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What We've Learned in the Two Years of WIFIA's Existence

WITH SUPPORT FROM LAWMAKERS, THE WATER INFRASTRUCTURE FINANCING AND INNOVATION ACT HAS SIGNIFICANTLY TRANSFORMED IN THE PAST TWO YEARS TO SUPPORT AND FUND MORE PROJECTS TO REPAIR AND REHABILITATE AGING INFRASTRUCTURE IN THE UNITED STATES.

Water infrastructure in the United States is in need of repair and rehabilitation. Federal funding has largely remained constant (in nominal value), while the demand for additional funding has increased, as discussed in the April 2017 issue of *Journal AWWA* (<http://bit.ly/2MDTVr4>). AWWA's 2017 *State of the Water Industry Report* noted that renewal and replacement of aging infrastructure and financing for capital improvements were top issues facing the water sector. User fees and operational budgets do not generate enough revenue to maintain the current water infrastructure, and the 2017 AWWA report found only 17% of respondents thought their utility could cover the full cost of services from user fees.

Increased funding needs and fiscal pressure at the state and local levels were instrumental in establishing a pilot water financing program called the Water Infrastructure Financing and Innovation Act (WIFIA). Created as a federal credit program that provides low-cost supplemental loans, WIFIA was intended to support large-scale projects that may be under-served by existing mechanisms, such as state revolving funds (SRFs).

WIFIA was initially authorized as part of the Water Resources Reform and Development Act of 2014 (P.L. 113–121) and was signed into law on June 10, 2014. It was later amended by section 1445 of the Fixing America's Surface Transportation Act of 2015 (P.L. 114–94), and section 5008 of the Water

Infrastructure Improvements for the Nation Act (P.L. 114–322). The WIFIA program did not become operational until funds were first appropriated in the Further Continuing and Security Assistance Appropriations Act of 2017 (P.L. 114–254), and after the US Environmental Protection Agency (USEPA) established formal guidelines to determine the allocation of credit assistance in December 2016.

PROGRAM STRUCTURE

WIFIA provides loan guarantees and direct loans, allowing applicants to leverage non-federal public and private funds for water infrastructure. Appropriations made toward WIFIA provide loss reserves against loans and guarantees rather than offering loans and guarantees directly. The security of WIFIA loans rests on water systems offering a vital function with a devoted revenue pool. The historical default rate on water and wastewater loans is 0.04%, according to Fitch Ratings, one of the three major credit rating agencies (see “The Federal Role in Keeping Water and Wastewater Affordable,” which was presented before the Senate Committee on Environment and Public Works on Apr. 7, 2016).

WIFIA can lend money to corporations, trusts, partnerships, joint ventures, Clean Water SRF and Drinking

Water SRF programs, and local, state, tribal, and federal government entities, according to USEPA’s 2017 *WIFIA Program Handbook*.

Federal credit programs complement existing funding resources by filling needed market gaps, and programs like WIFIA help communities by augmenting their debt financing investments, thereby smoothing rate increases over a longer period.

WIFIA assistance is awarded competitively on the basis of letters of interest received for eligible creditworthy projects. WIFIA limits support to 49% of project cost, with exemptions for certain projects, such as those built in Indian tribal communities. WIFIA requires that prospective projects amount to at least \$20 million for large communities and a minimum of \$5 million for small communities. Applicants can also bundle projects to support several smaller projects through a single WIFIA loan, which was demonstrated by Indiana and the Baltimore Public Works Department in their first round of financing.

APPROPRIATIONS

At the time of its approval, WIFIA was authorized for five years at \$175 million, starting with \$20 million in its first year (fiscal year [FY] 2015) and increased by \$5 million–\$10 million each year; however, no funding was appropriated in the first two

fiscal years. The first round of appropriations occurred in FY 2017, when \$30 million (considerably higher than the \$20 million authorized for the first year) was set aside for WIFIA, including \$5 million for administrative expenses. The funding ultimately supported \$2.3 billion worth of water and wastewater projects across the country. Appropriations for WIFIA more than doubled the following year and increased again in FY 2019 appropriations (Table 1). Enacted appropriations over the past three years (FY 2017, 2018, and 2019) totaled \$161 million, nearly matching the \$175 million authorized to be spent over five years, which indicated strong support for WIFIA among Congressional lawmakers.

STRATEGIC OBJECTIVES AND SELECTION CRITERIA

After becoming operational, the WIFIA program formalized a set of strategic objectives to guide its decision-making process. These objectives allowed USEPA to finance projects in certain areas and achieve the program’s policy goals. In its first year (FY 2017), the strategic objectives focused on extreme weather and climate change, energy efficiency, green infrastructure, and the repair and rehabilitation of aging infrastructure. The program underwent a significant

TABLE 1 Authorized and appropriated funding given each fiscal year for the WIFIA program

Fiscal Year	Authorized Funding million \$	Appropriated Program Expenses million \$	Appropriated Administrative Expenses million \$	Appropriated Total Expenses million \$	Total Amount of Credit Assistance million \$
2015	20	0	0	0	0
2016	25	0	0	0	0
2017	35	25	5	30	2,300
2018	45	55	8	63	5,500
2019	50	60	8	68	7,000

WIFIA—Water Infrastructure Financing and Innovation Act

A federal fiscal year runs from October 1 of the previous year until September 30 of the current year.

shift the following year, when the strategic objectives were revamped to include only one of the four objectives from the previous year—the repair and rehabilitation of aging infrastructure. A second objective was added that focused broadly on clean and safe drinking water, presumably as a response to the water crisis in Flint, Mich. (Table 2).

One possible explanation for the shift in the program’s strategic objectives is the changes in the federal administration following the 2016 elections. The FY 2017 objectives were likely designed during the last months of the Obama administration and were enforced by the incoming Trump administration without any modifications. The FY 2018 objectives, however, reflected the policy goals of the Trump administration and the USEPA administrator at the time, Scott Pruitt, who was a vocal critic of the Obama administration’s efforts on climate change, although he expressed a desire to work on contaminant issues in drinking water.

Apart from the strategic objectives, USEPA also identified project selection criteria to evaluate and approve WIFIA applicants to receive credit assistance, according to the 2017 *WIFIA Program Handbook*. The statute established 11 criteria, and the implementation rule added two supplementary criteria, bringing the total to 13. These criteria and their weightings were published in the Notice of Funding Availability, which is released annually as a call for applications. The criteria were separated into three categories called Project Impact, Project Readiness, and Borrower Creditworthiness (Table 3). In FY 2017, the Project Impact category was scored heavily, accounting for 80% of the score, with emphasis on protecting the environment, protecting against extreme weather events, having national or regional significance, and serving regions with significant water resource challenges. The other two

TABLE 2 FY 2017 and 2018 strategic objectives and WIFIA project priorities as identified by USEPA

Strategic Objectives	FY 2017	FY 2018
Extreme weather and climate change infrastructure	Included	—
Enhanced energy efficiency	Included	—
Green infrastructure	Included	—
Clean and safe drinking water	—	Included
Repair and rehabilitate old infrastructure	Included	Included

FY—fiscal year, USEPA—US Environmental Protection Agency, WIFIA—Water Infrastructure Financing and Innovation Act

Dashes indicate that the objective was not listed.

categories, Project Readiness (5%) and Borrower Creditworthiness (15%), which evaluated the applicant’s ability to arrange non-WIFIA and non-federal financing, accounted for the rest of the score.

In FY 2018, USEPA added changes to the selection criteria. Two criteria measuring the Project Impact category—protecting against climate change and protecting the environment—were merged into a single criterion with a significantly lower weight, and a new criterion that measured reduction of exposure to lead was added. Three additional criteria were added to better account

measuring the Project Impact category, such as protection against climate change and serving regions with significant water challenges or economically stressed communities, were significantly diminished in FY 2018 in favor of newer criteria that evaluated preliminary scores that assessed engineering feasibility analysis and creditworthiness.

The FY 2018 strategic objectives—repair and rehabilitation of aging infrastructure and clean and safe drinking water—set the direction of the WIFIA program, yet accounted for only 14% of the overall score, meaning that applicants that met the

The program has strong Congressional support and has received higher appropriations each year.

for the Project Readiness and Borrower Creditworthiness categories. The most significant change within the two categories was in the criteria weights. Specifically, criteria under Project Impact, which accounted for 80% of the score in FY 2017, only accounted for 34%, with the balance spread across the Project Readiness and Borrower Creditworthiness categories so that each category accounted for roughly one-third of the total score (Figure 1). Criteria

WIFIA program priorities needed to prove their creditworthiness and project readiness to be accepted.

The WIFIA program received 43 letters of interest in FY 2017 from prospective borrowers for water infrastructure projects across the United States. The total loan amount requested was \$6 billion, and the total project investment was \$12 billion. Project submissions featured water recycling, wastewater treatment, SRFs, public water systems, stormwater

TABLE 3 WIFIA project selection criteria and weightings for FY 2017 and 2018

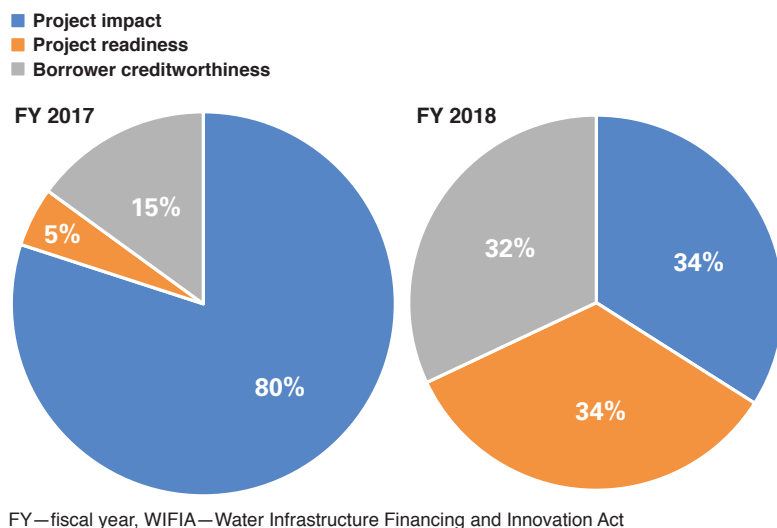
Criterion Grouped by Category	FY 2017 Score %	FY 2018 Score %
Project Impact		
National or regional significance	10	5
New or innovative approaches	10	2
Protects against extreme weather events	10	2 ^a
Helps protect the environment	10	
Serve energy exploration, development, or production areas	5	2
Serves regions with significant water resource challenges	10	3
Addresses identified municipal, state, or regional priorities	5	3
Addresses need for repair, rehabilitation, or replacement	10	7
Serves economically stressed communities or ratepayers	10	3
Reduced exposure to lead or ensures compliance with contaminant limit	0	7
Project Readiness		
Readiness to proceed	5	17
Preliminary engineering feasibility analysis score	0	17
Borrow Creditworthiness		
WIFIA enables project to proceed earlier	5	3
Financing plan includes non-WIFIA public or private financing	5	3
Reduces need for other federal assistance	5	3
Required budget authority	0	3
Preliminary creditworthiness assessment score	0	20

FY—fiscal year, WIFIA—Water Infrastructure Financing and Innovation Act

^aScore is shared between two items: Protects against extreme weather events and Helps protect the environment.

The FY 2018 selection criteria was evaluated with a total of 300 points. In this table, the points are shown as percentages to compare with FY 2017.

FIGURE 1 Distribution of WIFIA criteria weights in FY 2017 and 2018



FY—fiscal year, WIFIA—Water Infrastructure Financing and Innovation Act

management, combined sewer overflow, and sanitary sewer overflow.

Several states submitted multiple projects: California (15 were declined and four were accepted), Florida (three were declined), Maryland (one was declined and one was accepted), Missouri (two were accepted), and Tennessee (one was declined and one was accepted). Fourteen other states submitted a single proposal: Arkansas, Arizona, Colorado, Georgia, Illinois, Indiana, Kansas, Massachusetts, Maine, Mississippi, Nebraska, Pennsylvania, Washington, and Wisconsin. Indiana’s proposal was accepted and was used to finance multiple projects across the state.

Twelve projects were selected in the first year of the program. The

median cost of selected large-community projects was \$253 million for the total project cost and \$124 million for the requested WIFIA loan amount. Only one small community project was chosen and was based in Morro Bay, Calif. (population 10,224). The total cost of the Morro Bay project was \$167 million, of which \$82 million was requested as the WIFIA loan amount.

Two of the selected large-community projects were submitted by the City of Baltimore's (Md.) Department of Public Works and the Indiana Finance Authority and were combinations of several individual projects. The City of Baltimore planned to use \$200 million in WIFIA funds to repair, rehabilitate, replace, and upgrade its wastewater collection and treatment, water treatment and distribution, and stormwater management systems (USEPA's 2017 Comprehensive Infrastructure Repair, Rehabilitation, and Replacement Program). Indiana Finance Authority's proposal used the SRF balance of \$453 million to apply for a WIFIA loan. Indiana's SRF program was able to issue more than \$890 million to projects across the state, potentially serving as a template for other states, as discussed in an Apr. 28, 2018, blog post by Jake Varn (<http://bit.ly/2Bk3NSv>). The Indiana Finance Authority's 2017 "Letter of Interest to the USEPA for the WIFIA Program" stated, "by working a project through two programs having common origins and requirements . . . time and expenses can be expected to be both saved . . . quality compliance will be better assured; and common goals will be more effectively and timely achieved." The selection of Indiana's proposal demonstrated WIFIA's ability to provide an additional leveraging option for SRFs even when the SRF was being leveraged in the bond market.

Many states are unable to leverage their SRFs with tax-exempt bonds because of creditworthiness and rules prohibiting SRFs in some states

from issuing debt (see the 2014 "Key Issues in WIFIA Implementation: The Water Utility Perspective" at awwa.org). Twenty-seven states have leveraged the Clean Water SRF with bonds, and 20 states have leveraged the Drinking Water SRF with bonds (see the Environmental Financial Advisory Board's 2008 report, *Relative Benefits of Direct and Leveraged Loans in State Revolving Loan Fund Programs*). The ability to leverage limited SRF monies with federal financing such as WIFIA and non-federal financing such as tax-exempt

Session). The common provisions between the two legislative proposals were the removal of the designated program title "pilot" from the text and the extension of WIFIA authorization by two years (until FY 2021).

The Highway Trust Fund reauthorization draft legislation sought to appropriate \$50 million annually from FY 2020 to 2024 that allowed funding for up to 80% of total project costs through WIFIA, waive duplicate environmental reviews by USEPA (if one had already been completed by the state), expedite the application process

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bonds can grow the number of water infrastructure improvement projects.

WIFIA's second round of financing occurred in summer 2018. USEPA received 62 letters of interest from prospective borrowers who requested \$9.1 billion in loans. This was nearly double the \$5.5 billion in estimated lending capacity of the program for FY 2018.

CHANGES TO WIFIA

Although WIFIA was a relatively new program, lawmakers on Capitol Hill saw promise in WIFIA and its ability to address the US water infrastructure crisis, and thus introduced measures that would bolster or modify the program. The two most prominent pieces of legislation introduced in the 115th Congress (2017–2018) that affected WIFIA were the Securing Required Funding for Water Infrastructure Now (SRF WIN) Act (S.2364) and an unnamed draft bill meant to reauthorize the Highway Trust Fund, which was released by Rep. Bill Shuster (R-Pa.), who was chair of the House, Transportation and Infrastructure Committee (115th Congress, 2D

with a deadline of a maximum of 180 days for review after application submission, and require USEPA to provide an explanation if a proposal is declined. The bill was never formally introduced in the 115th Congress, but certain provisions were incorporated in the water infrastructure legislation that was approved in the late stages of the 115th Congress.

The SRF WIN Act received committee hearings and was thoroughly debated for months. Toward the end of the 115th Congress, several elements of the SRF WIN Act were absorbed into a larger infrastructure bill, S.3021, America's Water Infrastructure Act (AWIA) of 2018 (P.L. 115–270), which passed Congress and was signed into law on Oct. 23, 2018. One of the key provisions in AWIA allowed state infrastructure financing authorities (SIFAs) to compete for WIFIA funds under favorable conditions, alongside individual projects submitted by municipal entities. Proposals submitted by SIFAs are now evaluated using the final rating opinion letter from just one rating agency, as opposed to a minimum of two letters for projects

submitted by municipal entities. AWIA also authorized \$50 million each for FY 2020 and FY 2021 to support WIFIA, of which \$5 million was authorized for projects submitted by SIFAs. WIFIA financing can now be used to support up to 100% of costs for SIFA projects. Borrowing from the Highway Trust Fund discussion draft, AWIA expedited the application process for SIFA submissions with a deadline of a maximum of 180 days for review after submission; USEPA must provide an explanation for the decision if a proposal is declined. Elements of the SRF WIN Act that were left out of AWIA included exemption for SIFA projects from WIFIA's application fees and provision of loans at interest rates that may be lower than the Treasury rate.

These changes—both proposed and enacted—were meant to make applications from rural states more competitive but could possibly weaken the entire WIFIA program. At the time the SRF WIN Act was discussed, trade groups representing water and wastewater utilities, including AWWA, the Association of Metropolitan Water Agencies, and the Water Environment Federation, submitted a letter to the Senate Committee on Environment and Public Works, arguing that establishing privileged application and evaluation for SIFA agencies would make the program unfair for municipal entities (<http://bit.ly/2GaTlzJ>). The letter also stated that the requirement to offer below-Treasury interest rates could hamper WIFIA's leveraging ability. Such changes strike at the heart of the program's basis—leveraging the Treasury's low-interest rates to finance large projects that are otherwise not served well under the SRF program. Ultimately, AWIA preserved WIFIA's ability to offer interest rates that match the Treasury's yield rate, even as it created favorable conditions for project submissions from SIFAs. The impact of this change in the program structure will only be evident in the coming years.

SUMMARY

WIFIA is a promising approach to addressing financing deficits faced by states and local municipalities, and its popularity is evident in the number of applications received in the first two years of the program's existence. WIFIA has allowed states and cities to innovate by bundling projects and leveraging SRF and non-federal financing. The program has strong Congressional support and has received higher appropriations each year than the authorized amounts. So far, this has not been at the expense of the SRF program, which was a concern at the time of the program's authorization in 2014.

The WIFIA program has undergone internal changes, with shifting focus and evaluation criteria. While replacement and repair of aging infrastructure remains the core objective, applicant project readiness and borrower creditworthiness are weighted more heavily than the project impact in the selection criteria. Lawmakers on Capitol Hill are eager to hail WIFIA as a successful model for water infrastructure financing and have proposed changes, some of which were enacted in the last session of Congress. The impacts of these changes have not yet been evaluated, but it is possible some of these changes could negatively affect the program's long-term viability. Additionally, it's still too soon to see the program's success in diminishing the financing deficit and reducing the long-term borrowing costs for states and municipalities. Congressional lawmakers may allow the program to run its course and provide the necessary funding authorized in the statute before making drastic changes.

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AWWA RESOURCES

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