



Clean Renewable Water Supply Bonds

SUPPORT the **Clean Renewable Water Supply Bond Act (H.R. 3452)** to amend the Internal Revenue Code of 1986 to allow a credit for clean renewable water supply bonds.

SUPPORT the **Clean Air and Water Investment Act of 2007**.

SUMMARY: The Clean Water Supply Bond Act would authorize the use of clean renewable water supply (CREWS) bonds to finance innovative water supply facilities. These facilities include water-recycling facilities, projects to clean up and use impaired groundwater, and both seawater and brackish groundwater desalination projects. Public agencies could issue CREWS bonds in exactly the same way that they presently issue conventional tax-exempt municipal bonds. Based on data compiled by the New Water Supply Coalition, this bill would generate more than \$7.8 billion of capital dedicated to new water supply projects over the next 10 years.

BACKGROUND: There is a huge and growing need for new investments in water supply and treatment facilities projects as well as the rehabilitation of aging water infrastructure. The need for this investment comes at a time when the federal government is stepping back from its traditional role as a major, if not dominant, partner in the financing and building of water related infrastructure. The development of new, creative financial tools and new kinds of public-private partnerships to assist water agencies and utilities in meeting infrastructure requirements while limiting direct outlays by the federal government is a challenge that has a solution. Tax credit bonds can encourage the mobilization of private capital to assist in financing certain kinds of water related infrastructure, such as desalination, water recycling or groundwater clean-up facilities, without relying on congressionally appropriated dollars.

Congress has authorized the issuance of tax credit bonds in three instances: in the mid-1990s for the construction of inner city schools and in 2005 for renewable energy projects and for Gulf Coast reconstruction after Hurricanes Katrina and Rita. This mechanism provides the not-for-profit agency or utility with interest free loans to finance qualified projects.

Proceeds from the sale of Clean Renewable Water Supply Bonds would result in an interest free loan to the issuing agency. Instead of the issuing agency having to make interest payments to the holders of the bonds, the federal government would provide the bond holders with a tax credit equal to what the interest payments would have been. The Treasury Department sets the rate of the tax credit on a daily basis and the bond holders are able to deduct the amount of the tax credit from their total income tax liability. The result is a deeper, up-front subsidy that is a critical factor for the agency or utility in deciding to use innovative technologies.

The benefits of CREWS bonds would not be limited to Texas and other arid western states. Droughts in the southeastern US show that even areas that typically have sufficient rainfall to sustain the water needs of their communities can have severe water shortages. Congress should embrace an opportunity to provide tax subsidies to finance innovative technologies that will provide substantial new sources of clean water.

