Water Utilities Should Not Be Strangers to WIFIA

G. Tracy Mehan III

Thanks to the labors of my predecessor, Tom Curtis; other volunteer leaders; and sustained advocacy by AWWA members at the grassroots, the Water Infrastructure Finance and Innovation Act (WIFIA) became law in 2014. It has been a smashing success, yet drinking water utilities have been slower to participate in the program compared with utilities managing wastewater, combined sewer overflow (CSO), and water reuse projects.

This trend seems to have been reversing itself lately, but there are still too many missed opportunities for drinking water funding through WIFIA loans. Drinking water systems will send in a letter of interest, but then drop out of the running for reasons still unclear.

WIFIA is a federal credit program that provides long-term, low-cost loans with fixed interest rates to creditworthy utilities. The program offers an extended repayment term of up to 35 years from completion of construction (usually five more years), deferred interest, and "sculpted" rates to match revenues with utility expenditures over the life of the loan. Other features such as the "drawdown" and prepayment enhance its attractiveness.

It is also a great deal for the taxpayer. The WIFIA portfolio of loans generates US$100 of infrastructure spending for every $1 appropriated to the program by Congress. WIFIA loans finance up to 49% of approved projects, thereby stimulating other investments from tax-exempt bonds, state revolving funds (SRFs), or private equity. In 2021 alone, WIFIA will be able to lend approximately $5 billion.

WIFIA is managed by the US Environmental Protection Agency (USEPA), which has done an outstanding job with setting up this new finance program. To date, it has closed on 49 loans totaling $9.3 billion (as of April 2021) to finance systems serving 31 million Americans.

Various projects are eligible for WIFIA funding (see www.epa.gov/wifia), including the usual suspects such as treatment, storage, consolidation, water security, energy efficiency, and many more. Basically, anything eligible under either the Clean Water Act or Safe Drinking Water Act SRFs is fair game if the applicant is a public water system. Further, WIFIA loans fund not only projects, but ongoing programs such as lead service line and distribution system replacements—two areas of particular interest to drinking water utilities. While WIFIA has yet to fund a land-based source water protection project at scale, there is no reason a utility could not fund protection of a headwaters forest or deployment of easements and management practices on agricultural lands to protect the utility's reservoir or other source water.

USEPA's Office of Groundwater and Drinking Water has identified a 200-year average cycle for replacement of distribution lines in the water sector. While one does not automatically replace, say, a 100-year-old line, postponing renewal for two or three centuries is not an asset management model that utilities should practice. Utilities often pay for distribution line renewals from their operating revenue on a pay-as-you-go basis rather than using debt financing with the cost spread over multiple years. WIFIA offers a means of getting ahead of the curve and reducing risk for current and future generations.

Drinking water utilities' general managers and chief financial officers should consult USEPA on the myriad benefits of WIFIA, which are outlined on their website as follows:

- **Very low interest rates**—i.e., Treasury rates of the equivalent maturity based on weighted average
- **Extremely flexible repayment schedules** during construction with deferrals allowed during periods of high capital spending
- **Preservation of borrowers' senior debt capacity** —i.e., permitting borrowers to issue future non-WIFIA project–related debt at lower interest rates and more favorable terms
- **Flexibility to "sculpt" the repayment schedule** to reduce burden on ratepayers; in other words, scaling up repayments over time to allow for small and steady rate increases to accommodate capital expenditures and debt service payments
- **Backloading repayments** to provide significant savings compared with level repayment schedules since cash outlays made sooner cost more than outlays in future years as a result of lost earning capacity on that cash

Funding wastewater, CSO, and reuse projects is important and will continue to be a big part of the WIFIA program, but it would be ironic if drinking water utilities did not take advantage of this marvelous program that AWWA labored so hard to create, fund, and protect over the past decade. WIFIA and drinking water utilities should not be strangers to each other.

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