

Federal Infrastructure Financing Tools

Will the Water Infrastructure Finance and Innovation Act be an option?

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Outline

- Restate the Need
- Review Federal Funding Options
- What Has Been Proposed
- Focus on the Water Infrastructure Finance and Innovation Act (WIFIA)

Disclaimer: I am not the finance expert...just talking about the political opportunities and risks.



Why Is It Needed?

- The need to repair, replace and overhaul the nation's water systems is immense.
- It must be updated to continue providing the nation with clean and safe drinking water and waterways.
- At the same time, current local, state and federal programs are insufficient to meet investment needs – in particular, upfront capital needs.



Why Is It Needed?

- According to the Department of Commerce, every \$1 invested in water infrastructure generates \$2.62 in the private economy
- Every job created in the water workforce adds 3.68 jobs nationally.
- Almost 70 percent of American communities use rates to pay local infrastructure projects. Imbedded in these costs are billions of dollars in interest costs each year.



Federal Role

- Primary federal role in water infrastructure is one of leadership. They can do this by demonstrating and encouraging:
 - Utilize modern asset management tools and full-cost pricing;
 - Adoption of technologies;
 - Use of cost-saving watershed and regional strategies;
 - Ways to access capital; and
 - Use of advanced procurement and project delivery methods.



Federal Role

Times are a changing....

Just as there is not free lunch....there is no free federal money.

So what federal financing options exist?



Federal Funding Options

- Safe Drinking Water State Revolving Loan Fund (SRF)
 - American Recovery and Reinvestment Act (ARRA)
- Build America Bonds
- Water Infrastructure Finance and Innovation Act (WIFIA)
- Tax Exempt Status of Municipal Bonds



Safe Drinking Water State Revolving Loan Fund (SRF)

- Critical Tool – Especially for Smaller Project
 - \$6 million cap in Oregon unless approved by Oregon Drinking Water Advisory Committee
- Uses a health based criteria to determine ranking
- Funding provided to states to administer
- American Recovery and Reinvestment Act (ARRA) – Provided a one-time influx of funding



Safe Drinking Water State Revolving Loan Fund (SRF)

- Green Projects, Principle Forgiveness, etc.
- Buy American Provision (ARRA)
- Need is greater than the fund
 - Over \$ 421 million of “shovel ready” drinking water projects were identified in Oregon in 2009 as part of ARRA.
 - Oregon received \$28.5 million.
- SRFs (Drinking Water and Waste Water) are an easy target for budget cuts



Build America Bonds (BABs)

- Direct Payment BABs provide a federal subsidy of 35% of the interest paid on the bonds to the issuer.
- The bond issuer experiences a reduced cost of borrowing in comparison to traditional taxable corporate bonds, and in many cases, it is more cost effective than issuing traditional tax-exempt bonds.

Unless....the subsidy goes away or is reduced



WIFIA - A Novel Approach

Purpose:

- To lower the cost of capital for infrastructure investments;
- Increase the availability of lower-cost capital;
- Have no or little effect on the federal budget deficit
- Model after the successful Transportation Infrastructure Finance and Innovations Authority (commonly called TIFIA)



WIFIA – A Novel Approach

- WIFIA would access funds from the U.S. Treasury at Treasury rates and use those funds to support loans for water projects.
- 35 years (or less) to repay
- Loans would be repaid with interest thus minimizing the risk to the federal government
- Offer loans, loan guarantees, and other credit support for large water infrastructure projects and those with national or regional importance.



WIFIA – A Novel Approach

- Reduce the cost of leveraging for State Revolving Fund (SRF) programs by lending to them directly.
- 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.
- Designed to supplement – not replace - SRFs



How It Could Work

An example of the saving is illustrated below.

Annual Debt Service on a \$30 Million Loan

30 Year State Bond @ 5.4% \$2,072,040

30 Year WIFIA Loan @ 4.04% \$1,743,339

- Annual Savings \$328,701
- 30 year savings \$9,861,030

Debt Service Savings 15.9%



Senate Action

- In May the Senate approved WIFIA as part of the Water Resources Development Act (WRDA)
 - Bipartisan Support
- \$50-million “pilot program” for EPA and same for Corps of Engineers water projects
- For communities over 25,000 = Projects > \$20 Million
- For smaller communities = Projects > \$5 million



Senate Action

- \$50 million could support \$1.65 Billion in loans
- Up to 33:1 leveraging
 - Federal Credit Reform Act
 - The default rate for water utilities is historically very low (0.04%)
- Since the loan is secured by the US Treasury, current requirements to maintain significant reserves or other assurances wouldn't be needed thus reducing the cost of borrowing



Senate Action

Other provisions:

- Buy American – Steel, Iron, and Manufactured Goods
- Davis Bacon – Prevailing Wage Requirements



Now for the Bad News....

- There are significant issues to be resolved with the Senate bill...
 - 49% Funding Limitation (too much like TIFIA)
 - Limitation on use of tax exempt bond financing for the remaining non-WIFIA funded share

These problems with the Senate bill are extremely serious...

But it will be up to the conference committee to see if they can be fixed!



On to the House

- House approved their own version of WRDA (called WRRDA)
 - WIFIA was not included as part of the House version
 - A lot of new members of Congress since the passage of the last WRDA legislation – education process needed
- House Committee Jurisdictional Issues:
 - Two committees would need to act on WIFIA
 - Transportation and Infrastructure and Energy and Commerce



Tax-Exempt Municipal Bonds

- Backbone of infrastructure financing
- Tax exemption could be reduced or eliminated for high income individuals risking municipal bonds
- Proposals provides 28% cap on the value of certain tax benefits, including interest earned on new and outstanding state and local tax exempt bonds
 - Also in FY 2013 and FY 2014 Presidential Budget Proposals
 - FY 2014 Senate Budget Resolution also suggests a cap



Tax-Exempt Municipal Bonds

- A 28% benefit cap on tax exempt interest would cost states and localities an additional **\$173 billion** in interest expenses for all infrastructure projects financed over the last 10 years.
- Water and sewer projects financed with tax-exempt bonds over the past 10 years is \$257.9 billion
- Over \$17 billion of projects in Oregon have been financed with tax-exempt bonds over the past 10 years.



Conclusion

Didn't touch on other ideas:

- Water Infrastructure Bank
- Water and Wastewater Trust Fund
- Private Activity Bonds
- State Efforts



Conclusion

- Tradition federal funding options are changing:
 - Reduced amount of funds
 - Additional requirements
 - Limitation on the advantages
- WIFIA offers a new approach built on an existing successful program
- A lot of work to be continued....stay tuned.



Questions

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