



NARUC

National Association of Regulatory Utility Commissioners

September 17, 2018

The Honorable Orrin Hatch
Chairman
Committee on Finance
U.S. Senate
Washington D.C. 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
U.S. Senate
Washington D.C. 20510

Re: Sustainable Water Infrastructure Investment Act of 2018 – S.3358

Dear Chairman Hatch and Ranking Member Wyden:

According to the U.S. Environmental Protection Agency, America's water and wastewater infrastructure requires a \$655 billion investment over the next 20 years. To meet this significant need, the National Association of Regulatory Utility Commissioners (NARUC) urges you to support passage of bipartisan legislation, S. 3358. This bill will help provide greater access to capital for needed infrastructure upgrades to the nation's water systems by lifting State volume caps on qualified water and wastewater project activity bonds (PABs).

PABs are an effective tool to leverage private capital and finance long-term capital-intensive infrastructure projects. Unfortunately, the use of PABs for water and wastewater infrastructure is limited because of federal State volume caps that essentially limit water project funding to 1% of total PABs issuance. Experts estimate that lifting the federal volume caps, with other regulatory changes, could result in \$43 billion of incremental private water investment, \$15-25 billion of incremental private wastewater infrastructure investment, and generate \$20 billion from public-private partnerships.

NARUC represents public service commissions in all 50 States and U.S. protectorates that regulate the utilities providing essential services such as water, energy, telecommunications, and transportation. NARUC has supported previous legislation introduced in the U.S. Senate and House of Representatives – similar to S.3358 – that would lift State volume caps on PABs.

Because of the crisis in infrastructure funding in the water sector, NARUC's Board of Directors adopted the attached resolution, outlining our concerns that the congressionally mandated State volume caps are hindering utilities' efforts to renovate debilitated U.S. water infrastructure. The resolution emphasizes 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 restrictive PAB State volume caps by actively working to advance S.3358 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 Affairs Counsel for Water, Kenneth Mallory, at 202-898-2207, kmallory@naruc.org or NARUC's General Counsel Brad Ramsay, at 202-898-2207, jramsay@naruc.org.

Sincerely,

John W. Betkoski III
Connecticut Commissioner
NARUC President

Mary-Anna Holden
New Jersey Commissioner
Chair of NARUC Committee on Water

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