecurity that places the burden solely on prospective victims/targets of cybercrimes and attacks is ill-advised. Responsibility for cybersecurity must be shared with technology providers to ensure that the systems to support infrastructure operations, to the extent possible, are not susceptible to attack. In addition, technical support programs are needed to help systems – particularly in small and medium-sized communities -- overcome the technical knowledge/skills gap associated with many of the security systems that have been deployed.

The cyber threat requires a public-private collaboration to develop solutions and mitigate risks facing critical infrastructure.

Recommendations

- Support a voluntary, collaborative approach that recognizes the dynamic nature of the threats facing critical infrastructure.
- Expand support for aggressive investigation and prosecution of cyber attackers.
- Enhance programs, such as the Industrial Control Systems Cyber Emergency Response Team (ICS-CERT), that can support and build the cyber risk management capacity of all critical infrastructure sectors and rapid information sharing for vulnerability mitigation protocols.

Source Water Protection

Protection and management of source waters are critical to the mission of any drinking water utility and the communities it serves. In reality, however, many drinking water systems have limited control over upstream activities that may present risks to water quality. The revised Toxic Substances Control Act (TSCA) does contain provisions for requiring consideration of impacts on drinking water sources for certain substances. This is an important step in developing programs that place high value on source waters. However, there are critical policy gaps that impede water utility consideration of prospective risks to source waters. These gaps are due to inadequate information-sharing policies and a lack of notification protocols to alert a utility of incidents that could impact a water supply.

In addition, improved collaboration between agriculture producers and water providers can have measurable results in reducing sediment and nutrient pollution. Nutrients from agricultural runoff do impact drinking water quality, as we saw in Toledo, Ohio, in 2014, when the water system had to be shut down. Incentivizing upstream adoption of best management practices for nutrient management, along with structural and edge-of-field practices (e.g. riparian buffers, drainage water management, tile nutrient management), are important tools in managing source water quality.

Recommendations

- Support the designation of drinking water utilities as “first responders” in various state and federal emergency response laws and regulations to facilitate information sharing with a clear “need-to-know” status.
- Sustain and expand targeted programs, particularly the conservation programs in the Farm Bill, that support collaboration between agriculture producers and community water systems to improve source water quality.

Energy – Water Nexus

Drinking water and wastewater utilities use nearly 2% of electricity nationwide. Ultimately, the water and energy sector are deeply co-dependent, with most energy production requiring water and all water production/treatment requiring energy. Improving energy efficiency, energy management, and deployment of renewables within the water sector lowers costs and improves system resilience. This frees up more resources for infrastructure renewal and other priorities, leads to lower emissions, and assists states in meeting their energy goals. Collaborations with the Department of Energy have provided the water sector with key resources needed to improve efficiency and energy management.

Recommendations

- Support voluntary Department of Energy programs designed to assist the water sector, including continued expansion of the *Better Plants* program.

- Support initiation of a *Uniform Methods Project* for water utility energy efficiency.
- Support the development of voluntary state energy programs for the water sector.

Affordability

The core mission of drinking water and wastewater systems is to protect public health and the environment. To accomplish this mission, these water systems must build and operate increasingly complex treatment systems to meet various statutory and regulatory requirements. These systems must also be built and operated in a manner that is affordable to the local ratepayer. Studies done in collaboration with the U.S. Conference of Mayors have shown that some regulatory actions do not fully take into consideration the larger context of public health needs and benefits for a community. Since water and wastewater services are funded principally by local ratepayers, the collective burden from multiple regulatory actions should be considered in the whole, as they would be by the families and businesses that will be required to fund them. A lack of integrated planning redirects constrained funding to address issues that may not generate the greatest public health benefit.

Recommendations

- Integrated planning should account for the full cost placed on a community when considering drinking water and wastewater regulatory actions to ensure such decision's are not overly burdensome and thus undermine the very benefits sought.

Scientific Integrity and Transparency

A core tenet of the Safe Drinking Water Act and AWWA is adherence to sound science. This tenet is essential to ensure the integrity of the decision-making process, which must include rigorous public review and comment. In some quarters, this process appears too slow and there is concern it results in too many regulatory delays. However, AWWA believes greater investment in the necessary fundamental scientific research would mitigate these concerns, expedite decision-making and benefit public health.

In the absence of critical information, especially health effects data, agency actions can result in less-than-optimal decisions that may not serve the public interest. Decision-making based on limited information undermines the credibility of the process with the public and often results in costly diversions of limited financial resources. The absence of data and information can be overcome with appropriate budgetary support for research.

Recommendations

- Fully utilize the deliberative, science-based regulatory processes outlined in the Safe Drinking Water Act to set health-protective standards for drinking water.

What is the American Water Works Association?

The American Water Works Association (AWWA) is an international, nonprofit, scientific and educational society dedicated to providing total water solutions and assuring the effective management of water. Founded in 1881, the association is the largest organization of water professionals in the world. Our membership includes more than 3,900 utilities that supply roughly 80 percent of the nation's drinking water and treat almost half of the nation's wastewater. Our 50,000 members represent the full spectrum of the water community: public water and wastewater systems, environmental advocates, scientists, academicians, and others who hold a genuine interest in water, our most important resource. AWWA unites the diverse water community to advance public health, safety, the economy, and the environment.

What is the Water Sector?

There are more than 52,000 community drinking water systems and approximately 16,500 publicly owned treatment works in the United States, most of which are municipal entities.

Water Infrastructure Finance and Innovation Act (WIFIA) Program Summary

Basics of the WIFIA program:

- Modeled on the Transportation Infrastructure Finance and Innovation Act (TIFIA);
- Provides federal credit assistance in the form of loans, guarantees, or lines of credit for eligible projects;
- Program priorities include the repair, rehabilitation, and replacement of aging water infrastructure and conveyance systems;
- Projects must be a minimum of \$20 million in cost for large communities; \$5 million for communities of 25,000 or less;
- WIFIA funds can be used to pay for 49% of eligible project costs (federal funds can make up a maximum of 80% of eligible project costs).

Benefits of the WIFIA program:

- Supplements the existing State Revolving Fund (SRF) programs;
- Federal dollars can be leveraged to fund amounts much larger than the amounts appropriated by Congress, estimated by the Senate Environment and Public Works Committee and the Office of Management and Budget to be a ratio of 67:1 (\$1 in subsidy appropriation supports \$67 in credit assistance);
- Project applicants must be creditworthy, reducing the risk of defaults on projects, which is currently estimated at 0.04 by Fitch Ratings;
- Program involves loans that are repaid with interest, meaning minimal risks and minimal long-term costs to the federal government;
- Constitutes an existing federal program, negating the need for Congress to authorize a new program model.

Water infrastructure is vital to our nation's well-being for numerous reasons. Water infrastructure protects public health and the environment, supports the local and national economies, protects us from fires, creates jobs, and brings us a better quality of life. The Water Infrastructure Finance and Innovation Act (WIFIA) program is a cost-effective mechanism that will help communities deal with the over \$1.3 trillion price tag for needed water infrastructure investments.

The American Water Works Association (AWWA) has been intimately involved in both the creation and the implementation of WIFIA. As outlined in the Water Resources Reform and Development Act (WRRDA) of 2014 (P.L. 113-121), WIFIA allows the federal government to play an important role in facilitating increased local spending on infrastructure by lowering the cost of capital for water and wastewater projects. Lowering these costs represents an important way to leverage local funding and help America rebuild its aging infrastructure, since lowering the cost of capital can offer significant cost savings to the utility and its customers. For example, lowering the cost of borrowing by three percent on a 30-year loan can reduce total project cost by over 20 percent. In this way, low-interest financing has the same effect as making a grant to cover part of the project's costs – except that the financing will be repaid to the federal government and will not add to the long-term deficit. The savings for local borrowers can significantly accelerate water infrastructure investment by making it more affordable for utilities and their customers.

A WIFIA loan could support up to 49% of the eligible project costs, which might also involve municipal bonds, cash financing, an SRF loan, and/or private capital. A WIFIA loan reflects long term Treasury rates and will be equal to or greater than the Treasury rate of a similar maturity. Additionally, in a given project year, Congressional appropriations will be used to cover the “subsidy cost” of its loan portfolio, i.e. the estimated cost of defaults. Based on calculations from the Office of Management and Budget, Congressional appropriations could be leveraged at a ratio of 67:1. **For example, if WIFIA were to receive the \$50 million in the House Interior, Environment, and Related Agencies appropriations bill for Fiscal Year 2017, the WIFIA program could cover \$3.35 billion in credit assistance.**

Communities large and small across the country are wrestling with aging water infrastructure, increased regulatory pressures and unprecedented drought as they strive to continue to provide us all with the safest drinking water in the world. It is vital that your administration continue to support these critical investments in our water infrastructure.