



July 2013

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Financing Solutions for Water Infrastructure Investment

Introduction

The facts are as clear as the water we drink. The U.S. water and wastewater infrastructure is in desperate need of repair:

- In its 2013 Report Card on Infrastructure, the American Society of Civil Engineers gave both systems a D grade¹.
- A recent study by the American Water Works Association estimates it will cost a trillion dollars to repair, replace and expand the water systems in the U.S. to meet the demand over the next 25 years.
- The U.S. EPA has estimated that approximately \$277 billion in capital spending across the nation will be needed between 2003 and 2022 to replace aging water infrastructure and comply with stricter water quality standards, and that an additional \$388 billion will be needed between 2000 and 2019 to replace aging wastewater infrastructure.
- In a recent study on the economic impact of under-investing in our water and wastewater infrastructure, the ASCE recently estimated that if we remain on the current track, between now and the year 2020 American businesses will lose \$734 billion in sales and the cumulative loss to our GDP will be \$416 billion directly due to deteriorating infrastructure.²
- The price tag for the critical upkeep and replacement of our outdated systems is high -- estimated to be at least \$1 trillion over the next 25 years³.

The majority of the burden of upgrading our nation's water and wastewater infrastructure falls on the public sector, as approximately 85 percent of water systems in this country are municipal-owned. This white paper will explore current challenges facing municipalities, and how various financing options, boosted by public-private partnerships, can help them not only make necessary repairs, but also ensure continued high quality water and economic vitality now and in the future.

However, with challenges come opportunities. A report on "Financing Sustainable Water Infrastructure," released earlier this year by The Johnson Foundation with American Rivers and Ceres, put forth two guiding questions: 1) "What new financing techniques can communities use to pay for integrated and sustainable infrastructure approaches?", and 2) "How can we direct private capital toward more sustainable water management projects?"⁴

¹ American Society of Civil Engineers (ASCE): "2013 Report Card for America's Infrastructure."

² American Society of Civil Engineers (ASCE): "Failure to Act: The Economic Impact of Current Investment Trends in Water and Wastewater Treatment Infrastructure."

³ American Water Works Association (AWWA): "Buried No Longer: Confronting America's Water Infrastructure Challenge."

⁴ The Johnson Foundation, Charting New Water Convening Report: "Financing Sustainable Water Infrastructure."

Private Capital at Work: A Financial Toolbox

One key solution is attracting additional private capital for public water infrastructure projects from investor-owned companies like American Water, as well as private capital that is already in infrastructure funds, pension funds, and other sources eager for the long-term, reliable investments that well-run water utilities provide.

The U.S. government can help bring additional private capital into communities to bridge the funding gap and flood millions of dollars and thousands of new jobs into our economy. Following are three innovative financing tools that Congress could implement to help lift the roadblocks to progress.

Modify Punitive IRS Regulations for Private Water Transactions: Current IRS regulations impose a significant financial penalty on municipalities who sell or lease their water system to a private company. Yet, often a municipality pursues this action to obtain financial flexibility to address other important city priorities or to ensure critical infrastructure investment in the water system. American Water, together with the National Association of Water Companies (NAWC), seeks a change to this IRS policy. American Water aims to work with the US Department of Treasury to explore modifying these regulations to avoid this penalty to the municipality, and allow greater economic and infrastructure efficiencies, while protecting US taxpayer interests.

Expand Eligibility of Private Water Utilities for Clean Water State Revolving Funds: Currently, private water utilities are not eligible to participate in the Clean Water State Revolving Funds (SRFs). Moreover, while the Safe Drinking Water Act gives states the option to make private water utilities eligible for the Drinking Water SRF, nearly half the states have not done so. American Water believes the existing federal financing assistance programs for critical water infrastructure, such as the State Revolving Funds, should benefit all taxpayers, including those who are customers of private water companies.

Remove Water Projects from State Volume Caps for Private Activity Bonds: Water and wastewater utilities could benefit from greater access to private activity bonds (PABs) for all public-purpose drinking water and wastewater projects. The Sustainable Water Infrastructure Investment Act, H.R. 1802, would do just that by removing water projects from state volume caps for private activity bonds, thus spurring increased private investment in systems throughout the country. Caps placed on private activity bonds for water and wastewater infrastructure projects in 1986 have never been updated. Other major infrastructure components already exempt from existing caps include airports, high-speed rail and solid waste disposal.

PAB issuance is one of the fastest forms of federal assistance when applied to water and wastewater projects, with only 90–120 days needed to complete the process, from approval to sale to get Americans to work. Many small and local engineering and construction businesses will benefit from project opportunities that will arise from an increased availability of resources.

Some experts state that H.R. 1802 would generate at least \$2 billion in new investment each of the first few years and grow to several times that as the market opens up. This generation of revenue would translate into thousands of jobs.

Conclusion

Water is one of our most essential commodities, yet the infrastructure supporting its delivery is in serious need of repair. The upkeep and replacement of the nation's water infrastructure is driving the need and desire to invest substantial amounts of capital, but policy changes must be implemented to ease the financial burden on the private sector and lift impediments to private revenue sources.

As such, public-private partnerships will play an increasingly significant role in helping the U.S. overcome its water infrastructure challenges. They are among the most viable ways in which communities can access much-needed industry expertise and private-sector capital. The task is substantial, but the goal can be met, with government and industry leadership, prudent community planning and involved citizens collaborating to affect real change.

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