Testimony of Alan Ispass
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before the United States House of Representatives
Committee on Financial Services

Good morning Mr. Chairman and Members of the Committee. My name is Alan Ispass. I am a vice president with CH2M HILL and the director of the firm's Utility Management practice. CH2M HILL is a global full service engineering, project development and delivery firm with 26,000 employees world-wide. A significant part of CH2M HILL's core business is to help cities and counties plan, design, and construct major water, sewer, stormwater, and transportation infrastructure projects. The practice that I lead includes a Financial Services team that helps these municipal clients address funding and financing issues in the water sector. This work includes conducting cost of service and financial planning studies, and also assisting clients in identifying and securing funding for their capital improvement programs. We sometimes serve in the role of Consulting Engineer, conducting independent analyses and certifications related to a client's financial situation for inclusion in municipal bond official offering statements.

During the past year we have observed, first-hand, that the global financial crisis has dramatically affected our clients' ability to effectively plan the financing of their capital programs. Utilities have had significant declines in revenues due to foreclosures and reductions in commercial and industrial water use. Many wastewater agencies are especially hard hit as they strive to meet Federal mandates to provide greater control of combined sewer overflows and sanitary sewer overflows. And of course, this is all occurring at a time when an estimated $600 billion of investment is needed in our nation's water and wastewater infrastructure.

These financial concerns have been exacerbated since the Fall of 2008. For years, utilities have been able to count on ready access to long-term municipal bonds to finance their capital programs with interest rates often in the 4-5 percent range. However, accessibility to the bond market is now a problem for many utilities. Many of our clients have been informed by their financial advisors that utilities with credit ratings lower than AA are unlikely to receive bids, or that they would receive bids at very high interest rates, very possibly causing unaffordable increases on customers' water and sewer bills.

In the past eight months, we have seen clients that previously had no problems issuing long-term debt unable to issue bonds, sometimes receiving no bids when they went to market. We have also seen the downgrading of private bond insurers causing clients with less than an AA bond rating to hold off on issuing bonds delaying needed capital improvement projects. And, even more troubling is that the downgrading of bond insurers has put some of our clients in technical default of bond covenants for their existing outstanding debt, because in some cases these covenants require that the utilities maintain bond insurance with a specified credit rating or put significant funds into reserve. Such issues put in question these utilities' ability to issue additional debt for future needs.

Without doubt, the American Recovery and Reinvestment Act of 2009 (ARRA) provided some important financial assistance that is helping to fund some water and wastewater capital projects through the $6 billion that is being administered through the existing State Revolving Fund (SRF) programs. However, the $6 billion is only a small fraction of country's water and wastewater infrastructure needs.

As evidence of the substantial needs for funding, the State of Arizona received 300 applications for water and wastewater projects totaling more than $1 billion in project value, for the $80 million in ARRA funds made available. Based on the priority of applications, the State expects to be able to provide funding for only 51 of the 300 projects. Likewise, the State of Virginia received 240 applications for $20.1 million of ARRA funding for drinking water projects, and based on application of EPA-approved criteria, will only be able to fund the top 20 projects.

In light of the billions of dollars in need beyond funding available through the traditional SRF programs and funds made available through ARRA, it is crucial that there be a robust municipal bond market that can be broadly accessed by municipal borrowers at reasonable interest rates. Given these substantial financial challenges in the municipal bond market today, The Municipal Bond Insurance Enhancement Act of 2009, represents an important step forward. By providing up to $50 billion in reinsurance over the next five years, it provides a mechanism for allowing many municipal borrowers with less than top credit ratings move forward with their capital programs. The specifics on eligibility and the cost of the risk-based premiums that will be detailed if the program moves forward will be critical to determining how broadly the relief offered by this legislation will be felt through the municipal utility sector. From our vantage point as consultants to many water and wastewater utilities throughout the United States, this legislation could be crucial to providing continued access to the municipal bond market and for ensuring sustainable infrastructure systems.