



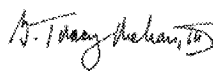
**American Water Works  
Association**

Dedicated to the World's Most Important Resource™

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**TO:** Teri L. Donaldson, General Counsel, Senate Committee  
on Environment & Public Works

**DATE:** Dec. 8, 2017

**FROM:** G. Tracy Mehan III, Executive Director, Government Affairs 

**RE:** modifying WIFIA and a proposal for a WIFIA for state revolving loan fund programs

Thank you, again, for meeting with me and my staff to discuss drinking water issues before Congress. We promised to get back to you with some thoughts on the Water Infrastructure Finance and Innovation Act (WIFIA) program that the committee might consider as it works on infrastructure legislation.

WIFIA modifications

The level of interest shown by utilities and communities in this first round of WIFIA loan applications is showing us that there is a genuine interest and need for this program. As I mentioned, this is the first round of applications, so we do not have case histories yet to show where the WIFIA application process could be improved. The first dollar in loan funds have not gone out the door, so we cannot in fairness make recommendations for the loan maintenance process, either.

However, if the committee is looking for ways to enhance WIFIA and help it further realize its potential, we do have an idea. The version of WIFIA approved by the House and found in the original Senate bill did not have the 49-percent cap on WIFIA support for a project. That came about largely because of the unique world of CBO scoring and similar issues. TIFIA funds 49 percent of transportation projects, which commonly receive funding from a variety of sources. Then CBO scored WIFIA on the premise that it would result in exponential increases in infrastructure spending, that tax-exempt finance would cover the remaining 51 percent of project costs, and then that there would be a significant "hit" on the U.S. Treasury.

The water community explained to Congress that water infrastructure projects were inevitable whether or not there was a WIFIA and if there was no WIFIA, they would use considerably more tax-exempt finance. WIFIA, however, could keep the costs of projects lower, with benefits eventually passing on to local ratepayers. Congress did remove the ban on the use of tax-exempt finance for WIFIA, but left the 49-percent cap on WIFIA support.

As a consequence, water utilities or the local entities pursuing a water infrastructure project must pursue additional financing if they want to take advantage of WIFIA's financial and other benefits. Some of our member utilities – with solid credit ratings and worthy projects – have told us that having to apply for additional finance does discourage them from considering WIFIA as a finance tool.

Therefore, if WIFIA authorizing language is to be opened up in this session, we recommend that the 49-percent cap on WIFIA support of a project be raised considerably or simply eliminated.

In addition, the 43 letters of interest EPA received regarding WIFIA financing indicate there is substantial interest in the program. We urge Congress to remove the “pilot program” designation for WIFIA and provide robust and sustained funding commensurate with borrower demand.

#### Proposal for an SRF-Preference within the WIFIA program

We understand that there may be interest among SRF agencies in creating preferential borrowing terms and exclusive, dedicated budget authority within the WIFIA program for SRFs. As we described in our earlier meeting, we have serious reservations about this idea. First of all, this program appears unnecessary. Every one of the SRF projects eligible under that proposal would already qualify for financing under WIFIA, given that SRFs can bundle smaller projects to meet the project size thresholds, as the State of Indiana has done. We believe we at least ought to see how the Indiana project plays out, and the level of SRF interest in WIFIA generally, before creating and dedicating outsized funding to another SRF program within WIFIA.

We have additional concerns. We believe the enormous interest rate subsidy – funding loans at one-half of Treasury rates – is a significant step backward from our collective effort under WIFIA to leverage limited federal funds to support much-needed water infrastructure investment. With the 12 WIFIA loan applications EPA is processing now, the agency has estimated it will leverage WIFIA capitalization funds at a **ratio of 92:1**. We estimate that loans under the proposed SRF preference would consume an enormous amount of budget authority with the interest rate subsidy, resulting in a dramatically lower leveraging ratio of **just 6:1**.

At 6:1, these SRF preference loans could support about \$1.2 billion in loans, which, in turn, would support about **\$2.4 billion** in total water infrastructure investment with their **\$200 million proposed authorization**.

In contrast, at 92:1, EPA has informally estimated that the agency can support twice that level of loans -- \$2.3 billion -- and twice the level of total infrastructure investment -- **\$5 billion** in projects -- with **just \$25 million in WIFIA authorizations**.

Additionally, the draft bill appears to give the EPA Administrator complete discretion in making loans at half the Treasury rate, so this interest rate subsidy is apparently not targeted to rural or under-resourced systems. Finally, there appears to be no provision for the rate savings to be passed along to the borrowers from the SRF.

Would not Congress want to see its appropriations stretch further, as the original WIFIA would do? Also, why shouldn't states compete on their merits for WIFIA dollars just like the other entities?

There is a provision in the proposed SRF WIFIA bill that would theoretically protect the SRF programs and WIFIA by saying that this new program could not be funded unless the SRFs and WIFIA got the same amount of money as they did the previous year. We believe that once CBO scores this bill, that provision will likely be removed to help reduce the deficit the new program would cause. In addition, this language would create a de facto cap on SRF and WIFIA appropriations at FY 2017 levels, where the WIFIA authorizing legislation provided for increased funding each year for WIFIA.

We would not be surprised to see the SRF WIFIA take the place of the annual capitalization grants for the SRF. There could be economic merit to this, but it very much needs to be discussed in hearings and stakeholder meetings. Several issues would need to be worked out, such as how state agency administrative costs would be handled, what would happen to the set-asides states use to run their drinking water programs, and how to handle the SRF use of negative-interest loans or principal forgiveness for distressed communities and the budgetary impacts on the program.

We would be happy to continue these conversations on the SRFs, WIFIA and any other aspects of the Safe Drinking Water Act and water infrastructure finance. Please do not hesitate to contact me or my staff.