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On behalf of the Council of Infrastructure Financing Authorities

Subcommittee on Transportation Safety, Infrastructure Security and Water Quality

Committee on Environment and Public Works

September 19, 2007

I am Joe Freeman, Chief of the Financial Assistance Division of the Oklahoma Water Resources Board. I am testifying today on behalf of the Council of Infrastructure Financing Authorities in my capacity as Vice President. CIFA is the national organization of state officials involved in the financing of water and wastewater pollution control projects. CIFA members are responsible for management of the Clean Water and Drinking Water State Revolving Funds.

We welcome today's focus on the issue of financing water quality improvements. Hopefully, this hearing will signal a renewed effort to move forward in cleaning up our nation's water bodies and protecting drinking water sources.

While the progress made by States and the Federal government working in partnership to address water quality challenges has been considerable, it is hardly sufficient to meet the overwhelming need. All evidence points to a “Gap” that is large and growing. A survey of state CWSRF programs undertaken by CIFA in 2005 identified over 2,000 projects seeking loans requiring almost \$9 billion in funding. In my state the city of Tulsa alone has needs of an estimated \$194 million over the next five years. It is clear that at current funding levels a great many needed projects are not going to move forward anytime soon.

The past five years have not provided much encouragement in terms of the federal commitment to preserving and improving our water resources. Both House and Senate committees developed comprehensive legislation to reauthorize the State Revolving Funds, providing significant funding increases and program enhancements, only to see these efforts end in stalemate. Appropriations levels, at least with respect to the CWSRF, have been in a steady decline until that trend was reversed somewhat in the current fiscal year.

The State Revolving Fund programs are at a crucial juncture. The Congress has important choices to make as to their future. We believe the State Revolving Fund model remains the most effective and efficient means to provide assistance to communities to provide safe drinking water and achieve their water quality goals. In order for this very successful State-Federal partnership to continue to succeed, the federal commitment must be clear and sustained.

Since its inception, the CWSRF has achieved an impressive record of success in restoring this country's lakes, rivers and streams and protecting the health of its citizens. Since 1990 in Oklahoma, the CWSRF has loaned over \$665 million for projects, providing over 65% of Oklahoma's wastewater financing. Nationally, over \$60 billion in low interest loans has been awarded to finance the construction of thousands of projects across the country. These projects serve millions of people and treat billions of gallons of wastewater every day – wastewater that would otherwise destroy precious water resources and threaten the health of millions of people.

The CWSRF produces these environmental and economic benefits in an affordable way for the customers who use these projects. The low interest loans offered by the CWSRF significantly reduce the user rates customers have to pay and bring these rates in line with their ability to pay. The low interest rates offered by CWSRF loans funded over the life of the program translate into \$18 billion in savings, compared with what they would be paying had these projects been funded with market rate borrowing. For a typical \$10 million project with a CWSRF loan, the saving is \$3.2 million. Since these interest savings are typically targeted at the most financially distressed borrowers, they represent a vital mechanism for bringing public health, environmental and economic development benefits to needy communities.

The Drinking Water State Revolving Fund, while a less mature program, has been a critical factor in bringing improved public health protection to close to 100 million Americans. Over \$11 billion in loans and other assistance has been allocated to nearly

5,000 projects. Almost three-fourths of these loans have been to communities serving 10,000 or fewer people and over one-fourth have been to disadvantaged communities.

Let me turn to a few specific examples of what is being accomplished in my State of Oklahoma:

Since 1999, Oklahoma has made over \$324 million available in DWSRF funding. Our DWSRF loan to Bartlesville, used to construct a 26 million gallon per day treatment plant, allowed the city to realize cost savings of almost \$14 million, nearly a third of the total project cost. The Lawton Water Authority will experience similar savings as it constructs a water treatment plant with a capacity of 40 million gallons per day.

Our largest borrower is the City of Tulsa which is using the CWSRF program to implement a Comprehensive Wastewater Plan to rehabilitate aging infrastructure, meet capacity needs and comply with discharge permit requirements. By using the CWSRF, it is estimated Tulsa will save \$59 million over five years.

As these projects illustrate, the State Revolving Funds are playing a vital role in helping Oklahoma communities improve water quality.

CIFA strongly supports maintaining the State Revolving Loan Funds as the foundation for future progress in meeting water infrastructure needs. Innovation, new approaches and new priorities can be addressed in the context of the SRF. We also believe restoring

funding to at least pre-2004 levels is essential if we are to continue forward progress in meeting our nation's water quality goals. Hopefully, passage of SRF reauthorization will lay the groundwork for more realistic SRF funding levels.

As the Committee develops SRF reauthorization legislation, we hope you will be mindful of the perspectives of State program managers. Ultimately, it is up to each State to deliver on the goals of the Clean Water Act and it is vital that federal legislation help us do our job. We are very concerned that reauthorization could end up adding more burdens to the SRF programs than improvements.

State SRF managers, who participate in the State/EPA Workgroup that oversees the program, wrote the Chair and Ranking Member of this Committee this summer to express exactly that concern. Making reference to the House-passed reauthorization bill, H.R. 720, they warned,

This bill contains provisions that will make the program considerably less effective and efficient for potential applicants. The large number of additional program and project requirements proposed by H.R. 720 will result in additional work, time and expense, making it less likely that municipalities, especially small communities, will be able to afford to seek financing through the CWSRF... We ask that you carefully avoid provisions that would impose restrictions on state program flexibility or will add new burdensome requirements on potential applicants.

CIFA would certainly echo those concerns. We recognize the obligations and responsibilities of states in the SRF partnership. We must manage the funds in a fiscally responsible manner and be accountable. We must give priority in our loan decisions to the water quality benefits that will result and the urgency of environmental problems

needing resolution. We need to give particular attention to the challenges faced by small, rural and disadvantaged communities. And, we must be creative financial stewards looking for innovative solutions to solve water quality problems.

We have long sought SRF reauthorization legislation. We feel funding levels and program operations have suffered from the failure to reauthorize the CWSRF and that reauthorization will deliver a strong message that Congress remains committed to the State Revolving Funds. However, we see little benefit from legislation that will hamper our flexibility and burden the communities we serve with barriers to their participation.

Certainly States must be fully accountable for their use of federal dollars but an excessive statutory overlay of mandates and set aides and operational requirements will only serve to stifle innovation and interfere with the ability of States to best respond to local needs. The success of this program derives from the flexibility of the SRF model allowing each State to determine the most effective means to address individual local water quality issues. Efforts to mandate certain approaches or restrict the use of funds to particular types of projects fail to recognize that water quality needs vary and each State is in the best position to decide how best to meet those needs.

I also want to note legislation recently introduced, S 1910, to provide for a change in arbitrage rebate rules that will make available significant additional funds for States that operate leveraged SRF programs. These States are currently forced by the arbitrage rules to limit and pay rebate on their earnings on those portions of the SRF

funds which are considered under these rules to be bond proceeds. This reduces the resources available to provide financial assistance to communities. Applying the arbitrage rules in the case of SRFs does not make sense since by law these funds can only be used for the purpose of financing water and wastewater facilities and prompt lending is ensured by oversight and program audits by the EPA. Fixing this could mean a good deal more money for water infrastructure without additional appropriations and I hope members of this Committee will support that effort.

We very much appreciate the opportunity to share our views and look forward to working with the Committee.