THE WATER UTILITY COMMUNITY STRONGLY SUPPORTS A ROBUST AND EFFECTIVE WIFIA PROGRAM

Unlike TIFIA, Being Able to Finance up to 100% of Project Costs for Drinking Water and Wastewater Projects is Critical to the Success of the Program

The American Water Works Association, Water Environment Federation, and Association of Metropolitan Water Agencies – which collectively serve approximately 80% of the nation's population with water and wastewater services – applaud the United States Senate for developing and including WIFIA within the Senate's Water Resources Development Act (WRDA), and the House of Representatives for its longstanding commitment to developing innovative financing mechanisms to help meet the nation's infrastructure needs.

The water utility community strongly supports a WIFIA program that works. Towards that end, it is critical that WIFIA be able to finance up to 100% of project costs for drinking water and wastewater projects. Unlike transportation projects, drinking water and wastewater projects are 100% locally funded from user fees – that is, local water bills. There are no grants. The current model for water infrastructure finance is for utilities to go to the bond market for 100% of their upfront financing needs. The purpose of WIFIA is to provide a lower cost financing alternative that will allow communities to address more of the nation's water infrastructure needs for less.

Limiting WIFIA to 49% of project costs means that utilities will get half the savings with twice the overhead cost and complexity – which will strongly deter utilities from utilizing WIFIA when the whole point is to lower financing costs. Instead of a 49% limit, we strongly urge the conferees to establish a priority for projects that involve other sources of public and private financing. This will achieve the same objectives in terms of leveraging new sources of capital without impacting WIFIA's viability and success.

1. THE LIMITATION TO 49% OF PROJECT COSTS COMES FROM TIFIA, BUT DOES NOT TAKE INTO ACCOUNT THE FUNDAMENTAL DIFFERENCES BETWEEN TRANSPORTATION AND WATER INFRASTRUCTURE FINANCE.

- The first reason for the 49% limit in the transportation context is so that project sponsors bring other federal and state grant funding to the table. Unlike transportation projects, there are no federal or state grants for large water infrastructure projects seeking WIFIA loans.[i] Instead, these projects are funded entirely from local water bills. Local utilities have 100% of the "skin in the game."

- The model for water infrastructure finance is for utilities to go to the municipal bond market for 100% of their upfront capital needs, which is paid off entirely from these local user fees.

- With a 49% cap on WIFIA assistance, utilities would have to go through the WIFIA process and then still have to go to the bond market for the rest of the financing. Unlike putting grant funds into the project, there is no policy interest in having utilities go to the bond market.

- Instead, this will deter utilities from using WIFIA. The savings will not be as great, and the separate processes, timing considerations, and other complexities will provide a strong disincentive against utilizing WIFIA.

- In order to meet the critical national objective of accelerating the repair and replacement of the nation's deteriorating water infrastructure, WIFIA needs to offer a financing alternative that *improves upon what is available currently*. That alternative is to provide lower-cost, longer-term financing through WIFIA that can cover up to 100% of project costs. This will in turn enable more water infrastructure to be built for less and accelerate needed repair and reinvestment.

2. THE UNIQUE CHARACTERISTICS OF WATER PROJECTS MEAN THERE IS AN EXTREMELY LOW RISK OF DEFAULT.

- The second reason for the 49% limit in the transportation context is to minimize risk. Toll projects, for example, carry risk based on how many drivers end up using the toll facilities. As water systems serve an essential function and have a dedicated revenue source under local control, this is not an issue for WIFIA loans. Fitch Rating Agency studied defaults on water and sewer bonds over an 18 year period and found that the cumulative default rate for such bonds was 0.04 percent. [ii]

- As Fitch states in its rating guidelines, "Municipal water and sewer utilities in the U.S. are enduring natural monopolies that provide highly essential services. As such, the sector exhibits extremely strong credit characteristics with a minimal default history for the past quarter century…Key credit strengths of municipal water and sewer utilities are their essential nature, monopoly status and local rate-setting authority."[iii]

- Because of the extremely low default risk, CBO has estimated that an appropriation of $100 million could support anywhere between $990 million and $3.3 billion in WIFIA loans. USDA's rural water and wastewater loan guarantee program (which funds projects at up to 100%) has in fact resulted in positive receipts for the government. [iv]

3. ESTABLISHING A PRIORITY FOR PROJECTS THAT INVOLVE OTHER SOURCES OF FINANCING CAN ACHIEVE THE SAME OBJECTIVES WITHOUT IMPACTING WIFIA'S VIABILITY AND SUCCESS.

- Instead of a cap on WIFIA assistance that does not fit the model for financing clean water and drinking water projects, we strongly urge an approach where priority is given to projects that are able to leverage other public and private resources.

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[i] While utilities can go to the State Revolving Fund (SRF) for loans for smaller projects, WIFIA is for larger projects where SRF assistance is unavailable.

[ii] Fitch Ratings, *Municipal Default Risk Revisited.* June 23, 2003.

[iii] *Fitch Ratings, Water and Sewer Revenue Bond Rating Guidelines, 2011*

[iv] American Water Works Association*, Financing Water Infrastructure*, 2009.