

TOP: GROUPS CALL FOR MORE REVOLVING-FUND MONEY

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By Jennifer Depaul, The Bond Buyer

WASHINGTON, D.C. - Nearly a dozen state and local groups are urging Congress to restore significant cuts that were made to the clean water and drinking water state revolving fund programs in the latest appropriations bill.

In the fiscal year 2014 House Interior, Environment and Related Agencies appropriations bill, lawmakers appropriated \$250 million for the clean water state revolving fund and \$350 million for the drinking water SRF. This compares with \$1.452 billion and \$909 million funding levels in the fiscal year 2013 omnibus spending bill for the clean water and drinking water SRFs, respectively.

"The water and wastewater infrastructure needs of this country are well known: our drinking water utilities and wastewater utilities face needs upwards of \$1 trillion or more to fund their systems over the next twenty years," wrote officials from the National League of Cities, the National Association of Counties and other groups in a July 29 letter. "Communities rely on the state revolving fund programs to obtain low-cost financing to meet these needs — ratepayers cannot shoulder this burden alone."

The letter said that while the House Budget Committee had to make difficult allocation choices, "we cannot allow the job of maintaining our critical water and wastewater infrastructure to become a budget casualty."

Separately, the National Association of Clean Water Agencies and the Association of Metropolitan Water Agencies published a white paper about the increased costs of altering tax-exempt municipal bond financing for public drinking water and wastewater systems.

In the five-page paper, they highlight the imminent need to update the nation's drinking water systems with approximately \$384 billion in investments over the next 20 years just to maintain the current level of service, an increase of \$50 billion from just four years earlier.

"The low rates offered by tax-exempt municipal bonds are particularly critical today, as federal funding for the clean water and drinking water state revolving funds — the main federal programs that help cities and towns pay for water infrastructure improvements — has largely flattened out," the groups said in the paper.

They noted that federal funding has declined for four straight years and the 2014 budget proposals indicate a fifth straight year of reductions is likely. Federal support for water and wastewater infrastructure could end up below the levels of 10 years ago, they warned.

"No matter how you measure it, replacing and rehabilitating water infrastructure will cost cities, towns and their residents hundreds of billions of dollars over the coming decades," the groups wrote.

More than \$39 billion in tax-exempt debt was issued nationally for financing water and sewer projects in 2012, according to the group. Forty-eight of the 50 states used tax-exempt financing in 2012 to fund water and sewer projects. California was the number one issuer of water and sewer tax-exempt debt in 2012 with \$7.12 billion, followed by Texas with \$5.85 billion and New York with \$3.84 billion. Montana issued the least amount of debt with \$5.8 million.

"Altering or eliminating the current tax-exempt status of municipal bonds will impact virtually all the states in the funding water and sewer capital projects," the group warned.

The paper compared the costs of financing large and small projects with tax-exempt, taxable and direct-pay bonds as well as with bonds with tax exemption capped at 28%.

For example, the increased debt service cost for a large borrower financing a \$250 million project over 30 years with bonds subject to a 28% cap on tax-exemption would be \$43.6 million, compared to financing with bonds with no cap, the paper showed. The increased cost of debt service for a small borrower financing a \$25 million project with capped tax-exempts over the same term would be \$4.9 million.

"These are significant added costs that will have to be absorbed by local water utilities and their ratepayers," the report said.

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