

WIFIA LOAN PROGRAM IMPLEMENTATION: AN INTERACTIVE DISCUSSION

AMWA 2015 Water Policy Conference

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PURPOSE AND BACKGROUND

- WIFIA became law on June 14, 2014
- Beginning in late 2014, EPA has been developing the program with limited resources
 - Listening Sessions
 - Meetings with stakeholders and other interested parties
 - Initial development of timelines
 - Planning for potential appropriations
- The FY 2015 omnibus appropriations included \$2.2 million for staffing for development of WIFIA

INTRODUCTION TO WIFIA

- Innovative financing mechanism for water-related infrastructure
- National or Regional significance
- Attempts to fill in a perceived gap left open by the SRF programs by providing subsidized financing for large projects
- Funds are appropriated to provide a reserve subsidy for credit assistance, not for direct outlays to projects (TIFIA averages 10:1)
- Credit assistance can be in the form of loans or guarantees

INTRODUCTION TO WIFIA (CONTINUED)

- Eligible assistance recipients range from corporations and partnerships, to municipal entities, to State Revolving Fund programs
- Eligible projects include:
 - CWSRF eligible projects
 - DWSRF eligible projects
 - Projects for enhanced energy efficiency at drinking water and wastewater facilities
 - Brackish or seawater desalination, aquifer recharge, water recycling
 - Acquisition of property if it is integral to the project or will mitigate the environmental impact of a project
 - Bundled SRF projects under one application
 - A combination of projects secured by a common security pledge

INTRODUCTION TO WIFIA (CONTINUED)

- To be considered eligible a project and borrower must be deemed creditworthy:
 - Preliminary rating opinion letter at the time of application
 - Two final rating opinion letters prior to financing
 - Financial risk assessment to determine the appropriate subsidy reserve in consultation with OMB and ratings agencies
 - Senior obligations of the project must receive an investment grade rating
- Projects must be reasonably anticipated to cost no less than \$20 million
 - \$5 million for small community projects
 - Any amount if bundled into a single application for at least \$20 million

INTRODUCTION TO WIFIA (CONTINUED)

- Maximum amount of loan may not exceed 49% of eligible project costs
- The remaining 51% may not come from tax-exempt financing
- Interest rate is no less than the yield on Treasury securities of a similar maturity to the loan in question on the date of execution
- Loans may be for 35 years or the useful life of the project, whichever is less
- Repayments must begin no later than 5 years after substantial completion of the project
- EPA may charge fees on the loan to cover the cost to the government of making the loan

LISTENING SESSIONS

- Listening sessions held around the country:
 - Chicago, New York, Atlanta, Dallas, Los Angeles, San Francisco, Washington
 - Widely promoted to a diverse set of stakeholders and interested parties
 - EPA presented statutory provisions and solicited input on key WIFIA implementation and operation steps
 - Also engaged with national partner associations (ASDWA, ACWA, CIFA, NCPPP)

LISTENING SESSIONS (CONTINUED)

- Overview and Loan Process
- Project eligibility, evaluation & selection
- Potential projects

DEVELOPMENT OF WIFIA

- Challenges ahead:
 - Defining eligible projects
 - Determining criteria
 - Develop project ranking system
 - Create subsidy model
 - Develop method for determining creditworthiness
 - Answering questions about tax-exempt status of certain types of complimentary funding sources
 - Contracting for expert services
 - Rollout of guidance
 - **MARKETING AND FINDING PROJECTS!**

CREDITWORTHY REQUIREMENTS

- To be considered eligible a project and borrower must be deemed creditworthy
- EPA will conduct internal creditworthiness analysis of the project and project applicant
- Applicant must also have rating agency opinions conducted and submitted to EPA
 - Preliminary rating opinion letter at the time of application
 - Two final rating opinion letters prior to financing
 - Senior obligations of the project must receive an investment grade rating

CREDITWORTHINESS ASSESSMENT

- EPA is developing the internal assessment process to address WIFIA project types and applicants
- The assessment will be similar in construct to what is done in other federal loan programs(e.g., DOT, DOE) and SRF programs
 - Consider a comprehensive set of criteria
 - Evaluate and score applicants using a formalized process
 - Compare the internal assessment to the rating agency opinions when they are submitted by the applicant

EXAMPLE: DOE LOAN GUARANTEE PROGRAM CREDIT RANKING

- DOE uses a process to evaluate applicants based on credit ranking criteria
 - Project sponsor (e.g., financial strength, experience)
 - Technology (e.g., established technology)
 - Capital structure (e.g., forecast cash flow coverage ratio)
 - Market or take-off (e.g., certainty of sale of output)
 - Project completion (e.g., contractor track record)
 - Operating cost and performance (e.g., expected reliability of project equipment)
 - Infrastructure (e.g., site accessibility)
 - Legal (e.g., contractual framework)
 - Legislative and regulatory (e.g., state and local support)

FEDERAL “SUBSIDY” MODELING

- As with other federal credit programs, each project will be analyzed and assigned a “subsidy” rate using a formal OMB process that considers the default risk and recovery rate
- Subsidy Rate = estimated net default costs + financing costs to the government
- Cumulative annual subsidy levels determine total WIFIA funding for the year
 - Example: WIFIA appropriation = \$20 million
 - Subsidy = 10%, Total WIFIA funding = \$200 million
 - Subsidy = 5%, Total WIFIA funding = \$400 million
- The internal creditworthiness analysis will be the basis for determining the default risk and recovery rate information used for the subsidy calculation
- EPA will conduct the assessment and present it OMB and together the Agencies will determine the subsidy level

THE ROLE OF SRFs

- WIFIA *and* SRF may be able to jointly fund a project
- Possible opportunities include:
 - Co-fund WIFIA projects with EPA
 - SRFs are eligible to borrow from WIFIA to finance a combination of projects under a single application
- These approaches could allow SRFs to reach borrowers and/or help finance projects they might not otherwise be able to
- Joint funding may make WIFIA effective, highlighting the importance of the SRF programs
 - SRFs are essential to the success of WIFIA
 - Both programs, in tandem, are essential for making large infrastructure investments affordable.
- Small projects for smaller communities likely the realm of SRFs.

WIFIA FUNDING

- No funding has yet been appropriated for WIFIA loans
- Authorization for Appropriations:
 - Amounts:
 - FY2015 \$20,000,000
 - FY2016 \$25,000,000
 - FY2017 \$35,000,000
 - FY2018 \$45,000,000
 - FY2019 \$50,000,000
 - EPA may use up to \$2,200,000 of the annual appropriation to cover administrative costs
- EPA is also authorized to collect fees to cover services of expert firms and servicing of Federal credit instruments.

NEXT STEPS

- President's budget requests \$5 million for development of the program in FY 2016
- Continue development of the program
 - Hiring
 - Contracts
 - Guidance
 - Marketing
- Stay in close contact with stakeholders

DISCUSSION

- Are you able to meet your infrastructure needs through currently available sources of financing?
 - What prevents you from meeting those needs?
 - What factors are driving up your needs?

DISCUSSION (CONTINUED)

- What type of projects do you see as potentially attracted to WIFIA financing?
- Conversely, what types of projects will stay away from WIFIA financing?

DISCUSSION (CONTINUED)

- Is the inclusion of a 35-year repayment term important for attracting your projects to WIFIA?
- How about the potential 5-year delay in starting repayments?

DISCUSSION (CONTINUED)

- What are your highest priority infrastructure investment needs?
- Do these align with projects you identified as attracted to WIFIA financing?

DISCUSSION (CONTINUED)

- Is joint financing between WIFIA and SRFs a possibility?
- Is this something your utility would be attracted to?
- What are the possible drawbacks?

DISCUSSION (CONTINUED)

- Can you describe the local or regional economic benefits of your projects?
- Is this impact something you consider when developing projects?

DISCUSSION (CONTINUED)

- How is climate change impacting your region?
- How is climate change impacting the health of your infrastructure?
- Is climate change taken into consideration when planning and developing new infrastructure?

DISCUSSION (CONTINUED)

- Is the potential to reduce energy consumption taken into consideration when developing or planning projects?
- What sort of reduction in energy consumption can you envision through upgrades or new investments in your infrastructure?
- What energy reduction projects will have relatively short pay-back periods?

FOR MORE INFORMATION

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