



American Water Works
Association



Water Infrastructure Bonds Need Protection

Actions Requested:

- Protect tax-exempt municipal bonds
- Restore and protect Build America Bond payments to water utilities.
- Remove water infrastructure projects from the annual state volume caps for private activity bonds.

Background: In 2012, AWWA released a report titled, “Buried No Longer: Confronting America’s Water Infrastructure Challenge,” which revealed that restoring existing water systems as they reach the end of their useful lives and expanding them to serve a transient population will cost at least \$1 trillion over the next 25 years. Please note that this \$1 trillion is only for buried drinking water assets. Need for above-ground facilities, waste water, storm water, and other water-related investments are at least as large, and must be added to reflect the true magnitude of the water investment needs we face.

A challenge this large calls for a variety of tools in the infrastructure finance toolbox. Local rates and charges will always be the backbone of water utility finance. However, when large amounts of capital are needed many communities must seek other financing tools. In some cases, this involves the state revolving loan fund program, and hopefully in the future, a Water Infrastructure Finance and Innovation Authority. Another extremely valuable finance tool is provided by tax exempt municipal bonds.

Municipal Bonds

Tax-exempt municipal bonds have been one of the key finance tools available to water utilities, and at least 70% of U.S. utilities rely on them to some degree. Because the interest on these bonds is exempt from federal taxation, the bonds carry lower interest rates than commercial bonds – thus lowering costs for the utility and for all who pay a water bill in that community. Moreover, municipal bonds provide relatively quick access to capital and are generally unencumbered by red tape. They often provide the core funding for water infrastructure projects.

We know that in the current fiscal climate, many tax issues are on the table in Washington. One of those may be the degree to which higher-income earners can utilize the tax-exempt features of municipal bonds. In the experience of utility managers, a large share of the purchases of tax-exempt municipal bonds are made by those very higher-income earners. If they are denied tax-exempt interest from municipal bonds, the result for utility finance would be devastating. No other financing vehicle is as flexible for utilities as these bonds. We join several groups of state and local elected officials in urging you to protect the current exemption of municipal bond interest from federal taxation.

Build America Bonds

As you know, many utilities issued Build America Bonds (BABs) on the promise of federal payments to the utility designed to make those bonds at least as attractive to the issuer and buyers as traditional tax-exempt debt instruments. Now utilities have been notified by the Treasury that BAB payments must be reduced in order to comply with the sequester. We urge you in the strongest possible terms to take whatever steps are necessary to ensure that no reduction in Build America Bond payments to utilities occurs. Reducing such payments to utilities now after bonds have been issued represents a grossly unfair breach of the promise made by the United States when Build America Bonds were first issued. Promised payments should be restored and protected against future cuts.

Private Activity Bonds

Another tool that could help meet our water infrastructure investment needs is greater use of private activity bonds (PABs). Currently, tax-exempt private activity bonds for public water and wastewater infrastructure projects are subject to state-by-state volume caps and must compete against projects in other critical sectors such as housing and education. This severely limits the amount of PABs that can be issued for water and wastewater infrastructure projects, which are usually less visible than other types of infrastructure. To encourage public-private partnerships and reduce financing costs, PABs for community water systems should be taken out from under the state PAB volume cap, in the same way that PABs for solid waste projects were removed in the 1986 Tax Reform Act.

In summary, we urge you to protect the federal tax exemption of municipal bond interest, restore and protect promised payments to the issuers of Build America Bonds, and remove water projects from the state volume cap on Private Activity Bonds.

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