American Water Works Association

ASSOCIATION OF METROPOLITAN WATER AGENCIES

NACWA
A Clear Commitment to America's Waters

Water Environment Federation
the water quality people®

WIFIA's Bond Prohibition Shuts Off Water Project Finance Tool

Action Requested: Remove the prohibition on combining tax exempt debt with loans under the Water Infrastructure Finance and Innovation Act (WIFIA).

Background: Congress enacted WIFIA in 2014 to provide low-cost, long-term federal loans for major improvements to the nation's drinking water and wastewater systems, as well as water resources projects for flood control and navigation. WIFIA can finance up to 49 percent of eligible projects costing $20 million or more. Interest on WIFIA loans will be based on long-term U.S. Treasury rates.

WIFIA will complement EPA's Drinking Water and Clean Water State Revolving Fund (SRF) programs by providing financing for projects that fall outside the traditional scope of the SRFs because of their size and cost and, in some cases, their purpose. For example, Drinking Water SRF loans must be prioritized to first assist water projects that bring communities into compliance with federal water quality rules or address immediate risks to public health. Consequently, replacing aging infrastructure to *prevent* health risks becomes a low priority. In addition, the Drinking Water SRF cannot be used to support system expansion necessary to accommodate population growth.

Through WIFIA's repayment terms and Treasury interest rates, the federal government can lower the overall cost of borrowing for large water infrastructure projects, making local funds stretch further and accelerating water infrastructure improvements. Because this is strictly a loan program, like the existing TIFIA program for transportation infrastructure, it promises to be budget neutral in the long run.

WIFIA was enacted as a part of the Water Resources Reform and Development Act, but during consideration of the larger bill the Joint Committee on Taxation issued a budget score for WIFIA based on an assumption that the program would induce the issuance of additional tax-exempt debt. To negate this score, lawmakers added a prohibition on combining tax-exempt bonds with WIFIA loans to allow the program to move forward with the rest of WRRDA. There is no infrastructure policy supporting this prohibition, and its unfortunate side effect is that it will deter communities across the country from utilizing this new loan program.

Ban Will Drive Project Costs Up: The prohibition on using tax-exempt bonds in combination with WIFIA loans will require project sponsors to use cash, taxable municipal debt, or private sources in order to pay for the remaining 51 percent of project costs not covered by WIFIA. In a large majority of cases these funding source would drive up project costs and wipe out any savings from using WIFIA. While WIFIA may still be effective for some communities, the prohibition on combining WIFIA loans with tax-exempt debt significantly undermines the fundamental purpose of the program: stretching local dollars to go further and accelerating infrastructure investment.

Utilities predominantly rely on debt financing to pay for infrastructure improvements and are generally required to pursue the lowest-cost financing available - usually tax-exempt bonds - to hold down customer water bills. For most utilities, which can issue debt rated AA or above, issuing *taxable* municipal debt to pay the non-WIFIA project share would eliminate the savings incurred by using WIFIA and would make the overall cost of capital higher than issuing tax-exempt bonds alone.

Without the ban, many utilities would likely use lower-cost tax-exempt debt for the non-WIFIA share of project costs, lowering the overall cost of using the WIFIA program. As a result, WIFIA would be a much more cost-effective option for the broad range of utilities it was intended to serve.

WIFIA is Based on TIFIA. The model for WIFIA, the popular TIFIA program, helps project sponsors finance highway and transit projects that could not move forward as expeditiously and cost-effectively without federal credit assistance. *To date, 65 percent of TIFIA-funded projects have also relied on tax-exempt debt.* The TIFIA program's ability to leverage additional sources of investment, including tax-exempt bonds, has been fundamental to its success: a federal investment of less than $2 billion has backed more than $19 billion in low-cost TIFIA loans and spurred $72 billion in surface transportation improvements nationwide.

The Solution: Repeal the prohibition on combining WIFIA assistance with tax-exempt bonds. The upcoming surface transportation reauthorization bill is a possible legislative vehicle for this change, as it will include significant revenues for infrastructure investment and can provide the small but necessary revenue offset ($135 million over 10 years) for this fix. Note that no transportation dollars would actually be diverted to water projects; all that is needed is the budget offset "score."

The need to invest in our nation's water infrastructure is well documented: more than $2 trillion is needed over the next 25 years to restore and expand drinking water and wastewater infrastructure. Repealing the tax-exempt bond prohibition will help realize WIFIA's full potential to help address those immense water infrastructure investment needs efficiently and cost effectively.

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