

WIFIA: Introduction and Development

April 1, 2015

Agenda

- Introduction and Background
- What does the law say?
- Eligible projects and criteria
- Finance structures and examples

Introduction and Background

WIFIA 2015

Background

- Water Resources Reform and Development Act (WRRDA) of 2014 was signed by the President on June 10, 2014
- Title V of WRRDA contained the Water Infrastructure Finance and Innovation Act (WIFIA)
- WIFIA is modeled on the Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998
- TIFIA provides federal credit assistance in the form of loans, guarantees, or lines of credit for eligible transportation projects
- TIFIA has provided over \$16 billion in assistance since 1999 to projects costing nearly \$60 billion

Background

- Innovative financing mechanism for water-related infrastructure
- National or Regional significance
- Attempts to fill in a perceived gap left open by the SRF programs by providing subsidized financing for large projects
- Funds are appropriated to provide a reserve subsidy for credit assistance, not for direct outlays to projects (TIFIA averages 10:1)
- Credit assistance can be in the form of loans or guarantees

Background

- Beginning in late 2014, EPA has been developing the program with limited resources
 - Listening Sessions
 - Meetings with stakeholders and other interested parties
 - Initial development of timelines
 - Planning for potential appropriations
- The FY 2015 omnibus appropriations included \$2.2 million for staffing for development of WIFIA

Listening Sessions

- Listening sessions held around the country:
 - Chicago, New York, Atlanta, Dallas, Los Angeles, San Francisco, Washington
 - Widely promoted to a diverse set of stakeholders and interested parties
 - EPA presented statutory provisions and solicited input on key WIFIA implementation and operation steps
 - Also engaged with national partner associations

Listening Session Comments

- Overview and Loan Process:
 - Concern about ban on the borrower use of tax exempt financing
 - Make it look like the SRF - what brings projects to SRF, is learned experience, predictability, and transparency, and borrowers have a comfort level with the program
 - Transparency for the process is fundamental for getting an investor involved
 - Getting the timing right on the process is going to be critical for attracting projects
 - The closer the program can follow financing practices in the commercial markets, the better received and more effective the program will be
 - State SRFs bundling projects is a great idea and also leads to ULO reduction
 - The requirements should be parallel so that communities will not have incentive to skip the SRF's requirements
 - There is a need to understand small system participation opportunities

Listening Session Comments

- Project eligibility, evaluation & selection:
 - Important to address widespread needs for core infrastructure rehab / replacement
 - Important to address regional / site-specific needs for water availability & energy recovery projects
 - Geographic diversity in project selection is important

Listening Session Comments

- Potential projects:
 - Interest rates may not be attractive for municipalities that typically finance projects through the issuance of tax-exempt debt
 - P3 projects may find the low Treasury based rates an attractive component of project finance
 - Rates are very attractive for privately-owned projects, such as desalination plants, water reuse, other large innovative projects

Listening Session Comments

- To summarize:
 - Received valuable insights from experts on how to design and operate a finance program
 - Heard numerous ideas about project evaluation and selection that will inform program design and assist EPA in addressing key water sector needs
 - Learned that serious thought is being given to possible project types and co-financing approaches
 - Got the word out about WIFIA to a wide range of potentially interested entities throughout the U.S.
 - Aligned WIFIA with EPA's core value of early engagement and diverse stakeholder input in standing up a national program

What does the law say?

WIFIA 2015

Introduction to WIFIA

- Eligible assistance recipients range from corporations and partnerships, to municipal entities, to State Revolving Fund programs
- Wide range of Eligible water and wastewater projects
- 19 criteria under 11 major heading must be used to evaluate projects
- Project and borrower must be deemed creditworthy:
 - Preliminary rating opinion letter at the time of application
 - Two final rating opinion letters prior to financing
 - Senior obligations of the project must receive an investment grade rating
- Projects must be reasonably anticipated to cost no less than \$20 million
 - \$5 million for small community projects
 - Any amount if bundled into a single application for at least \$20 million

Introduction to WIFIA

- 15% percent set-aside for small communities
 - Population no greater than 25,000
 - After June 1 of the year of appropriation set-aside expires
- Maximum amount of loan may not exceed 49% of eligible project costs
- The remaining 51% may not come from tax-exempt financing
- Up to 25% of the funds available may be used for projects to fund in excess of 49% of the project costs
- Projects must have a dedicated source of revenue
- Davis-Bacon and American Iron and Steel apply in the same manner as under the SRF programs
- Fees

Introduction to WIFIA

- Interest rate is no less than the yield on Treasury securities of a similar maturity to the loan in question on the date of execution
- Loans may be for 35 years or the useful life of the project, whichever is less
- WIFIA loans may be used to meet the non-federal share requirement of project costs
- Total amount of federal assistance shall not exceed 80 percent of the total project costs
- Repayments must begin no later than 5 years after substantial completion of the project
- Loan guarantees are allowed if the budgetary cost of the guarantee is substantially the same as that of a loan
- Guarantee requirements are the same as loan requirements except for interest rates which are negotiated between the borrower and lender

Federal “Subsidy” Modeling

- ⦿ As with other federal credit programs, each project will be analyzed and assigned a “subsidy” rate using a formal OMB process that considers the default risk and recovery rate
- ⦿ Subsidy Rate = estimated net default costs + financing costs to the government
- ⦿ Cumulative annual subsidy levels determine total WIFIA funding for the year
 - ⦿ Example: WIFIA appropriation = \$20 million
 - ⦿ Subsidy = 10%, Total WIFIA funding = \$200 million
 - ⦿ Subsidy = 5%, Total WIFIA funding = \$400 million
- ⦿ The internal creditworthiness analysis will be the basis for determining the default risk and recovery rate information used for the subsidy calculation
- ⦿ EPA will conduct the assessment and present it OMB and together the Agencies will determine the subsidy level

The Role of SRFs

- Right of first refusal
- WIFIA *and* SRF may be able to jointly fund a project
- Possible opportunities include:
 - Co-fund WIFIA projects with EPA
 - Maximum WIFIA participation generally 49% (limited opportunity to go to 80%)
 - WIFIA funded projects cannot use tax-exempt debt
 - Can repayments or funds from SRF corpus be used in conjunction with WIFIA?
Hopefully
 - Does the 80% cap on federal involvement prevent use of SRF funds to reach 100% of project costs? *Probably not*
 - SRFs are eligible to borrow from WIFIA to finance a combination of projects under a single application
- These approaches could allow SRFs to reach borrowers and/or help finance projects they might not otherwise be able to

Development of WIFIA

- Challenges ahead:
 - Defining eligible projects
 - Determining criteria
 - Develop project ranking system
 - Create subsidy model
 - Develop method for determining creditworthiness
 - Answering questions about tax-exempt status of certain types of complimentary funding sources
 - Contracting for expert services
 - Rollout of guidance
 - **MARKETING AND FINDING PROJECTS!**

WIFIA Funding

- No funding has yet been appropriated for WIFIA loans
- Authorization for Appropriations:
 - Amounts:
 - FY2015 \$20,000,000
 - FY2016 \$25,000,000
 - FY2017 \$35,000,000
 - FY2018 \$45,000,000
 - FY2019 \$50,000,000
 - EPA may use up to \$2,200,000 of the annual appropriation to cover administrative costs
- EPA is also authorized to collect fees to cover services of expert firms and servicing of Federal credit instruments.

Eligible Projects and Criteria

WIFIA 2015

SEC. 5026. PROJECTS ELIGIBLE FOR ASSISTANCE

The following projects may be carried out with amounts made available under this subtitle:

(1) Any project for flood damage reduction, hurricane and storm damage reduction, environmental restoration, coastal or inland harbor navigation improvement, or inland and intracoastal waterways navigation improvement that the Secretary determines is technically sound, economically justified, and environmentally acceptable, including--

(A) a project to reduce flood damage;

(B) a project to restore aquatic ecosystems;

(C) a project to improve the inland and intracoastal waterways navigation system of the United States; and

(D) a project to improve navigation of a coastal or inland harbor of the United States, including channel deepening and construction of associated general navigation features.

SEC. 5026. PROJECTS ELIGIBLE FOR ASSISTANCE

(2) 1 or more activities that are eligible for assistance under section 603(c) of the Federal Water Pollution Control Act (33 U.S.C. 1383(c)), notwithstanding the public ownership requirement under paragraph (1) of that subsection.

- 603(c)(1) to any municipality or intermunicipal, interstate, or State agency for construction of publicly owned treatment works (as defined in section 212);
- 603(c)(2) for the implementation of a management program established under section 319;
- 603(c)(3) for development and implementation of a conservation and management plan under section 320;
- 603(c)(4) for the construction, repair, or replacement of decentralized wastewater treatment systems that treat municipal wastewater or domestic sewage;
- 603(c)(5) for measures to manage, reduce, treat, or recapture stormwater or subsurface drainage water;
- 603(c)(6) to any municipality or intermunicipal, interstate, or State agency for measures to reduce the demand for publicly owned treatment works capacity through water conservation, efficiency, or reuse;

SEC. 5026. PROJECTS ELIGIBLE FOR ASSISTANCE

- 603(c)(7) for the development and implementation of watershed projects meeting the criteria set forth in section 122;
- 603(c)(8) to any municipality or intermunicipal, interstate, or State agency for measures to reduce the energy consumption needs for publicly owned treatment works;
- 603(c)(9) for reusing or recycling wastewater, stormwater, or subsurface drainage water;
- 603(c)(10) for measures to increase the security of publicly owned treatment works;
- 603(c)(11) to any qualified nonprofit entity, as determined by the Administrator, to provide assistance to owners and operators of small and medium publicly owned treatment works
 - (A) to plan, develop, and obtain financing for eligible projects under this subsection, including planning, design, and associated preconstruction activities; and
 - (B) to assist such treatment works in achieving compliance with this Act.

SEC. 5026. PROJECTS ELIGIBLE FOR ASSISTANCE

(3) 1 or more activities described in section 1452(a)(2) of the Safe Drinking Water Act (42 U.S.C. 300j-12(a)(2)).

- (i) Treatment. Examples of projects include installation or upgrade of facilities to improve the quality of drinking water to comply with primary or secondary standards and point of entry or central treatment under section 1401(4)(B)(i)(III) of the Act.
- (ii) Transmission and distribution. Examples of the projects include installation or replacement of transmission and distribution pipes to improve water pressure to safe levels or to prevent contamination caused by leaks or breaks in the pipes.
- (iii) Source. Examples of projects include rehabilitation of wells or development of eligible sources to replace contaminated sources.

SEC. 5026. PROJECTS ELIGIBLE FOR ASSISTANCE

- (iv) Storage. Examples of projects include installation or upgrade of eligible storage facilities, including finished water reservoirs, to prevent microbiological contaminants from entering a public water system.
- (v) Consolidation. Eligible projects are those needed to consolidate water supplies where, for example, a supply has become contaminated or a system is unable to maintain compliance for technical, financial, or managerial reasons.
- (vi) Creation of new systems. Eligible projects are those that, upon completion, will create a community water system to address existing public health problems with serious risks caused by unsafe drinking water provided by individual wells or surface water sources...

SEC. 5026. PROJECTS ELIGIBLE FOR ASSISTANCE

- (4) A project for enhanced energy efficiency in the operation of a public water system or a publicly owned treatment works.
- (5) A project for repair, rehabilitation, or replacement of a treatment works, community water system, or aging water distribution or waste collection facility (including a facility that serves a population or community of an Indian reservation).
- (6) A brackish or sea water desalination project, a managed aquifer recharge project, or a water recycling project.
- (7) Acquisition of real property or an interest in real property--
 - (A) if the acquisition is integral to a project described in paragraphs (1) through (6); or
 - (B) pursuant to an existing plan that, in the judgment of the Administrator or the Secretary, as applicable, would mitigate the environmental impacts of water resources infrastructure projects otherwise eligible for assistance under this section.

SEC. 5026. PROJECTS ELIGIBLE FOR ASSISTANCE

(8) A combination of projects, each of which is eligible under paragraph (2) or (3), for which a State infrastructure financing authority submits to the Administrator a single application.

(9) A combination of projects secured by a common security pledge, each of which is eligible under paragraph (1), (2), (3), (4), (5), (6), or (7), for which an eligible entity, or a combination of eligible entities, submits a single application.

SEC. 5028. DETERMINATION OF ELIGIBILITY AND PROJECT SELECTION

(b) Selection Criteria.—

(1) Establishment.--The Secretary or the Administrator, as applicable, shall establish criteria for the selection of projects that meet the eligibility requirements of subsection (a), in accordance with paragraph (2).

(2) Criteria.--The selection criteria shall include the following:

(A) The extent to which the project is nationally or regionally significant, with respect to the generation of economic and public benefits, such as--

- (i) the reduction of flood risk;
- (ii) the improvement of water quality and quantity, including aquifer recharge;
- (iii) the protection of drinking water, including source water protection; and
- (iv) the support of international commerce.

(B) The extent to which the project financing plan includes public or private financing in addition to assistance under this subtitle.

SEC. 5028. DETERMINATION OF ELIGIBILITY AND PROJECT SELECTION

(C) The likelihood that assistance under this subtitle would enable the project to proceed at an earlier date than the project would otherwise be able to proceed.

(D) The extent to which the project uses new or innovative approaches.

(E) The amount of budget authority required to fund the Federal credit instrument made available under this subtitle.

(F) The extent to which the project--

(i) protects against extreme weather events, such as floods or hurricanes; or

(ii) helps maintain or protect the environment.

(G) The extent to which a project serves regions with significant energy exploration, development, or production areas.

(H) The extent to which a project serves regions with significant water resource challenges, including the need to address--

(i) water quality concerns in areas of regional, national, or international significance;

(ii) water quantity concerns related to groundwater, surface water, or other water sources;

(iii) significant flood risk;

(iv) water resource challenges identified in existing regional, State, or multistate agreements;
or

(v) water resources with exceptional recreational value or ecological importance.

SEC. 5028. DETERMINATION OF ELIGIBILITY AND PROJECT SELECTION

(I) The extent to which the project addresses identified municipal, State, or regional priorities.

(J) The readiness of the project to proceed toward development, including a demonstration by the obligor that there is a reasonable expectation that the contracting process for construction of the project can commence by not later than 90 days after the date on which a Federal credit instrument is obligated for the project under this subtitle.

(K) The extent to which assistance under this subtitle reduces the contribution of Federal assistance to the project.

(3) Special rule for certain combined projects.--For a project described in section 5026(8), the Administrator shall only consider the criteria described in subparagraphs (B) through (K) of paragraph (2).

Finance Structures and Examples

WIFIA 2015

How Might WIFIA Be Employed?

- Publicly owned water/wastewater utilities?
 - Communities with lower bond ratings
 - Or, where SRFs are willing to participate
- Public-Private partnerships?
 - With higher cost borrowing as part of the deal
- Bundled SRF projects?
 - For States that don't wish to leverage but need to address project demand beyond capacity
- Others?

Comparison: WIFIA and Muni Bond Financing

\$50 million project

Option 1

Option 2

Option 3

49% WIFIA @
3.35%
51% Taxable AA
@4.02%

100% Taxable AA
bonds @4.02%

100% Tax-Exempt
AA bonds at 3.40%

Cumulative cost
(30 yrs):
\$83.6 million

Cumulative cost
(30 yrs):
\$87 million
(+4% compared to WIFIA)

Cumulative cost
(30 yrs):
\$80.5 million
(-4% compared to WIFIA)

Comparison: WIFIA and SRF Financing

\$50 million project

Option 1

Option 2

Option 3

49% WIFIA @
3.35%
51% Taxable AA
@4.02%

49% WIFIA @
3.35%
51% SRF Loan
@1.7%

100% SRF @1.7%

Cumulative cost
(30 yrs):
\$83.6 million

Cumulative cost
(30 yrs):
\$70.7 million
*(-15.4% compared to
WIFIA)*

Cumulative cost
(30 yrs):
\$64.2 million
*(-23.2% compared to
WIFIA)*

Comparison – WIFIA with Equity Stake VS Taxable with Equity Stake

\$50 million project

Option 1

Option 2

49% WIFIA @ 3.35%
36% Taxable AA @4.02%
15% Equity

85% Taxable AA @4.02%
15% Equity

Cumulative cost of debt (30 yrs):
\$70.9 million

Cumulative cost of debt (30 yrs):
\$74.9 million
(+6% compared to WIFIA)

9/12/14 rate data: Thompson Reuters, U.S. Treasury

Potential for P3

- Eligible recipients of WIFIA financing:
 - **Corporations**
 - **Partnerships**
 - **Joint ventures**
 - **Trusts**
 - Federal, State, or local government entities, agencies, or instrumentalities
 - Tribal governments or consortiums of tribal governments
 - State infrastructure financing authorities.

Potential for P3

- Tax-Exempt Financing:
 - Not allowed as part of the finance package
 - Does taxable debt or private equity fill the gap?
- Typically 49% of costs will be the maximum WIFIA involvement
- Numerous successful P3 projects in water that would have benefitted from WIFIA
 - Hoboken, NJ
 - Rialto, CA

What Forms Of Partnerships Might Be Developed To Take Advantage Of WIFIA?

- WIFIA can fund a range of utility-controlled options
 - Public only
 - Public-public partnership
 - Public-private partnership
 - Private only
- Responsibilities can vary for:
 - Providing capital financing
 - Setting user rates
 - Utility management
 - Major/minor construction
 - O&M

Public-Public Partnership Example

City of Allentown

Concession/Lease

Lehigh County Authority

Up-Front Lease
Payment and Other:
\$246.2 million

Capital
Improvements
Fund: \$31.8 million

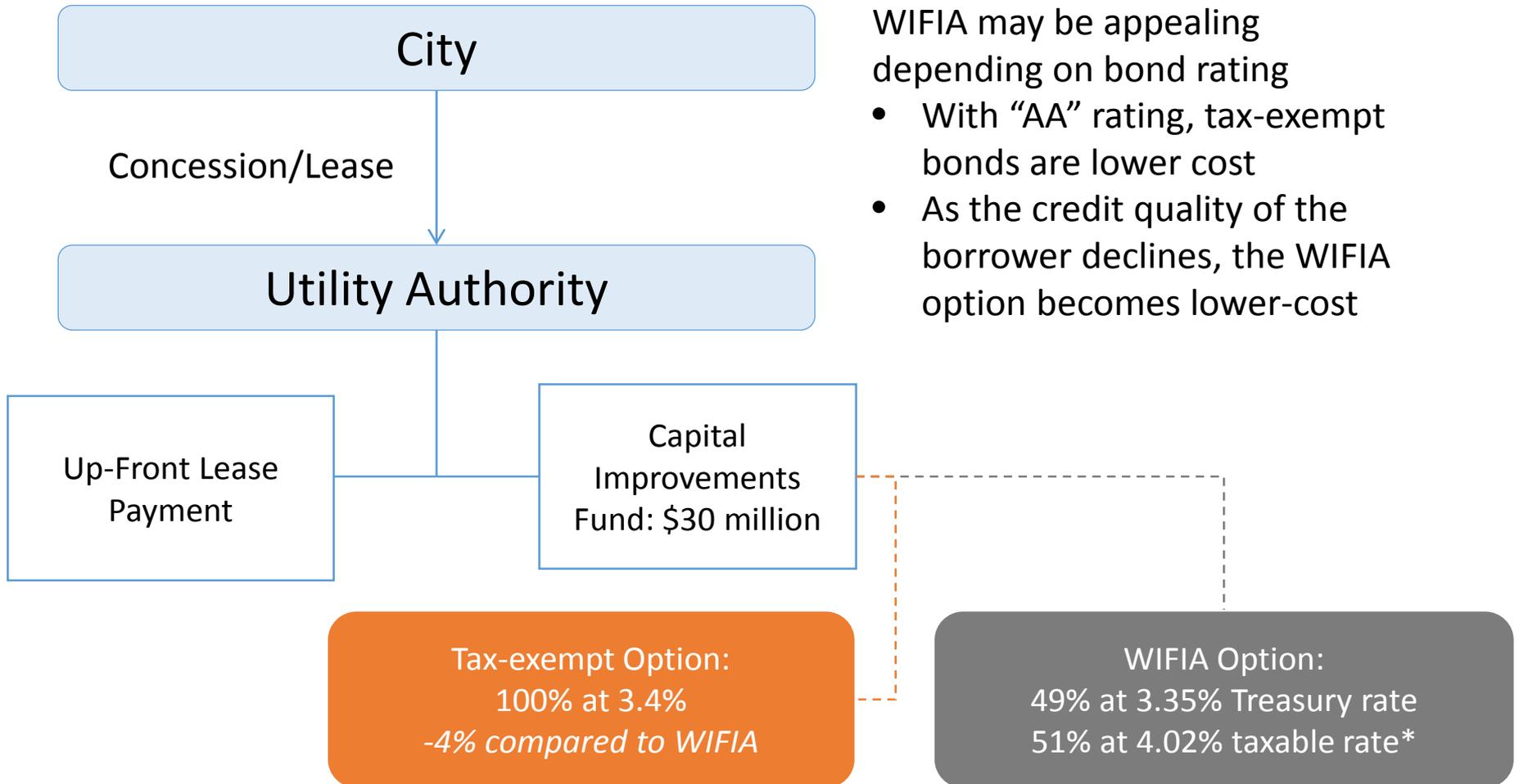
Tax-exempt Option:
100% at 5.28%
+7% compared to WIFIA

WIFIA Option:
49% at 3.4% Treasury rate
51% at 5.8% taxable rate*

- 2013 bond issue to fund lease payment, capital improvements and other:
- Yield 5.28% on 30 year series
 - "A" rating from S&P
 - Tax-exempt

* Based on earlier research showing taxable A rates averaged 0.5% higher than tax-exempt A-rated bonds

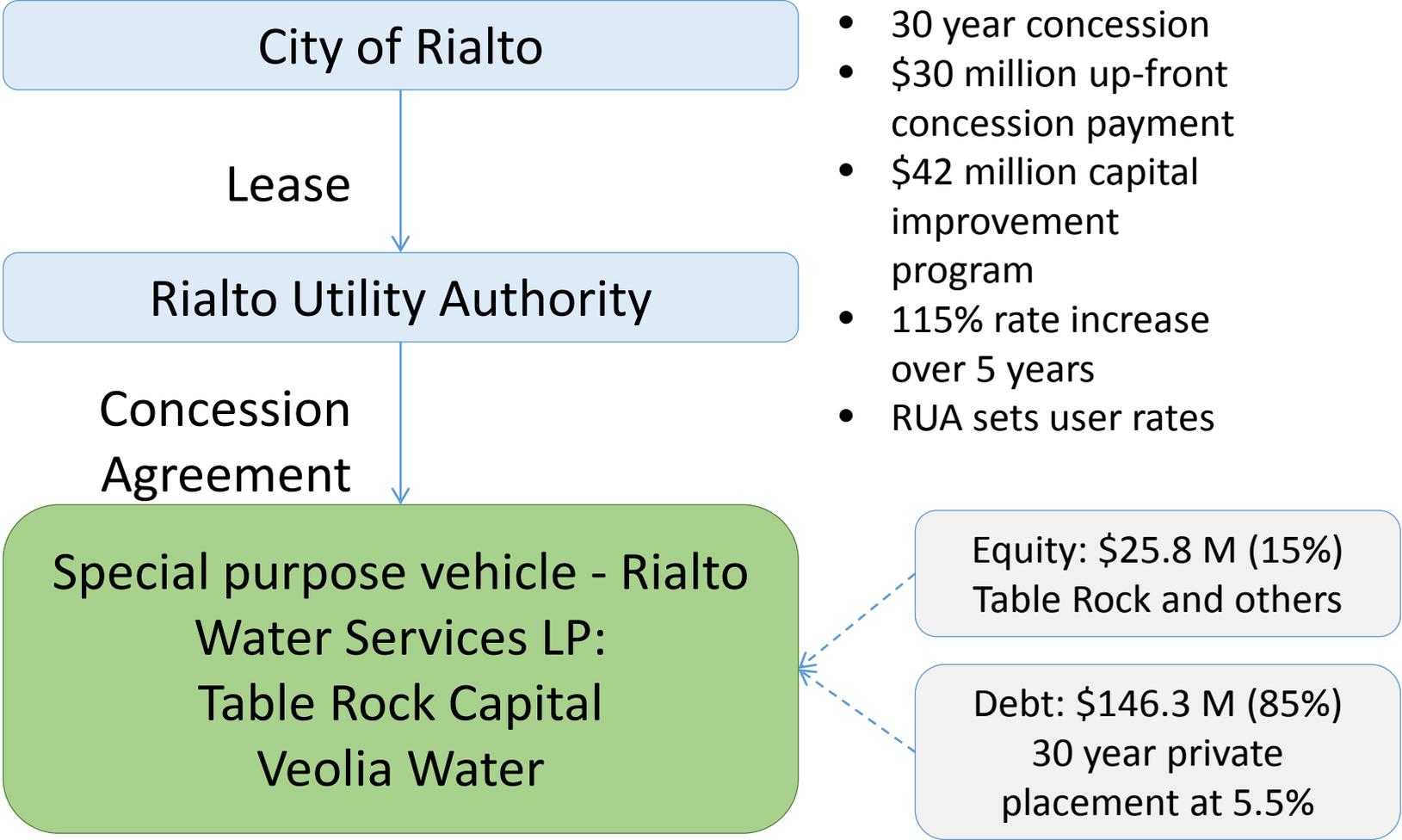
Public-Public Partnership Example



WIFIA may be appealing depending on bond rating

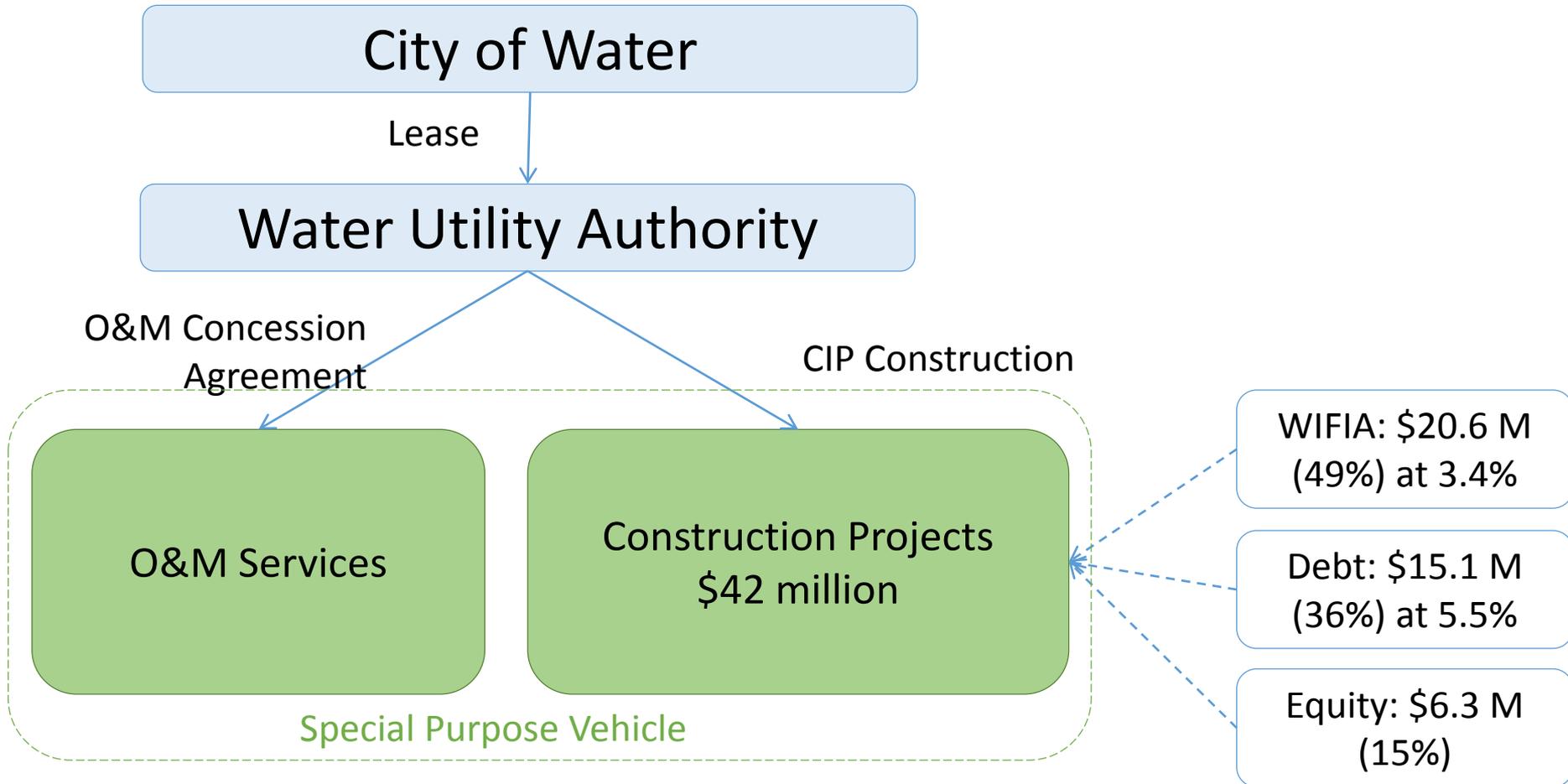
- With “AA” rating, tax-exempt bonds are lower cost
- As the credit quality of the borrower declines, the WIFIA option becomes lower-cost

Example: Rialto, California Concession Agreement



Adapted from National Conference of Public Private Partnerships, July 29, 2014

Potential WIFIA Structure: Public-Private Partnership with Equity



Debt savings: \$307,000/year

P3 Example: City Santa Paula Water Recycling Facility, California

- New WWTP
- First 100% privately funded wastewater treatment facility in California
 - Operational: May 2010
- City of Santa Paula did not put in any up-front capital. Since operations began, pays monthly service fee
- Total project cost: \$62M
 - Design and construction \$57M
 - Financing and capital costs \$5M

Private partners: Santa Paula Water LLC

PERC Water Corporation:

- 10% equity partner
- Design-build-operate-maintain
- 30 year concession

Alinda Capital Partners:

- 90% equity partner
- Finance

New \$62 M WWTP construction – potentially all WIFIA eligible

Next Steps

- President's budget requests \$5 million for development of the program in FY 2016
- Continue development of the program
 - Hiring
 - Contracts
 - Guidance
 - Marketing
- Stay in close contact with stakeholders

For More Information

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