A Water Infrastructure Financing Innovations Authority (WIFIA) and Other Infrastructure Financing Tools

Action Requested:

- Support creation of a new water infrastructure support mechanism (WIFIA) to provide low-cost capital to water utilities needing to invest in infrastructure, and to State Revolving Funds.
- Support reform and capitalization of state revolving loan fund programs for drinking water and wastewater.
- Remove water projects from the state volume cap on Private Activity Bonds.

Background: High-quality drinking water and wastewater systems are essential to public health, business, and quality of life in the United States. The American Water Works Association (AWWA), Water Environment Federation (WEF) and others have documented that our water and wastewater infrastructure is aging and that many communities must begin to increase their levels of investment in the repair and rehabilitation of water infrastructure in order to protect public health and safety and to maintain environmental standards.

AWWA and WEF have long believed that Americans are best served by water systems that are self sustaining through rates and other local charges. However, we recognize that at present, some communities need assistance due to hardship or special economic circumstances. According to the US Conference of Mayors, in 2004-2005 Americans invested $84 billion in water and wastewater infrastructure, of which more than 95 percent represented state and local funds without subsidies or federal assistance.

The primary federal role in water infrastructure is one of leadership. Among other things, that role includes demonstrating and encouraging:

- Utility use of modern asset management tools and full-cost pricing;

- Use of rate structures that accommodate low and fixed-income customers as much as practical;

- Adoption of green technologies and approaches such as water and energy conservation, water reuse, and non-traditional stormwater management;

- Use of cost-saving watershed and regional strategies, such as system consolidation, regional management, and cooperative approaches among water, wastewater, and highway agencies within a region; and

AWWA
1300 Eye St. NW
Suite 701W
Washington, DC 20005
202 628-8303
www.awwa.org

WEF
601 Wythe St.
Alexandria, VA 22314
800 666-0206
www.wef.org

- Use of advanced procurement and project delivery methods.

However, there is also an important role for the federal government in lowering the cost of capital for water and wastewater investments. Almost 70 percent of American communities use bonds to finance local infrastructure. They pay billions of dollars in interest costs each year. Lowering the cost of borrowing for water and wastewater infrastructure is an important way to leverage local funding and help America rebuild and rehabilitate our aging water infrastructure.

A Novel Approach: The Water Infrastructure Finance Innovations Authority
To lower the cost of infrastructure investments and to increase the availability of lower-cost capital, AWWA urges Congress to create a "Water Infrastructure Finance Innovations Authority" (WIFIA), modeled after the successful Transportation Infrastructure Finance and Innovations Authority (commonly called TIFIA). Such a mechanism could lower the cost of capital for water utilities while having no or little effect on the federal budget deficit. WIFIA would access funds from the U.S. Treasury at Treasury rates and use those funds to support loans and other credit mechanisms for water projects. Such loans would be repaid to the Authority – and thence to the Treasury – with interest.

The Water Infrastructure Finance Innovations Authority would:

- Offer loans, loan guarantees, and other credit support for large water infrastructure projects and those with national or regional importance. These projects often find it difficult or impossible to access SRF loans, due in part to inadequate capitalization of the SRFs. .

- Reduce the cost of leveraging for State Revolving Fund (SRF) programs by lending to them directly. A federal Water Infrastructure Bank could lend to those State Revolving Funds wishing to leverage their capitalization grants at the lowest possible interest rates. This would allow SRFs to make more loans and would increase their ability to offer special assistance to hardship communities if they chose to do so. Currently, 27 states leverage their SRF programs on the bond markets. WIFIA loans to an SRF would offer another mechanism to accomplish the same goal and make such a practice more attractive to additional states.

Ensure a streamlined approach to financing. **WIFIA** should enable projects and state SRFs to obtain financing with no more burden than going to traditional credit markets through a streamlined review and application process.
Fitch Ratings, a top credit rating agency, calculates that the historical default rate on water bonds is 0.04 percent. Indeed, water service providers are among the most fiscally responsible borrowers in the United States. Moreover, those states that leverage their SRF programs all have AAA or AA bond ratings and no history of defaults, placing them among the strongest credits in the country. Consequently, WIFIA – because it involves loans that are repaid – involves minimal risks and minimal long-term costs to the federal government. .

The SRF Program
It is also important for the federal government to continue to directly capitalize state revolving funds, which can be used to both broadly lower the costs of water infrastructure investment and to address the needs of communities in hardship or special circumstances. AWWA proposes several enhancements to the State Revolving Fund programs to allow them to better serve our communities:

- Continue support for SRF capitalization. Despite growing needs and the implementation of new drinking water regulations, overall federal investment in the SRF programs has decreased in recent years. AWWA asks that Congress carefully consider the broad and important economic and public health benefits that flow from each dollar of support for the State Revolving Fund programs.

- Provide states with flexibility in using SRF funds. This should include the ability to address the special needs of hardship communities they identify. This flexibility should also include the ability to use state procurement processes and standards that minimize process and administrative "burdens" for grant recipients and for states themselves.

- Eliminate arbitrage restrictions. Allow SRF programs that issue bonds to keep arbitrage earnings on their invested funds to the extent such earnings are used to support additional investment in water infrastructure. Based on historical market rates, this would provide $200-400 million per year in additional funds for water and wastewater investment.

- Streamline the SRF application. Provide incentives to streamline the SRF loan review process. It can take almost a year to obtain an SRF loan. This deters many communities from using the SRF, and leads them to issue higher-cost municipal bonds instead. Due to the revolving nature of the Fund, increasing the pace of awards through streamlining will help increase the revolving flow of funds, allowing even more projects to get built, and so on into the future.

Private Activity Bonds
Currently, municipal bonds that meet certain private-use tests are subject to state-by-state volume caps which severely limit the amount of PABs issued for water facilities. To encourage public-private partnerships and reduce financing costs, PABs for community water systems should be exempted from the state volume cap, just as PABs for publicly owned solid waste facilities are currently exempted.

America does not face a water infrastructure crisis at the present, but action is needed now to avert more serious problems in the years to come. The tenets outlined in this paper provide a path towards truly sustainable water infrastructure for all Americans.

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