

Highlights of [GAO-13-451T](#), a testimony before the Subcommittee on Interior, Environment, and Related Agencies, Committee on Appropriations, House of Representatives

Why GAO Did This Study

The nation faces costly upgrades to aging and deteriorating drinking water and wastewater infrastructure. Frequent and highly publicized incidents of combined sewer overflows into rivers and streams, as well as water main breaks in the nation's largest cities, are the most visible manifestations of this problem.

A variety of approaches have been proposed to help bridge the potential gap between projected infrastructure needs—estimated by EPA as almost \$335 billion for drinking water infrastructure and \$298 billion for wastewater infrastructure—and current funding. GAO has conducted recent work on three of these approaches. In addition, GAO's recent work has addressed rural water infrastructure funding and economic recovery, as well as utilities' use of asset management, an approach to planning for and managing infrastructure costs.

This testimony is based on a body of work from August 2002 through October 2012 and focuses on (1) EPA's Clean Water and Drinking Water State Revolving Fund programs; (2) stakeholders' views on creating a clean water trust fund, a national wastewater infrastructure bank, and public-private partnerships for wastewater infrastructure; and (3) issues in financing drinking water and wastewater infrastructure. GAO's testimony summarizes the results of issued reports.

GAO made recommendations in past reports to strengthen utilities' use of asset management and coordination of rural water infrastructure funding. EPA generally concurred with the recommendations, taking action on some and beginning action on others.

View [GAO-13-451T](#). For more information, contact J. Alfredo Gómez at (202) 512-3841 or gomezj@gao.gov

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WATER INFRASTRUCTURE

Approaches and Issues for Financing Drinking Water and Wastewater Infrastructure

What GAO Found

The Environmental Protection Agency's (EPA) Clean Water and Drinking Water State Revolving Fund (SRF) programs are the largest sources of federal assistance to states and local communities for funding drinking water and wastewater infrastructure. In fiscal year 2012, EPA funded the Clean Water SRF program \$1.5 billion and the Drinking Water SRF program \$918 million from congressional appropriations. EPA grants capitalization funds to states, which in turn provide low- or no-interest loans to local communities or utilities to pay for water distribution pipelines, treatment plants, sewer lines, and other similar infrastructure.

GAO reviewed three of the approaches proposed to pay for the nation's drinking water and wastewater needs, each of which offers a different means to fund and finance projects. To understand these approaches as they apply to wastewater infrastructure, GAO surveyed stakeholders, including industry representatives and associations and federal, state, and local government officials. GAO's reports identified the following issues with each approach:

- A *clean water trust fund* would provide a dedicated source of funding, such as an excise or other tax, for wastewater infrastructure. Stakeholders identified three main issues that would need to be addressed in setting one up: how a trust fund should be administered and used, what type of financial assistance should be provided, and what activities should be eligible to receive funding. A majority of stakeholders said that a trust fund should be administered through EPA in partnership with the states, but they differed in their views on how a trust fund should be used.
- A *national infrastructure bank* would use public and/or private funds to finance infrastructure projects through a variety of loans, loan guarantees, and other mechanisms. A majority of stakeholders supported the creation of such a bank but also identified three issues that should be considered in designing a bank: mission and administrative structure, financing authorities, and project eligibility and prioritization.
- *Public-private partnerships* encourage private investment in infrastructure projects. GAO identified seven municipalities that have entered into privately financed partnerships for wastewater infrastructure. Municipal and company officials identified advantages to these partnerships, such as having access to sources of financing other than traditional sources, but also identified challenges to using partnerships. Local opposition is one challenge, as is the complexity and difficulty of contracting involved.

GAO's work on asset management, among other things, highlights the importance of targeting federal funding to communities with the greatest need and spending funds efficiently. For example, in 2004, GAO identified opportunities for EPA to improve its promotion of asset management to utilities—an approach that could give utilities the information and analytical tools they need to manage existing assets more effectively and to plan for the future. Since then, EPA has implemented GAO's recommendations on asset management by, among other things, holding workshops and coordinating initiatives to provide asset management information.