

**The Future of Alternative Water Supplies: Financing Water Infrastructure Projects**  
**Testimony of Stephen E. Howard (Barclays Capital)**  
**PABs/Innovative Financing Tools for Water Infrastructure Projects – March 21, 2012**  
**Subcommittee on Water Resources and Environment**

Good afternoon Chairman Gibbs, Ranking Member Bishop, and members of the subcommittee. I thank you for the opportunity to testify today. My name is Steve Howard, and I am a Director at Barclays Bank PLC, based in New York. I have more than 25 years of experience financing a broad range of infrastructure projects for public and private clients across the country. My project finance experience spans all sectors, including water, wastewater, solid waste, environmental, transportation and social infrastructure. .

Today we have been invited by the Chairman of the Subcommittee on Water Resources and Environment to testify on Innovative Financing Approaches for Community Water Infrastructure Projects. Our testimony today will focus on a combination of public and private funding investment solutions that coupled together will foster local communities to provide ongoing financing for water infrastructure projects.

There is a broad spectrum of project financing options for new infrastructure projects. Tax-exempt bonds, taxable bonds, private equity and/or some combination of these financing sources can be used to minimize the project financing and development costs over the term of the financing for the project. Tax-exempt bonds can be either governmental purpose bonds, which limit private participation, or private activity bonds, which allow for private participation. Thus, private activity bonds are typically used on projects financed as public-private partnerships.

For infrastructure projects that are publicly owned and financed with tax-exempt governmental purpose bonds, there is no cap on the amount of bonds that can be issued for any specific sector. Conversely, for infrastructure projects that are publicly owned and financed with tax-exempt private activity bonds, some sectors are subject to caps on the amount of bonds that can be issued, specifically public facilities, water/wastewater, surface transportation, housing, education and healthcare. The only publicly owned projects financed with tax-exempt private activity bonds that are not subject to bond issuance caps are in the solid waste, airport and port sectors. Infrastructure projects that are privately owned and financed with tax-exempt private activity bonds are subject to bond issuance caps only if the projects are in the water/wastewater, solid waste and housing sectors.

Based on experience in the solid waste sector, the elimination of the private activity bond issuance cap for water/wastewater projects could increase and expedite the construction of new water/wastewater infrastructure. In the 1980s, the municipal solid waste sector experienced declining landfill capacity and rapidly increasing disposal costs. The US government's response was to eliminate the tax-exempt private activity bond issuance cap on municipal solid waste projects. The Tax Reform Act of 1986 eliminated the bond issuance cap and made private activity bonds an available funding source for solid waste projects. Between 1986 and 2010, approximately \$46.7 billion of bonds were issued in the solid waste industry, of which 56% in face amount were tax-exempt governmental purpose bonds, 40% in face amount were tax-exempt private activity bonds and 4% in face amount were taxable bonds.

The elimination of the tax-exempt private activity bond issuance cap for solid waste infrastructure projects serves as an example of what we believe could happen should the cap be

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removed on the water/wastewater sector. With the elimination of the bond issuance cap for water/wastewater projects, it is reasonable to expect that \$1 to \$2 billion of private activity bonds

would be initially issued annually and could double or triple annually over time as the public-private partnership water/wastewater industry matures. The actual issuance of tax-exempt private activity bonds for water/wastewater projects would be based on the number of projects that are ready to be financed, particularly where the public sector wants the private sector to assume a greater role in assuming development, technology and performance risk. Since 1986, private activity bond financing has equalled only 1% of total water/wastewater issuance. An elimination of the bond issuance cap would increase this percentage and ultimately diversify the tools used to finance water/wastewater projects.

Removing the cap on issuance of tax-exempt private activity bonds used to finance water/wastewater infrastructure would allow more projects to be structured as public-private partnerships. Public-private partnerships not only optimize the development, construction and long-term operation of the project, but also apportion sharing of risks between the public and private partners. Long-term private partner risk assumption and equity investment for water/wastewater projects would increase with the use of private activity bonds and benefit all public and private participants developing projects to meet water quality infrastructure needs.

Barclays appreciates the opportunity to testify today. We look forward to continue to work with the subcommittee. Thank you.

**Stephen E. Howard**, *Director and Head of Barclays' Infrastructure Project Finance Group*. As the head of Barclays' Infrastructure Project Finance Group, Mr. Howard has responsibility for developing and financing a broad range of infrastructure projects for public and private sector clients. Mr. Howard's non-recourse project finance experience spans all sectors, including transportation, water, environmental and social infrastructure. Most of the projects financed under Mr. Howard's direction are structured as system credits with "open" indentures for multi-tranche financing programs or project based credits utilizing long term design-build-operate ("DBO") agreements. He served as the senior banker financing the \$30 million Capistrano Water District (CA) Desalinization project to be constructed under a design-build agreement by Southwest Water Company. Mr. Howard structured a \$195 million financing for the multi-use redevelopment of 100 Cambridge Street for the Massachusetts Development Financing Agency, the \$800 million federal lease financing by a private developer for the construction of a new headquarters office campus for the U. S. Patent Trade Office in Alexandria, VA, the \$315 million Kansas City IRS Facility federal lease-backed bonds, and the \$300 million financing for a gas-fired cogeneration project for the public/private partnership of the City of Klamath Falls, OR and PacifiCorp, a regional electric utility company. Mr. Howard also served as investment banker for the \$280 million privatization of the Union County, NJ resource recovery project and the City of Seattle during the negotiation of a design-build-operate agreement for construction of a \$100 million water filtration plant. Recently, Mr. Howard led the \$1.6 billion financing of the Denver FasTracks Eagle P3 Project and the \$1.2 billion financing of the International Arrivals Terminal 4 Redevelopment Project at John F. Kennedy Airport. Currently, Mr. Howard is serving as the senior banker financing the \$750 million Poseidon Carlsbad Desalination Project in San Diego, CA. Mr. Howard holds an MBA from the Columbia University Graduate School of Business and a BS in Business and Economics from the University of New Hampshire.

**COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**  
*Truth in Testimony Disclosure*

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Pursuant to clause 2(g)(5) of House Rule XI, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

**(1) Name:** Stephen Howard

**(2) Other than yourself, name of entity you are representing:** Barclays Capital Inc.  
("BCI")

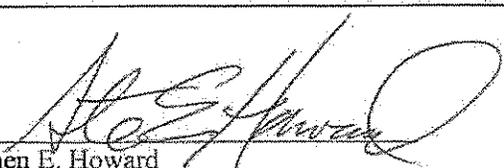
**(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?**

**YES**

**If yes, please provide the information requested below and attach your curriculum vitae.**

**(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:**

BCI does not have the means to respond to this request on an enterprise-wide basis – particularly in respect of matters beyond the scope of the intended testimony. Consequently, this disclosure relates only to matters within such scope – specifically, federal tax treatment of municipal private activity bonds relating to privately developed water and wastewater infrastructure projects. As the municipal finance banker principally responsible for financing of privately developed water and wastewater infrastructure projects, I am not aware of any responsive contracts, subcontracts or grants during the applicable period. Please note, however, that BCI may act as underwriter or financial advisor to private activity bond obligors who are themselves federal contractors or participate in federal grant programs, but any such roles do not involve contracts, subcontracts or grants that are directly between BCI and the federal government.

  
Stephen E. Howard  
Director

March 19, 2012