STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON FISHERIES, WILDLIFE AND WATER
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE
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Good morning, Mr. Chairman and Members of the Subcommittee. I am Christine Todd Whitman, Administrator of the Environmental Protection Agency. I welcome this opportunity to discuss the Nation's investment in drinking water and sewage treatment facilities to protect human health and the environment.

As a Nation, we have made great progress over the past quarter century in reducing water pollution and assuring the safety of drinking water. The Clean Water Act and the Safe Drinking Water Act have served us well and provide the solid foundation we need to make sure that all Americans will continue to enjoy safe drinking water and clean rivers, lakes, and coastal waters.

Our success in improving drinking water and surface water quality is the result of many programs and projects by local, State and Federal governments in partnership with the private sector. But our cooperative investment in water infrastructure -- in pipes and treatment plants -- has, more than any other single effort, paid dramatic dividends for water quality and public health.

This morning, I want to give you a brief overview of the progress we have made in improving water quality and the water pollution and public health challenges we still face. I

also will summarize what EPA knows about the need for future investment in clean water and drinking water facilities and identify the key challenges I see in meeting this need. I will conclude with some thoughts about how Congress and others could proceed when addressing the problems of financing water infrastructure.

Clean and Safe Water -- Accomplishments and Challenges

Most Americans would agree that the quality of both surface waters and drinking water has improved dramatically over the past quarter century.

Thirty years ago, the Nation's waters were in crisis -- the Potomac River was too dirty for swimming, Lake Erie was dying, and the Cuyahoga River had burst into flames. Many of the Nation's rivers and beaches were little more than open sewers.

The 1972 Clean Water Act has dramatically increased the number of waterways that are once again safe for fishing and swimming. The Act launched an all out assault on water pollution, including new controls over industrial dischargers, support for State efforts to reduce polluted runoff, and a major investment by the Federal government to help communities build sewage treatment plants.

The $76 billion in Federal wastewater assistance since passage of the Clean Water Act in 1972 has dramatically increased the number of Americans enjoying better water quality. The economic and social benefits of improved water quality are readily evident all across the country. Some of the most dramatic improvements are seen in urban areas. In cities such as Boston, Cleveland, St. Petersburg and Baltimore, the efforts to restore the health and vitality of our waters has also led to economically vibrant, water-focused urban environments.

The dramatic progress made in improving the quality of wastewater treatment since the 1970s is a national success. In 1972, only 84 million people were served by secondary or advanced wastewater treatment facilities. Today, 99 percent of community wastewater treatment plants, serving 181 million people, use secondary treatment or better.

We have also made dramatic progress in improving the safety of our Nation's drinking water. Disinfection of drinking water is one of the major public health advances in the 20th century. In the early 1970's, growing concern for the presence of contaminants in drinking water around the country prompted Congress to pass the Safe Drinking Water Act. Today, the more than 265 million Americans who rely on public water systems enjoy one of the safest supplies of drinking water in the world.

Under the Safe Drinking Water Act, EPA has established standards for 90 drinking water contaminants. Public water systems have an excellent compliance record -- more than 90 percent of the population served by community water systems receive water from systems with no reported violations of health based standards. In the past decade, the number of people served by public water systems meeting Federal health standards has increased by more than 23 million.

Despite past progress in reducing water pollution, almost 40 percent of the Nation's waters assessed by States still do not meet water quality goals established by States under the Clean Water Act. On a national scale, states report that leading sources of pollution include urban runoff and storm sewers, agriculture and municipal point sources. Other sources, ranging from factories to forestry operations, cause water pollution problems on a site-specific basis. Point-source pollution has been so greatly reduced,

that now non-point sources are the leading cause of water pollution. Also, although compliance with drinking water contaminant standards is good, public health risks from drinking water can be further reduced.

Clean Water and Drinking Water State Revolving Loan Funds

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 and Safe Drinking Water Acts. 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." These important goals are being achieved. Other Federal, State, and private sector funding sources are available for community water infrastructure investments.

Under the SRF programs, EPA makes grants to each State to capitalize their SRFs. States provide a 20% match to the Federal capitalization payment. Local governments get loans for up to 100% of the project costs at below market interest rates. After completion of the project, the community repays the loan and these loan repayments are used to make new loans on a perpetual basis. Because of the revolving nature of the funds, funds invested in the SRFs provide about four times the purchasing power over twenty years compared to what would occur if the funds were distributed as grants.

In addition, low interest SRF loans provide local communities with dramatic savings compared to loans with higher, market interest rates. An SRF loan at the interest rate of 2.6% (the average rate during the year 2000) saves communities 25% compared to using commerical financing at an average of 5.8% (see Chart 1).

To date, the Federal government has provided more than $18 billion in capitalization grants to States for their clean water SRFs through FY 2001. With the addition of the State match, bond proceeds, and loan repayments, the cumulative funds available for loans of the clean water SRFs were more than $34 billion, of which $3.4 billion was still available as of June 30, 2000.

Since 1988, States have made over 9,500 individual loans for a total of $30.4 billion. In FY 2000 the Clean Water SRFs issued a record total of 1,300 individual loans with a value of $4.3 billion (see Chart 2). The Clean Water SRFs have provided about $3 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 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 2001, Congress has appropriated $4.4 billion for the Drinking Water SRF program. EPA has reserved $83 million for monitoring of unregulated contaminants and operator certification reimbursement grants. Through June 30, 2000 States had received $2.7 billion in capitalization grants, which when combined with state match, bond proceeds and other funds provided $3.7 billion in total cumulative funds available for loans. Through June 30, 2000, States had made close to 1,200 loans totaling $2.3 billion and $1.4 billion remained available for loans. Approximately 74% of the agreements (38% of dollars) were provided to small water systems that frequently have a

more difficult time obtaining affordable financing. States also reserved a total of approximately $420 million of SRF capitalization grants for other activities that support the drinking water program.

Water Infrastructure -- Future Needs

The Safe Drinking Water Act and Clean Water Act both require that EPA periodically develop a "needs survey" to identify water infrastructure investments.

One month 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.

The survey found that water systems need to invest $102.5 billion, approximately 68% of the total need, in what the report calls "current needs." In most cases current needs would involve installing, upgrading or replacing infrastructure to enable a water system to continue to deliver safe drinking water. A system with a current need therefore, usually is not in violation of any health-based drinking water standard. For example, a surface water treatment plant may currently produce safe drinking water, but the plant's filters may require replacement due to their age and declining effectiveness, if the plant is to continue to provide safe water. Future needs account for the remaining $48.4 billion in needs; for example, projects that systems would undertake over the next 20 years as part of routine replacement such as reaching the end of a facility's service life.

Transmission and distribution costs are the largest category of need. The survey includes needs that are required to protect public health, such as projects to preserve the physical integrity of the water system, convey treated water to homes, or to ensure

continued compliance with specific Safe Drinking Water Act regulations (See Chart 3). Transmission and distribution costs are the largest category, at 56% of the total need, or $83.1 billion. Treatment projects make up the second largest category of needs (i.e. 25%) and have a significant benefit for public health.

Approximately 21%, or $31.2 billion, is needed for compliance with current and proposed regulations under the Act. Nearly 80% of the regulatory need is to comply with rules which protect consumers from harmful surface water microbial contaminants, such as Giardia and E. coli. Most of the total needs derive from the costs of installing, upgrading and replacing the basic infrastructure that is required to deliver drinking water to consumers – costs that water systems would face independent of any Safe Drinking Water Act regulations.

As you may know, EPA's most recent survey of clean water infrastructure needs was released in 1996 and we plan on releasing a new clean water needs survey in 2002.

The 1996 clean water needs survey estimated wastewater needs of $140 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 (see Chart 4).

EPA is working to supplement the 1996 clean water needs survey as more accurate information becomes available. For example, the Agency has developed a model to estimate costs associated with reducing sanitary sewer overflows that predicts costs significantly higher than the estimate in the 1996 needs survey.

The Agency is also reviewing issues related to long-term needs, assessing different analytical approaches to estimating those needs, and estimating the gap between needs and spending. Some elements of this analysis – known as the Gap Analysis – have been presented to a range of interested parties and EPA is committed to improving and refining this important work. To this end, the EPA plans to make this analysis available for peer review by expert organizations in the near future.

Broader Context of Water Infrastructure Financing

Over the past year, several interest groups including the Water Infrastructure Network, the Association of Metropolitan Sewerage Agencies, and the Water Environment Federation issued reports estimating water infrastructure needs. These estimates were all substantially above those of EPA's Needs Surveys. In general, these cost estimates differ from EPA's because the methodologies and definitions for developing them differs. For example, EPA Needs Surveys include only projects that are eligible for SRF funding under the Clean Water Act and Safe Drinking Water Act. Also, EPA requires that costs included in the Needs Surveys be established by planning or design documentation.

Nevertheless, EPA recognizes that effective decision-making concerning water infrastructure financing would benefit from a better understanding of the broader context of this effort. Key components in the broader context of water infrastructure that need to be more fully evaluated are described below.

- **Population Growth**: Steady growth and shifts in population puts substantial pressure on local governments to provide expanded drinking water and sewer services.
- **Aging Infrastructure**: Many sewage and drinking water pipes were

installed between 50 and 100 years ago and these pipes are nearing the end of their useful life.

- **Emerging Environmental and Public Health Demands**: As our knowledge of threats to water quality and public health improves, the public expects its water infrastructure to continue to provide clean safe water at reasonable cost.

- **Increasing Operation and Maintenance Costs:** As the size and complexity of water and sewer systems increase, and facilities get older, the costs of operations and maintenance tend to increase.

- **Affordability:** Although water has historically been underpriced, some systems may find it difficult to replace or update aging water and sewer systems and keep household user charges at affordable levels. This issue needs to be kept in mind as future regulations are developed.

FY 2002 -- Water Infrastructure Investments

The President's FY 2002 budget proposes to maintain Federal support for both clean water and drinking water infrastructure.

The Administration proposes $1.3 billion for wastewater grants to States in FY 2002. This funding will provide a substantial and sustained contribution to clean water infrastructure needs. The $1.3 billion requested for wastewater grants to States is $500 million more than the previous Administration's FY 2001 request.

Because of the revolving nature of the clean water SRFs, this FY 2002 capitalization amount will allow the SRFs to provide $3 billion in loans over the next several years. In addition, EPA expects that, over the long-term, the clean water SRFs will be able to provide average annual assistance of $2 billion (see Chart 5).

The Congress recently enacted important new legislation to help communities address water pollution problems caused by overflows of combined and sanitary sewers.

In response to this new legislation, the Administration will propose grants to States for these important projects in FY 2002.

In the case of safe drinking water projects, the Administration proposes to maintain capitalization of the drinking water SRF in FY 2002. By the end of FY 2002, 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.

In addition, the law currently grants a State flexibility to transfer funds between its clean water and drinking water SRFs. The Administration supports this mechanism to help States fund their priority needs.

This proposed FY 2002 funding will help communities across the country finance important clean water and drinking water projects. As your committee continues to study the water infrastructure needs, the Administration would like to encourage a constructive dialogue on the appropriate role of the federal government in addressing these needs.

Conclusion

Thank you, Mr. Chairman, for giving me the chance to outline EPA's view of the water infrastructure challenges the Nation is facing.

Let me conclude by identifying some of the key issues that Congress, the Administration, the private sector and other interested parties will need to consider as we work toward a common approach to solving water infrastructure problems.

1) We need a common view of the scale of the water infrastructure problem that we face and the long-term timeframe for making needed investments.

2) We need to consider the best role for the Federal government to play in helping States and local governments finance both Drinking Water and

Wastewater infrastructure projects and evaluate any barriers faced by local governments in getting access to needed capital as part of this process (e.g. poor bond ratings, interest rates).

3) We need to consider the strengths and weaknesses of the existing funding mechanisms and consider the best mix of financing under various circumstances. We also need to review the role that privatization might play in the future.

4) We need to review water and sewer rate structures, encourage rates that make systems sustainable and address concerns that rates are affordable, especially in poor communities.

5) We need to look closely at Federal mandates to ensure that those mandates are not needlessly costly and burdensome.

6) Finally, addressing water investment needs in years to come will not only require a strong commitment from Federal, State and local governments, it will call for innovative funding mechanisms, public/private partnerships, and advancements in technologies.

Ensuring that our water infrastructure needs are addressed will require a shared commitment on the part of the Federal, State and local governments, private business, and consumers. I pledge that EPA will continue to work in partnership with Congress, States, local governments, the private sector and others 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.

I will be happy to answer any questions.

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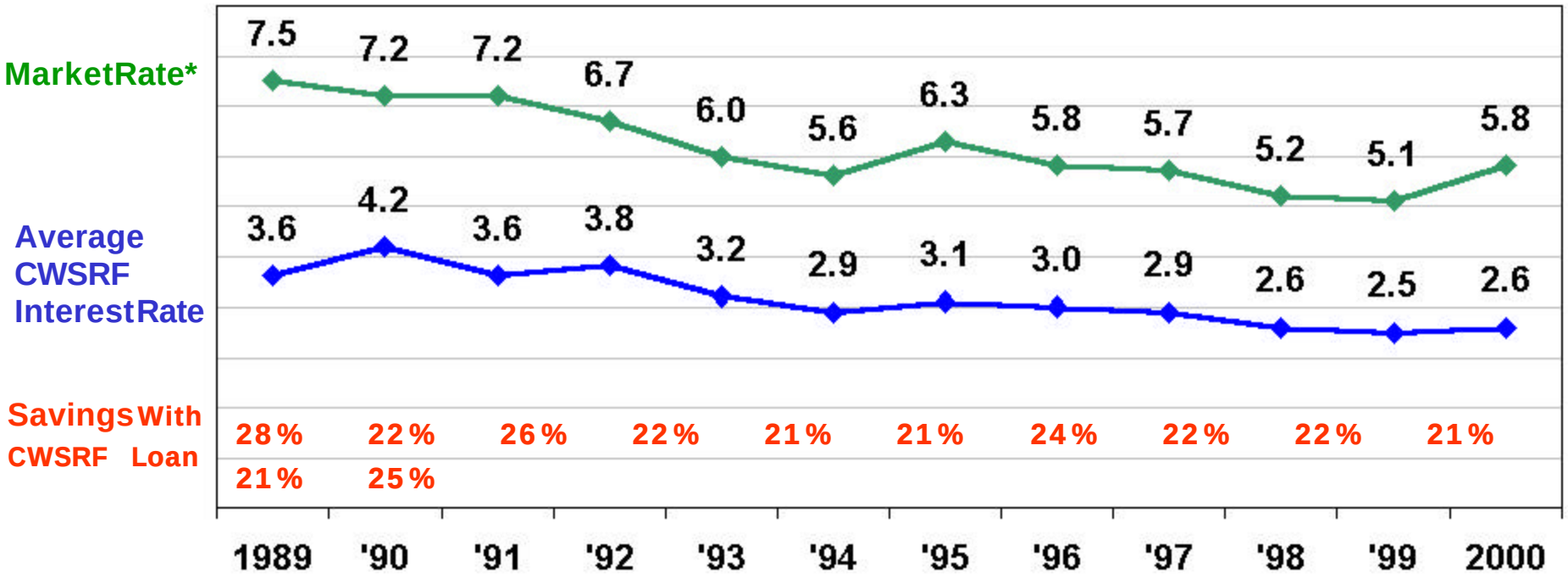
Savings Provided By SRF Loans



*Market rate is measured as the Bond Buyer 20-Bond GO Index.

For example: In 2000, a community would save 25% by financing its project with a typical 20-year loan from a state CWSRF at an average interest rate of 2.6% instead of using commercial financing at an average 5.8% rate

Chart1

CWSRF Assistance Provided

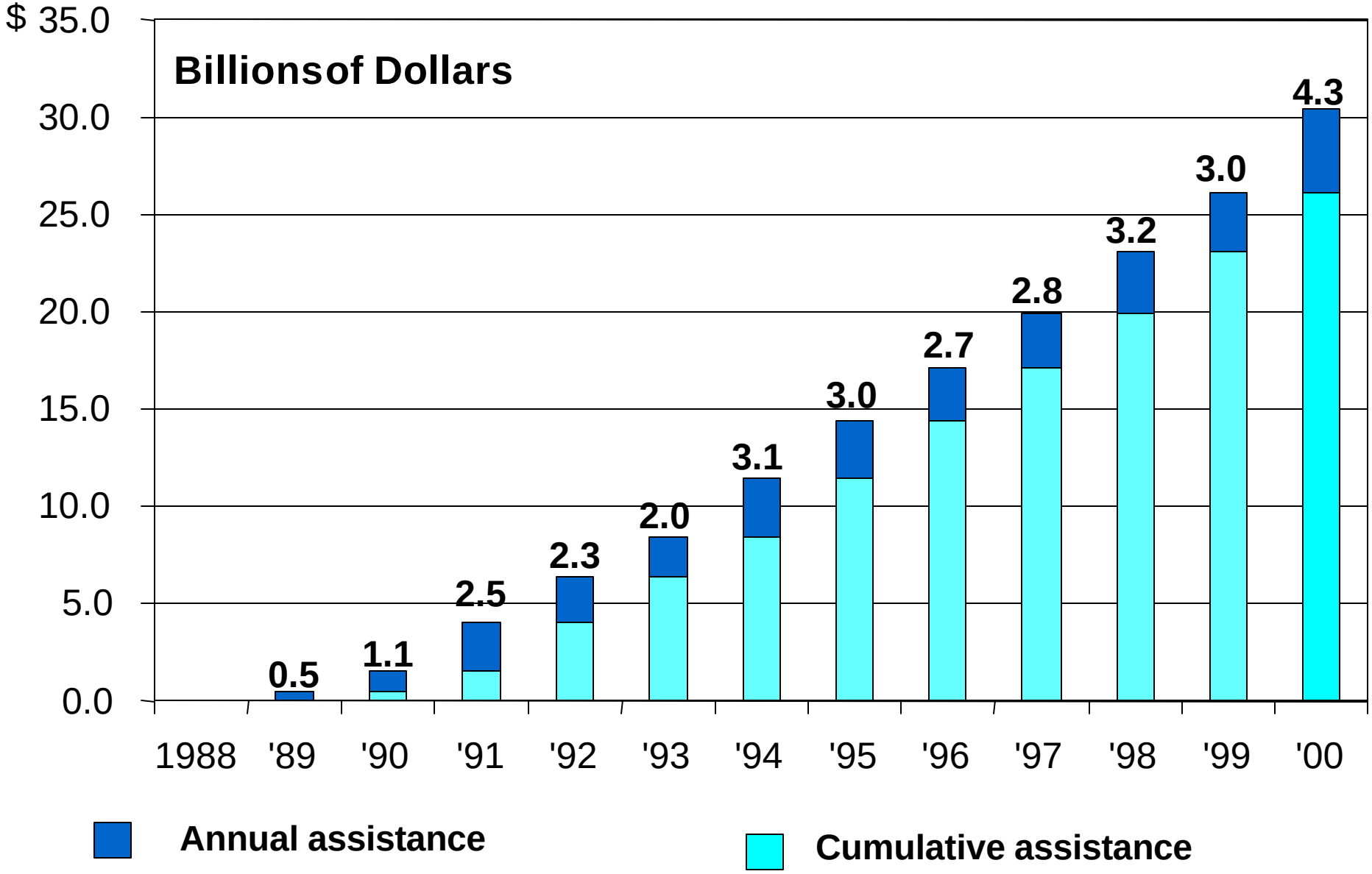


Chart 2

Drinking Water Needs (1999)
Total Need $150.9B

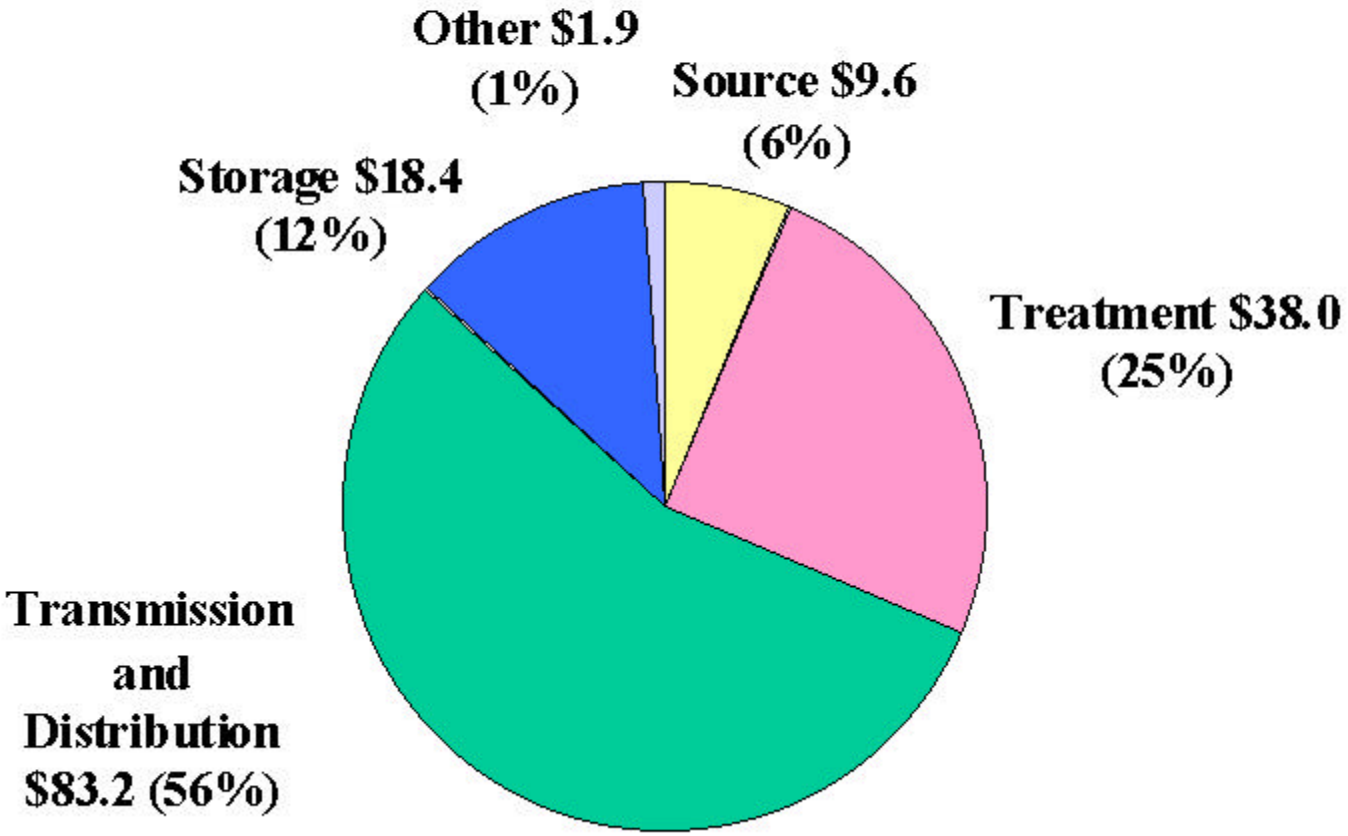
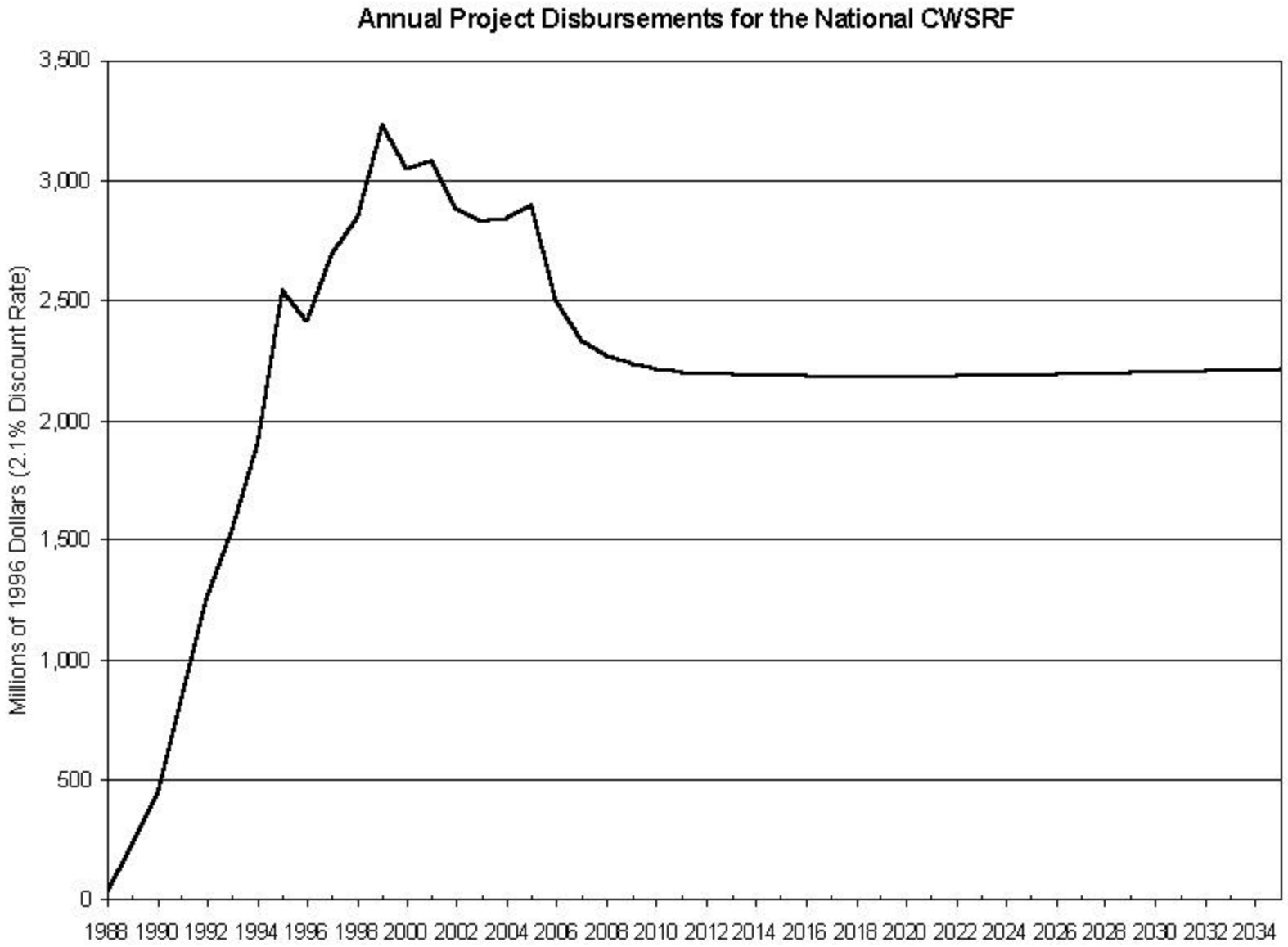


Chart1



The 2.1% rate is based on the Gross Domestic Product deflator from the Administration's economic assumptions as required by OMB Circular A?94: Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs, which states "future inflation is highly uncertain. Analysts should avoid having to make an assumption about the general rate of inflation whenever possible." Chart 5