

WIFIA: Development and Partnerships

May 18, 2015

Background

- Water Resources Reform and Development Act (WRRDA) of 2014 was signed by the President on June 10, 2014
- Title V of WRRDA contained the Water Infrastructure Finance and Innovation Act (WIFIA)
- WIFIA is modeled on the Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998
- TIFIA provides federal credit assistance in the form of loans, guarantees, or lines of credit for eligible transportation projects
- TIFIA has provided over \$16 billion in assistance since 1999 to projects costing nearly \$60 billion

Background

- 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

Background

- 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

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

Listening Session Comments

- Received valuable insights from experts on how to design and operate a finance program
- Heard numerous ideas about project evaluation and selection that will inform program design and assist EPA in addressing key water sector needs
- Learned that serious thought is being given to possible project types and co-financing approaches
- Got the word out about WIFIA to a wide range of potentially interested entities throughout the U.S.

Introduction to WIFIA

- Eligible assistance recipients range from corporations and partnerships, to municipal entities, to State Revolving Fund programs
- Wide range of eligible water and wastewater projects
- Wide range of criteria
- Project and borrower must be deemed creditworthy:
 - 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
- 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

- 15% percent set-aside for small communities
 - Population no greater than 25,000
 - After June 1 of the year of appropriation set-aside expires
- Maximum amount of loan may not exceed 49% of eligible project costs
- The remaining 51% may not come from tax-exempt financing
- Up to 25% of the funds available may be used for projects to fund in excess of 49% of the project costs

Introduction to WIFIA

- 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

Development of WIFIA

- Challenges ahead:
 - Defining eligible projects (↑)
 - Determining criteria (↑)
 - Develop project ranking system (↑)
 - Create subsidy model (↑)
 - Develop method for determining creditworthiness (↑)
 - Contracting for expert services (↗)
 - Rollout of guidance (↔)
 - MARKETING AND FINDING PROJECTS! (↗)
- Timing:
 - President's budget requests \$5 million for program development only
 - EPA wants to be in position to make a loan in FY 2016 if Congress appropriates funds for projects

How Might WIFIA Be Employed?

- Publicly owned water/wastewater utilities?
 - Distressed communities with lower bond ratings
 - Or, where SRFs are willing to participate
- Public-Private partnerships?
 - With higher cost borrowing as part of the deal
- Bundled SRF projects?
 - For States that don't wish to leverage but need to address project demand beyond capacity
- Others?

Co-Funding with SRF

- Programs are not in competition
- Leverages the SRF programs
 - Slightly higher combined rate but greater reach
 - Focus scarce SRF funds on needy communities
 - Fully finance large projects with low-cost loans
- Leverages the WIFIA program
 - Brings interest rate of a WIFIA project below market rate
 - Reduces the application costs
 - Allows for a greater diversity of projects

Co-Funding with SRF

- Example:
 - Medium-sized city in the midwest
 - Treatment plant upgrades and CSO
 - \$90 million in estimated project costs
 - \$15 million CWSRF loan
 - How was the remaining \$75 million financed?
 - Appears to be revenue bonds
 - At what rate?
 - Rated AA or AA-
 - How does that compare to WIFIA?
 - Besides interest, what are the terms?
 - Co-funding may decrease the long-term cost

What Forms Of Partnerships Might Be Developed To Take Advantage Of WIFIA?

- WIFIA can fund a range of utility-controlled options
 - Public only
 - Public-public partnership
 - Public-private partnership
 - Private only
- Responsibilities can vary for:
 - Providing capital financing
 - Setting user rates
 - Utility management
 - Major/minor construction
 - O&M

Comparison: WIFIA and Muni Bond Financing

\$50 million project

Option 1

Option 2

Option 3

49% WIFIA @
2.97%
51% Taxable A
@5.47%

100% Tax-Exempt
A bonds @4.75%

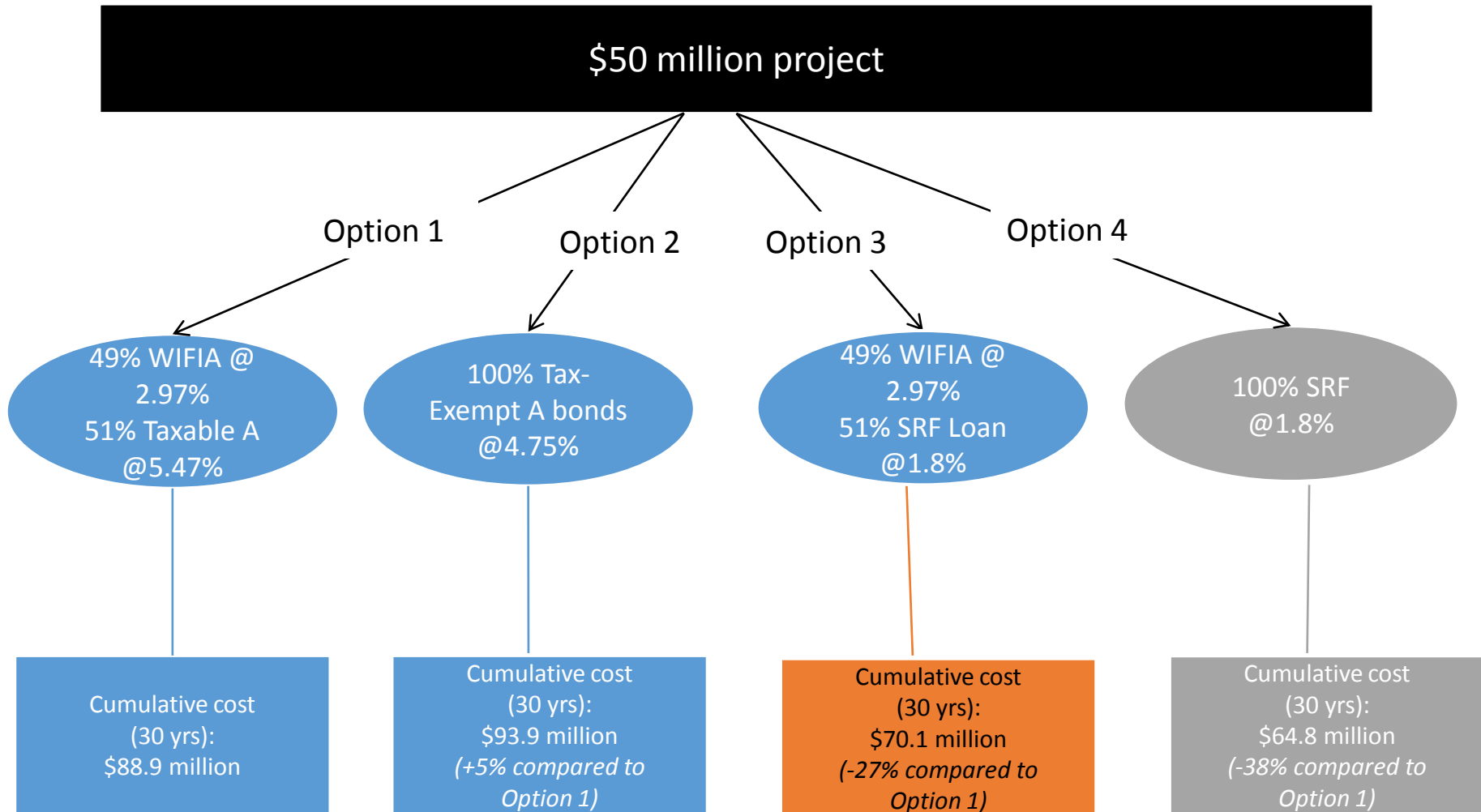
100% Taxable A
bonds at 5.47%

Cumulative cost
(30 yrs):
\$88.9 million

Cumulative cost
(30 yrs):
\$93.9 million
(+5% compared to
Option 1)

Cumulative cost
(30 yrs):
\$101.8 million
(+13% compared to
Option 1)

Comparison: WIFIA and SRF Financing



Comparison – WIFIA with Equity Stake VS Taxable with Equity Stake

\$50 million project

Option 1

Option 2

49% WIFIA @ 2.97%
36% Taxable A @ 5.47%
15% Equity

85% Taxable A @ 5.47%
15% Equity

Cumulative cost of debt (30 yrs):
\$73.7 million

Cumulative cost of debt (30 yrs):
\$86.6 million
(+15% compared to Option 1)

WIFIA

- Who's interested?
- Let's talk
- Free drinks at the reception!

- www.epa.gov/wifia.cfm
- wifia@epa.gov