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Water Infrastructure Financing: The Water Infrastructure Finance and Innovation Act (WIFIA) Program

Claudia Copeland

Specialist in Resources and Environmental Policy

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Summary

Policymakers have recently been considering several legislative options to help finance water infrastructure projects, including projects to build and upgrade wastewater and drinking water treatment systems. This report examines one particular option, a “Water Infrastructure Finance and Innovation Act” (WIFIA) program, which Congress included in the Water Resources Reform and Development Act of 2014 (WRRDA). As enacted (P.L. 113-121), the legislation created a WIFIA pilot program based on provisions in Senate-passed S. 601 with some additions and modifications. H.R. 3080 as passed by the House did not include similar provisions.

The WIFIA concept is modeled after a similar program that assists transportation projects, the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. Proponents of the WIFIA approach, including water utility organizations, cite several potential benefits:

- WIFIA could provide credit assistance to large water infrastructure projects that otherwise have difficulty obtaining financing.
- Because WIFIA would access funds from the U.S. Treasury at Treasury rates, the mechanism could lower the cost of capital for borrowers.
- WIFIA assistance would have much less of a federal budgetary effect than conventional project grants that are not repaid, because only the subsidy cost of a loan (representing the presumed default rate on loans) would be scored. Thus, if only an average 10% subsidy cost is charged against budget authority, a \$20 million budgetary allocation theoretically supports \$200 million in loans.
- To be eligible for assistance, projects must be determined to be creditworthy with a revenue stream for repayment, thus limiting the federal government’s exposure to default and also encouraging private capital investment.

On the other hand, opponents of the WIFIA approach, including organizations that represent state environmental agency officials, cite several concerns:

- Under WIFIA, decisionmaking for financing of water infrastructure projects would shift from the state and local level to federal officials.
- Funding for a WIFIA program would likely have a detrimental effect on federal support for established and successful State Revolving Fund (SRF) programs that provide the largest source of water infrastructure assistance today.
- While WIFIA is intended to assist large and costly projects, the majority of water infrastructure needs are for smaller projects. Especially if SRF assistance is decreased, these smaller projects would face significant financing challenges.
- The Congressional Budget Office has warned that the costs of a WIFIA program to the federal budget may be underestimated.

Implementation of WIFIA will not occur until Congress appropriates funds to cover the subsidy cost of the program, which has not yet happened, but the President’s FY2017 budget requests \$15 million for EPA to begin making loans. Funding uncertainty is one of several implementation challenges that have been identified.

Although the WIFIA pilot program has not yet been implemented, interest in using it as a model for other infrastructure financing programs is apparent. For example, several legislative proposals in the 114th Congress would establish a WIFIA-type program for water reclamation and reuse projects in western states. These proposals, referred to as “Reclamation for WIFIA,” or RIFIA,

are included in S. 176/H.R. 291 (the Water in the 21st Century Act) and S. 1894 (the California Emergency Drought Relief Act of 2015).

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Introduction

Policymakers have recently been considering several legislative options to help finance water infrastructure projects, including projects to build and upgrade wastewater and drinking water treatment facilities. This report examines one particular option, a “Water Infrastructure Finance and Innovation Act” (WIFIA) program, which was included in the Water Resources Reform and Development Act of 2014 (WRRDA, P.L. 113-121). Title V, Subtitle C, of the legislation created a five-year WIFIA pilot program.¹

Localities are primarily responsible for providing water infrastructure services. According to the most recent estimates by states and the Environmental Protection Agency (EPA), funding needs for such facilities total \$655 billion over a 20-year period.² While some analysts and stakeholders debate these estimates and whether they understate or overstate capital needs, most agree that communities face formidable challenges in providing adequate and reliable water infrastructure services.

Capital investments in water infrastructure are necessary to maintain high quality service that protects public health and the environment, and capital facilities are a major investment for local governments. Almost all capital projects are debt-financed (not financed on a pay-as-you-go basis from ongoing revenues to the water utility). The principal financing tool that local governments use is issuance of tax-exempt municipal bonds—at least 70% of U.S. water utilities rely on municipal bonds and other debt to some degree to finance capital investments. In 2011, bonds issued for water, sewer, and sanitation projects totaled \$29.6 billion, of which \$14.2 billion was new-money financing; the remainder was for refunding to refinance prior governmental bonds.³ Beyond municipal bonds, federal assistance through grants and loans is available for some projects but is insufficient to meet all needs. Finally, public-private partnerships, or P3s, which are long-term contractual arrangements between a public utility and a private company, currently provide only limited capital financing in the water sector. While they are increasingly used in transportation and some other infrastructure sectors, especially P3s that involve private sector debt or equity investment in a project, most P3s for water infrastructure involve contract operations for operation and maintenance.

Creation of a WIFIA Program

The WIFIA approach for supporting investment in water infrastructure is modeled after an existing Transportation Infrastructure Finance and Innovation Act (TIFIA) program. As the name suggests, only transportation projects are eligible for TIFIA assistance, but operation of the TIFIA program generated interest in creating a similar program for water infrastructure.⁴

¹ WIFIA is one of several legislative approaches to help finance water infrastructure that have been proposed. For discussion of WIFIA and several other options, see CRS Report R42467, *Legislative Options for Financing Water Infrastructure*, by Claudia Copeland, Steven Maguire, and William J. Mallett.

² EPA’s most recent estimate of capital needs for wastewater infrastructure was published in 2016. See EPA, *Clean Watersheds Needs Survey 2012, Report to Congress*, EPA-830-R-15005, January 2016. The most recent EPA needs estimate for drinking water infrastructure was issued in 2013. See EPA, *Drinking Water Infrastructure Needs Survey and Assessment*, EPA-816-R-13-006, April 2013.

³ Thomson-Reuters, *The Bond Buyer 2012 Yearbook*, p. 159.

⁴ For example, see American Water Works Association, Water Environment Federation, and Association of Metropolitan Water Agencies, “A Cost Effective Approach to Increasing Investment in Water Infrastructure, The Water Infrastructure Financing Innovations Authority (WIFIA),” <http://www.awwa.org/portals/0/files/legreg/> (continued...)

TIFIA was enacted in 1998 as part of the Transportation Equity Act for the 21st Century (TEA-21; P.L. 105-178) and was reauthorized in July 2012 in the Moving Ahead for Progress in the 21st Century Act (MAP-21; P.L. 112-141). TIFIA provides federal credit assistance up to a maximum of 49% of project costs in the form of secured loans, loan guarantees, and lines of credit (23 U.S.C. 601 et seq.). Transportation projects costing at least \$50 million (or at least \$25 million in rural areas) are eligible for TIFIA financing.⁵ Projects must also have a dedicated revenue stream to be eligible for credit assistance. TIFIA can provide senior or subordinated debt. With the enactment of MAP-21, funding authorized for the TIFIA program increased from \$122 million annually to \$750 million in FY2013 and \$1 billion in FY2014 and FY2015. However, the Fixing America's Surface Transportation Act (FAST Act, P.L. 114-94), enacted in December 2015, reduced the amount available to support loans and other credit assistance under the TIFIA program. Under the FAST Act, the annual amount is \$275 million in each of FY2016 and FY2017, \$285 million in FY2018, and \$300 million in each of FY2019 and FY2020.

Prior to the enactment of MAP-21, a project seeking TIFIA assistance had to satisfy a number of eligibility criteria, such as project cost and planning requirements. Projects were then selected by the Department of Transportation (DOT) from among those eligible based on eight weighted factors: private participation (20%), environmental impact (20%), national or regional significance (20%), project acceleration (12.5%), creditworthiness (12.5%), use of new technologies (5%), reduced federal grant assistance (5%), and consumption of budget authority (5%). MAP-21 eliminated these selection criteria, and TIFIA now provides assistance purely on a project's eligibility. One of the key eligibility criteria is the creditworthiness of the project. To be eligible, a project's senior debt obligations and the federal credit instrument must receive an investment-grade rating from at least one nationally recognized credit agency. The TIFIA assistance must also be determined to have several beneficial effects: fostering a public-private partnership (if appropriate), enabling the project to proceed more quickly, and reducing the contribution of federal grant funding. Other eligibility criteria include satisfying planning and environmental review requirements and being ready to contract out construction within 90 days after the obligation of assistance.

Since TIFIA's beginning in 1998, it has provided assistance to 58 projects, mostly in the form of direct loans. Loan amounts have ranged from \$40 million to \$1.9 billion. Total credit assistance provided over the life of the program amounts to \$22.8 billion as of February 2016. The amount of credit assistance is much larger than the appropriated amount over this period because the appropriated funds need only cover the administrative and subsidy cost of the program. (See below for a more detailed discussion of this point.) Projects involving TIFIA amount to \$83 billion in total project costs.⁶ TIFIA typically provides financing to fill a gap in a much larger financial package that sometimes involves private equity and private debt. For example, the \$2.6 billion IH-635 Managed Lanes project in Dallas, TX, is being financed with \$615 million in private activity bonds, a \$664 million equity contribution from the private sector partner, \$17 million in toll revenues, \$490 million in public funds, and an \$850 million TIFIA loan.⁷

(...continued)

documents/wifia.pdf.

⁵ The threshold for Intelligent Transportation Systems projects is \$15 million.

⁶ Federal Highway Administration, "Projects Financed by TIFIA," <http://www.transportation.gov/tifia/projects-financed>.

⁷ Federal Highway Administration, "IH 635 Managed Lanes," <http://www.transportation.gov/tifia/financed-projects/ih-635-managed-lanes>.

WIFIA Pilot Program in P.L. 113-121

In the 113th Congress, a WIFIA pilot program was included as part of the Water Resources Reform and Development Act of 2014 (WRRDA).⁸ Title X of Senate-passed S. 601 included a WIFIA pilot program, while House-passed H.R. 3080 included no similar provisions. The President signed the bill into law on June 10, 2014 (P.L. 113-121). The legislation authorized a five-year WIFIA pilot program. EPA is authorized to provide credit assistance (secured loans or loan guarantees) for a range of drinking water and wastewater projects, and the U.S. Army Corps of Engineers is authorized to provide similar assistance for water resource projects, such as flood control or hurricane and storm damage reduction.

Under the legislation as enacted, EPA and the Corps are each authorized a total of \$175 million over five years (beginning with \$20 million for each agency in FY2015 and increasing to \$50 million in FY2019) to provide assistance. Projects are required to be \$20 million or larger in costs to be eligible for credit assistance, except that projects in rural areas (population 25,000 or less) must have eligible project costs of \$5 million or more. WIFIA credit assistance is to be available to project sponsors (a corporation; partnership; joint venture; trust; or a federal, state, local, or tribal government) or to state infrastructure financing authorities for a group of projects. In the case of projects carried out by private entities, such projects are to be publicly sponsored. To meet this requirement, the legislation allows a project applicant to demonstrate to the Corps or EPA that the affected state, local, or tribal government supports the project. To ensure that ownership of the water project does not become private (which would limit availability of some other sources of federal financing), the maximum amount of a loan is to be 49% of eligible project costs, but the legislation authorizes EPA or the Corps to make available up to 25% of available funds each year for credit assistance in excess of 49% of project costs. Except for certain projects in rural areas, the total amount of federal assistance (i.e., WIFIA and other sources) shall not exceed 80% of a project's cost.

Activities eligible for assistance under the WIFIA pilot program include project development and planning, construction, acquisition of real property, and carrying costs during construction. Categories eligible for assistance by the Corps would include flood control or hurricane and storm damage reduction projects, environmental restoration, coastal or inland harbor navigation improvement, or inland and intracoastal waterways navigation improvement. Categories eligible for assistance by EPA include projects at wastewater treatment and community drinking water facilities, projects for enhanced energy efficiency of a public water system or wastewater treatment works, repair or rehabilitation of aging wastewater and drinking water systems, desalination or water recycling projects, or a combination of eligible projects. The Secretary of the Army or EPA administrator, as appropriate, is to determine eligibility based on a project's creditworthiness and dedicated revenue sources for repayment. Selection criteria include the national or regional significance of the project, extent of public or private financing in addition to WIFIA assistance, use of new or innovative approaches, the amount of budget authority required to fund the WIFIA assistance, the extent to which a project serves regions with significant energy development or production areas, and the extent to which a project serves regions with significant water resources challenges.

Responding to concerns from some groups that WIFIA could impair and diminish support for clean water and drinking water State Revolving Fund (SRF) programs under the Clean Water Act

⁸ A standalone measure to create a WIFIA program also was introduced in the 113th Congress. S. 335 proposed to empower the EPA administrator to provide credit assistance to drinking water and wastewater infrastructure projects. It was not a pilot program, as in P.L. 113-121.

and Safe Drinking Water Act (see discussion below), the legislation included language requiring the EPA administrator, when the agency receives applications for WIFIA assistance, to give state infrastructure financing authorities a “right of first refusal” to assist the project through SRF monies.

WIFIA-assisted projects must use American-made iron and steel products (“Buy America” provisions), and wastewater treatment works projects must comply with the prevailing wage requirements of the Davis-Bacon Act in the same manner that they would under the SRF provisions of the Clean Water Act.

P.L. 113-121 required EPA and the Corps to provide information on a website concerning applications and projects that have received assistance, and it directed the Government Accountability Office to report to Congress on the pilot programs in four years, along with recommendations for continuing, changing, or terminating the WIFIA program. As discussed below, EPA held listening sessions in several U.S. cities, seeking public input about procedures for evaluating WIFIA applications and selection criteria in anticipation of making loans.

Discussion

From the federal perspective, an advantage of TIFIA is that it can provide a large amount of credit assistance relative to the amount of budget authority provided. The volume of loans and other types of credit assistance that TIFIA can provide is determined by the size of congressional appropriations and calculation of the subsidy cost.⁹ The subsidy cost largely determines the amount of money that can be made available to project sponsors.¹⁰ DOT estimated that after administrative costs and other deductions, it would have \$690 million for credit subsidy support in FY2013 and \$920 million in FY2014.¹¹ Assuming an average subsidy cost of 10%, this could provide DOT with the capacity to lend \$6.9 billion in FY2013 and \$9.2 billion in FY2014. If the subsidy cost for water projects averages 10% and is the only charge against available budget authority, a \$20 million budgetary allocation theoretically supports \$200 million in loans. In budgetary terms, WIFIA (or TIFIA) assistance has much less of an impact than a water infrastructure grant, which is not repaid to the U.S. Treasury.

Proponents of WIFIA argued that loans for water projects could be even less risky than transportation projects, because water rates are an established repayment mechanism; thus the subsidy cost would be lower and the amount of credit assistance higher (per dollar of budget authority).¹² However, analysts note that, even with stable rate mechanisms, some communities

⁹ According to the Federal Credit Reform Act of 1990, the subsidy cost is the “estimated long-term cost to the Government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs” (104 Stat. 1388-610). The Federal Credit Reform Act of 1990 was enacted as part of the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508).

¹⁰ Douglas J. Elliott, *Budgeting for Credit Programs: A Primer*, Center for Federal Financial Institutions, April 2004, <http://www.coffi.org/pubs/Budgeting%20Primer.pdf>.

¹¹ U.S. Department of Transportation, “Letters of Interest for Credit Assistance Under the Transportation Infrastructure Finance and Innovation Act (TIFIA) Program,” 77 *Federal Register* 45411-45415, July 31, 2012, http://www.fhwa.dot.gov/ipd/pdfs/tifia/fy2013_tifia_nofa_073112.pdf.

¹² Testimony of Aurel Arndt, in U.S. Congress, House Committee on Transportation and Infrastructure, Subcommittee on Water Resources and Environment, hearing on Innovative Funding of Water Infrastructure of the United States, 112th Cong., 2nd sess., February 28, 2012, <http://republicans.transportation.house.gov/Media/file/TestimonyWater/2012-02-28-Arndt.pdf>.

and water utilities have recently experienced problems with borrowing and bond repayments, so repayment of a WIFIA loan is not a certainty.¹³

One of the main benefits of the TIFIA program is that it provides capital at a low cost to the borrower, because even though the interest on 30-year Treasury securities is taxable, Treasury rates can be less expensive than rates on traditional tax-exempt municipal debt. Moreover, TIFIA financing is often characterized as patient capital, because loan repayment does not need to begin until five years after substantial completion of a project, the loan can be for up to 35 years from substantial completion, and the amortization schedule can be flexible. In addition, there is less perceived investment risk, because the project has been determined to be creditworthy (i.e., there is a revenue stream for repayment). The WIFIA legislation was likewise intended to provide these benefits. As total TIFIA assistance cannot exceed 49% of project costs, it is intended to encourage non-federal and private sector financing. P.L. 113-121, with a similar 49% cap on assistance (and limits on all sources of federal assistance to no more than 80% of a project's cost), would likely encourage some non-federal financing, including from the private sector, but how much is unclear.

Another possible benefit of the WIFIA program is that it is intended to not duplicate existing water infrastructure financing tools. Many argue that the principal federal programs that assist local wastewater and drinking projects—SRF programs under the Clean Water Act and Safe Drinking Water Act—are useful primarily for smaller communities and smaller projects. This might argue for expanding the SRF program while keeping WIFIA solely for larger projects. Arguably, then, the \$20 million minimum threshold for credit assistance contained in the new law could be about the right level so as not to duplicate assistance from SRFs.¹⁴ The legislation, however, also provided access to WIFIA financing for smaller projects by grouping, or aggregating, them through an SRF to meet the \$20 million threshold, and it set a lower threshold (\$5 million) for projects in rural areas. One possible downside of providing smaller projects access to WIFIA financing, grouped or not, is the time and expense of administering the program.

A major source of debate among opponents and proponents has been and continues to be potential adverse impacts of WIFIA on funds for the Clean Water Act and Safe Drinking Water Act SRF programs. Several groups representing state environmental officials opposed the WIFIA provisions of the 113th Congress legislation because, they said, it could result in reduced spending on the SRF programs, which are capitalized by federal appropriations. States are concerned that WIFIA would likely be funded (through congressional appropriations) to the detriment of the SRF programs.¹⁵ On the other hand, water utility groups argue that WIFIA would complement, not harm, existing SRF programs. In their view, WIFIA will provide a new funding opportunity for large water infrastructure projects that are unlikely to receive SRF assistance.¹⁶ As described above, in part to address concerns about impacts of WIFIA on the SRF programs, the enacted

¹³ LaShell Stratton-Childers, "Navigating a Rough Terrain," *Water Environment and Technology*, January 2012, pp. 24-29. This article describes the November 2011 bankruptcy filing by Jefferson County, AL, in part resulting from the county's inability to cover debts for wastewater system upgrades.

¹⁴ Testimony of Aurel Arndt.

¹⁵ Letter from Association of Clean Water Administrators, Association of State Drinking Water Administrators, Environmental Council of the States et al. to Honorable Bill Shuster, Chairman, Committee on Transportation and Infrastructure, and Honorable Nick J. Rahall II, ranking Member, Committee on Transportation and Infrastructure, October 24, 2013.

¹⁶ Letter from American Water Works Association, Association of Metropolitan Water Agencies, and Water Environment Federation to Honorable Barbara Boxer, Chairman, Committee on Environment and Public Works, September 9, 2013.

legislation gave state infrastructure financing authorities a “right of first refusal” to provide SRF funds for a project when EPA receives an application for WIFIA assistance.

The WIFIA program may shift some decisionmaking for financing water infrastructure projects from the state and local level to the federal level, specifically to the EPA or the Army Corps, a change that concerns some stakeholders. Indeed, in a letter to the conferee managers, the Administration expressed concerns with the WIFIA proposal in S. 601 during Senate consideration of that bill, “which would expand the Environmental Protection Agency’s and the Corps’ role in local water infrastructure projects and not provide Federal assistance in the most efficient manner.”¹⁷

Another perceived benefit of the TIFIA program from the federal perspective is that it potentially limits the federal government’s exposure to default by relying on market discipline through creditworthiness standards and encouraging private capital investment. WIFIA supporters see the same benefit from the WIFIA program. On the other hand, the Congressional Budget Office (CBO) argues that the federal government underestimates the cost of providing credit assistance under programs such as TIFIA.¹⁸ This is because it excludes

the cost of market risk—the compensation that investors require for the uncertainty of expected but risky cash flows. The reason is that the [Federal Credit Reform Act] requires analysts to calculate present values by discounting expected cash flows at the interest rate on risk-free Treasury securities (the rate at which the government borrows money). In contrast, private financial institutions use risk-adjusted discount rates to calculate present values.¹⁹

Potential Federal Revenue Loss from Tax-Exempt Bonds

Enacting the WIFIA program raised another federal budgetary and revenue issue. Legislation reported by congressional committees is typically scored by the CBO for the effects on discretionary and mandatory, or direct, spending and by the Joint Committee on Taxation (JCT) for effects on revenue. The initial CBO cost estimate for S. 601, as approved by the Environment and Public Works Committee in April 2013, concluded that the WIFIA provisions would cost \$260 million over five years. In addition, it would result in certain revenue loss to the U.S. Treasury; thus, pay-as-you-go procedures would apply to the bill.²⁰ CBO cited the JCT estimate that enactment of the bill would reduce revenues by \$135 million over 10 years, because states would be expected to issue tax-exempt bonds for water projects in order to acquire additional funds not covered by WIFIA assistance.²¹ To avoid the pay-as-you-go problem in the bill, the committee added a provision to S. 601 to prohibit recipients of WIFIA assistance from issuing tax-exempt bonds for the non-WIFIA portions of project costs. CBO re-estimated the bill and concluded that, because the change would make the WIFIA program less attractive to entities, most of which rely on tax-exempt bonds for project financing, the cost of the bill would be \$200

¹⁷ Letter from Jo-Ellen Darcy, Assistant Secretary of the Army, Civil Works, to Senator Barbara Boxer, Senator David Vitter, Representative Bill Shuster, and Representative Nick J. Rahall II, December 11, 2013.

¹⁸ For more on this topic generally, see Congressional Budget Office, *Fair-Value Accounting for Federal Credit Programs*, March 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-05-FairValue_Brief.pdf.

¹⁹ Congressional Budget Office (CBO), “Estimating the Value of Subsidies for Federal Loans and Loan Guarantees,” August 2004, p. 2, <http://www.cbo.gov/ftpdocs/57xx/doc5751/08-19-CreditSubsidies.pdf>.

²⁰ “Pay-as-you-go,” or PAYGO, is a budget rule requiring that, relative to current law, any tax cuts or entitlement and other mandatory spending increases must be paid for by a tax increase or a cut in mandatory spending. See CRS Report RL31943, *Budget Enforcement Procedures: The Senate Pay-As-You-Go (PAYGO) Rule*, by Bill Heniff Jr.

²¹ CBO, Cost Estimate for S. 601, Water Resources Development Act of 2013, April 9, 2013, p. 6.

million less over five years. CBO also said that the bill would have no impact on revenues, because the demand for federal credit would be lower without the option of using tax-exempt financing.²² P.L. 113-121 retains the bar on tax-exempt financing for WIFIA-assisted projects. Thus, the apparent solution to one problem in the legislation—potential revenue loss to the U.S. Treasury—raised a different kind of problem for entities seeking WIFIA credit assistance, because tax-exempt municipal bonds are the principal mechanism used by local governments to finance water infrastructure projects.

The restriction was widely criticized by potential users of WIFIA assistance. In their view, the bond financing restriction in WRRDA, together with the provision that caps WIFIA assistance at 49% of project costs, make it very difficult to finance needed projects. Congressional interest in addressing the tax-exempt bond restriction has been evident. For example, H.R. 1710 in the 114th Congress would make an exception from the limitation on use of tax-exempt bonds for WIFIA loans made to finance water infrastructure projects in states in which the governor has issued a state of drought emergency declaration.

More generally, in July 2015, the Senate passed H.R. 22, a bill to reauthorize highway and transportation programs for six years. It included repeal of the provision in P.L. 113-121 that limits any project receiving federal credit assistance under the WIFIA program from being financed with tax-exempt bonds. However, repeal of the provision raised similar revenue questions to those that arose in connection with P.L. 113-121. CBO's report on S. 1647 (the Senate Environment and Public Works Committee's bill, which was the basis of Senate-passed H.R. 22)²³ stated that the Joint Committee on Taxation (JCT) estimated that repealing the WIFIA limitation would increase states' issuance of tax-exempt bonds for water projects and would decrease federal revenues by \$17 million over the FY2016-FY2025 period. Further, CBO estimated that the change would increase demand for federal credit under the WIFIA program, resulting in additional spending stemming from the appropriation levels authorized in P.L. 113-121. Consequently, CBO estimated that implementing the WIFIA program would cost \$146 million over the FY2016-FY2025 period.

The problem of identifying offsets, or “pay-fors,” for the estimated federal revenue loss was apparently solved in the conference agreement on H.R. 22, the FAST Act. CBO estimated that the conference agreement includes offsets to fully cover the cost of the bill by reducing spending or raising revenues.²⁴ Thus, the conference report retains the provision from Senate-passed H.R. 22 repealing the tax-exempt bond financing restriction on WIFIA assistance.

Conclusion

Implementation of WIFIA—i.e., making project loans—will not occur until Congress appropriates funds to cover the subsidy cost of the program, which has not yet happened. In the Consolidated and Further Continuing Appropriations Act, 2015, enacted in December 2014 (P.L. 113-235), Congress provided EPA with \$2.2 million for hiring and staffing to implement the new program. Similarly, in the Consolidated Appropriations Act, 2016, enacted in December 2015

²² CBO, Cost Estimate for S. 601, Water Resources Development Act of 2013, April 17, 2013, p. 7.

²³ U.S. Congress, Senate Committee on Environment and Public Works, *Developing A Reliable and Innovative Vision for the Economy (DRIVE) Act*, Report to accompany S. 1647, 114th Cong., 1st sess., July 15, 2015, S.Rept. 114-80 (Washington: GPO, 2015), pp. 27-33.

²⁴ Letter from Keith Hall, Director, CBO, to Honorable Bill Shuster, Chairman, and Peter DeFazio, Ranking Member, House Transportation and Infrastructure Committee, December 2, 2015, https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/costestimate/hr22_1.pdf.

(P.L. 114-113), Congress again appropriated \$2.2 million to EPA to continue preparing for the WIFIA program. Neither bill provided start-up funds for the Corps, and neither act appropriated funds to actually make loans or finance projects.

The President's FY2017 budget, announced on February 9, 2016, seeks \$15 million for EPA to begin making WIFIA loans. The budget estimates that this level of budget authority will support \$980 million in direct loan activity in 2017. The budget also requests \$5 million for related EPA administrative costs. The budget does not include a similar request that would allow the Army Corps to begin making WIFIA loans.

As authorized in WRRDA, WIFIA is a pilot program that is scheduled to expire after FY2019. To the extent that appropriations for making loans are not provided, the window of time for testing and evaluating the program will be limited. Supporters could then find it difficult to argue for extending or making the program permanent.

EPA has been preparing for implementation, including through a series of public listening sessions in several U.S. cities in 2014. The intended audience was municipal, state, and regional water utility officials, private sector financing professionals, and other interested organizations and parties. The purpose was to discuss project ideas, potential selection and evaluation criteria, and numerous other implementation issues.²⁵ Funding uncertainty is one of several implementation challenges that have already been identified. Another earlier concern over the law's provision that barred cities from supplementing WIFIA funds with money from tax-exempt municipal bonds was addressed in the FAST Act, as described above. Nevertheless, some observers believe that while WIFIA financing may be helpful in limited instances, tax-exempt bonds will continue to be the principal financing tool used by municipalities for water infrastructure projects, along with low-interest SRF loans, where available. EPA is reportedly preparing WIFIA guidance that will address a number of questions raised during the listening sessions, such as defining eligible projects, determining selection criteria, developing a ranking system, and determining project creditworthiness. Implementation challenges presented by provisions of the law itself—such as the 49% cap—would need to be resolved in new legislation.

Although the WIFIA pilot program has not yet been implemented, interest in using WIFIA/TIFIA as a model for other infrastructure financing programs is apparent. For example, several legislative proposals in the 114th Congress would establish a WIFIA-type program for water reclamation and reuse projects in western states. These proposals, referred to as "Reclamation for WIFIA," or RIFIA, are included in S. 176/H.R. 291 (the Water in the 21st Century Act) and S. 1894 (the California Emergency Drought Relief Act of 2015).

Most stakeholders in the debate about water infrastructure financing acknowledge that there is no single solution or alternative that will fit all needs for all communities and all types of projects. Most also recognize that financing is not new revenue. Investment via a particular financing tool, such as WIFIA, could simply displace existing mechanisms rather than increase total investment in water infrastructure. Whatever the source of funds for a project, communities and other sponsors must still identify a stream of revenue to repay whatever debt is incurred for a given investment. One of the challenges going forward is to ensure that financing is available for all needed projects.

²⁵ Material from an EPA presentation on WIFIA is available on EPA's website: <http://www.epa.gov/sites/production/files/2015-09/documents/wifia-04-01-15-webcast-2.pdf>.

Author Contact Information

Claudia Copeland
Specialist in Resources and Environmental Policy
ccopeland@crs.loc.gov, 7-7227