



<h1 style="margin: 0;">WATER INFRASTRUCTURE FINANCING - A RESPONSIBLE APPROACH</h1>	<p style="margin: 0;">Issue Paper</p> <h1 style="font-size: 48px; margin: 0;">5</h1>
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Local Financing of Water Projects Provides Many Benefits

Water projects in Texas have traditionally been financed by the communities that receive the benefit of the project. Water projects are financed through water rates or the sales of bonds that are paid off by revenues earned from water rates. This approach ensures greater fiscal responsibility. Local water utilities and governments must explain to their citizens why they are making the choices they do. Because the project is eventually paid for through water rates, local officials will have no incentive to exaggerate water demand.

Moving to statewide funding of water projects can serve to penalize those communities who are presently making the most cost-effective use of their resources. In sense, communities that have carefully stewarded their water resources may end up subsidizing the wasteful water use of other communities. **For most communities, the predominant source of water financing should continue to be local revenues.**

Texas Provides \$550 Million Dollars a Year in Water Financing Assistance

There are communities that truly need water financing assistance. Some rural communities that require investment in clean water and wastewater facilities are unable to recover the costs of such investment in water rates. Texas has traditionally supported these communities with State and Federal Funds totaling \$550 million dollars annually. **Texas should continue to help economically disadvantaged communities meet their basic needs for clean drinking water.**

Summary of State Water Funding Programs

State Water Funding Program	Annual Amount of Funding
Clean Water State Revolving Fund	\$330 million
Drinking Water State Revolving Fund	\$70 million
Water Development Fund Program	\$70 million
Economically Distressed Areas Program	\$25 million
State Participation Plan	\$17.5 million
Colonias	\$9.9 million
Agricultural Water Conservation	\$3 million

TWDB Draft Capital Spending Plan



The 2002 State Water Plan Does Not Provide a Sufficient Basis for Adoption of State-Wide Water Taxes and Fees

The 77th Legislature considered and rejected a series of new state water taxes and fees that would generate \$18 billion dollars to help pay for the water supply projects identified in the first round of SB1 regional and state water planning. Contributing to the Legislature's rejection of additional funding for water projects was the lack of sound economic analysis in the development of the state plan. Areas in the planning process that were not fully developed include:



- incomplete economic analyses of proposed water supply options (particularly reservoirs);
- over-estimation of projected water use;
- failure to include reasonable water conservation measures;
- proposals for unnecessary reservoirs (with implications for valuable natural resources, instream flows and landowner property rights);
- inadequate notice to owners of land identified in regional plans as potential reservoir sites; and
- lack of planning for adequate water for fish and wildlife needs.

Recommendations for the Legislature

Before considering any new financing method, the TWDB should be directed to develop and use a standard method for evaluating the costs and benefits of proposed reservoirs. Using the results of the cost-benefit analysis, TWDB should review the reservoirs proposed in the regional water plans and identify those that are unnecessary or that do not provide cost-effective solutions to legitimate water demand, especially in comparison to water conservation or voluntary marketing of water rights.

Any State Financing should primarily be directed towards projects that:

- 1) provide benefits to Texas citizens in excess of their costs,
- 2) are the most cost-effective when compared to their alternatives,
- 3) promote water efficiency, and
- 4) primarily serve economically disadvantaged areas.

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