

## Technical Assistance on SRF WIN Act

### Subsidy rates:

Under the proposal, subsidy rates for WIFIA loans to SRFs with interest rates at  $\frac{1}{2}$  treasury rates will not be the same as in the base WIFIA program. While the risk of default is very low (as it is with the base WIFIA program), interest rates at  $\frac{1}{2}$  treasury rates guarantee a loss to the federal government. This is because there is a cost to lending: in order to supply funds, Treasury must sell debt and if the WIFIA program is receiving interest at  $\frac{1}{2}$  the cost of Treasury borrowing debt, the government will lose money on a net present value basis. This loss is represented in a higher subsidy cost. Subsidy rates can be expected to be more than 20%, which would allow a \$200 million appropriation to fund approximately \$1 billion in loans.

### Eligible activities:

Page 3, line 5: suggest changing to: "(B) 1 or more activities that are included in the project priority list of the intended use plan under section 1452(b) of the Safe Drinking Water Act (42 U.S.C. 300j-12(b))." The Intended Use Plan for a DWSRF program can often include set-aside workplans. This prevents a state from using a WIFIA loan to fund set-aside activities, as those activities generally are operating expenses and have no repayment stream.

### Eligible project costs:

Page 4, line 1: The eligible project cost threshold in the WIFIA program applies to individual projects. In the case of a loan to a SRF, the project is the loan to the SRF. These thresholds would not apply to the loans made by the SRF program.

### Interest rates:

Page 4, line 12: It is important to leave the flexibility to charge interest rates higher than  $\frac{1}{2}$  of treasury rates. Increased interest rates will allow allotted subsidy to provide a larger loan. A SRF may opt to receive a loan with a higher interest rate in order to access more WIFIA funding. For instance, a \$20 million allotment may allow for a WIFIA loan of \$100 million at  $\frac{1}{2}$  treasury rates. However, that same allotment may allow for a loan of \$150 million at  $\frac{3}{4}$  treasury rates (numbers are only used as examples and are not actual).

### Expedited review of applications:

Page 4, line 18: The timeframe for evaluating and negotiating WIFIA loans is highly dependent on the complexity of the financing. Most SRFs are highly rated and have existing indentures, in which case 180 days is a reasonable deadline. However, if a new trust agreement must be written or the WIFIA loan is not backed by a creditworthy pledge, transaction time might take longer. We suggest specifying in the authorizing language that this provision only applies under the following circumstances:

- The WIFIA loan receives a senior lien pledge of revenue based on the SRF balance sheet
- The WIFIA loan receives an 'A' category rating or higher
- The WIFIA loan is part of an existing indenture

#### SRF administrative set-aside:

If an SRF program takes advantage of a WIFIA loan, its administrative burden will increase. Currently, both SRF programs are limited to 4 percent of all grant awards, \$400,000 per year, or 1/5 percent per year of the current valuation of the fund. Increasing capitalization through a WIFIA loan will not result in an increase in administrative funds. Suggest increasing the administrative set-aside for SRF programs that receive WIFIA loans under this section by modifying CWSRF and DWSRF authorizations to allow for a larger administrative takedown in the year in which WIFIA funding is received.

#### Impact on other federal funding:

Page 5, line 19: It is unclear if the hold harmless provision takes into consideration the total combined appropriations for both SRF programs, or each SRF program individually. In other words, if the appropriations for one program increases, but the combined appropriation decreases, does this provision apply?

#### Allotment of funds:

Page 6, line 13: Suggest providing some flexibility to EPA to modify the allocation formulas, as necessary, if some SRFs do not seek WIFIA assistance and/or to reflect needs of SRFs seeking assistance.

#### Administrative costs:

Page 5, line 6: Suggest 5% of funds appropriated for this section in additional administrative funds be added to the base program's administrative funds and not be dedicated only to administering loans to SRF programs. WIFIA staff work often contributes to the program as a whole. Tracking administrative hours and FTE for different loan types would be cumbersome and inefficient.

Suggest an additional administrative set-aside of \$5 million to be used to offset potential fees charged to SRF applicants under this section. Similar to the base program, fees to cover the cost of hiring expert legal, financial, and engineering firms to underwrite and review loan applications will be charged. Providing additional administrative funds to cover this cost will increase the attractiveness of the program.

#### Selection criteria:

Page 3, line 21: Suggest adding language that removes the requirement to use selection criteria in 33 U.S.C. 3907(b). With funds being allotted by formula the selection criteria become meaningless.