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The Authoritative Resource on Safe Water SM

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Drinking Water Utilities Can Indeed Initiate Timely Infrastructure Projects Through Economic Stimulus Legislation

Drinking water utilities across the United States have infrastructure projects that could begin construction under the time frames being proposed in economic stimulus legislation before Congress. Concerns have been raised about whether this is indeed the case because of the time required for various permitting processes usually needed for major capital projects, and because of the mechanism proposed for distributing stimulus funds, the state revolving loan fund (SRF) program.

However, data and specific project proposals provided to our offices from the field show that funds channeled through the SRF could find plenty of projects to support, likely even more than the $10 billion described in earlier estimates by the American Water Works Association.

Permit Issues

Probably the largest category of projects being put forth by utilities is water main and service line replacement, and in most cases, this type of project would not require environmental permitting. While water line replacement may sound like a mundane type of project, it actually is a “green infrastructure” project because it provides long-term environmental and energy-saving benefits. Replacing leaking or outdated water lines conserves our precious water resources. It also allows a utility to pump the same or larger volumes of water with less energy because the utility does not have to pump to compensate for lost water.

Another type of project not requiring new permits would be a multi-phased project in which the first phase is already in the SRF process. Permits were already obtained for the first phase of the project. A typical phased project would be a pipeline extension.

With regard to permitting issues, the following types of projects do not typically require permits:

- Most water main and service line replacements or upgrades;
- Replacement or installation of water treatment process equipment, such as pumps, blowers, mixers, tanks, etc.;
- Storage tank replacement;
- Meter replacement or installation (also provides a conservation/energy benefit);
- Covering unfinished reservoirs;
- Repair of concrete structures within treatment plants;
- Upgrades of instrumentation for process efficiency;
- Replacement/improvement of electrical equipment;
- Valve and actuator replacement;
- Heating, ventilation, and air-conditioning improvements;
- Roof replacement and building maintenance.

In addition, theses types of projects usually qualify for categorical exclusions from environmental reviews or permits:

- Repair and rehabilitation projects, such as roof replacement, painting of reservoir vessels, building additions or upgrades, etc.;
- Upgrades to supervisory control and data acquisition (SCADA) upgrades, which can run into the millions of dollars;
- Security improvements recommended by vulnerability assessments, such as facility hardening, access controls, surveillance, etc.'
- Improvements to emergency communications and energy management improvements.

Examples of Drinking Water Projects Ready to Go

Drinking water utilities have sent to AWWA and state officials descriptions of numerous infrastructure projects that they have ready to go. Some are awaiting a source of funding. A few have funding sources identified, but one utility manager pointed out that if new funding were found for projects now at the starting gate, money previously identified for those projects could be reallocated to the next tier of projects, thus extending the benefits of immediate stimulus funding. We have not identified the cities or towns by name in most cases because we agree with Congress' and the Obama Administration's desire to avoid anything resembling an earmark process. Following are some examples of "shovel-ready" projects:

- A medium-sized system in eastern Pennsylvania has $13.8 million in projects that could start within 120 days of receiving funding. These include extension of water mains, a pump station, main replacements, and meter replacements. Only the pump station will require a permit.
- A city in the Wheat/Corn Belt could begin $2 million in water line replacement within 180 days of enactment, plus another $2 million in similar work the next year.
- A suburban utility next to the Rocky Mountains was ready to award contracts for a $35 million drinking water treatment facility in September 2008. However, it was unable to secure bond funding in a timely manner and did not want to obligate its cash reserves without having the bond funding available. Consequently, the board of directors tabled signing the contracts. Construction could start within 30 days of receiving funding.
- A large utility in the Finger Lakes region of New York has two large storage tank projects (20 million gallons and 30 million gallons) "ready to go as soon as funding is in place" costing $35 million total. Permitting and bidding processes are complete.
- State drinking water officials in Nebraska have identified $200 million in projects in various communities that could begin within the time frames of the stimulus drafts if funding were available.
- A suburban utility in western Michigan is ready to begin construction of a $10 million water treatment plant
- A large city in south-central Texas reports, "Replacing and repairing pipes are a labor intensive effort that occurs daily. There are never enough resources to do all that is needed, so stimulus money for this effort can hit the streets immediately."
- A medium-sized (15,000 customers) utility in eastern Tennessee could begin $812,373 in extension, replacement or relocation of water lines in the time frames allowed, $170,000 in meter replacements, $200,000 for filter media replacement at a treatment plant, and $150,000 for a power generator.
- A large utility in northern California has $43 million in projects ready to go. It has all environmental and building permits in hand. A large part of this project involves rehabilitation of a water supply canal that is not seismically safe. It provides water for 700,000 people.

State Administrative Issues

The January 26th Congressional Budget Office's Estimate on H.R. 1 (the "American Recovery and Reinvestment Act of 2009") contains a somewhat pessimistic view of the likelihood for rapid expenditure of stimulus funds on water infrastructure -- based, in large part, on the past "track record" for obligating SRF funds (pg. 7):

> "Historically, money appropriated to the SRFs is spent slowly (about half is spent over the first three years), and we expect a similar pattern would apply to the funds provided in Title VIII (funds for water and wastewater infrastructure)."

The report (pg. 4) also includes the following overarching statement, in connection with an array of new types of expenditures (i.e., not specific to the SRFs):

> "….CBO expects that federal agencies, along with states and other recipients of the funding, would find it difficult to properly manage and oversee a rapid expansion of existing programs so as to expend the added funds as quickly as they expend resources provided for their ongoing programs."

States appreciate and understand the concerns expressed in the CBO report. They note, however, that the report was based on an evaluation of current SRF programs and their associated "ground rules." Those observations are not necessarily indicative of what will happen in connection with drinking infrastructure funding under a stimulus bill and an expedited process expected to accompany such a program. States (and, we believe, EPA) fully appreciate the need to ensure that that administering infrastructure funding through a stimulus bill must not be conducted on a "business as usual" basis. This point has been emphasized repeatedly on joint state/EPA conference calls over the months of December 2008 and January 2009 in preparation for likely infrastructure funding in a stimulus bill. Accordingly, states and EPA have been working, over the past several months to examine existing procedures and protocols in order to determine what elements of that process can be streamlined or waived to help ensure the expeditious transfer of such funds to drinking water utilities. Several points are worth mentioning, in this regard:

- Different Mix of Projects/Reduced Transaction Costs for Increased Volume: States expect that, because of the current strain on the Nation's financial markets, many more medium and large utilities will apply for (and receive) stimulus bill funding than has historically been the case with the DWSRF. Such projects would mean transferring relatively larger amounts of money per project, hence increasing the quantity of project funding. This new mix of projects would also be expected to require less transaction time on the part of the states. Many of the medium and large projects would be prepared by full-time engineering staffs at these utilities and require less state intervention than is often the case with the current program.

- Incentives for Fast Action for Some Types of Borrowers: The likely ability, under a stimulus bill, to offer relatively more generous terms to many borrowers, by way of loan subsidies, negative-interest loans, etc. would create an incentive, on the part of borrowers, to move quickly in completing and submitting applications.

- Streamlining Environmental and "Cross-Cutter" Review: One of the particular process steps that can slow SRF projects is the need to satisfy various "cross-cutter" requirements (e.g., Endangered Species Act, National Environmental Policy Act, etc.). These are statutory requirements that are not central to the Safe Drinking Water Act, per se, but whose provisions are "triggered" by certain types of SRF projects. While these various requirements cannot be ignored, states (and EPA) believe that a large proportion of the types of projects that will predominate under a stimulus bill, as described in the

earlier portions of this paper (e.g., rehabilitation, replacement) will allow state use of categorical exclusions:

> National Environmental Policy Act Section 6.204(1)(1)(ii) gives categorical exclusions to "actions relating to infrastructure systems (such as….drinking water supply systems) that involve…rehabilitation (including functional replacement) of the existing system."

- Tracking System: EPA recently deployed a tracking system for states for DWSRF stimulus funds that would satisfy all of the project-specific tracking requirements likely to be associated with a stimulus bill as well as the need for transparency throughout this undertaking. We expect that that information contained in the tracking systems could also "feed" the public web site information that would be stored on recovery.gov.

To conclude, states do not embark lightly on the task of administering drinking water stimulus funds, nor do they underestimate the magnitude of the challenge. However, they fully understand that this is unique and critical time in our Nation's history and they stand ready to meet this challenge by fulfilling the objectives and deadlines contained in a final stimulus bill – in concert with their Federal and local partners.

The American Water Works Association and the Association of State Drinking Water Administrators stand ready to further assist Congress in its deliberations on this critical legislation. If you have further questions, please do not hesitate to contact Tom Curtis at AWWA, (202) 628-8303 or tcurtis@awwa.org, or Jim Taft at ASDWA, (703) 812-9505 or jtaft@asdwa.org.

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