

Testimony of:

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To:

Committee on Transportation and Infrastructure
Subcommittee on Water Resources and Environment
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On Behalf of:

The National Association of Clean Water Agencies
1816 Jefferson Place, NW
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Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to be here today to discuss the merits of a new Federal Clean Water Trust Fund. My name is Kenneth I. Rubin and I am testifying on behalf of the National Association of Clean Water Agencies (NACWA). My testimony addresses why the federal government must take a stronger position in helping finance America's wastewater treatment facilities and how a new Federal Clean Water Trust Fund could result in efficient and equitable investments in clean water.

In April 2000, the Water Infrastructure Network (WIN) released its *Clean & Safe Water for the 21st Century* report. This report documented that over the next 20 years, America's wastewater systems will have to invest \$12 billion a year more than current investments to replace aging and failing infrastructure and meet the national environmental and public health priorities of the Clean Water Act. Independent analyses completed in 2002 by the US Environmental Protection Agency and the US Congressional Budget Office corroborate WIN's figures.

To overcome the funding gap, both local and national solutions must operate together. Some stakeholders argue that rate increases *alone* would be sufficient to address the gap. *Not so.* Financing the full \$12 billion a year gap with utility rate increases would result in a ***doubling or tripling of rates across the nation.*** If this were to happen, at least ***a third of the population of the U.S. would have to pay more than 2 percent of their household income for sewer services, the conventional criterion for affordability.*** This would hit small, rural, and low-income communities the hardest. Also, 60 percent of the U.S. population has experienced no increase, or a loss, in real household income over the last 20 years. For the majority of U.S. families, sharp increases in wastewater rates would have significant economic impacts.

Critically, there is ample precedent for, and clear economic principal supporting, a federal Clean Water Trust Fund. The importance of wastewater infrastructure was well understood in the years leading up to the 1972 Clean Water Act. To avoid an environmental and public health crisis, significant federal tax dollars were needed to reverse the Nation's declining water quality.

Today, despite increasing federal mandates for cleaner water, despite shifts in population that strand wastewater assets in urban core cities with few ways to pay for needed improvements, and despite the nearly universal need to replace hundreds of billions of dollars in aging and failing wastewater collection systems, the federal contribution to wastewater investment has declined from more than 50 percent in the early 1970s, to 30 percent in 1980 to less than 5 percent today. Under these conditions, some locations are unlikely to ever meet federal goals for ambient water quality.

Investments in wastewater systems pay substantial, *national dividends to all Americans*. It is well documented that municipal wastewater treatment plants prevent billions of tons of pollutants each year from reaching America's rivers, lakes, and coastlines. They preserve our natural treasures such as the Chesapeake Bay, the Great Lakes, and the Columbia River. Clean water supports a \$50 billion a year water-based recreation industry, at least \$300 billion a year in coastal tourism, a \$45 billion annual commercial fishing and shell fishing industry, and hundreds of billions of dollars a year in basic manufacturing that relies on clean water. Clean rivers, lakes, and coastlines attract investment in local communities and increase land values on or near the water, which creates jobs, adds incremental tax base, and increases income and property tax revenue to local, state, and the federal governments.

Simply stated, America's waters are "public goods". That is, the clean water process results in cleaner, healthier waterways for all to enjoy. These benefits are available widely throughout society to those who pay for them (local ratepayers) as well as many others that pay nothing — those who live downstream, for example.

Consider the case of a large city on a river 50 miles upstream of a sensitive estuary and public beach. With no wastewater treatment, the city pays nothing, but pollution will destroy the ecosystem and drive people away from using beaches. Complete treatment is expensive, perhaps crowding out other priorities like police protection or roads, but will result in a healthy ecosystem downstream and clean beaches for all to enjoy. It is inconceivable that city residents would pay nothing and all others pay by losing the economic, environmental and recreational benefits of the estuary. But it is equally unfair for one city's residents to pay whatever it takes to keep all downstream water clean for the primary enjoyment of others. A trust fund can help overcome such inequities.

The trust fund concept also makes sense when considering population trends. Wastewater treatment assets wear out and must be replaced. For many urban core cities whose population has shifted to outlying suburbs, the cost of replacing wastewater infrastructure can be unmanageable. *In many cities, doubling, tripling, even quadrupling sewer fees would not be enough to meet replacement needs because too few people remain within political boundaries to pay for the fixed assets. In many locations, those who still populate urban centers have lower incomes than those who have moved to outlying areas.* Serious questions of equity arise when local sewer fees have to increase dramatically to serve these populations.

Having a common standard or level of service makes it easier for businesses and labor to move from place to place without fear of cutting production because of local capacity shortfalls. It also provides cultural benefits by helping to bind together people from across the nation that know their waterways anywhere are clean and safe.

The value of similar public outcomes — and the recognition that a trust fund can be an appropriate way to help deliver them — have long been recognized in federal infrastructure policy. This is the case for other basic infrastructure systems such as highways, airports, or transit systems. To finance these equally critical transportation systems, Congress has established federal trust funds. The rationale is simple: these basic infrastructure systems underpin the U.S. economy broadly and their benefits accrue widely to users without geographic limitations. Moreover, these infrastructure systems have benefits that are felt only after all, or substantial portions, of networks are complete and functional, affording Americans anywhere in the country access to minimum levels of services. Wastewater systems share these characteristics and accordingly, an appropriately structured clean water trust fund can make good economic sense.

The national debate often centers not on the need for the trust fund, but over how it should be funded. As demonstrated more fully in my written testimony, Congress has chosen to establish and dedicate a wide variety of federal excise taxes to the many federal trusts over the years. Underlying these choices of revenue sources are the applications of common principles regarding who should pay. In the case of a federal clean water trust fund, there are three basic strategies regarding who should pay to fund the trust: *Polluters*, *Beneficiaries* and/or *The Nation as a Whole*. All three result in fees that spread the cost of water quality improvements across as

broad a base of Americans as possible under the theory that water quality is a public good, which benefits the nation as a whole.

Based on my recent work for NACWA, any trust fund revenue source also must be evaluated based on the its *Effectiveness* in raising the needed funds; its *Equity* in terms of who pays for and receives the benefits of the fund; its *Administrative Simplicity* in collecting the funds; and finally *Stakeholder Acceptability* regarding new fees or taxes. Using these criteria, NACWA reviewed a wide variety of potential revenue sources — all federal excise taxes — to capitalize a new federal clean water trust fund at a target level of \$7 billion a year.

The ideal revenue option should seek the broadest base of economic activity related to clean water against which the smallest possible unit tax rate can be applied equitably and in ways that minimize administrative costs. It should yield a predictable revenue stream well into the future, so that recipients of Trust Fund assistance can rely on support over long periods of time, consistent with their own capital planning and construction schedules. Finally, it should minimize social, economic, and trade disruptions. Since no single revenue source is likely to meet all these conditions, combining the best of each viable revenue source may prove the most appealing solution. Administrative burden could increase under such a hybrid option but that could be offset by an increased sense of equity.

Finally, and in conclusion, it will be important to remind ourselves that even with an enhanced federal financing role made possible through a new Trust Fund, local sewer rates will still pay about 86 percent of the costs to provide wastewater management services to the American public. Not only will a Clean Water Trust Fund deliver important dollars to the neediest of

communities, it will help ensure a meaningful, long-term federal-state-local fiscal partnership to continue our record of gains made under the 1972 Clean Water Act.

Thank you and I look forward to answering any questions you may have.