



September 9, 2008

The Honorable Nancy Pelosi
Office of the Speaker
H-232, The Capitol
Washington, DC 20515

The Honorable Steny Hoyer
House Democratic Majority Leader
H-107, The Capitol
Washington DC 20515

The Honorable John Boehner
House Republican Minority Leader
H-204, The Capitol
Washington, DC 20515

Dear Speaker Pelosi:

As you develop plans for a second stimulus we encourage you to consider the economic efficiency of specific water and wastewater projects before approving grant funding for their enhancement. The National Association of Water Companies agrees that increased infrastructure investment is necessary but, we strongly caution against making unconditional grants to water and wastewater utilities. A recent CBO report indicates that the simulative effects of infrastructure spending are reduced “unless such spending is carefully targeted to *economically efficient* projects. Otherwise, the spending would not generate the same benefits as the estimates suggest – and indeed it could produce costs that exceed the benefits.”¹ (Emphasis added).

The National Association of Water Companies has identified several conditions that can be used to identify economically efficient water and wastewater projects and assure fiscally responsible usage of taxpayer money while adding stimulus to the economy.

Federal assistance should be made conditional on the following considerations:

- *Will the utility charge its users the full cost of service?* From the standpoint of economic efficiency, the ideal is to charge customers of water and wastewater utilities what it costs to provide the services, including the cost of replacing infrastructure when it wears out. If the utilities are not charging full cost, then scarce federal dollars would be used to subsidize services that customers should be paying full cost for. Federal dollars would be better spent subsidizing the bills of only those customers who could not afford a full cost bill.
- *Has the utility considered the use of a public private partnership or management contract arrangement?* Studies by the National Association of Water Companies and others have shown that creative public-private partnerships and other arrangements can increase environmental compliance and simultaneously reduce operating costs by 10% to 40%. With such cost savings, the need for federal assistance is greatly reduced.

¹ Congressional Budgeting Office, “Investing in Infrastructure”, *Testimony before the United States Senate Committee on Finance*, June 10, 2008.

- *Has the utility considered creative financing options?* There are many innovative ways of financing the replacement or rehabilitation of infrastructure, both inside and outside of a public-private partnership, including private activity or industrial development bonds; design, build, operate contracts; lease arrangements; and others. Water and wastewater utilities currently have the revenue collection structure in place to support all of these, provided they charge their customers enough to cover all the costs.
- *Could cost savings be realized through consolidation and resulting economies of scale?* There are over 53,000 community water systems in the United States most of which are very small. In many cases the financial challenges facing these utilities can be addressed by achieving economies of scale through consolidation of management and ownership with another facility.

Projects that are ready to go and that will put Americans to work in a timely fashion can and should be managed and financed in a fiscally responsible way. The Drinking Water State Revolving Fund provides low-interest loans to utilities and is a model for fiscal responsibility. The National Association of Water Companies stands ready to work with you to develop additional federal spending policies that involve creative debt finance, good asset management, full cost-of-service pricing, consolidation, and public-private partnerships.

Regards,

A handwritten signature in black ink that reads "Peter L. Cook". The signature is written in a cursive, flowing style.

Peter Cook, Executive Director

2001 L Street, Suite 850, Washington D.C. 20036 Tel: (202)833-8383 Fax: (202) 331-7442