



WESTCAS

The Western Coalition of Arid States

Washington Report

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October 27, 2011

Hicks-Ray Associates





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OBJECTIVE

Provide the background for WESTCAS to engage Congress & Administration, particularly on infrastructure financing alternatives



Introduction

UNSETTLING - Like everyone else in the nation, and indeed the world, the water resources community finds itself in the midst of unsettling change.

POINT OF NO RETURN - We are all aware that things will never be the way they were just a few short years ago.

NO "SILVER BULLETS" - Congress and the Executive Branch have yet to develop and implement new institutions and arrangements in response, including our future infrastructure needs.

MULTIPLE FRONTS with COMPLEX, OVERLAPPING ISSUES – legislation, regulation, and financing fronts

WESTCAS :

1. Deals with Complex Issues
2. Unique credentials to formulate meaningful proposals to help address overlapping, complex issues



Presentation (& preparation for workshop)

Key Dates: The “elegant dysfunction of the legislative process both for the remainder of the calendar year and then for 2012.

Key Approaches to Infrastructure Financing: Options under serious discussion for how to fund water resources infrastructure.....through the authorization/appropriations process; infrastructure banks; other options?

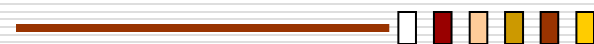
Key Administration Issues: Whatever happened to the Executive Branch strategy of regulating through Executive Orders and Guidance?



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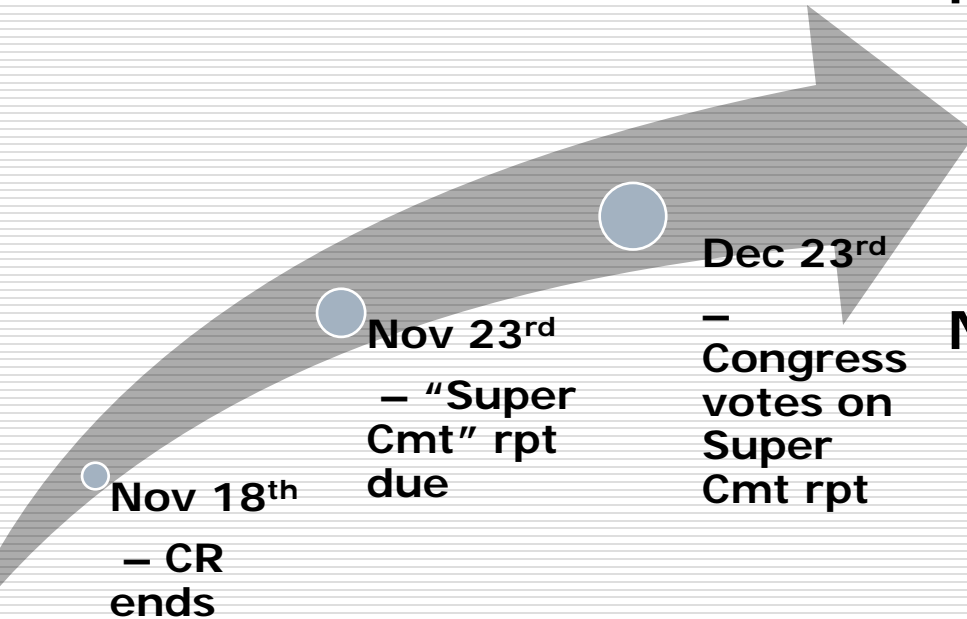
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KEY DATES



Key Dates and Timeline

With only 66 days, counting from today, left in the calendar year, Congress faces three particularly important dates during this period:



November 18th is the date that the current Continuing Resolution keeping the Federal government open will expire.

November 23rd is the date that the Congressional Super Committee is scheduled to report its proposal for \$1.2 trillion in cuts to the Federal budget.

December 23rd is the date that the Congress must vote on the Super Committee recommendations.



Nov 18th Continuing Resolution

No FY12 Approp Bills: present, and despite the fact that FY12 began on October 1, not a single Appropriations bill has been passed by the Congress, hence the CR.

No Time or Will: There is agreement that there isn't the time or the will to pass these bills in "regular order."

Only Options Left:

Option 1 – Year-long CR. In FY11 Congress ended up adopting a year-long CR which shifts essentially all power to the Executive branch to decide spending.

Option 2 – Omnibus. There is also the option of the "Omnibus" which is all of the unpassed bills being lumped together or a "minibus" which is a few bills lumped together.



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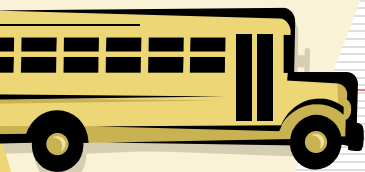
Buses and the “Mini-bus”

House Republicans do not like the omnibus process

So, Senate is in the process of pursuing a “mini-bus” which includes the FY12 Agriculture; Commerce, State, and Judiciary; and the Transportation/HUD spending bills.

This minibus can also serve as the vehicle for a CR that covers all spending as well as other unaddressed issues which are on CR such as the reauthorization of the National Flood Insurance Program.

After starting the minibus on its legislative journey the Senate...adjourned for this week. But the House is in session and we'll see whether it “has legs.”



The Congress has to do something three weeks from tomorrow or the government will shut down. That is unacceptable to all parties

Super-Committee

On November 23rd, just five days after the CR is set to expire, the Congressional "Super Committee" is set to report on \$1.2 trillion in cuts to the Federal budget.

A month later, on December 23rd, the Congress must vote these proposed cuts up or down.

If they fail, then automatic cuts are triggered; 50% from defense and 50% from non-defense.

The \$1.2 trillion will be cut from the Federal budget beginning in January, 2013 and going to January 2022.

Any result will likely ignite a fire-storm of controversy as various factions attack the suggestions and defend their turf.

And to top it all off, the New Hampshire Republican Presidential Primary could be held in December. Sort of like pouring kerosene on the fire.





About those cuts...

BTW, while hearing the various partisans tearing themselves up over these projected \$1.2 trillion in Federal budget cuts remember...

- ✂ The cuts don't start until January, 2013 or about 60 days after the election.
- ✂ The actual cuts are \$984 billion and not \$1.2 trillion because the Congress gives itself credit for paying less interest on the national debt that will be saved through the cuts.
- ✂ Social Security, Medicaid, and personal Medicare benefits, and of course interest on the debt are all excluded from the cuts.
- ⊘ Congress can rescind any of these cuts in the future.



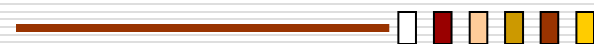
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INFRASTRUCTURE FINANCING APPROACHES

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Addressing the Problem

How will our nation finance the infrastructure that is essential to our future prosperity?

Three propositions that virtually everybody agrees with:

1. Our water resources infrastructure needs total hundreds of billions of dollars.
2. The Federal government has been an important partner with local sponsors in providing for this infrastructure.
3. At present both the needs and the institutional arrangements for continuing this relationship are lacking.

Two important questions?



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Addressing the Problem

How will our nation finance the infrastructure that is essential to our future prosperity?

Two important questions?

Can we preserve as much of the current system with its proven track-record of creating water infrastructure and also create new institutions such as infrastructure banks to new funding opportunities during the current harsh economy?

WESTCAS has a real role here in suggesting to federal policy makers how this might be done—CAN WE DEFINE IT?





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Are I-Banks the Answer?



	President's "Jobs Bill"	NACWA's MoneyMatters	HR 3145 Bishop Bill	Kerry, Hutchison, Warner Bill
Title	<i>The American Jobs Act</i>	<i>Water Quality Improvement and Investment Prioritization Act</i>	<i>Water Quality Protection and Job Creation Act of 2011</i>	<i>"BUILD Act"</i>
Pros	<ul style="list-style-type: none"> - \$10B Infrastructure bank; (down from \$30B over 6 years); -infrastructure construction & creates jobs - now may be better time for I-bank 	<ul style="list-style-type: none"> -Incentivizing local investment by allowing communities to work out reg response plan; -includes public/private; -does not require direct federal investment; -creates jobs 	<ul style="list-style-type: none"> \$13.8 B in reauthorized CWSRF funds; -plus \$10B Water Trust Fund; - reauthorizes the 'proven' SRF approach - broad support (WIN, League of Cities, env NGOs, AGC et al) 	<ul style="list-style-type: none"> -Creates \$10B for infra "financing authority" - set up as independent authority (less govt bureaucracy?) - bipartisan support - attract private investors (leverage to \$640B in 10 years)
Cons	<ul style="list-style-type: none"> -Mica & others concern with big govt and red tape; -adds to deficit or make cuts to existing budgets 	<ul style="list-style-type: none"> -EPA acceptance of locally prepared reg response 	<ul style="list-style-type: none"> - gov't bank, controls, red tape - adds to deficit or requires cuts to existing budgets - permanently reinstates Davis-Bacon 	<ul style="list-style-type: none"> - oversight questions; - adds to deficit
Reality Check	The one part of the Jobs bill that may be considered separately. Who will run the I-bank?	See con	What budgets will you cut in the T&I bill to provide this funding?	Will the private investors take the bait?



Examining the proposals...

Megan McArdle, writer for the Atlantic Magazine in the October 20th edition had two interesting comments on infrastructure banks:

“There are a lot of ferocious advocates of policies they can’t explain.”

“What I’d like is to make all the Members of Congress write a 100 word essay on what an infrastructure bank is.”

With that in mind, let’s dig-in to one of the latest proposals...

- **HR 3145**, introduced just two weeks ago, is the “Water Quality Protection and Job Creation Act of 2011”
- **Bishop Bill**, introduced by Rep Tim Bishop [D:NY]
\$13.8 billion in new spending over 5 years for the current wastewater SRF program and
Another \$10 billion for a Clean Water Trust Fund.



The Funding Predicament

Because HR 3145 incorporates both the traditional SRF program and also a new “trust fund” it can serve as a good platform to review the challenges in making the sort of legislation a reality.

\$13.8 billion over 5 years for the Clean Water SRF requires that one find \$2.76 billion a year.

At present, this can't come out of just anywhere in the \$3.7 trillion Federal budget nor can the money simply be printed.

Instead the off-sets must be found in the Interior and Environment Appropriations bill.



Funding the I-Bank!

Let's engage in a "find \$2.76 billion in the Interior/Environment budget to fund our plan"

- The FY12 budget for this Committee is expected to be about \$27.5 billion. Among the agencies funded are...all for \$27.5 billion:
Bureau of Land Management, US Fish and Wildlife Service, National Parks Service, USGS, Bureau of Indian Affairs, USEPA, US Forest Service, Indian Health Service, CEQ, Smithsonian, National Endowment for the Arts, National Endowment for the Humanities
- If it were us, we might just close down Fish and Wildlife. That gives us \$1.1 billion.
- Then we might add a further 10% cut to the already 20% cut to EPA's budget. That's another \$700,000 million so we're at \$1.8 of our required \$2.76 billion.
- Then we would certainly X out CEQ saving another.....\$2.6 million.
- Then we might move to the National Endowments for the Arts and the National Endowment for the Humanities. That's another \$270,000 combined, so we're at \$2.072 billion.
- We need another \$500,000,000 or so to get to \$2.76 billion.





Where do we go from here?

- Do we get the money from the National Park Service? From USGS? From the Indian Health Service, or the Smithsonian, or the US Forest Service?
- Remember that there is zero chance that our suggested cuts would ever be agreed to by the Congress or the President.

The two solutions we can see to this dilemma:

1. Congress to determine that infrastructure is so important that it needs to borrow the money;
and/or
2. The nation needs to explore the concept of an infrastructure bank... but add regulatory relief and local prioritization and attract private investment



Appeal of I-Banks

- By investing a lump sum of money and through the leveraging that banks are allowed, an “investment” of a few billion dollars can grow to a much larger amount.
- And this in turn addresses all of the frustrations of trying to secure authorizations and uncertain appropriations from the Congress.
- Can attract Private Investors
- You give up the “federal share” of “free money” in return for having access to a much greater amount of money with far fewer strings attached.



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But, be careful...the Icky Twerp example

In the late 1950's and early 1960's in Fort Worth there was an iconic local TV figure named "Icky Twerp" who hosted a show called "Slam Bang Theater" showcased episodes of "The Three Stooges." Slam Bang Theater was sponsored by Texas Consumer Finance Corporation.

Their "advertising jingle" was

"Walk right in that friendly store

The TCFC money store

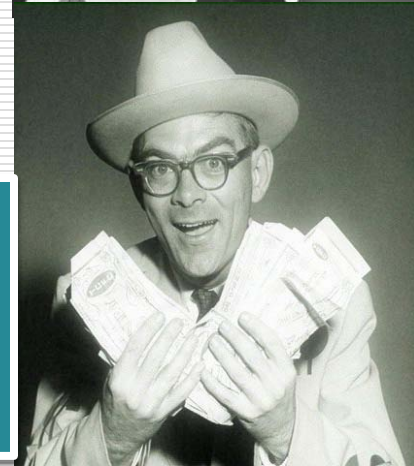
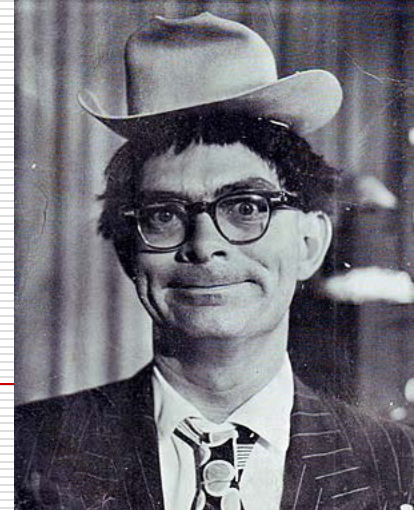
Walk right in that friendly store

The TCFC money store"

Icky Twerp, playing the character of "Mortimer Moolah" would walk along the street with his pockets turned inside out.

He would spot the TCFC "Money Store," walk inside, and instantly

Infrastructure Banks and water resource agencies represent a more complex mix than the relationship between "Mortimer Moolah" and Texas Consumer Finance.





Who controls the I-bank?

The “banking” and the “leveraging” concepts behind infrastructure banks are fairly easy to grasp.

- What is much more complex is who would control these banks and how they would be accountable to the public.
- One very real option is that as quasi-Federal institutions, the loan committees on infrastructure banks would likely include people “on detail” from Federal agencies such as the Corps and the Bureau, USEPA, the Fish and Wildlife Service, and others.
- Congressional authorizing and appropriations processes would atrophy and fade away, to be replaced as a funding mechanism for water resources.
- Could you find that your loan committee consists of employees from Federal agencies who have traditionally been hostile to the very kind of projects you want a loan for.
- Can you seek redress from the Congress?



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Finding a better proposal...

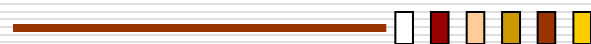
If you ask leading members of Congress and the most senior of the staffs how the issue of financing for infrastructure is going to be address, almost all respond, "we don't know."

That represents both a challenge and an opportunity for WESTCAS.

Our membership has to go way beyond just endorsing what other people are proposing.

We have to come up with the details for how these concepts can be made to work for the nation in general and the Arid West in particular.

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Other approaches...to watch and support

- ❑ NACWA Money Matters approach – incorporating regulatory prioritization to allow more local “smart investment”
- ❑ Financing options for local/State
- ❑ Not a federal problem – but a Federal/State/Local Gov’t/Private Sector Problem

WESTCAS Role?

- ❑ Complex issues in several fields – legislative, financing, regulatory
- ❑ WESTCAS traditionally has engaged complex, multi-faceted issues
- ❑ Coordinating with other Associations
- ❑ Pulling good ideas together – WESTCAS can provide meaningful input

Opportunity DC Fly-In

- ❑ Legislative Committee, working with Regulatory Cmt, to start planning



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Join us for the Legislative Workshop

YOUR INPUT NEEDED!

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QUESTIONS & DISCUSSION

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