Texas Senate Committee on Water, Agriculture & Rural Affairs

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Invited Testimony of The Texas Water Infrastructure Network

Panel IV: Senate Bill 28 (Texas Water Fund)

Provided by Perry L. Fowler, Executive Director TXWIN

Chairman Perry, Vice Chairman Hancock and fellow esteemed committee members, my name is Perry Fowler, and I am here on behalf of the Texas Water Infrastructure Network (TXWIN) where I serve as Executive Director. I am here to share the results of our most recent Texas Water Capital Needs Survey (TWCNS) which provides us with a complete picture of Texas' near-term water infrastructure needs and related trends. This is a timely topic as we start preparing for the next legislative session and we appreciate the ability to present some of our survey findings to help provide some additional context on issues driving the need for investment in our water infrastructure.

TXWIN, a nonprofit 501c (6) trade association, was founded in 2013. TXWIN represents companies that build water & wastewater treatment plants, pipelines, flood control and other projects for municipal and regional water utilities, industrial and commercial clients, and federal entities. TXWIN membership includes some of the most respected Texas and national construction companies as well as leading state and national suppliers, fabricators, manufacturers, and construction law firms. TXWIN members build the water infrastructure that serves the communities you represent across the State of Texas,

This year marks the 4th survey conducted with the assistance of Collaborative Water Resolution LLC, an Austin-based water research and public opinion consultancy led by Dr. Todd Votteler a respected voice in Texas water. The survey has evolved over time to capture more key data points relevant to water infrastructure investment needs with key input from policy makers and Texas water stakeholders.

The first Texas Water Capital Needs survey was conducted in 2020 with the initial goal of identifying key trends and challenges in water infrastructure needs. It was a uniquely challenging time, and we wanted to identify trends in Texas water infrastructure during the height of the COVID pandemic. In the initial survey we discovered that that market demand for water infrastructure and construction activity was not diminishing. Due to our designation as an "essential" industry we worked through the pandemic it in its entirety because Texas could not afford to delay investments in our water infrastructure. We are still experiencing many of the same market dynamics associated with the pandemic marketplace such as inflation and decreased material availability. The good news is some of those factors are easing, but some challenges persist.

Survey Process

In terms of process, I would like to explain how we formulated the survey which involves Texas collaboration with water stakeholders in the owner, design and construction community and our TXWIN members. We partner with all the major water groups soliciting their feedback and input to ensure that we are capturing key data points, once they have all had the opportunity to review content and provide feedback. We also depend on these groups to assist us with disseminating the survey to their members in the water infrastructure owner community.

I want to personally thank our valued partners including the AWWA Texas Section, the Water Environment Association of Texas (WEAT), the Texas Rural Water Association, the Texas Water Foundation, and the Texas Water Conservation Association (TWCA), the Texas chapter of the Association of Water

Board Directors and numerous other organizations that contributed to our data pool this year. We had approximately 250 respondents this year, which was the largest response rate to date. We accepted responses to the survey this past May and have been analyzing the data over the last several months.

Survey Methodology

The current 2024 survey conducts a much deeper dive into data based on population demographics. We thought that it was especially critical to look at how of infrastructure needs and drivers, impact on economic development data, funding and procurement trends differed based upon population demographics. The survey targeted top management of water utilities who have familiarity with the survey subject matter.

As opposed to the 50-year planning cycles in the State Water Plan and State Flood Plan, we asked respondents to identify their capital need projections in the next ten and twenty- year periods. We also include wastewater in our study which is essential to our water stewardship and deserves more attention as there is not presently a state “Clean Water Plan”.

Currently our state planning does not take the cost of clean water infrastructure into account and we don’t have a good inventory of these needs other than the Clean Water SRF Intended Use Plan. This is important when we consider the actual scope, costs, and demand for capital investment.

This survey hits all the key data points and paints a more complete picture of Texas' near-term water infrastructure needs and related trends. In addition to the topline responses received, we have conducted further analysis based on population demographics because the size of communities, and types of respondents can differ significantly. Therefore, the survey gathered data on economic development issues, size of needs and procurement preferences.

In addition to the topline responses received, we have conducted further analysis based on population demographics which is important because although many of the trends in water infrastructure needs are similar, the size of communities and types of respondents differ significantly, so there are certain aspects of the survey that we thought were important to differentiate especially when it comes down to economic development issues, size of needs and procurement preferences.

We had a large pool of MUD respondents this year which was welcomed, but it is noteworthy that the creation of MUDs is in fact a function of economic development so that the number of those entities which responded to the survey had the potential to dilute the results from the larger entities that responded, specifically with respect to economic development. This was a key area where we thought it was important to distinguish how responses differed among the types and sizes of water systems.

We don't have enough time here today to do a deep dive into all the survey results, but I would like to highlight some of the top line and population specific results that we captured this year especially those that are the most relevant to the discussion today.

2024 Texas Water Capital Needs Survey Findings

The majority of respondents indicated that their revenues were stable or increasing. The majority of respondents also indicated that the number of connections in their service areas were stable or increasing which reflects the tremendous growth we are experiencing as a state.

In terms of the most significant water infrastructure needs the top four results were:

1. 27% Water Treatment
2. 24% Water main replacement and rehabilitation
3. 23% New or alternative water supplies
4. 15% Wastewater treatment

The drivers for these investment needs are also significant as we identify forces related to funding. Aging infrastructure represented the top driver of with 55% of respondents indicating this was the chief factor, followed by population growth demands at 21%, and regulatory compliance as a driver of infrastructure needs for 12% of the respondents.

We also included 2 new questions on economic development in this year's survey because we are increasingly looking at water availability and infrastructure conditions, their relevance and impact as an economic force in the Texas economy.

Economic Development by Population Demographic

We are increasingly becoming more aware that water is a driving force of the Texas economy. Here are some population specific data samples on impact of water supply infrastructure and wastewater infrastructure impacts on economic development. Over the last several years from nearby Dripping Springs to Conroe we have seen moratoriums on development due to water supply and treatment

constraints, so we thought it was noteworthy to take a closer look at how current economic conditions have influenced decisions regarding water infrastructure.

For entities serving populations between 1,000-5000:

Water Supply Infrastructure

- 10% cancelled, halted or hindered economic development projects.
- 17% concerned about future economic activities.
- 65% indicated there were no impacts or concerns

Wastewater Infrastructure

- 5% cancelled, halted or hindered economic development projects.
- 6% concerned about future economic activities.
- 43% indicated there were no impacts or concerns

For entities serving populations between 25,000-50,000:

Water Supply Infrastructure

- 59% cancelled, halted or hindered economic development projects.
- 38% concerned about future economic activities.
- 31% indicated there were no impacts or concerns

Wastewater Infrastructure

- 7% cancelled, halted or hindered economic development projects.
- 46% concerned about future economic activities.
- 30% indicated there were no impacts or concerns

These numbers are fairly consistent with some small deviations until we examined the 250,000 - 500,000 population bracket. These are our larger cities, areas with suburban growth and increasing numbers in our rural areas adjacent to population centers. What we see demonstrated here is the majority of respondents indicating that they either had cancelled or delayed economic development or were concerned about future impacts.

For entities serving populations between 250,000 - 500,000 :

Water Supply Infrastructure

- 25% cancelled, halted or hindered economic development projects.
- 33% concerned about future economic activities.
- 38% indicated there were no impacts or concerns

Wastewater Infrastructure

- 29% cancelled, halted or hindered economic development projects.
- 29% concerned about future economic activities.
- 42% indicated there were no impacts or concerns

The uptick continues in the 500,000 to 1 million plus population bracket, which seems to be the most heavily impacted population economic development impact, so we do see a definite trend here correlating with population demographics.

For entities serving populations between 500,000-1million:

Water Supply Infrastructure

- 60% concerned about future economic activities.
- 40% indicated there were no impacts or concerns

Wastewater Infrastructure

- 20% cancelled, halted or hindered economic development projects.
- 40% concerned about future economic activities.
- 40% indicated there were no impacts or concerns

For entities serving populations over 1 million:

Water Supply Infrastructure

- 27%% cancelled, halted or hindered economic development projects
- 27%% concerned about future economic activities.
- 40% indicated there were no impacts or concerns

Wastewater Infrastructure

- 27% cancelled, halted or hindered economic development projects.
- 9 % concerned about future economic activities.
- 63% indicated there were no impacts or concerns

To summarize this data, we can deduce that that economic development concerns and impacts increase with population size and growth are more prevalent in our larger cities and larger service areas. Water infrastructure and water supplies for that matter can help or hinder growth and we now have the data to prove it.

Financial Assistance Preferences

Some 19% of respondents indicated current inflationary/economic issues impacted or had impaired their ability to access affordable financing, bonds, or commercial paper from private sector providers, with 39% indicating they were presently concerned about the cost of financing, and/or our ability to access affordable debt financing in the future.

Fifty percent of the respondents indicated that they preferred funding capital programs with a mix of debt/financing and revenues charged to customers, with 34% indicating that the majority of their capital expenditures are paid for by water user fees and reserves, followed by 16% indicating a preference for debt financing.

Some 57% of respondents indicated that their water rates were sufficient to fund current and future capital programs, while 43% of respondents indicating their current rate structure were not sufficient to meet demands.

Some 98% of respondents indicated that the Texas Water Development Board (TWDB) was the top government that they had either applied or intended to apply to for financial assistance in the current year.

Some 48% of respondents indicated that they had received funding from TWDB in the past five (5) years. USDA was ranked second with 14%.

Only 9% of respondents indicated that they had project in the FY24 in either the Clean Water or Drinking Water State Revolving Fund (SRF) Intended Use Plans.

Of the 87% respondents who indicated they had not applied to TWDB for SRF funds indicated that they had not applied for SRF funding because the application process and administrative requirements are too cumbersome (30%).

Some 45% of respondents indicated that they preferred to self-fund or utilize other funding programs, 14% indicated they intended to apply for SRF funds in FY25', with 23% of respondents citing other reasons they elected not to apply for federal assistance.

Some 32% of respondents with projects in the FY24 IUPs indicated that they were concerned about increased costs due to increased domestic sourcing requirements included in the IIJA, "build America Buy American Act (BABA) inclusion with 41% indicating they were uncertain of BABA Cost impacts.

A footnote here – if current federal funding trends continue the capacity of EPA SRF programs administered by the TWDB will be greatly diminished after this year due to congressional earmarks and cuts in funding. This phenomenon is presently staved off somewhat with the current infusion of IIJA funds, but this program may fall off the cliff in coming years unless these trends are reversed. This is a disturbing trend that highlights the fact that we cannot depend on DC to solve Texas' water needs.

Capital Needs

While the survey does not identify a topline figure for total capital investment needs, we can surmise that these figures over the next 10 and 20 year periods range are well in excess of current state and federal projections. Some noteworthy cumulative responses included:

- In terms of areas of greatest need ranked by respondents, water treatment represented the greatest infrastructure needs (26.8%) followed closely by water main replacement or repair (23.6%), developing new water supplies (23.3%), and wastewater treatment (15 %).
- Aging infrastructure was identified as the most significant investment driver in Texas at 55.2%, followed by demands associated with population growth at 21.1 % and regulatory compliance 12.1%.

- Flood control, developing new or alternative water supply facilities, wastewater conveyance or rehabilitation, and Climate Change represented the least significant drivers of capital investment needs, however it should be noted that this likely due to the fact that most of the responses came from small utilities.
- 23.5% of respondents indicated that 25-50%, of their water mains needed repair or replacement and 15.6 % indicated 50-75% of their water mains were also in need of repair or replacement.

We have population specific data (attached) showing the types and range of needs across populations including drivers for investment. I strongly encourage Committee members to look at this data.

Texas Water Fund SB 28 & Prop 6

Some 75% of respondents indicated they were interested in pursuing funding from the new Texas Water Fund, or the new Texas Water Supply Funds passed by voters in Proposition 6 once these programs become available.

In terms of the structure of funding desired in these new programs 86% of respondents indicating interest in these new funds noted a preference for grants, followed by low-interest loans (56%) and principal forgiveness (51%).

Approximately 56% of respondents indicated that they would prefer a “state only” fund, such as the Rural Water Assistance Fund, SWIFT etc., to avoid additional federal requirements such as American Iron & Steel (AIS), BABAA or NEPA federal environmental reviews.

Some 82% of respondents indicated that they support the State dedicating a portion of annual tax revenues or fees similar to the way highways are funded in Texas to ensure a consistent reliable revenue stream to assist with funding future water infrastructure projects.

Finally, notably 70% of respondents indicated that the Texas Legislature has not allocated sufficient resources and attention to address water policy and facilitate investment in Texas water infrastructure and water supplies.

Conclusion

We are hopeful that the data collected in the 2024 Texas Water Capital Needs survey will assist all of us as we build on the progress accomplished in SB 28.

The eyes of the State and this legislative body have never been so keenly focused on water infrastructure issues and our TXWIN members are proud to be a part of the solution to build the future of Texas water. If you or your staff would like access to the full data set or would like to discuss specific aspects of the data collected, we are happy to share it with you.

Thank you again for the opportunity to be here today on behalf of the Texas Water Infrastructure Network. We look forward to continuing to work with water stakeholders and members of this committee, and I am happy to answer any questions you may have and can be reached at plf@txwin.org.