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FROM: Eric Sapirstein  
DATE: August 22, 2021  
SUBJECT: Washington Update

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Congress was on its summer recess for the past month and will remain on recess until mid-September except for a three-day return to work for the House to address the pending fiscal year 2022 budget resolution. When Congress returns to work, it faces a substantial must do list of legislation that includes finalizing an infrastructure bill, considering a \$3.5 trillion reconciliation package to address “soft” infrastructure, debt ceiling increase and finalization of the annual spending bills. Given the balkanized nature of House Democrats (centrists versus progressives) each of these priorities face a huge headwind to secure passage. Like past years, it is a given that Congress will need to pass a stopgap spending bill to maintain governmental operations. For now, it appears that Congress will work on these issues well into November and possibly into December to reach compromises on each of these matters within the House, Senate and the two chambers.

The following summarizes the outlook for congressional activities in the coming months.

***Infrastructure Legislation Key Focus***

It now appears all but certain that the Senate-passed bipartisan infrastructure bill, the Infrastructure Investment and Jobs Act (H.R. 3684), will be considered by the House without amendments later in the fall. Speaker Pelosi continues to be in a stand-off with approximately nine House moderates. These Members have indicated that they will not vote on the budget resolution that sets overall spending limits for the \$3.5 trillion soft infrastructure legislation, before voting on the Senate infrastructure bill that they support. Conversely, Pelosi has made it clear that the House will not vote on the infrastructure package until such time as the Senate approves its reconciliation legislation that specifies how the \$3.5 trillion authorized by the resolution will be appropriated. As a result of this situation, when the House returns to Washington on August 23, it is expected to vote only on a rule setting the parameters of floor debate on the budget resolution and delay action on an actual vote on the budget resolution and the infrastructure bill until late September at the earliest.

However, it is important to note that all indications point to the Senate-passed H.R. 3684 being approved in the House, setting the stage for enactment. Once enacted the previously reported funding levels for wastewater projects will become available over five years. For California, this means that the State should receive, based upon the Clean Water Act's allocation formula, almost \$1 billion in clean water SRF assistance. An important aspect of the infrastructure funding is the fact that a state must use 49 percent of the assistance to provide either loan forgiveness or 100 percent grants assistance to disadvantaged communities. Last, the funding would be in addition to annual appropriations Congress provides for the State Revolving Fund (SRF) and other water-related programs.

### ***Soft Infrastructure Package Taking Shape***

Both the Senate and House are taking steps to finalize each chamber's priorities for the reconciliation package. This package would fund the soft or "human" infrastructure package that the Biden Administration is seeking. Congressional committees have been directed by leadership to deliver recommendations on how to allocate the overall \$3.5 trillion spending package. The House Committee on Transportation & Infrastructure Chairman Peter DeFazio (D-OR), has stated that he intends to pursue the reconciliation process to boost funding for wastewater infrastructure needs. DeFazio criticized the Senate infrastructure bill as lacking in sufficient funding for wastewater programs.

In addition to developing funding recommendations, an effort to roll back the elimination of state and local tax deductions is under consideration. If a rollback is included in the reconciliation package and adopted, it would reinstate the ability of taxpayers to deduct from their federal tax liability, the taxes paid to states and local governments.

Reconciliation only requires a simple majority in the Senate of 51 votes. This avoids the need to secure sixty votes to avoid a filibuster. Because the Senate is evenly divided, it makes the outcome uncertain. All Democratic Senators would have to vote to approve the \$3.5 trillion spending level. Due to concerns about the impacts of such spending on the national debt and inflation, Senators Joe Manchin (D-WV) and Kristen Synema (D-AZ) have stated they hold deep concerns over the proposed spending, complicating passage of reconciliation. A similar circumstance exists in the House where moderate Democrats have signaled doubts about supporting the spending. Therefore, action on any final reconciliation package will not be seen until November at the earliest according to congressional staff.

### ***Fiscal Year 2022 Appropriations***

The House and Senate must finalize spending for fiscal year 2022 by October 1, 2021, when the fiscal year begins. The House has approved the United States Environmental Protection Agency (USEPA) spending bill, providing \$1.8 billion for the clean water SRF program and other water resources programs such as water recycling. The Senate Committee on Appropriations has not released its proposed SRF spending level. It is expected to approve the spending measure in September or October. As has been the case in past years, Congress is unlikely to finalize all twelve appropriations bills by the end of September, triggering the need to pass a stopgap spending bill to continue governmental operations most likely through November.