

September 7, 2021

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
Washington, DC

The Honorable Charles E. Schumer
Senate Majority Leader
U.S. Senate
Washington, DC

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, DC

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, DC

RE: Unintended Consequences of the Infrastructure Investment and Jobs Act (H.R. 3684)

Dear Congressional Leaders,

The Association of State Drinking Water Administrators (ASDWA), the Association of Clean Water Administrators (ACWA), the Environmental Council of the States (ECOS), the Council of Infrastructure Financing Authorities (CIFA), and Western States Water Council (WSWC), which represent state agencies and programs, strongly support the funding for the Clean Water and Drinking Water State Revolving Funds (SRFs) in the Infrastructure Investment and Jobs Act (H.R. 3684). Increased funding for drinking water, wastewater and stormwater infrastructure will increase protection for public health and the environment – saving lives and safeguarding finite water resources for generations to come.

However, the requirement for state cash match on appropriations in the bill jeopardizes the ability of states to quickly and efficiently access this federal funding for water infrastructure projects.

When combined with cash match requirements for annual appropriations, the Infrastructure Investment and Jobs Act significantly increases cash match requirements for states.

The Infrastructure Investment and Jobs Act requires states to provide cash match for \$22.426 billion for capitalization grants over the next five years (10% of the 2022 and 2023 capitalization grants and 20% of the 2024, 2025, and 2026 capitalization grants). The cumulative cost of state cash match for these supplemental appropriations is an estimated \$3.864 billion over the next five years.

Cash match for these supplemental capitalization grants is *in addition* to cash match requirements for capitalization grants in annual appropriations bills. States provided an estimated \$553 million in cash match for the 2021 capitalization grant. Based on the recent budget passed by the U.S. House of Representatives, state cash match will increase to nearly \$646 million for the 2022 capitalization grant. If annual funding levels remain consistent with recent appropriations, states will be required to provide at least \$2.765 billion in cash match for annually appropriated capitalization grants over the next five years.

Combined, state cash match requirements are likely to exceed \$6.629 billion over the next five years, more than double the amount required over last five years. For reference, the American Recovery and Reinvestment Act didn't require any cash match for appropriations for the Clean Water and Drinking Water SRFs.

Under federal law, cash match must be deposited into the SRFs before states can draw down the first dollar of federal funds.¹ States that are unable to deposit cash match into their SRFs during the fiscal year the funding is appropriated, or the next fiscal year, will lose their funding (essentially within two fiscal years).²

States may struggle to provide cash match for the cumulative appropriations in the Infrastructure Investment and Jobs Act and the annual 2022 federal budget, which will delay access to federal funding for critical water infrastructure projects in communities across the nation.

States face different challenges based on how cash match is generated, either through state appropriations or through interagency loans and bonds that depend on interest payments from SRF loans to repay debt.³

- States that Appropriate Cash Match: Some states appropriate cash match. Uncertainty about the pandemic and economic recovery, along with constraints from balanced budget requirements, are likely to force state legislatures to make difficult decisions

¹ 33 USC §1382 (b)(2) and 42 USC §300j-12 (e)

² 33 USC §1384 (c)(1) and USC 42 §300j-12 (a)(1)(C)

³ 33 USC §1383 (d)(2) and 42 USC §300j-12 (f)(4)

about funding important programs. States that have experienced catastrophic natural disasters, such as Hurricane Ida, flooding, tornados, or wildfires, will face even greater challenges. As a result, states may need to delay appropriations for cash match for the SRFs.

- States that Borrow to Fund Cash Match: Some states make interagency loans or issue bonds to fund cash match. These loans and bonds are secured and repaid using interest payments on SRF subsidized loans, which are provided at below market interest rates. Very low interest rates and federally mandated additional subsidy (requirements to provide federal funds as grants instead of subsidized loans) have significantly eroded this source of revenue for cash match, jeopardizing the ability of SRFs to issue bonds to provide cash match. If SRFs don't have adequate revenue from this source, it will take time, potentially years, to find an alternative source of revenue to provide cash match.

The problem is real. Alaska's Clean Water and Drinking Water SRFs couldn't meet cash match requirements for funding provided in the 2019 Additional Supplemental Appropriation for Disaster Relief Act (ASADRA) and ultimately lost those federal funds. With such significant increases in cash match requirements, it's likely that more states will face similar circumstances.

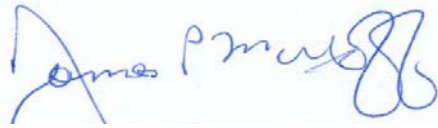
Action is needed to ensure quick and efficient access to federal funds for water, wastewater and stormwater infrastructure.

If there are any opportunities to amend the bill before it becomes law, please consider these potential solutions to help states more quickly and efficiently fund water infrastructure that protects public health and the environment:

- Eliminate state cash match on federal appropriations in the bill, which would allow immediate access to supplemental federal funding for critical water infrastructure projects.
- Allow states to use State and Local Fiscal Recovery Funds from the American Rescue Plan Act for cash match, which may help some states meet the cash match requirement in the short term.
- Eliminate state cash match on federally mandated additional subsidy in the bill, (49% of the capitalization grant), which will cut the state cash match requirement by almost half and prevent states from going into debt to match funds that must be given away as grants and grant-equivalents.
- Eliminate the mandate for additional subsidy in the bill, which will increase the source of revenue to meet future cash match requirements, which is a sustainable solution that will help states meet the cash match over the long-term.

Thank you for your consideration of these recommendations. On behalf of our members, thank you for leadership in investing in America's infrastructure, especially water infrastructure which is so critical to healthy lives and livelihoods.

Sincerely,



James P McGoff, President
[Council of Infrastructure Financing Authorities \(CIFA\)](#)
COO and Director of Environmental Programs
Indiana Finance Authority



Cathy Tucker-Vogel, President
[Association of State Drinking Water Administrators \(ASDWA\)](#)
Public Water Supply Section Chief
Kansas Department of Health and the Environment



Patrick McDonnell, President
[Environmental Council of the States \(ECOS\)](#)
Secretary
Pennsylvania Department of Environmental Protection



Jennifer Verleger, Chair
[Western States Water Council \(WSWC\)](#)
Assistant Attorney General
State of North Dakota



Andrew Gavin (SRBC), President
[Association of Clean Water Administrators \(ACWA\)](#)
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