



WESTERN STATES WATER COUNCIL

Creekview Plaza, Suite A-201 / 942 East 7145 South / Midvale, Utah 84047 / (801) 561-5300 / FAX (801) 255-9642

Web Page: www.westgov.org/wswc

March 13, 2008

Position No. 296

The Honorable Stephen L. Johnson, Administrator
U.S. Environmental Protection Agency
Ariel Rios Building
1200 Pennsylvania Avenue, NW
Washington, D.C. 20460

Dear Administrator Johnson:

The Western States Water Council, representing the governors of eighteen western states, is concerned with an Office of Management and Budget (OMB) and Office of Inspector General (OIG) directive to EPA disallowing the use of State Revolving Fund (SRF) revenues to repay bonds issued by some 20 states to meet the required 20 percent match for federal SRF capitalization grants. Such action would disproportionately impact western states' ability to raise matching funds, and is contrary to longstanding EPA policy and practice. Further, OMB acknowledged the practice of using state-match bonds in Circular A-133, which directs the audit and administrative oversight for federal funds. Such a change would be drastic and highly detrimental to our ability to raise matching money.

This change would adversely affect Alaska, Arizona, Colorado, Kansas, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Oregon, South Dakota, and Texas, which all rely on SRF revenues to repay bonds and match SRF capitalization grants. For example, the Texas Water Development Board estimates it could be faced with either – requesting state general revenue (up to \$46.8 million for the next biennium) to provide the required 20 percent state match to an estimated combined \$234 million in anticipated capitalization grants over a two-year period – or seeking state legislation and appropriations to allow Texas to pay the debt service on the bonds. Moreover, replacing bond proceeds with general revenue would result in a charge to the entire populace rather than a user-based charge on specific projects. In effect, under the current arrangement, SRF loan beneficiaries help pay for the state match through loan interest payments. Texas is proud of its programs and believes that both funds are currently administered in the most appropriate and effective manner.

States – large and small – face different fiscal challenges, and need to have the flexibility to meet their required match in accordance with their individual situation. For example, Montana and other states do not have access to state appropriated funds and absent the use of state match bonds and SRF interest repayments would be unable to participate in the SRF program. The policy change would thus exclude some of those states most in need of assistance and have the opposite effect on SRF borrowers than may be intended by OIG and OMB. We

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understand the OIG has called for the appointment of an Audit Review Committee to reach closure on this issue at EPA. We ask that these comments be considered in the resolution of this issue.

We appreciate your attention to our concerns. We must continue to work together at all levels of government to meet our water and wastewater treatment needs in the most efficient and effective manner possible.

Respectfully,

A handwritten signature in black ink that reads "Duane A. Smith". The signature is written in a cursive, flowing style.

Duane A. Smith
Chairman
Western States Water Council

cc: Benjamin Grumbles, EPA Office of Water
Jim Nussle, Office of Management and Budget
EPA Office of Inspector General