

The Growing Water Affordability Challenge: How Did We Get Here?

By some accounts, the U.S. faces a funding gap of about \$1 trillion in investment in water and wastewater systems over the next twenty years. The most recent EPA Clean Watersheds Needs Survey found \$271 billion in need for wastewater and stormwater systems, and the most recent EPA Drinking Water Needs Survey found \$473 billion in need for drinking water systems. These EPA surveys estimate the investment needed just **to maintain** existing systems. They do not include the costs of likely new regulations, population growth, system expansion, and climate change/resiliency.

While the services provided by drinking water and wastewater treatment utilities are local in nature, these services are provided in compliance with stringent national standards under the federal Clean Water Act (which passed in 1972) and the Safe Drinking Water Act (which passed in 1974).

The vast majority of the growing cost for clean and safe water – operations, maintenance, and infrastructure upgrades and expansion – is coming directly from ratepayers. The Congressional Budget Office found that the federal cost-share of total water capital, operations, and maintenance spending in the country has declined in real dollars over the past four decades and has fallen below 5 percent. This federal share is much smaller than other core infrastructure sectors, such as highways (close to 50 percent), mass transit and rail (17 percent), and aviation (17 percent). Local and state investments have more than doubled and now account for 95 percent of the investment. Yet clean and safe water are clearly in the national interest and the regulatory cost drivers are largely federal.

At the same time that local investment through rate increases has risen dramatically and the federal investment has dried up in similar dramatic fashion, an enormous wealth disparity has emerged between the rich and poor. Wage stagnation, especially in the lowest income brackets, has led to unprecedented financial strain that has impacted ratepayers' ability to pay their water and sewer bill. The ongoing pandemic and related financial impacts have only served to exacerbate already concerning trends for what we are calling the "Water Affordability Challenge".

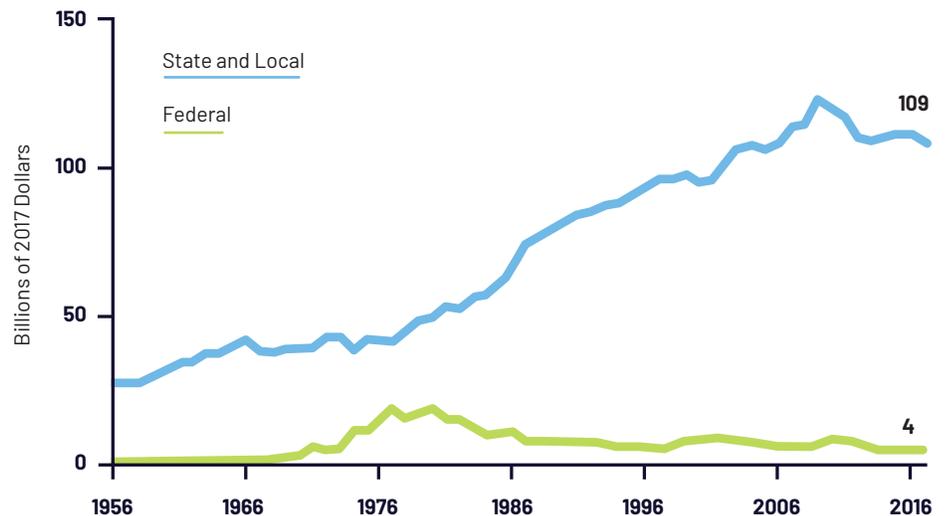
- **1972** | When the Clean Water Act (CWA) was first enacted nearly 50 years ago, it was built upon a strong federal-state-local funding partnership. The CWA set forth water quality goals and treatment requirements and provided over \$60 billion in federal construction grants to local communities to meet the requirements of the Act, which resulted in communities nationwide building, upgrading and expanding their sewage treatment facilities.
- **1974** | The Safe Drinking Water Act (SDWA) was enacted, giving the Environmental Protection Agency the authority to establish drinking water standards for public water systems. The federal government never instituted a similarly generous grant program for drinking water.
- **1987** | The CWA construction grant program was replaced with a federal low-interest loan program called the Clean Water State Revolving Loan Fund, and communities began relying overwhelmingly on local rates to fund all aspects of complying with federal water quality regulations and providing essential services.
- **1996** | A parallel Drinking Water State Revolving Fund was created to provide low-interest loans to help communities finance drinking water investment. While the costs to provide safe drinking water have grown significantly over the past several decades, individual communities continue to overwhelmingly rely on local investment.
- **2009** | The American Recovery & Reinvestment Act provides the most significant influx of water funding in decades, at \$4 billion for the CWSRF and \$2 billion for the DWSRF.
- **2020** | The CWSRF and DWSRF remain the primary federal investment vehicles in water and wastewater, receiving level annual appropriations totaling about \$2.76 billion. In the wake of the COVID-19 pandemic, Congress authorizes the first-ever federal assistance – \$638 million – for low-income water ratepayers, a historic first step toward meeting a need estimated around \$8 billion.



The Federal Government's and State and Local Governments' Spending on Water Utility Infrastructure, 1956-2017*

*Footnote: Includes water supply and wastewater treatment facilities.

Source: Congressional Budget Office, October 2018.



What Is the “Affordability Challenge” and Why Must the Federal Government Pay Attention?

Today, the ability of many communities to raise the revenues necessary to maintain their water systems and meet all public health and environmental regulations is constrained by concerns over household ability to pay. Utilities large and small around the country work to balance the ability of households to absorb rising rates with the federal mandates or public calls for improvements from sewer overflow controls to replacing lead pipes, among many other cost drivers. Utilities today are working in ways not envisioned when the CWA and SDWA were first contemplated, including:

- Responding to climate change and investing in resilience;
- Investing billions of dollars in sewer overflow/stormwater control;
- Working with the agricultural community on source water protection and nutrient controls;
- Partnering with community groups to target investments that advance environmental justice, green infrastructure, and evaluating approaches like water reuse.

These roles and responsibilities within the community have grown alongside rate increases. Clean water and drinking water rates have consistently outpaced inflation in recent years, and this trend is projected to continue as additional infrastructure and regulatory compliance projects are undertaken.

The reality is that the poorest households in our communities are the ones bearing the most disproportionate impact from water rate increases as a percentage of their household income – creating for many an agonizing choice between paying for water and for other essentials such as food or medicine. This is an untenable situation for these households, their communities, the utilities serving them, and the nation as a whole.

Another, more hopeful trendline is also clear: dramatically improved water quality, from the days of waterways being treated as open sewers, reduced prevalence of water-borne diseases, and the ability of Americans from coast-to-coast to drink water from their tap with confidence. These achievements have helped communities thrive and economies grow. Yet widespread progress has also shed light on tragic examples where these improvements have not been realized, and threats remain.

The ability of communities to meet existing requirements, make proactive investments to maintain a state of good repair and continue to advance water quality all hinge on their ability to raise the needed rates from the community. As our scientific understanding advances around emerging areas of concern, like PFAS contamination, and as systems look to build in enhanced resilience and security, the need for meaningful discussion about ways to address affordability and the role of the federal partnership warrant renewed attention of Congress and EPA.

The time has come for a significant re-commitment of the federal government to water investment.

