



CRUCIAL WATER INFRASTRUCTURE FINANCE TOOLS

State Revolving Loan Fund Programs, Tax-Exempt Municipal Bonds, Private Activity Bonds

Actions Requested:

- Support robust funding for the drinking water and wastewater state revolving loan fund programs.
- Protect the tax-exempt status of municipal bonds.
- Remove water infrastructure projects from state volume caps on private activity bonds.

Background: Water infrastructure is vital to our nation's well-being for a variety of reasons. Water infrastructure protects public health and the environment, supports the local and national economies, protects us from fires, creates jobs, and brings us a better quality of life. Moreover, the US Department of Commerce Bureau of Economic Analysis (BEA) estimates that for every dollar spent on water infrastructure, about \$2.62 is generated in the private economy. And for every job added in the water workforce, the BEA estimates 3.68 jobs are added to the national economy.

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 growing 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. "Buried No Longer" is available at www.awwa.org/BuriedNoLonger.

While communities are best served by water utilities that are self-sustaining through local rates and charges, there are times when an investment in infrastructure is required that is too large to be accommodated affordably in a short time frame using only local rates and charges.

This calls for a variety of tools in the infrastructure finance toolbox. Two extremely valuable tools in water infrastructure finance are the state revolving loan fund program and tax exempt municipal bonds.

State Revolving Loan Funds (SRFs)

State revolving loan funds (SRFs) have been excellent tools for providing support for water infrastructure. The SRFs provide much-needed support for both drinking water and wastewater utilities, thus assisting in the fundamental protection of public health and the environment, particularly for small to medium-sized communities. The Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF) are the anchors for federal investment in water infrastructure. It is vitally important that these successful programs be maintained and strengthened.

The Administration's FY 2015 budget request seeks \$757 million for the drinking water SRF program and \$1.018 billion for the wastewater SRF program – a \$581 million decrease from FY14 enacted budget. This could become a tremendous setback in the nation's efforts to restore its water infrastructure, particularly for cash-strapped small and medium-sized communities, which receive most of the SRF loans. We urge you to restore these critical SRF programs to FY2014 levels, at a minimum.

Municipal Bonds

Tax-exempt municipal bonds have been a keystone for water project finance, being used by at least 70% of U.S. utilities to some degree. Because the interest on these bonds is exempt from federal taxation, the bonds carry lower interest rates than taxable 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. Subjecting interest earned on municipal bonds to federal income taxes will devastate water project finance. We urge you to protect the current exemption of municipal bond interest from federal taxation.

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 counted against 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 as part of the 1986 Tax Reform Act.

In summary, we urge you to support a robust SRF program, protect the federal tax exemption of municipal bond interest and remove water projects from the state volume cap on Private Activity Bonds.

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