

Affordable Water Infrastructure Relies on Municipal Bonds

Congress Must Preserve the Municipal Bond Tax Exemption

Our nation's water infrastructure needs are well documented. The Environmental Protection Agency reports that cities and towns across the country need to invest more than **\$650 billion** in drinking water and wastewater infrastructure over the next two decades just to maintain current levels of service.

The vast majority of water infrastructure improvements are paid for at the local level, and communities primarily look to tax-exempt municipal bonds as the most affordable and accessible financing source. Since 1913 municipal bond interest earnings have been exempt from the federal income tax, leading investors to offer lower borrowing rates to communities. This translates into millions of dollars in savings for local water ratepayers every year.

In 2016 communities nationwide issued nearly **\$38 billion** in municipal bonds to pay for water, sewer, and sanitation infrastructure projects. Fully taxing municipal bond interest would have increased total water infrastructure debt service costs by **\$16 billion** over expected loan repayment periods – an increase of **25%** – effectively imposing a new tax on municipalities and utility ratepayers.

It is appropriate for the federal government to help subsidize local water infrastructure spending.

Communities must comply with scores of federal drinking water and wastewater quality mandates and regulations. It is therefore reasonable for the federal government to help offset some compliance costs by offering a low-cost way of financing necessary state and local borrowing.

A tax exemption is the right way to deliver this subsidy.

Federal water infrastructure aid takes many forms, including rural USDA grant programs, loans through EPA's SRF programs and direct low cost financing through WIFIA. However, tax-exempt municipal bonds are the primary mechanism to promote clean and safe water — and one that can be efficiently accessed without a lengthy federal application and review process.

The current tax treatment of municipal bond interest is efficient and equitable.

Reducing financing expenses lowers the cost of water infrastructure improvements, thus reducing the amount of funding required from local ratepayers — and sought from federal grant and loan programs. Reducing rate pressure boosts the affordability of water and wastewater service to everyone in the community, but especially to individuals and families on fixed incomes.

AMWA and NACWA urge you to preserve tax-exempt municipal bonds.

