ASSOCIATION OF METROPOLITAN WATER AGENCIES

LEADERS IN WATER

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The Honorable Orrin Hatch
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

Dear Chairman Hatch:

The Association of Metropolitan Water Agencies (AMWA) appreciates the opportunity to provide recommendations on how the Finance Committee should approach the development of comprehensive tax reform legislation. As the committee undertakes this task, AMWA believes it is essential that any tax reform plan must preserve the tax-exempt status of municipal bond interest, which for more than 100 years has helped communities across the United States carry out affordable infrastructure investments.

AMWA is an organization of the nation's largest publicly owned drinking water utilities, which deliver clean and safe drinking water to more than 130 million Americans from Alaska to Puerto Rico. While we support federal programs that help communities improve their water infrastructure, the fact remains that local taxpayers pay for 95 percent of water and sewer infrastructure development, rehabilitation, and operating costs – largely by issuing tax-exempt municipal bonds. In 2016 alone, cities and towns nationwide issued nearly $38 billion worth of tax-exempt municipal bonds to fund investments in drinking water and wastewater infrastructure. In fact, nearly every state across the nation issued tax-exempt bonds to fund water or wastewater projects last year, including Utah, where approximately $264 million worth of water and wastewater bonds were issued.

Municipal bonds are an attractive option for communities seeking to finance the cost of new or rehabilitated infrastructure because they carry low interest rates – a feature made possible because municipal bond interest is not subject to federal income tax. Without having to account for a federal tax bill, investors charge lower interest rates on municipal bonds than they otherwise charge on regular, taxable bonds. These lower interest rates directly translate into lower financing costs and billions of dollars of savings for communities, allowing them to carry out water infrastructure projects in the most affordable manner while saving local ratepayers from excessive financing expenses.

These savings enjoyed by local ratepayers are significant. In fact, AMWA has calculated that if municipal bond interest income was fully taxable, the financing costs related to bonds issued by water and wastewater utilities last year would have increased by $16 billion, or 25 percent. Eliminating tax-exempt municipal bond interest would make it significantly more expensive for communities to improve their water and wastewater infrastructure, and these costs would ultimately be passed along to water utility ratepayers in cities and towns across the country in the form of higher water and sewer bills. These higher water rates would essentially serve as a new tax on utility ratepayers.

Imposing a hidden tax hike on Americans from coast to coast – while simultaneously discouraging job-creating water infrastructure investments – should not be part of the committee's tax reform plan. Instead, AMWA urges you to clearly and unequivocally commit to maintaining tax-exempt municipal bond interest for all taxpayers. Not only will this policy preserve communities' access to affordable infrastructure financing, but it will also leave individuals with additional resources that can be put to good use in the local economy.

Thank you for your consideration, and we look forward to continuing to provide input as the committee refines its tax reform plans in the months ahead.

Sincerely,

Diane VanDe Hei
Chief Executive Officer

cc: The Honorable Ron Wyden, Ranking Member, Committee on Finance