Interstate Council on Water Policy

Position Statement:
Clean, Renewable Water Supply Bonds

Expired December 2011

ICWP Recommends:

1. Federal legislation to authorize the use of tax credit bonds that would be issued by public agencies in the same way that those agencies presently issue conventional tax-exempt municipal bonds, to finance certain kinds of innovative water supply facilities such as water recycling, desalination and groundwater contamination clean-up projects.

BACKGROUND

There is a huge and growing need for new investments in water supply and treatment facility projects. Fresh water is a limited resource in high demand. The U.S. population has grown 52% in the last 30 years, while the total water usage per person has tripled. Population growth continues to strain available and quickly diminishing water supplies. The General Accounting Office has stated that, even under normal water conditions, 36 states anticipate water shortages in the next 10 years. In the past five years, the Department of Agriculture has designated counties in 47 states as agricultural disaster areas eligible for assistance due to drought impacts on farm production.

Increasingly scarce federal, state and local dollars are unable to fund this growing water projects gap that the Environment Protection Agency estimates will be $224 billion over the next 20 years. Innovative technologies exist that can help provide substantial new sources of clean water while helping to improve the environment. While the cost of these technologies continues to decline, the initial capital expenditures required to build their infrastructure is still too high to use conventional tax-exempt bond mechanisms. A deeper tax subsidy is needed and can be achieved through the use of tax credit bonds.

Under present law, Congress has authorized the issuance of tax credit bonds in three instances. First in the mid-1990s for the construction of inner city schools, in 2005 for renewable energy projects, and that same year for Gulf Coast reconstruction after Hurricanes Katrina and Rita. The renewable energy tax credit bonds provide the best illustration of how tax credit bonds dedicated to clean, renewable water facilities would operate.

In 2005, Congress authorized the issuance of tax credit bonds to assist not-for-profit utilities to finance the costs of new renewable energy projects. These “Clean Renewable Energy Bonds” (or CREBs), allow qualified borrowers (such as electric co-ops and local government agencies) to sell bonds to finance the construction of renewable energy projects. CREBs provide the non-profit agency or utility with interest-free loans to finance qualified projects.

With a conventional tax-exempt bond, the issuer must pay interest to the bondholder; with a tax credit bond, the federal government pays a tax credit to the bondholder. The US Treasury Department sets the rate of the tax credit and the bondholder is able to deduct the amount of the tax credit from their total income tax liability. The result is a deeper, up-front subsidy that provides a more attractive incentive for the agency or utility to decide to utilize these innovative technologies.

If federal legislation authorized the use of tax credit bonds that could be issued by public agencies in the same way that those agencies presently issue conventional tax-exempt municipal bonds (i.e., to finance certain kinds of innovative water supply facilities such as water recycling, desalination and groundwater contamination clean-up projects), the proceeds from the sale of those tax credit bonds could serve as an interest free loan to local water suppliers. The agency or utility could save over $62 million in interest payments on a $100 million water supply project, which is the type of subsidy necessary to offset the upfront capital expenditure.

Policy Considerations

Federal and state laws provide a broad array of programs and incentives to demonstrate and integrate the capabilities and reliability of new technologies for enhancing water supplies throughout the US. These programs and incentives require continued improvement as the water supply challenges and technologies change in response to new conditions. Serving the broad range of America's communities requires diverse funding options

Effective Date: This position was reviewed by the ICWP Legislation & Policy Committee and adopted by the ICWP Board of Directors and Membership on September 24, 2009. It will continue in effect until December 2011 unless revised or archived at an earlier time by the Board of Directors.