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Highlights

Highlights of GAO-10-728, a report to the Ranking Member, Committee on Transportation and Infrastructure, House of Representatives

June 2010

WASTEWATER INFRASTRUCTURE FINANCING

Stakeholder Views on a National Infrastructure Bank and Public-Private Partnerships

Why GAO Did This Study

Communities will need hundreds of billions of dollars in coming years to construct and upgrade wastewater infrastructure. Policymakers have proposed a variety of approaches to finance this infrastructure, including the creation of a national infrastructure bank (NIB) and the increased use of privately financed public-private partnerships (PPP).

In this context, GAO was asked to identify (1) stakeholder views on issues to be considered in the design of an NIB and (2) the extent to which private financing has been used in wastewater PPPs and its reported advantages and challenges. In conducting this work, GAO developed a questionnaire based on existing NIB proposals and administered it to 37 stakeholders with expertise in wastewater utilities, infrastructure needs, and financing; GAO received 29 responses from stakeholders with a variety of perspectives about an NIB. To determine the extent to which wastewater PPPs have been privately financed and their advantages and disadvantages, GAO identified and interviewed municipalities involved in privately financed PPPs and wastewater services companies, conducted case studies in states with privately financed PPPs, and conducted a literature review.

GAO is not making any recommendations. While this report discusses a number of funding approaches, GAO is not endorsing any option and does not have a position on whether an NIB should be established.

View GAO-10-728 or key components.
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What GAO Found

Stakeholders who responded to GAO's questionnaire discussed issues in the following three key areas that should be considered in designing an NIB:

- *Mission and administrative structure.* While a majority of stakeholders supported the creation of an NIB, their views varied on its mission and administrative structure. One-third supported an NIB to fund only water and wastewater infrastructure, while two-thirds responded that it should also fund transportation and energy projects. There was no consensus among stakeholders on whether an NIB should be administered by an existing federal agency, structured as a government corporation, or structured as a government-sponsored enterprise. GAO has previously reported that an entity's administrative structure affects the extent to which it is under federal control, how its activities are reflected in the federal budget, and the risk exposure of U.S. taxpayers.
- *Financing authorities.* A majority of stakeholders agreed on an NIB's financing authorities. Specifically, a majority said the federal government should provide the initial capital; an NIB should be authorized to use a variety of options to generate funds for operating expenses and lending; and an NIB should offer a variety of mechanisms for financing projects, such as providing direct loans, loan guarantees, and funding for the Environmental Protection Agency's existing wastewater funding program—the Clean Water State Revolving Fund.
- *Project eligibility and prioritization.* Stakeholders' views varied on which types of projects should be eligible for NIB financing, such as whether it should exclusively finance large projects. In addition, a majority agreed an NIB should prioritize projects that address the greatest infrastructure need and generate the greatest environmental and public health benefits.

GAO identified seven municipalities that have entered into privately financed PPPs—contractual agreements in which the private partner invests funds in the wastewater infrastructure—since 1992: Arvin, California; Cranston, Rhode Island; Fairbanks, Alaska; Franklin, Ohio; North Brunswick, New Jersey; Santa Paula, California; and Woonsocket, Rhode Island. Municipal and wastewater company officials GAO interviewed identified the following examples of advantages of privately financed PPPs:

- Provide access to financing for municipalities that have difficulty using traditional financing sources, such as municipal bond markets.
- May make operations more efficient, for example, by taking advantage of economies of scale by buying key supplies, like chemicals, in bulk.
- May bring new infrastructure online faster than traditional public procurement because companies have more flexibility.

These officials identified challenges of privately financed PPPs, including:

- Local opposition may arise out of concerns about higher wastewater rates and the potential loss of municipal wastewater jobs.
- Private financing is generally more costly than tax-exempt municipal bonds because of higher interest rates; a 2002 National Research Council study reported that private financing is 20 to 40 percent more expensive.
- Contracts can be costly and difficult to develop because they are complex, and municipalities and companies are unfamiliar with this type of PPP.