MEMORANDUM
in support of a bill to create
a Water Utilities Bank

This bill would create a joint private/government-owned National Water Utilities Bank (Bank) with the capital and expertise to provide financial services to the water utilities that serve more than 195 million Americans. The Bank would provide loans and loan guarantees for the construction, maintenance and improvement of water utility systems. To create an efficient secondary market for private loans to water utilities, the bank could buy and package private loans to water utilities for resale to private investors.

Water utilities are the most capital-intensive American industry. They suffer from a capital shortage brought on by investments required by the Safe Drinking Water Act, by the demands of deteriorating systems in many older cities, and by population growth and shifts. Over the next twenty years, between $75 billion and $110 billion in capital investments will be needed to maintain service in urban systems alone (i.e. those serving more than 50,000 people). Even a doubling of water rates would leave utilities billions of dollars short of meeting demands of that magnitude. Water utilities must compete for these funds in highly competitive capital markets with other industries. Many of these industries enjoy federal subsidies unavailable to water utilities. The sewage treatment industry, for instance, receives about $4 billion per year in direct federal grants.

The water supply industry is not interested in grant programs that sap managerial independence. Instead, this bill would set up a Water Utilities Bank modeled after the Farm Credit Banks, the Rural Telephone Bank and the National Consumer Cooperative Bank, to supply capital to water utilities at reasonable rates while minimizing cost and risk to the government.

The Bank would initially be capitalized jointly by government and private sources. Class A stock would be issued to the government, while class B stock would be issued to utilities that are Bank customers, and class C stock would be issued to any water utility eligible to become a Bank customer. Government financial participation would be eliminated beginning in 1990. As class A stock was gradually redeemed, the Bank would become an entirely private entity. Debt financing for the Bank could be obtained in private capital markets or, with the consent of the Secretary of the Treasury, from the government.

The government's financial investment would be protected in several ways. As long as the government retained any equity, it would have substantial rights to participate in the management and control of the Bank. In fact, all directors would initially be governmentally appointed and gradually replaced by shareholder-elected directors as the government's share of equity decreased. The government's stock would be preferred, and entitled to a dividend and interest on unpaid dividends. The Bank's debt-to-equity ratio could not exceed twenty to one. Finally, as long as the government retained an equity interest, the Bank would be subject to an annual audit and required to make an annual report to Congress.

The bill is supported by the National Association of Water Companies, the American Water Works Association, and the National Association of Regulatory Utility Commissioners.