ASSOCIATION OF
METROPOLITAN
WATER AGENCIES

LEADERS IN WATER

1620 I Street, NW, Suite 500
Washington, DC 20006

P 202.331.2820 **F** 202.785.1845
amwa.net

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The Honorable Kevin Brady
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Brady:

For more than 100 years, tax-exempt municipal bonds have formed a cornerstone of our nation's economy, helping communities in Texas and across the United States carry out affordable investments in infrastructure. As the Ways and Means Committee moves forward with efforts to develop a pro-growth tax reform plan, we urge you to remember the vital role played by tax-exempt municipal bond interest in promoting a healthy and growing economy.

The Association of Metropolitan Water Agencies (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. And while we support several federal programs that help communities improve their water infrastructure, local taxpayers still pay for 95 percent of water and sewer infrastructure development, rehabilitation, and operating costs – largely by issuing tax-exempt municipal bonds. Nearly $40 billion in tax-exempt water and sewer debt was issued in 2012 alone, including almost $5.9 billion in Texas, to pay for projects such as water treatment plant enhancements and water main repairs and replacements.

As you know, municipal bonds are attractive options for communities seeking to finance these costs because they carry low interest rates – a feature made possible because municipal bond interest earned by investors is not subject to federal income tax. This allows communities to carry out water infrastructure projects in the most affordable manner, while saving local ratepayers from excessive financing expenses.

With this in mind, AMWA appreciates that the "A Better Way" tax reform blueprint released on June 24 does not explicitly call for the reduction or elimination of tax-exempt municipal bond interest. But the blueprint also lacks an outright pledge to maintain tax-exempt interest on municipal bonds, and worryingly suggests that interest income in general could be taxed at the same "reduced" rates as other investments.

In fact, taxing municipal bond interest at the same rate as other investment income would not represent a tax reduction. Instead, it would represent the first imposition of federal taxes on municipal bond interest income since the federal tax code was created. Such a move would run counter to the blueprint's goal of encouraging investment and promoting economic growth through a streamlined tax system. If municipal bond interest were suddenly subject to federal tax, investors would respond by charging higher interest rates to offset these new investment expenses. This would directly translate into billions of dollars of additional financing costs for communities nationwide that are already struggling to pay for repairs to critical infrastructure – thus imposing a de facto tax hike on water utility ratepayers, removing badly needed capital from local economies and leaving individuals with less money available for savings and investment.

Imposing a hidden tax hike on Americans from coast to coast is not consistent with pro-growth tax reform. Instead, as the committee's tax reform blueprint is refined in the months ahead 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 Van De Hei

Diane VanDe Hei
Chief Executive Officer

cc: Ways and Means Committee members