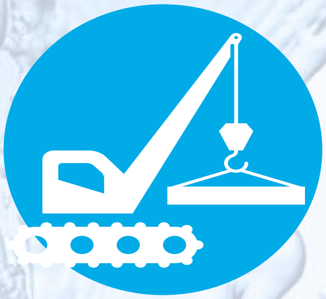
Water is a

BIG DEAL.

Let's treat it like one.



Key measures to encourage private investment in water and wastewater infrastructure:

- Encourage Regionalization
- **Lift Caps on PABs**
- Eliminate Defeaseance Penalty
- Expand Eligibility of SRFs
- Incentivize Low-Income Programs

LIFT CAPS ON PRIVATE ACTIVITY BONDS

Removing tax-exempt water infrastructure private activity bonds from state volume caps is likely to encourage private investment for necessary infrastructure upkeep and construction. Preliminary estimates by PricewaterhouseCoopers indicate that taking this action along with other regulatory changes could lead to an additional **$43 billion** incremental private water infrastructure investment; **$15-25 billion** incremental private wastewater infrastructure investment; and generate **$20 billion** potentially from P3s.

How it supports increased investment

With a simple IRS interpretation change, municipal system acquisitions would improve the net proceeds municipalities receive when their systems are purchased or consolidated at their option.

The cost benefit

These bonds are a form of tax-exempt financing for state and municipal governments that want to collaborate with a private entity to meet a public need. Supporters of lifting the cap on water PABs predict it would bring $50 billion in private capital into the water market at a cost of only $354 million in lost tax revenue over 10 years. At the same time, it could help create and support more than 1.4 million jobs in the water industry and related sectors.

The NAWC is the voice of the private water service industry—the organization exclusively representing this group of quality water service providers, innovation drivers, creative financiers and responsible partners. We believe by working together with local governments and communities we can leverage our strengths to effectively address the opportunities and challenges facing our nation. We're moving water forward. For more information, visit www.nawc.org.

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REMOVE TAX-EXEMPT WATER INFRASTRUCTURE PRIVATE ACTIVITY BONDS FROM STATE VOLUME CAPS

ISSUE

Aging and deteriorating public water systems threaten economic vitality and public health. Tax incentives such as exempt facility bonds would encourage private capital investment, create jobs and provide more affordable financing for water infrastructure, which in many cities is beyond or nearing the end of its lifecycle.

EXEMPT FACILITY BONDS

An effective financing tool of the federal government for long-term, capital-intensive infrastructure projects is the private activity bond (PAB) or exempt facility bond. These bonds are a form of tax-exempt financing for state and municipal governments that want to partner with a private entity to meet a public need. The partnership approach makes infrastructure repair and construction more affordable for municipalities and ultimately for users or customers.

Exempt facility bonds utilize private capital instead of public debt and shift the risk and long-term debt from the municipality to the private partner. In addition, the tax-exempt bond provides lower cost financing, which translates to lower costs for the customer.

ANNUAL VOLUME CAP RESTRICTS WATER INFRASTRUCTURE INVESTMENT

Section 146 of the Internal Revenue Code limits the amount of tax-exempt private activity bond debt that may be issued annually in a state. Historically, most of the tax-exempt funding has been allocated to politically attractive, short-term projects such as housing and education loans. The annual volume cap hinders the use of PABs for water and wastewater infrastructure, which are generally multi-year projects.

Exceptions from the volume cap are currently provided for other governmentally-owned facilities such as airports, ports, housing, high-speed intercity rail, and solid waste disposal sites.

POLICY NEEDED

Remove Tax-Exempt Bonds for Water Infrastructure from State Volume Caps

Amend the Internal Revenue Code (26 USC 146) to remove from the volume cap, private activity bonds for public-purpose water and wastewater facilities.

The modification would allow local communities to leverage private capital markets in combination with other finance mechanisms. Essentially, the change would provide an influx of private capital to finance water infrastructure projects, which in turn would be repaid over time by the local users.

For more information, contact NAWC at 202-833-8383/ info@nawc.com or visit www.nawc.org.

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