

THE BOND BUYER

What Congress will appropriate for water infrastructure

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WASHINGTON – State revolving funds that finance local sewer and drinking water projects would receive \$2.86 billion in federal funds in fiscal 2019 under a spending bill unanimously approved Thursday by the Senate Appropriations Committee.

That's the same level of funding the two SRFs are receiving this year under a 2018 omnibus budget deal that increased funding for each of the SRFs by \$300 million.

The two SRFs in every state and Puerto Rico are described by the Environmental Protection Agency as similar to infrastructure banks by providing low interest loans to eligible recipients for water infrastructure projects. As money is paid back into each of the state's two revolving loan funds, the state makes new loans to other recipients. These recycled repayments of loan principal and interest earnings allow the state to "revolve" the money over time, according to the EPA.

A majority of states also leverage their SRF funds to issue municipal bonds to finance local projects.

But as recently as 2015, 22 states used the SRF funds only for direct low-interest loans, according to a recent report by the Natural Resources Defense Council.

The NRDC report recommended all states should issue bonds that are leveraged by their SRFs to increase the funding available for water infrastructure projects.

Wisconsin is among the states that have done this recently.

And California has issued \$906 million in bonds from its clean water SRF since 2016, according to S&P Global Ratings.

The Senate bill would keep funding of the drinking water SRF at \$1.164 billion and the clean water SRF at \$1.694 billion.

The House Appropriations Committee recently approved fiscal 2019 funding for the two SRFs that includes a \$150 million reduction for the clean water program.

The differences will need to be reconciled later this year after the full House and Senate approve their respective spending bills. The 2019 fiscal year starts Oct. 1.

Indiana, which is among the states that leverage its SRF funding to issue bonds, expects to receive \$50 million in federal funds this year. That money will be leveraged through bonds to finance about \$150 million in projects, said Jim McGoff, director of environmental programs at the Indiana Financing Authority.

“Our program has been very successful and our leveraging is now at three-to-one versus one-to-one which is where direct loan states are,” he said.

Indiana has about \$1 billion in drinking water and sewer projects awaiting financing, McGoff said.

A large segment of that backlog could be addressed with a \$436 million loan the EPA has approved for the SRF. The loan, the final details of which still are being worked out, would be issued through the federal Water Infrastructure Finance and Innovation Act (WIFIA) to help finance a total of \$890 million for 20 different water infrastructure projects.

The EPA estimates the nation needs \$743.6 billion in water infrastructure investments over the next 20 years, according to a survey conducted by the agency. EPA’s 2018 survey said \$472.6 billion is needed for drinking water and \$271 billion for wastewater and storm water.

Unmet water infrastructure needs can quickly add up for a city to hundreds of millions of dollars in projects, said Carolyn Berndt, director of sustainability for the National League of Cities.

The needed improvements can range from the drinking water system to the wastewater system, sewers, treatment plant upgrades, federal consent decrees and the cost of federal permits, she said.

At times the problem “is beyond the financial capacity of large or small cities,” Berndt said.

The federal budget for fiscal 2018 also includes \$1 billion available to rural communities through the U.S. Department of Agriculture for low interest loans and grants for water and environmental projects.

Matt Holmes, deputy director of the National Rural Water Association, said the \$1 billion means “there’s not a lack of money at this time for small systems.” But

Holmes added that some states are more efficient at funding drinking water and sewer projects than others.

States are required to provide a 20% match to their federal grants from SRFs, but can also issue bonds backed by the capitalization of the SRFs.

New York and Massachusetts are leaders among the states that issue bonds leveraged by SRFs, according to the NRDC report.

New York has added \$9.35 billion and Massachusetts has added \$4.69 billion to their Clean Water SRF through bonds.

New York has added another \$1.85 billion and Massachusetts has added \$1.2 billion to their Drinking Water SRFs also through bonds, NRDC said.