

Introduction to WIFIA

The United States Congress enacted the Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) as part of the Water Resources Reform and Development Act of 2014. WIFIA establishes a new federal credit program for water infrastructure projects to be administered by EPA. The WIFIA program accelerates investment in water and wastewater infrastructure of national and regional significance by offering creditworthy borrowers loans for up to 49 percent of eligible project costs. WIFIA provides long-term, low-cost, supplemental credit assistance under customized terms.

Congress authorized EPA to provide federal credit assistance through WIFIA in the form of loans or loan guarantees to eligible entities: Corporations; partnerships; joint ventures; trusts; Federal, State, or local governmental entities, agencies, or instrumentalities; tribal governments or consortiums of tribal governments; or State finance authorities.

WIFIA authorizes EPA to provide assistance for a wide variety of projects. They include projects eligible under the Clean Water State Revolving Fund program (e.g. construction of publicly owned treatment works, nonpoint source projects, National estuary program projects, decentralized wastewater systems, stormwater, water conservation, efficiency, and reuse) and Drinking Water SRF program (e.g. treatment, transmission and distribution, source, storage, consolidation of systems) as well as projects for enhanced energy efficiency in the operation of a public water system or a publicly owned treatment works and brackish or sea water desalination projects, managed aquifer recharge projects, and water recycling projects.

WIFIA loans have distinct benefits that are not readily available in the capital markets. The WIFIA program is able to act as a patient investor and offer credit assistance with extended maturities due to the federal government's long-term investment horizon. It can offer borrowers the advantage of developing customized terms, including sculpted repayment terms to match the specific needs of a project. Finally, the WIFIA program lends at a low, fixed interest rate equal to the Treasury rate for a comparable maturity.

EPA recognizes the importance of capital markets in advancing the development and improvement of water and wastewater infrastructure throughout the United States. The WIFIA program is intended to complement existing funding resources rather than supplant them. Therefore, all projects that receive WIFIA credit assistance must be co-financed with other sources of funding, including tax-exempt or taxable bonds, loans, grants, and equity.

WIFIA authorizes EPA to provide secured (direct) loans or loan guarantees to eligible water and infrastructure projects. Prospective borrowers will submit a letter of interest that demonstrates their project's eligibility, financial creditworthiness, engineering feasibility, and alignment with EPA's policy priorities. Using the basic information about the project and prospective borrower provided, EPA will evaluate and select projects based criteria described in the program's handbook using scoring weights established in the Notice of Funding of Availability (NOFA). Following project selection, prospective borrowers will be invited to submit an application to EPA. The purpose of the application is to provide EPA with material necessary to underwrite the proposed WIFIA assistance, and to develop, through negotiation, individual credit agreements between the prospective borrower and EPA.

EPA balances the distinct credit advantages that the WIFIA program offers with prudent lending practices. The WIFIA program will only fund projects that it finds to be credit worthy during the evaluation process.

Background – Water Infrastructure Needs and Current Sources of Financing

In the United States, localities are primarily responsible for providing water infrastructure services and funding these services through user fees. Today, some communities face formidable challenges in providing adequate and reliable water infrastructure services. Existing water infrastructure in some of these communities is aging, and investment is not always keeping up with the needs. As described in greater detail below, EPA estimates the national funding need for capital improvements for such facilities totals approximately \$660 billion over the next 20 years. ^[1] In many cases, meeting these needs will require significant increases in capital investment.

Water infrastructure capital projects are typically funded with pay-as-you-go or debt financed through the municipal bond market. The U.S. Conference of Mayors estimates that in 2008, local governments invested \$93 billion in their water systems, of which 40% went to capital investments, with the remainder for operations and maintenance. ^[2] In 2014, municipal bond issuance for water and sewer projects totaled \$31.9 billion according to the Securities Industry and Financial Markets Association (SIFMA). From 2003 through 2012, tax-exempt financing for water and sewer facilities totaled \$258 billion. ^[3] While a summary of bond ratings for water and sewer debt is not available, a 2014 analysis of outstanding municipal market debt shows that 19 percent of issues were rated BBB or below, or were unrated. ^[4] As such, the potential market for lower-rated investment-grade municipal borrowers, which could benefit most from WIFIA, is significant.

After pay-as-you-go and bonds, the next largest source of water infrastructure financing are the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs. The SRFs are state-operated finance programs that receive capitalization grants from EPA. These capitalization grants, combined with required state match and loan repayments with interest, allow the SRFs to provide a far greater amount of assistance annually than the amount appropriated for the programs. The SRFs provided \$7.9 billion in assistance to projects across the country in 2015. ^[5] In addition, communities also received water infrastructure funding through at least two other federal agencies in 2015. The Department of Housing and Urban Development authorized \$333.4 million in block grants to communities for water infrastructure projects, and the United States Department of Agriculture (USDA) approved \$1.5 billion in grants and loans for small communities.

EPA's 2012 Clean Watersheds Needs Survey (CWNS) ^[6] estimated that the total capital wastewater and stormwater treatment and collection needs for the nation are \$271 billion as of January 2012. The CWNS does not represent all needs for the 20-year period from January 2012 through December 2031. Because states often do not have documentation that demonstrates needs that far into the future, nearly all needs included in the CWNS are for projects that will be completed within 5 years (*i.e.*, 2012-2017) and are documented in capital improvement plans and other short term planning documents.

Needs without existing independent documentation are not included in the CWNS. In addition, the CWNS does not include information about privately owned wastewater facilities, projects on tribal lands, and operations and maintenance needs. Stormwater management needs are also underestimated due to not all states reporting in this category. For these reasons, actual 20 year needs are likely to be significantly higher.

EPA's 2011 Drinking Water Infrastructure Needs Survey (DWINS) ^[7] estimates a total capital drinking water infrastructure need of \$384.2 billion for the 20-year period from January 2011 through December 2030. This estimate includes needs for American Indian and Alaska Native Village systems. Like the CWNS, this figure does not represent all of the needs. The scope of the survey is limited to those needs eligible to receive DWSRF assistance—thus excluding some capital projects, including projects related primarily to future population growth. Moreover, needs for which no independent documentation exists are represented in the DWINS by default values which are conservative. The DWINS does not include operations and maintenance needs.

Other studies report significantly larger estimates of needs. For example, the American Society of Civil Engineers estimates approximately 240,000 water main breaks annually. ^[8] The American Water Works Association estimates that \$1 trillion is needed to restore existing distribution system pipe at the end of its useful life and to expand pipe networks to meet growing population needs between 2011 and 2035. ^[9]

As suggested by the estimated size of national water infrastructure needs, currently available funding sources are not sufficient. SRF programs under the Clean Water Act and Safe Drinking Water Act are designed to primarily provide a benefit to smaller projects, typically under \$100 million, in communities that often have limited access to funding. There is a large segment of need associated with projects that the SRFs cannot fund due to project size or ownership. The average CWSRF wastewater treatment project is \$3.5 million, while the average DWSRF project is \$2.4 million. According to the most recent data, states issued only 180 CWSRF loans over \$50 million, and 35 of those were over \$100 million, out of over 14,000 loans issued since 2004. Since 2009, states issued only 20 DWSRF loans over \$50 million, and ten of those were over \$100 million, out of over 6,700 loans. ^[10] Private wastewater treatment facilities are not eligible for most CWSRF financing.

Bond-financing requires strong debt service coverage to benefit from low interest rates and long tenors. In addition, private entities generally cannot access the tax-exempt bond market. Finally, grant funding and USDA loans are targeted at specific underserved sectors and are generally less applicable to large projects.

Similar to large-scale transportation projects, the financing of large water infrastructure projects can be addressed through the use of several financing tools and techniques that, when combined, can result in a highly efficient capital structure that minimizes the financial impact on system users. WIFIA will assist in delivering on these needs in the water sector. It is in a position to promote the use of public-private partnerships in this area by reducing the cost of private participation. At the same time, WIFIA will have limited impact on the municipal bond market. Total municipal bond issuance was \$314.9 billion in 2014, of which water infrastructure accounted for 10%. Even if WIFIA is able to provide \$1 billion annual assistance, it will account for approximately 3% of the market for water infrastructure bonds such that the program is not expected to impact the municipal bond market.

Footnotes

1. EPA. "Clean Watersheds Needs Survey 2012: Report to Congress," 2012, and "Drinking Water Infrastructure Needs Survey: Fifth Report to Congress," 2011.
2. U.S. Conference of Mayors—Mayors Water Council. "Trends in Local Government Expenditures on Public Water and Wastewater Services and Infrastructure: Past, Present and Future." February 2010. <http://www.usmayors.org/publications/201002-mwc-trends.pdf>.
3. <http://www.naco.org/sites/default/files/documents/Protecting-Bonds-to-Save-Infrastructure-and-Jobs-2013.pdf>.
4. SIFMA. "Research Report—Municipal Bond Credit Report: Fourth Quarter 2014".
5. July 1, 2014-June 30, 2015. EPA SRF National Information Management Systems.
6. EPA. "Clean Watersheds Needs Survey 2012: Report to Congress." 2012.
7. EPA. "Drinking Water Infrastructure Needs Survey: Fifth Report to Congress." 2011.
8. American Society of Civil Engineers. "2013 Report Card for America's Infrastructure." 2013.
9. American Water Works Association. "Buried No Longer: Confronting America's Water Infrastructure Challenge." <http://www.awwa.org/Portals/0/files/legreg/documents/BuriedNoLonger.pdf>.
10. Collection of project specific data began in 2004 for the CWSRF program and 2009 for the DWSRF program.