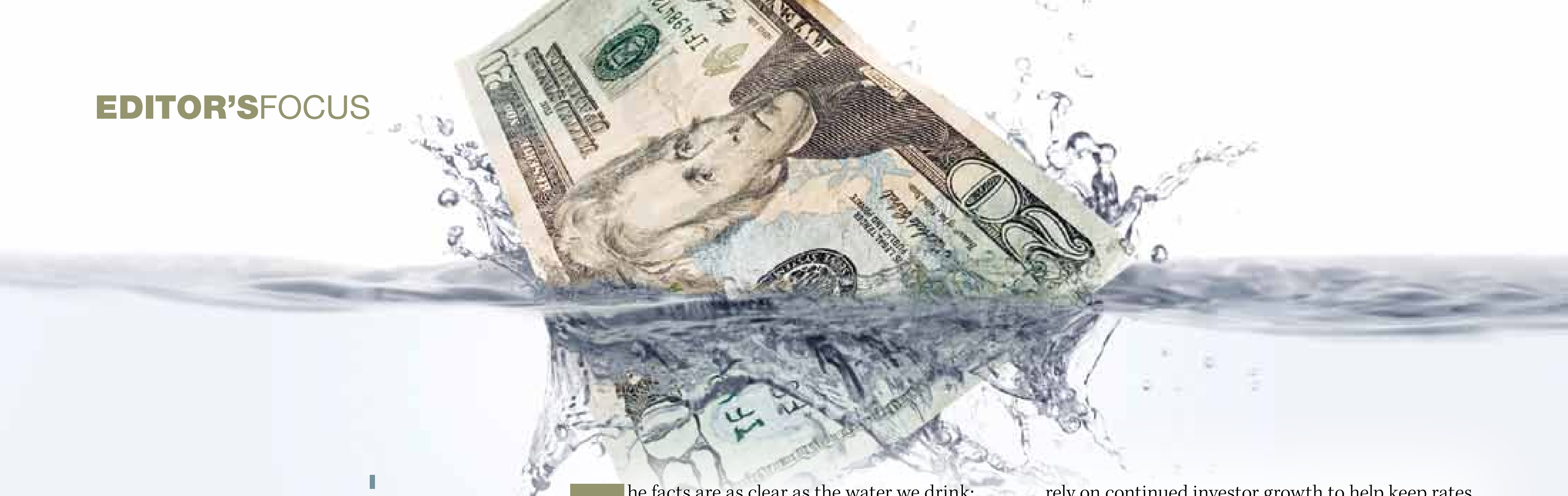

easing the financial burden

By Jeff Sterba

Leveraging public service & private enterprise to upgrade water infrastructure

The facts are as clear as the water we drink: U.S. water and wastewater infrastructure is in desperate need of repair. In its 2009 Report Card on Infrastructure, the American Society of Civil Engineers gave both systems a grade of D-. A recent study by the American Water Works Assn. estimated that it will cost a trillion dollars to repair, replace and expand water systems in the U.S. to meet demand over the next 25 years.

The U.S. Environmental Protection Agency 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.

More recently, in June 2012, Black & Veatch released its first Strategic Directions in the U.S. Water Utility Industry Report identifying concerns among industry leaders. Not surprisingly, the two issues at the top of the comprehensive survey were the aging water infrastructure and critical financial needs. Specifically, the report states, "The potential for catastrophic failures in the water/wastewater infrastructure is a ticking time bomb waiting for a place to happen," with the vast majority of respondents doubting they have sufficient funding for capital infrastructure projects over the next five to 10 years.

With challenges come opportunities. Infrastructure investment is closely associated with a healthy U.S. economy because it stimulates employment, productivity and growth. The following are four tax and financing recommendations that the Obama administration and Congress could implement to help increase water infrastructure investment, protect our communities and create jobs.

The majority of the burden of upgrading our nation's water and wastewater infrastructure falls on the public sector, as approximately 85% of water systems in this country are municipally owned. In the face of the enormous strains on local government budgets, private sector investment to help treat and deliver water to consumers is a valuable option for municipal leaders.

Steps to Take

There are various actions our nation can take through innovation and embracing the powerful combination of public service and private enterprise to build the water infrastructure our communities need to continue to thrive and be healthy. American Water supports four changes to current tax and financing policies to increase much-needed water infrastructure investment.

First. Congress should extend the current dividend tax and capital gains tax rates. Without action by Congress, the tax rates on dividends and capital gains are set to increase significantly on Jan. 1, 2013. U.S. taxpayers of all incomes who receive dividend income will be severely impacted, with tax rates doubling or tripling the current rate. Also, companies like American Water, which pay dividends and are committed to critical infrastructure investment, rely on continued investor growth to help keep rates low and ensure access to low-cost capital.

Second. The Internal Revenue Service should modify regulations that impose a significant financial penalty on municipalities that sell or lease their water systems to private companies. The penalties discourage these transactions. Yet, municipalities typically pursue lease or sale of their water systems to ensure critical infrastructure investment in the water system or obtain financial flexibility to address other important city priorities. A narrow change to these regulations to eliminate this penalty for water infrastructure would allow greater economic efficiencies and infrastructure investment, while still protecting U.S. taxpayer interests.

Third. Private water utilities should be automatically eligible to participate in the Clean Water State Revolving Funds (SRFs). While the Safe Drinking Water Act does give states the option to make private water utilities eligible for the Drinking Water SRFs, nearly half of the states have not done so. The existing federal financing assistance programs for critical water infrastructure, such as the SRFs, should benefit all taxpayers, including those who are customers of private water companies.

Fourth. 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 to 120 days needed to complete the process from approval to sale to get Americans to work. Many small and local engineering and construction businesses would benefit from project opportunities that will arise from an increased availability of resources.

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.

For quality water to be ready at the tap in the future, it will require a strong commitment now. Everyone—governments, utilities and American households—must understand what is at stake and work together to create viable solutions. WWD

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