



# An Evaluation of a Federal Water Ratepayers Assistance Program

National Association of Clean Water Agencies

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## AN EVALUATION OF ISSUES RELATED TO A FEDERAL LOW-INCOME WATER RATEPAYER ASSISTANCE PROGRAM

### I. INTRODUCTION

This paper outlines issues for consideration by the National Association of Clean Water Agencies (NACWA) related to the creation of a program to provide federal assistance to help low-income households pay water utility bills. Such a Water Ratepayer Assistance Program (WRAP) could remove one of the greatest impediments to expanded water infrastructure investment. The analysis provides background on the issue, including a set of principles for the development of a WRAP initiative, examines a model for the creation of a WRAP, offers an initial issue advocacy campaign plan, and makes additional recommendations for action.

#### Current Challenge

Incentivize a financial environment that facilitates significant on-going infrastructure investment at the local level by the water utility sector through rate-setting that reflects the true cost of providing water treatment and yet remains affordable for low-income customers.

#### Proposed Solution

Establish a federal incentive program of assistance to low-income customers to help pay for the true cost of water treatment services, as is the case for other household essentials such as energy and food.

#### Background

The challenges facing the water sector are great. The Environmental Protection Agency (EPA) has estimated that the country faces a backlog of hundreds of billions of dollars in unmet water infrastructure needs. Building these projects could also create hundreds of thousands of jobs spread across every state. However, generating the necessary capital for these projects at affordable rates is becoming increasingly difficult, especially due to the burden on low-income ratepayers.

The first phase of federal support for water infrastructure in the U.S. took the form of construction grants, which in the second phase was converted into a construction loan program through the EPA's State Revolving Funds (SRFs). The WRAP initiative would add a phase-three financing tool for infrastructure centered on ratepayer assistance instead of relying on more utility debt. A ratepayer-centric approach to financing that incentivizes true-cost pricing while ensuring affordability for low-income customers will help ensure continuous investments in water treatment infrastructure by local communities, thereby creating jobs and improving quality of life opportunities for local residents.

The Trump administration has promised a trillion-dollar infrastructure initiative, including water projects, that would rely mainly on a package of tax credits to promote the necessary investment. President Trump has also called for tripling funding for the SRFs. These proposals have included a commitment to involve state and local water sector leaders in the development of a long-term plan for the use of these funds and the creation of an interagency task force as part of the planning.

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If possible, relying on an existing program as a model for WRAP is desirable since existing programs usually have addressed in practice many of the difficult questions of administration of a new initiative. In addition, familiarity with the existing program can make it easier to gain legislative acceptance of new proposals modelled after it.

### Principles for a Water Rate-Payer Assistance Program

Having a set of general principles can be useful in evaluating different policy proposals. Based on input from NACWA members, the following is a set of 10 principles that can be used to help guide the creation of a federal WRAP initiative.

#### Low-Income Needs:

- Establish a ratepayer-centered model of financing that meets affordability needs by helping low-income customers pay for the cost of water services; and
- Design a program that properly serves all eligible populations including low-income water customers in public housing and multi-family dwellings.

#### Water Sector Role:

- Remove impediments to water utilities' ability to make water infrastructure investments through the rate-setting process;
- Make progress toward speeding up capital replacement cycles;
- Provide for state and local control over implementation and rate-setting;
- Encourage true-value of water pricing for the services utilities provide; and
- Do not require utilities to incur additional debt.

#### Economic and Administrative Considerations:

- Ensure continuous and sufficient investment in local economies thereby creating jobs and improving quality of life opportunities for local residents;
- Use a manageable administrative structure relying on or adapted from similar programs; and
- Maintain the current federal funding mechanism of the SRFs to complement WRAP.

### Principal Finding

Based on these principles and other analysis this evaluation recommends using the Low-Income Home Energy Assistance Program (LIHEAP) as a model for a WRAP initiative. LIHEAP, with its long history and record of success providing assistance to low-income utility ratepayers, has a great deal of similarity to what is needed in WRAP. An outline of legislation modelled after LIHEPA is available in Appendix 1. Other possibilities as models that were also considered as part of this review included the Supplemental Nutrition Assistance Program (or SNAP, formerly known as food stamps), a revised and expanded SRF grant program, and a Treasury supported bond program similar to the Obama administration's Build America Better bonds (BABs). Additional information on SNAP and BABs is included respectively in Appendix 2 and 3 of this paper.

For various reasons, none of the other alternatives were recommended as models for WRAP. SNAP came closest to being such a model since an entitlement program that provided assistance directly to

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low-income water ratepayers in the same way that food assistance is provided could be very useful in addressing concerns about the impact of rising water utility rates on the needy. In the end, however, it was concluded that enactment of a major, new entitlement program for low-income households was not practical in the foreseeable future. Furthermore, the policy differences between food assistance and help in paying water bills made the use of SNAP as a model much more complicated than modelling after LIHEAP.

Neither a revised SRF grant program nor a new borrowing authority was recommended for this purpose either. In the end the policy preference was for a program that made the ratepayer the focus of the assistance instead of the water utility, even if the ratepayer might indirectly benefit from the assistance provided to the utility. Furthermore, regarding the possibility of a revised BABs program, the view of the water sector is that many financial options for borrowing already exist making additional borrowing authorities a low priority compared to direct rate-payer assistance where needed.

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## II. LIHEAP AS A MODEL FOR WRAP

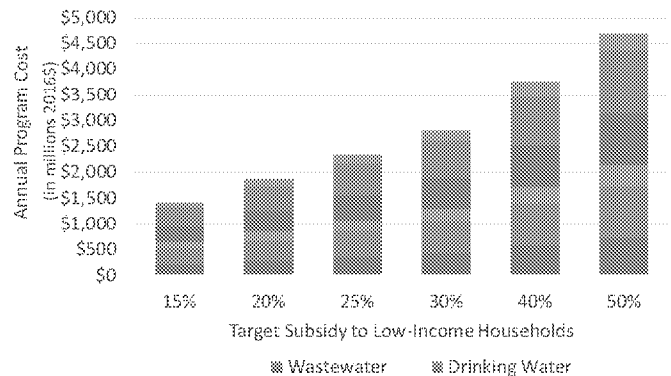
LIHEAP is a federal block grant program administered by the Department of Health and Human Services (HHS) that provides financial assistance to low and fixed-income individuals for fuel and utility bills, as well as gives support to low-cost weatherization and energy-related home repairs. Congress funds LIHEAP through the annual appropriations process.

The LIHEAP statute provides two types of program funding — regular funds and emergency contingency funds. Regular funds are allotted to states in accordance with a formula prescribed in the statute. Contingency funds can be released state by state at the discretion of the President and the Secretary of HHS in response to an emergency, such as a natural disaster or unexpected price spike, after submitting a formal budget request to Congress.

LIHEAP is administered by the states, with the states having considerable flexibility in directing program funds. In addition to this federal LIHEAP assistance, state and local governments also provide their own assistance to those in need and are joined by charitable groups funded by donations. Many utilities also provide assistance to their customers outside of LIHEAP through actions paid for by their own revenues, including offering discounts, fee waivers, arrearage forgiveness, and efficiency/weatherization programs.

If structured similarly to LIHEAP, a WRAP initiative would be funded in the range of \$1.5 billion a year to \$5.1 billion a year (the range of LIHEAP's household energy cost assistance experience). At \$4 billion WRAP would cover 43% of the average cost of water and wastewater for all low-income households across America, although that percentage would vary considerably from state to state.

It is worth noting that Congressional funding for LIHEAP has substantially declined in recent years, falling from \$5.1 billion in FY2010 to \$3.4 billion in FY2016. Even at the higher level of funding, which assisted 8.9 million households, the money was only sufficient to serve 1 in 5 eligible Americans.



### Key Features of LIHEAP:

1. States administer the program in accordance with individual state plans which must be federally approved. In administering benefits, states decide the mix and dollar range of benefits, choose how benefits are provided (e.g. either to utilities or directly to households) and decide which state agencies will administer the program.
2. Funds are allocated to states by a formula that factor in energy costs, typical weather, and the number of households in need.
3. States use the funds in several ways:

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- a. States help eligible households generally to meet heating and cooling costs;
  - b. States are also required to reserve funds to assist when households face an energy crisis (states determine the circumstances under which they will provide assistance, such as when a household is in danger of losing their heating or cooling due to problems with equipment or exhaustion of a fuel supply);
  - c. Funds may be used for low-cost weatherization projects (limited to 15% of their allotment, with waivers from HHS for up to 25%);
  - d. Funds can be used to provide services to reduce the need for energy assistance (e.g. needs assessments and counseling, limited to 5% of the allotment); and
  - e. Funds may be used for program administration, limited to 10% of the allotment.
4. Income guidelines determine household eligibility, and qualifying households receiving assistance can receive it for as long as appropriated funds are available. However, because the overall amount of money is limited, not all eligible households in fact receive funding.
  5. LIHEAP statutes establish 150% of the poverty level as the maximum income level allowed in determining LIHEAP income eligibility, except where 60% of the state median income is higher. State income eligibility criteria for LIHEAP may not be set lower than 100% of the poverty level.
  6. States have points of contacts, called community action agencies, to which potential recipients apply for funding. Applicants must provide certain documentation to qualify for benefits, including recent copies of utility bills, payroll stubs and other income documentation, and proof of residency and citizenship.
    - a. The LIHEAP statute does not impose an asset test in establishing eligibility, but states may choose to limit eligibility based on client assets.
    - b. Statute requires that states conduct outreach to eligible households, especially those with elderly individuals or individuals with disabilities.
    - c. States must also ensure that households with the lowest incomes, together with the highest home energy need in relation to income, receive the highest level of assistance.
    - d. LIHEAP acknowledges that renters, for whom energy payments may be included in their rent, differ from homeowners in this respect and requires that renters and homeowners be treated equitably.

### Benefits and Limitations of LIHEAP as a Model

- *Impact* — An adequately funded WRAP based on LIHEAP would remove a serious impediment to utilities making water infrastructure investments that are both substantial and based on true cost-of-service rate making. Additional analysis will be necessary, however, to determine what specific federal guidelines should be included in any WRAP legislative to ensure this outcome.

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- *Administration* — LIHEAP is a successful program with a rationale and structure that could be logically adapted for the water sector. Energy utility bills for low-income households are similar in size to their water utility bills, and help for the latter is as reasonable as help for the former. LIHEAP has operated for decades with a tested administrative system. WRAP eligibility for recipients could mirror those for LIHEAP, and either EPA or HHS could administer it. However, some issues such as the design of the state distribution formula could not be adapted as easily and would still require additional work.
- *Budget* — The authority for WRAP could be created through the legislative process as a free-standing bill or as an amendment to laws on related subjects such as those for the SRFs. Because legislation would take the form of an authorization for an appropriation, meaning the actual level of funding would be determined through the annual appropriations process, no offsetting budget cuts or new sources of revenue would be required for enactment of the authorizing legislation. Of course, relying on annual Congressional appropriations would introduce a measure of uncertainty into the process from one year to the next.
- *Politics* — The administration’s proposals on infrastructure and increased SRF spending provide an obvious point of entry for a WRAP plan to be made part of the administration’s infrastructure policy review process.

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### III. SUMMARY OF KEY CONCLUSIONS AND RECOMMENDATIONS

The following is a list of key recommendations and conclusions based on the analysis contained in this review. The key conclusions are a combination of recommended actions to be taken and suggested next steps where additional work may be needed.

- (1) The idea of a federal program designed to help low-income ratepayers pay their water bills makes sense as a way of facilitating state and local investment in the water sector, thereby reducing the nation's clean water needs while creating jobs through economic activity.
- (2) The best model to use for the design of a water ratepayer assistance program (WRAP) would be the Low Income Home Energy Assistance Program known as LIHEAP. LIHEAP is a federal program that provides financial assistance to low-income households to help them pay their energy bills, such as electric and gas utilities and home heating oil. Home energy bills are similar in size to home water and sewer charges, and for most people both are housing necessities.
- (3) Instead of Health and Human Services, it is recommended that the administrating agency for WRAP be the Environmental Protection Agency, and that WRAP be drafted as a free-standing measure that can be converted into an amendment to the existing EPA State Revolving Fund authorities. This approach keeps the measure within the jurisdiction of experts knowledgeable about the challenges of the water sector and would encourage an integrated approach to planning around a wider set of existing federal financial resources for water infrastructure.
- (4) Much of the existing LIHEAP statute could be directly adapted into a form suitable for a WRAP bill. However, because of differences between the water sector and the energy sector, there are a few outstanding issues that would require additional research or policy decisions to appropriately fill in those blanks. Although there are numerous smaller issues, the major six questions are:
  - a. Will the bill cover both wastewater and drinking water?
  - b. What federal guidelines specific to the water sector need to be included in the requirement for state plans to ensure that proper ratemaking and infrastructure investment will occur as a result of the low-income ratepayer assistance?
  - c. How will the distribution formula to allocate money among the states and other recipients be designed?
  - d. How will renters and multi-unit dwellings be dealt with effectively and equitably?
  - e. Should water efficiency measures and home repairs be encouraged as an option for states to offer low-income households?
  - f. Should incentives be included that encourage leveraging of funds from non-federal sources to provide additional assistance to low-income ratepayers?
- (5) The prospects for the enactment of WRAP legislation should be rated as plausible but difficult. Presently in Washington, the general outlook for funding for both low-income and

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environmental programs is negative. However, WRAP is in a special situation because President Trump has identified both increased infrastructure spending, including water projects, and expanded SRF money as priorities. This provides an opportunity to insert the concept of a WRAP proposal into the national debate and budget negotiations on Capitol Hill.

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## Appendix 1

### OUTLINE OF DRAFT WRAP LEGISLATION

**Bold Language** indicates more review necessary of policy issues

*Italics* indicate water efficiency provisions

Brackets [] indicate Win With Green annotation

#### Sec. 1. Title

The Water Ratepayer Assistance Program of 2017

#### Sec. 2. Grants

- (a) Authorization for Administrator to make grants
- (b) **Authorization for Appropriations** [amounts TBD]
- (c) Appropriations obligated in succeeding fiscal year
- (d) **Authorization for leveraging incentive program** [Are leveraging incentives desired?]
- (e) Authorization for appropriation for natural disaster or other emergency

#### Sec. 3. **Definitions** [Main question is whether both wastewater and drinking water are included]

- (1) Emergency
- (2) **Water Burden**
- (3) **Water Crisis**
- (4) Highest Home Water Needs
- (5) Household
- (6) **Home Water**
- (7) Natural Disaster
- (8) Poverty Level
- (9) Administrator
- (10) State
- (11) State Median Income

#### Sec. 4. **State Allotments**

[Much of the language in this section of LIHEAP can be transferred to WRAP but this is also the section that determines the allocation formula so more thought needs to be given to how to structure that.]

#### Sec. 5. Applications and Requirements

- (a) State application to receive funds
- (b) State certification

(1) Uses of funds

(A) Outreach activities

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- (B) Intervention in water crises
- (C) **Water efficiency and other home repairs**
- (D) Plan, develop and administer the program

### (2) Make payments only for

- (A) Households receiving assistance from certain other programs or
- (B) Meeting certain income limits

### (3) Outreach activities for eligible households

### (4) Coordination with similar Federal and State programs

### (5) Providing the greatest assistance to households with the greatest need

### (6) Designating local administrative agency

### (7) Procedures for making payments directly to water suppliers

### (8) Provide assurances

- (A) That income eligible households will not be excluded and
- (B) **That owners and renters are treated equitably**

### (9) Provide that not more than 10% of funds are used for planning and administration except from non-Federal sources

### 10) Fiscal control and fund accounting procedures

### (11) Allow and cooperate with Federal investigations

### (12) Public participation in plan development

### (13) Administrative hearings for denied claims

### (14) Data collecting and reporting

### (15) **Crisis situations** [LIHEAP language requires clarification as to what is a water crisis]

### (16) *Up to 5% of funds for household water efficiency*

### (17) Miscellaneous Provisions — State flexibility. Prevention of fraud, waste and abuse. Administrator to provide model performance goals and measures.

## (c) State Plans

### (1) **State plan provided as part of application.** [Much of the LIHEAP language can be incorporated into a WRAP bill, but water-sector specific language still needs to be developed]

### (2) Plans made publicly available

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(3) Model state plan format to be provided

- (d) Funds spent in accordance with plan
- (e) Financial and compliance audits
- (f) Treatment of assistance
  - (1) Assistance not considered income for State or Federal purposes
  - (2) Determining excess shelter expense deduction
- (g) State must repay funds not spent in accordance with this title
- (h) Comptroller General evaluation of State grant expenditures
- (i) Additional household eligibility specifications
- (j) The relationship to other Federal statutes of State procedures for verifying income
- (k) ***Up to 15% of funds for water efficiency/home repair or 25% of funds if waiver is provided***
- (l) **Funds may be used for State tax credits for water suppliers who provide rate discounts**

### Sec. 6. Nondiscrimination Provisions

- (a) No discrimination on basis of race, color, national origin, sex, age or handicap.
- (b) In case of noncompliance the Administrator should notify the State and refer the matter to the Attorney General for possible civil action
- (c) Civil action may be brought in any appropriate U.S. district court

### Sec. 7. Payments to States

- (a) Provides process for obligating an allotment in a subsequent fiscal year
- (b) **Incentive program for leveraging non-Federal resources**
- (c) ***Water Assistance Challenge Option*** [This is another innovative efficiency program that could serve as a model for the water sector]

### Sec. 8. Withholding

- (a) Administrator may withhold funds if State does not comply with this title.
- (b) Administrator may investigate uses of funds

### Sec. 9. Limitations on the Use of Grants

- (a) Grants may not be used to improve land or to purchase, construct or improve any facility
- (b) Up to \$300,000 may be reserved by the Administrator to provide training and technical assistance and to conduct onsite reviews of programs

### Sec. 10 Studies

- (a) **The Administrator shall provide for the collection of data** [what type for water sector needs to be specified]
- (b) Annual report to Congress

### Sec. 11. Repealers and other Statutory Provisions

[A review is needed of whether this new authority requires other statutory authorities to be modified or repealed]

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## Appendix 2

### SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)

**The Supplemental Nutrition Assistance Program (SNAP)** is a U.S Department of Agriculture entitlement program designed to help eligible low-income households buy food. SNAP is the contemporary version of a food assistance program first created under the New Deal and was formerly known as the Food Stamp Program. This forerunner of SNAP was substantially overhauled as part of welfare reform in 1996 and renamed SNAP as part of the Food and Nutrition Act of 2008.

SNAP was reauthorized most recently in 2014 in the farm bill (P.L. 113-79), as is the historical practice for food assistance programs. In FY2016 SNAP's budget of nearly \$71 billion provided over 44 million Americans with an average of \$125.51 in food assistance every month.

#### ADMINISTRATION OF SNAP

The Food and Nutrition Service (FNS), an agency of the USDA, is responsible for administration of federal nutrition programs including SNAP. One of the major changes made to SNAP as part of welfare reform was its conversion into a state block grant program. This gives states considerable leeway in the administration of the program, but they still must meet certain federal guidelines to qualify for support. SNAP is typically administered by the state's social services agency, which in most cases contracts with local providers to offer services. Each state designs its own application process within federal guidelines and specifies documentation requirements regarding residency, citizenship, household status, income and other financial resources.

Generally edible foodstuffs and drinks qualify for purchase, as well as seeds or plants to grow food, but not alcohol, tobacco, or non-food household items. Payments are received through an Electronic Benefit Transfer card that works like a bank debit card. Benefit amounts account for the size of the household, the maximum benefit for the fiscal year, and the household's net income. Benefits are automatically loaded into the household's account each month on the designated date as provided in the SNAP benefit issuance schedule at <http://www.fns.usda.gov/snap/snap-monthly-benefit-issuance-schedule>.

#### ELIGIBILITY FOR ASSISTANCE

SNAP eligibility and benefits are calculated on a household basis. Typically, a group of people who live together and purchase and prepare meals together is considered a household, although spouses and most children under age 22 are included in the same household even if they purchase and prepare meals separately. People are not usually eligible for SNAP benefits if an institution gives them their meals, although there are exceptions for elderly or disabled persons.

Financial eligibility is determined through a categorical or a traditional eligibility path. Under *categorical eligibility* an automatic determination of eligibility is made if applicant participates in other means-tested programs such as Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF) or General Assistance (GA).

Under federal rules for *traditional eligibility*, applicant households must meet a three-fold financial test (although states have some flexibility to adjust):

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- Household gross monthly income must be at or below 130% of the poverty level;
- Household net monthly income must at or below the poverty level; and
- Asset limits are set at \$2250 per household (or \$3250 if it contains an elderly or disabled member).

Certain resources are not counted towards these asset limits such as most pensions plans, a house and lot, or in many cases a car. In addition, the resources of people who receive assistance under SSI or TANF are not counted at all. (An important exception is in California where SSI recipients are not eligible for SNAP benefits because they receive a State supplement to their SSI benefits in lieu of SNAP benefits.) Eligibility is limited to five years and requires employment seeking efforts on the part of many of the recipients.

### OTHER ISSUES OF NOTE

- **The 2014 Farm Bill changed treatment of LIHEAP in the calculation of SNAP benefits.** The 2014 Farm Bill (P.L. 113-79) requires a minimum payment of LIHEAP before such assistance can impact the calculation of a household's excess shelter deduction.
- **SNAP makes grant accommodations to conduct research/studies on how to improve their program to continue to increase the number of low-income individuals who receive assistance.** <https://www.fns.usda.gov/snap/supplemental-nutrition-assistance-program-snap>
- **Food Stamp drug testing is currently impermissible as a result of restrictions written in federal law, but this could change.** Wisconsin Governor Scott Walker called on then President-Elect Trump to make changes to allow for drug testing to ensure individuals receiving government benefits and seeking employment are not abusing drugs. <http://www.wisconsinrapidtribune.com/story/news/politics/2017/01/11/official-food-stamp-drug-tests-would-violate-federal-law/96438832/>

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## Appendix 3

### FEDERALLY ASSISTED WATER INFRASTRUCTURE BONDS (LIWIBs)

Another tool for helping water utilities meet the needs of low-income individuals and communities could be capitalization bonds that are given special federal financial incentives. Such low-income water infrastructure bonds (LIWIBs) could be complementary to grants from a low-income household water assistance program (LIHWAP) by lowering the cost of borrowing to utilities when they make investments that provide services to low-income customers.

LIWIBs could take several forms. However, they all share the trait of being paired with a federal incentive payment, either to the issuer or the purchaser. This payment improves the appeal of the bond to investors by allowing the utility to offer the investment at a more attractive effective rate of return but at a lower cost to itself. The savings in the cost of borrowing to the utility allows it to make capital improvements with a smaller impact on rates.

Other than tax-exempt bonds, there are primarily two types of federally assisted municipal bonds: (1) tax credit bonds where the tax credit is paid directly to the purchaser; and (2) direct pay bonds where a subsidy is paid instead to the issuer. Both types of bonds were included in the stimulus bill passed in the first year of the Obama administration and were known as Build America Bonds (BABs). A proposal for LIWIBs could be modeled after BABs while being improved in key respects. In addition President Trump has committed to a major, \$1 trillion infrastructure tax credit plan, and, although the details are still forthcoming, it could offer a vehicle for some type of LIWIB.

Obama administration BABs were available for nearly two year from April 2009 until the end of 2010. The Treasury Department estimates that over \$180 billion of bonds were issued over the lifetime of the program with costs savings to state and local governments of about \$20 billion (in present value). Other federally assisted bonds for different purposes have been proposed in the past. For example, Better America Bonds to promote smart growth were included in the Clinton Administration's FY 2001 budget, although they were not enacted into law.

#### ADMINISTRATION OF LIWIBs

Like BABs, LIWIBs would be administered through the Department of Treasury. For **tax credit bonds**, the payment would be made through the tax code to the purchaser and would not be subject to the annual budget process. In theory the bond could either be interest-bearing or interest-free, as long as the size of the tax credit was large enough to make it appealing to investors. BABs were taxable, interest-bearing bonds with a 35 percent tax credit for the purchaser. By contrast, Clinton's Better American Bonds were interest-free with the federal government providing a tax credit against the investor's other tax liabilities. In effect Better America Bonds would have allowed states and localities to borrow for free, while the return to the investor was paid by the federal government.

With **direct payment bonds**, the Treasury payment could also be tied to the taxable interest paid on the bond, but in this case the issuer would receive the payment directly. This subsidy would lower the costs of borrowing to the bonding authority, who could offer a rate that was both affordable and competitive even though the bonds were not tax-exempt. (Direct pay BABs provided a payment equal to 35 percent of the interest that was paid on the bond.) Unfortunately, direct pay bonds can be subject to the annual appropriations process, and direct pay BABs fell victim to budget sequestration cuts starting in 2013.

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Options for a direct pay LIWIB should consider whether the payments could be authorized as a mandatory payment like Treasury bonds to avoid the uncertainty of appropriations.

The Congressional committees of authorizing jurisdiction are the Ways and Means Committee in the House and the Finance Committee in the Senate. In addition any major plan to create federally assisted bonds or other tax credits (including the Trump infrastructure proposal) would most likely have to go first through the Budget Committee and be included in a Budget Resolution and a subsequent Budget Reconciliation package. Within the executive branch, tax policy measures are usually led by Treasury with a supporting role for the Office of Management and Budget.

### ELIGIBILITY FOR ASSISTANCE

Unlike assistance programs that make payments directly to the needy, the recipients of the payments under LIWIBs would be the investor or the utility. Nevertheless, the customer or ratepayer would still stand to gain financially if the savings in borrowing expenses to the utility results in lower costs to go into the rate base than would have resulted without the program.

Under BABs state and local governments could issue such bonds for any of the purposes for which they could issue a tax-exempt bond. However, LIWIBs would have to be more narrowly targeted to ensure that the federal assistance was promoting investments that would aid the individuals in greatest need. One way to do this might be to adapt criteria similar to those for Recovery Zone Economic Development bonds, also included in the stimulus act, which listed among its qualifying communities those with significant poverty, unemployment, high rate of home foreclosures, or general distress.

### BENEFITS OF LIWIBS

LIWIBs would not be meant to take the place of authorizing new grant programs or entitlement payments that would go to needy customers to help them pay for the cost of water services. Instead they would be intended as a complementary policy to advance the same result. One consideration is that no new federal grant program may be large enough by itself to cover all the expenses necessary to provide water services to needy communities and some borrowing may still be required. If so, LIWIBs could offer some benefits compared to traditional tax-exempt state and local bonds.

First, the appeal of tax-exempt bonds is greatest for those classes of investors who have tax liabilities, limiting their reach. By contrast tax credit bonds would also appeal to those classes of investors with low or deferred tax liabilities, since they would both earn interest and get a federal tax credit payment whether or not they owe taxes. This expanded class brings in institutional investors, such as pension funds, greatly enlarging potential demand for the bonds and further lowering borrowing costs. Treasury estimates that the traditional tax-exempt bond market at about \$2.8 trillion, whereas the conventional taxable bond market is a much bigger \$30 trillion.

Second, because LIWIBs would not need to go to the tax-exempt market, it would take pressure off that market where other water infrastructure bonds would still need to go. This could result in additional savings in the cost of borrowing for water service ratepayers, although the benefits would be indirect.

Finally, trying to get LIWIBs into the administration's infrastructure tax credit plan could offer the best possibility in the near-term for any action on the issue. Even if LIWIBs were not included in the final plan, proposing it could get the conversation going on the need for federal assistance for this purpose.