



N A R U C
National Association of Regulatory Utility Commissioners

March 16, 2015

The Honorable Paul Ryan
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Re: Sustainable Water Infrastructure Act of 2015 – H.R. 499

Dear Chairman Ryan and Ranking Member Levin:

According to the U.S. Environmental Protection Agency and Government Accountability Office the U.S. faces unmet water and wastewater infrastructure needs of approximately \$600 billion over the next 20 years. On behalf of the National Association of Regulatory Utility Commissioners, we urge you to support passage of bipartisan legislation that would lift the State volume caps on qualified water and wastewater project private activity bonds to assure access to capital for needed infrastructure upgrades.

NARUC represents the public service commissions in all 50 States and U.S. protectorates that regulate the utilities that provide essential services such as water, energy, telecommunications and transportation.

Private activity bonds (PABs) are one of the most useful tools to leverage private capital and finance long-term, capital-intensive infrastructure projects. However, the use of PABs for water and wastewater infrastructure is limited because of a federally imposed annual State volume cap that essentially limits water project funding to 1% of total bond issuance.

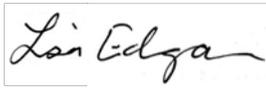
As far back as 2001, EPA's Environmental Financial Advisory Board recommended that private activity bonds for water and wastewater facilities be exempt from the State volume cap after recognizing that these caps "were constraining tax-exempt financing in a way that was limiting the supply and/or increasing the cost of investment funds." It is estimated that removing the State volume cap for these projects will increase capital investment in the nation's water infrastructure by up to \$5 billion per year over time through public-private partnerships with a marginal loss of federal tax revenue.

Because of the growing critical need for capital to fund long-term water projects, NARUC's Board of Directors adopted a resolution on July 18, 2007, outlining our concerns that the congressionally mandated State volume cap limits are hindering utilities' efforts to renovate debilitated U.S. water infrastructure. The resolution stresses the need to remove water and wastewater utility projects from the restrictive State volume caps on the qualified private activity bond projects.

NARUC is committed to working with Members of Congress, water utilities, and other interested parties to ensure that sufficient funding is available for vital upgrades and replacement of aging and deteriorating water and wastewater infrastructure. We encourage you to embrace this bipartisan proposal to remove water and wastewater projects from the restrictive PAB State volume cap by actively working to advance H.R. 499 through Congress. The legislation will help local communities repair and replace aging infrastructure by providing much needed access to capital while containing costs and ratepayer increases.

If you have any questions please contact NARUC's Legislative Director – Water, Brian O'Hara, at 202-898-2205, bohara@naruc.org or General Counsel – Brad Ramsay, at 202-898-2207, jramsay@naruc.org.

Sincerely,



Lisa Edgar
NARUC President



Alaina C. Burtenshaw
Chair, NARUC Committee on Water

CC: Members of the Committee

Resolution on Water and Wastewater Private Activity Bonds

WHEREAS, Cities, towns and utilities face a major challenge over the next several decades replacing their aging and deteriorated water infrastructure. The Congressional Budget Office and the U.S. Environmental Protection Agency (EPA) have estimated the cost will be in the hundreds of billions of dollars; *and*

WHEREAS, In addition to infrastructure replacement, cities, towns, and utilities are facing increased environmental costs associated with more stringent regulations from the Safe Drinking Water Act, the Clean Water Act, and other important health and environment federal and State statutes; *and*

WHEREAS, Utilities must take the lead in addressing these challenges by using the many organizational, managerial, operations and financial tools at their disposal to keep costs under control and demonstrate to their customers that they are following the most effective, cost-efficient path possible; *and*

WHEREAS, Private Activity Bonds (PABs) are a form of financing whereby a private utility issues tax exempt bonds using State, county or municipal government as the issuing entity; *and*

WHEREAS, PABs are subject to annual State volume cap limits under Congressional mandated rules governing PABs. Various projects must compete against one another for the limited funds under the volume cap. In most States, the vast majority of PABs are earmarked for projects other than those related to infrastructure remediation, such as education and housing projects. Water and wastewater infrastructure projects, often seen as less politically attractive, are often not being financed with PABs. According to EPA, eliminating State volume cap requirements for qualified water projects can potentially leverage as much as \$6 billion dollars in private capital every year; *and*

WHEREAS, With PABs, the bond issuer pays a lower interest rate, thus lowering the costs of projects financed with PABs, resulting in savings which are passed on to water utility ratepayers through lower rates; *and*

WHEREAS, Under current law, the total dollar amount of PABs that can be approved by a State is annualized, which works against PABs being used in expensive, multi-year water and wastewater projects. Under current law, using PABs in such utility projects can require getting approval from the State over several years. This introduces complexity and uncertainty to the financing of the project, which alone serves as a disincentive to use PABs. Removing water and wastewater projects from the annualized cap eliminates this impediment for multi-year projects; *and*

WHEREAS, Depending on the specific project, bringing water and wastewater projects out from under the PAB State volume cap will result in lower cost project financing, allowing for lower costs reflected in water and wastewater bills throughout the country and have no effect on a municipalities' tax-exempt bond rating, freeing up traditional tax exempt municipal bonds for other uses; and facilitate more multi-year water projects; *now, therefore, be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC), convened in its July 2007 Summer Meetings in New York, New York, supports legislation to aid utilities in the challenge of replacing and upgrading water and wastewater infrastructure by bringing water and wastewater utility projects out from under the federally mandated State volume caps on these qualified project Private Activity Bonds.

Sponsored by the Committee on Water

Adopted by the NARUC Board of Directors, July 18, 2007