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**TESTIMONY OF
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U.S. ENVIRONMENTAL PROTECTION AGENCY
BEFORE THE
SUBCOMMITTEE ON WATER RESOURCES AND ENVIRONMENT
OF THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES**

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Good morning, Mr. Chairman. I am Ben Grumbles, Deputy Assistant Administrator for Water at the Environmental Protection Agency (EPA). First, let me convey Tracy Mehan's regrets for being unable to be here today to speak with this Subcommittee. Second, let me thank you for the opportunity to be here today in my new role at EPA to speak to you about the President's fiscal year 2003 Budget for EPA's Office of Water.

Over the past three decades, our Nation has made significant progress in water pollution prevention and cleanup. While we have substantially cleaned up many of our most polluted waterways, and provided safer drinking water for millions of U.S. residents, significant challenges remain. The President's FY 2003 budget request addresses these challenges, and will further our goal of providing clean and safe water for every American community. In my presentation this morning I want to take a few minutes to highlight some important aspects of the budget request, including: our new watershed initiative; our continuing support for core water quality programs; and, our commitment to financing water infrastructure needs.

Watershed Initiative

Americans depend on clean water for drinking, clean beaches for swimming, and a healthy environment to support fish and other wildlife. Many communities around the country have united to protect their watersheds, using approaches that make sense for their local area. Those efforts have yielded inspiring results -- cleaner beaches, restored fish and wildlife populations and waterways that attract visitors, businesses and families. The Administration's 2003 budget for EPA proposes to catalyze more such efforts by investing \$21 million for community-based watershed approaches. These funds will support efforts in up to 20 local watersheds, and technical assistance for other communities. The initiative complements other agency-sponsored watershed management programs and projects.

EPA will seek the views of Congress, States, local governments, agricultural groups, environmental groups, industry, watershed practitioners, and others in developing the details of how this initiative will be designed and implemented.

Maintaining Support for Core Water Quality Programs

The President's request continues to support EPA's core water quality operating programs, including grants to States under Clean Water Act section 106 to manage water quality programs, and grants under the section 319 nonpoint source program to address polluted runoff. The funding level for the Section 106 grants is the highest request ever in a Presidential budget. Funding is also increased for grants to support the development of beach monitoring and notification programs at the State and local level. In addition, the budget maintains support for EPA's most critical core programs including;

- < efforts to work cooperatively with States under current regulations to develop Total Maximum Daily Loads (TMDLs) for the States' most impaired waters;
- < training and technical assistance to States to aid in the adoption and implementation of new drinking water standards;
- < efforts to reduce the backlog of expired wastewater discharge permits under the National Pollutant Discharge Elimination System (NPDES); and
- < work to ensure that States have protective, up to date water quality standards in place.

Financing Water Infrastructure Needs

The financial demands that communities face in providing clean and safe water to all Americans are substantial, and the Administration is committed to providing the financial tools needed to help meet those demands. As the Committee is aware, the primary mechanism that EPA uses to help local communities finance water infrastructure projects is the State Revolving Loan Funds (SRFs) established in the Clean Water Act and the Safe Drinking Water Act. The SRFs were designed to provide a national financial resource for clean and safe water that would be managed by States and would provide a funding resource "in perpetuity," even after federal capitalization ends. The FY 2003 President's Budget affirms the Administration's commitment to capitalize the SRFs and thereby continue to assist States and local governments in meeting their water infrastructure needs.

For fiscal year 2003, the Administration proposes \$1.212 billion for wastewater grants to States for continued capitalization of the Clean Water SRF. The \$1.212 billion requested is the highest Administration request for wastewater grants to States since FY

1997. This investment allows our Agency to meet the goal for the Clean Water SRF to provide an average of \$2 billion annually in financial assistance over the long term.

To date, the federal government has provided more than \$19.7 billion in capitalization funding to States for their Clean Water SRFs, more than twice the authorized level for the program. With the addition of the State match, bond proceeds, and loan repayments, States have made nearly 11,000 individual loans for a total of more than \$34 billion since 1988, of which \$3.4 billion was either unallocated or being readied for loans as of June 2001. In FY 2001, the Clean Water SRF issued a record total of 1,370 individual loans with a value of \$3.8 billion. The Clean Water SRFs have provided between \$3-4 billion in loans each year for several years.

In 1996, Congress enacted comprehensive amendments to the Safe Drinking Water Act which created a SRF program for the financing of drinking water projects. The Drinking Water SRF was modeled after the Clean Water SRF, but States were given broader authority to use Drinking Water SRFs to help disadvantaged communities and support Drinking Water program implementation.

Through fiscal year 2002, Congress has appropriated \$5.3 billion for the Drinking Water SRF program. Through June 30, 2001, States had received \$3.6 billion in capitalization grants, which when combined with State match, bond proceeds and other funds provided \$5.2 billion in total cumulative funds available for loans. Through June 30, 2001, States had made close to 1,800 loans totaling \$3.8 billion. Approximately 75% of the agreements (41% of dollars) were provided to small water systems that frequently have a more difficult time obtaining affordable financing.

For fiscal year 2003, the Administration proposes to fund the Drinking Water SRF at \$850 million. By the end of FY 2003, we expect the number of loans issued by State Drinking Water SRFs to reach 2,400, with about 850 SRF funded projects having initiated operations by that date. This request will allow EPA to meet its long-term goal of an annual average revolving level of \$500 million.

Together, the two SRF programs have proved to be an invaluable source of low cost financing to communities to address their most critical infrastructure needs.

The budget also maintains funding of \$75 million to address priority water and wastewater infrastructure needs along the U.S./Mexico border, and \$40 million to support much needed water and wastewater projects in Alaska rural and Native Villages. Also, in recognition of the lack of basic wastewater infrastructure that exists in much of Indian Country, the President is proposing to extend authority granted by the Congress for the current fiscal year that allows the Agency to reserve up to 1 1/2% of funds appropriated for the Clean Water SRFs for wastewater grants to tribes.

In addition, the Safe Drinking Water Act Amendments of 1996 included a provision that allows States flexibility to transfer funds between their clean water and Drinking Water SRFs in order to address their most compelling infrastructure needs. Under the President's Budget, the Administration is proposing to allow States to continue to exercise this important flexibility.

Taken together, the Administration's budget will help communities across the country address their most critical clean water and drinking water priorities. Looking beyond 2003, as this Committee continues to think strategically about water infrastructure needs and the federal role, the Administration continues to support a constructive dialogue

with all affected stakeholders that examines existing funding mechanisms and looks at a broad array of innovative solutions -- including public/private partnerships and the use of new technologies -- to address the needs of communities.

Ensuring that our water infrastructure needs are addressed will require a shared commitment on the part of the federal, State, tribal, and local governments, private business, and consumers. EPA will continue to participate in such a partnership to better understand the water infrastructure challenges we face and to play a constructive role in helping to define an effective approach to meeting these needs in the future.

Future Infrastructure Needs

Under both the Safe Drinking Water Act and Clean Water Act, EPA is required to periodically develop a "needs survey" to quantify needed water infrastructure investments.

One year ago, EPA released its second report on drinking water infrastructure needs. The new survey shows that \$150.9 billion is needed over the next 20 years to ensure the continued provision of safe drinking water to consumers with the majority of needs associated with water intake, distribution, and treatment costs.

The 1996 clean water needs survey estimated wastewater needs of \$139.5 billion, including \$26.5 billion for secondary treatment projects, \$17.5 billion for advanced treatment, and \$73.4 billion for various types of sewage conveyance projects, including collectors, interceptors, combined sewers, and storm water and \$10 billion for nonpoint pollution control projects. More recent estimates associated with correcting sanitary sewer overflows may increase the estimated total needs. EPA's 2000 clean water needs survey will be released in August 2002.

The Agency is actively working to improve information about long-term infrastructure needs, assess different analytical approaches to estimating those needs, and estimate the gap between needs and spending. Last summer, EPA presented its analysis -- known as the Gap Analysis -- to a diverse panel of industry experts. Overall, the reviewers commended the report as a reasonable effort to quantify the gap. We are completing revisions to the analysis based on peer review input and we expect to release the Gap Analysis shortly.

The Agency is also aware of recent efforts by other organizations to estimate infrastructure needs -- estimates which are substantially above those of EPA's Needs Surveys. Generally, these cost estimates differ from EPA's because the methodologies and definitions for developing them differ. However, since we all agree that there are significant long-term resource demands, the Agency is committed to a dialogue with the Congress, States, local governments, and others stakeholders regarding the future funding levels, the role of federal, State, and local governments and private partners, and project eligibilities of the SRF programs.

Thank you, Mr. Chairman. I'll be happy to answer any questions you or your colleagues may have.

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