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May 30, 2013

The Honorable Patty Murray  
Chairman, Senate Budget Committee  
United States Senate  
624 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Jeff Sessions  
Ranking Member, Senate Budget Committee  
United States Senate  
624 Dirksen Senate Office Building  
Washington, DC 20510

Dear Chairman Murray and Senator Sessions:

On behalf of the members of the National Association of Clean Water Agencies (NACWA), I am writing to inform you of a particular impact sequestration is having on current and outstanding financing obligations of several municipal wastewater utilities that have issued bonds under the Direct Payment Build America Bonds (BAB) program and request that Congress address this impact in current budget negotiations.

Direct Payment BABs were authorized in the American Recovery and Reinvestment Act (ARRA) and were designed to reduce borrowing costs for state and local government agencies investing in large infrastructure projects by providing bond issuers a subsidy of 35% of the interest paid to bond holders. Several wastewater utilities relied on this financing tool to undertake millions of dollars' worth of infrastructure projects and entered into contractual obligations with bond holders to pay a fixed interest rate with support from the federal subsidy.

Sequestration, however, reduced the federal subsidy to 26.3%, leaving wastewater utilities that relied on the federal subsidy to replace this lost capital on their own so that obligations to bond holders would still be honored. These utilities must now come up with millions of dollars over the life of the BABs to replace the federal support.

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Since March, NACWA has heard from utilities in St. Louis, MO; Virginia Beach, VA; Denver, CO; Honolulu, HI; Little Blue Valley, MO; Greenville, SC; and Fort Wright, KY that expect to pay unanticipated additional costs of between \$100,000 to \$500,000 per year over the life of their BAB issuances, which could extend between 12 to 17 years. For some of these utilities, these costs will require unexpected rate increases, placing additional financial hardship on their customers, 40% of whom are already paying more out of their disposable incomes for wastewater management than the Environmental Protection Agency says is affordable.

With the federal government not honoring its past funding commitments, many utilities now regret their choice of Direct Payment BABs to finance necessary capital improvement projects as they are no longer competitive with tax-exempt municipal bonds or private placement bonds. Unless sequestration is discontinued, these utilities will remain at an economic disadvantage for years to come. This situation is even more distressing in the context of ongoing discussions about potentially rolling back the 100-year old tax exemption on municipal bonds, which would further hamper infrastructure progress in our country.

NACWA calls on Congress to address this situation during budget negotiations to ensure that federal commitments made under the Direct Payment BAB program are honored.

Thank you for your attention to this matter. If we can provide you with additional information, please contact me or Patricia Sinicropi, NACWA's Legislative Director at [psinicropi@nacwa.org](mailto:psinicropi@nacwa.org).

Sincerely,

A handwritten signature in black ink, appearing to read "K Kirk".

Ken Kirk

Cc: The Honorable Max Baucus

The Honorable Orrin Hatch

Members of the Senate Committee on Finance