



Beth Callaway, Executive Director
P.O. Box 20908
Cheyenne, WY 82003
Beth@icwp.org
307-772-1999
www.icwp.org

May 2, 2023

Senator Jeff Merkley, Chair
Senator Lisa Murkowski, Ranking Member
Senate Appropriations Subcommittee on Interior, Environment & Related Agencies
131 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Merkley and Ranking Member Murkowski:

Membership of the Interstate Council on Water Policy (ICWP) includes state and interstate water resources management agencies, each who work closely with the Environmental Protection Agency (EPA) in the implementation of EPA's Clean Water (CW) and Drinking Water (DW) State Revolving Fund (SRF) grants. These grants provide meaningful, low-cost financing to communities for water quality infrastructure projects to states across the nation.

For decades, states have used SRFs to provide low-cost, subsidized loans to communities and water utilities to upgrade drinking water and sewer systems and comply with federal clean water and public health laws. As Congress develops its priorities for Fiscal Year 2024 appropriations, we point out two major issues in how SRF funding should be structured within the budget appropriations bills:

Issue #1 -- End the practice of using CW/DWSRFs for earmarks

Cutting federal funding for subsidized loans for state priorities to provide grants for congressionally selected projects undermines the successful SRF state-federal partnership. Earmarks utilizing SRF funds sidestep the structure of the program, which is based on need and state priority project lists.

Further complicating the matter, the Infrastructure Investment and Jobs Act (IIJA) of 2021 required that almost half of SRFs be provided as grants and forgivable loans to disadvantaged communities. Yet, earmarks do not need to be projects included in a state's disadvantaged community (Justice40) intended use plan.

SRF allotments are based on several factors and earmarks require that the funds be distributed differently. The unintended consequences of this redistribution result in priority CW and DWSRF projects being delayed, scaled back, or not funded. Over the last two years, the total national SRF capitalization grants budget allotment for states was reduced by more than 40 percent for both SRF programs.

The consequences of earmarking from SRF program appropriations are multi-fold: due to the practice, there is the potential for some states to receive less money for water projects in their state,

while others could get more. The practice also takes away from additional subsidies that states provide for disadvantaged communities. It limits the capacity of the overall SRF program, cuts DWSRF set-asides to fund important state programs such as Public Water System Supervision, and limits small system technical assistance, capacity development, and other important services.

While buoyed by substantial investments under IIJA and the Inflation Reduction Act (IRA) of 2022, states and communities rely on the existing framework of SRF funds as they were initially established. Siphoning funds away from the parent funds to go toward earmarks detracts from states' ability to make water infrastructure investments.

We request that Congress end the practice of using SRF funding for earmark spending starting in FY2024.

Issue #2 -- Reduce state match requirements for SRFs funded by IIJA

The state match requirements under EPA's SRF programs can be seen as a barrier to entry for some fiscally strapped states to fully utilize the program. IIJA state match requirements to the general supplemental grant are 10 percent in the first two years and then 20 percent in the remaining three years. In the base program, states are required to provide a 20 percent match.

However, the IIJA funds consist of significantly more than the base program. Some states issue state match bonds to provide the match. These bonds are issued at a higher interest rate than what is being earned on loans, coupled with the fact that 49 percent of the grants must go out as principal forgiveness earning no interest. All these factors make bonds difficult to sustain, thus rendering it more difficult for some states to meet state match requirements.

We request that Congress reduce SRF state match requirements from 20 percent to 10 percent starting in FY2024.

In closing: the annual appropriations made by Congress to SRFs are a significant mechanism through which funding is facilitated for important water quality infrastructure projects. We urgently request that the above changes be implemented into the FY2024 budget bill.

Thank you for your consideration. If you have any questions, please contact me at: Beth@icwp.org or 307-772-1999.

Regards,



Beth Callaway
ICWP Executive Director

CC:

Jennifer MacLain, Director, Office of Ground Water and Drinking Water, Environmental Protection Agency
Tracy Mehan, Executive Director of Government Affairs, American Water Works Association