ASSOCIATION OF METROPOLITAN WATER AGENCIES

LEADERS IN WATER

1620 I Street NW, Suite 500
Washington, DC 20006

P 202.505.1565
amwa.net

July 30, 2024

The Honorable Ron Wyden
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate
Washington, D.C. 20510

RE: Statement for the record of the Senate Finance Committee hearing on "Tax Tools for Local Economic Development."

Dear Chairman Wyden and Ranking Member Crapo:

The Association of Metropolitan Water Agencies (AMWA) appreciates the opportunity to submit this statement for the record of the committee's hearing on "Tax Tools for Local Economic Development." Our statement will briefly discuss the importance of both maintaining tax-exempt municipal bond interest and reinstating the ability of communities to advance refund outstanding municipal bond debt.

AMWA is an organization of the nation's largest publicly owned drinking water systems, and our members deliver clean and safe water to more than 160 million Americans from coast to coast. The challenges associated with building and maintaining the infrastructure necessary to accomplish this task are well known, so it is vital that Congress do its part to preserve proven mechanisms that help communities of all sizes affordably finance projects that enable the treatment and delivery of quality drinking water.

The U.S. Environmental Protection Agency estimates that the nation's drinking water and wastewater systems need nearly $1.2 trillion over the next 20 years for infrastructure improvements necessary just to maintain their current levels of service. But this sum does not factor in additional costs that communities may face, including complying with new costly regulatory mandates and ongoing infrastructure replacement. Fortunately, in recent decades Congress has authorized billions of dollars for water infrastructure investment including the $55 billion in the Bipartisan Infrastructure Law, ongoing low-interest loans through EPA's Drinking Water and Clean Water State Revolving Funds, and direct low-cost financing through the Water Infrastructure Finance and Innovation Act, or WIFIA. However, despite the billions of dollars provided to date, these aid programs cover only a fraction of annual water infrastructure spending carried out by communities of all sizes

In fact, local water system ratepayers directly cover roughly 95 percent of water and sewer infrastructure development, rehabilitation, and operating costs. Put another way, local water rates directly pay for the vast majority of water infrastructure investments carried out each year, without grant or loan assistance from the federal government. The federal government has, however, built incentives into the tax code, in the form of tax-exempt municipal bonds, to help communities finance these investments as cost-effectively as possible. As the committee considers how to best promote affordable infrastructure investment, it must be sure to maintain this valuable and proven mechanism.

Tax-exempt municipal bonds have been enshrined in federal law since the establishment of the tax code in 1913 and are communities' primary mechanism for financing water infrastructure projects. These bonds are an attractive financing tool for community water systems because interest earned by bond holders is exempt from federal income tax. This makes investors willing to accept lower interest rates, translating into lower financing costs for the water systems that issue the bonds. Ultimately, this means that fewer ratepayer dollars are necessary to finance a given water infrastructure project – increasing local affordability and flexibility.

At least 70% of U.S. water utilities rely on municipal bonds and other debt to some degree to finance capital investments. Communities across the country depend on strong, substantive federal tax policy for state and local governments to meet their capital needs. Without this critical tax policy, higher financing costs would have effectively imposed a new tax on municipalities and their water system ratepayers.

While tax-exempt municipal bonds have a long history in the tax code, AMWA and other water sector stakeholders were concerned to see numerous proposals discussed during formulation of the Tax Cuts and Jobs Act of 2017 that would have capped or eliminated this critical financing tool. We were pleased that the final enacted legislation ultimately left tax-exempt municipal bonds in place, but it is important for the committee to know that any future attempt to streamline the tax code by eliminating tax-exempt municipal bond interest would, if passed, significantly increase the cost of vital water infrastructure projects in virtually every state and community in the nation.

Congress did approve, as part of the Tax Cuts and Jobs Act of 2017, a provision that eliminated the ability of communities to advance-refund municipal bonds. Previously, the tax code gave communities a one-time opportunity to refinance (or advance refund) outstanding municipal bond debt to take advantage of falling interest rates, thus reducing financing costs ultimately borne by their local ratepayers. Between 2007 and 2017 the advance refunding of municipal securities saved taxpayers nationwide roughly $18 billion in financing costs, but the option for communities to achieve similar savings in the future was abolished by the 2017 tax reform law.

In May of 2023, a bipartisan group of senators introduced S. 1453, legislation that would reinstate the ability of communities to advance refund tax-exempt municipal bonds. Along with the preservation of tax-exempt municipal bond interest, AMWA urges swift passage of this proposal to facilitate the most effective infrastructure financing options for our communities.

Again, AMWA appreciates the opportunity to submit this statement for the record of the Senate Finance Committee's hearing on "Tax Tools for Local Economic Development." Our nation's water and wastewater infrastructure is critical to public health and economic vitality, and helping communities and their water system ratepayers efficiently finance infrastructure projects is an essential role of the federal government. AMWA trusts the committee will continue to preserve tax-exempt municipal bond interest, and we urge the reinstatement of the ability to advance refund these bonds.

Thank you again for organizing this hearing, and please do not hesitate to contact AMWA with any questions you may have.

Sincerely,

Tom Dobbins
Chief Executive Officer