



Community and Economic Development in North Carolina and Beyond Blog: The Birth of a New Federal Water and Wastewater Financing Program — WIFIA Arrives

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What is WIFIA? WIFIA stands for the Water Infrastructure Finance and Innovation Act, the name of the federal act that authorized an interesting new federally managed water and wastewater infrastructure funding mechanism. WIFIA includes both direct loans and a new credit enhancement/guarantee mechanism (more on WIFIA guarantees in a future blog post). The WIFIA program was first created in 2014, but its funding appropriation and program guidance was not completed until the end of 2016. The US Environmental Protection Agency (EPA) announced the Notice of Funding Availability for WIFIA on January 10th, 2017. Borrowers interested in taking out a loan with this year's funds have until April 10th, 2017 to submit letters of interest that will be considered by EPA.

Here's how the EPA describes what a WIFIA loan has to offer:

"It can offer borrowers the advantage of developing customized terms, including sculpted repayment terms to match the specific needs of a project. Finally, the WIFIA program lends at a low, fixed interest rate equal to the Treasury Rate for a comparable maturity. (WIFIA Program Handbook)"

As with most federal programs, it is important to read the fine print. WIFIA loans have some strings attached. Here are a few things to consider before you add WIFIA loans to your finance plan:

- WIFIA loans can only cover up to 49% of a project cost — supported projects have to be "co-financed" with another source of funding (e.g. traditional bonds, other subsidized grants or loans).
- WIFIA supported projects have to be relatively large (at least \$20 million for larger communities with a population over 25,000 people and at least \$5 million for communities with a population below 25,000).
- WIFIA supported projects must adhere to special federal requirements such as Davis-Bacon wage requirements and qualified use of American Iron and Steel project materials which may increase the project cost in some areas.

For some borrowers, WIFIA's main advantage over traditional debt options will be the flexible structure of the loans. For example, a large regional facility that is not expected to generate sufficient revenue to cover debt service until years after it goes on line could structure a long term loan (up to 35 years) with payments not starting until 5 years after construction is complete.

For many communities, the main draw of WIFIA will be the potential to reduce borrowing costs. For example, a \$25 million dollar WIFIA loan issued at the current 30 year treasury rate could carry an interest rate of 2.96% (as of January 5th, 2017). The Bond Buyer's Revenue Bond Index Rate, an indicator of what a utility with reasonable credit quality may have obtained at the same period for a similarly structured revenue bond, was reported as 3.90%. The Environmental Finance Center's Subsidized Benefits Calculator can quickly demonstrate some of the financial advantages given these interest rates. The difference in interest payments over the course of the loan would save a borrower approximately \$160,000 per year, or an amount equivalent to a one time grant of over \$2.7 million dollars. Evaluating the true financial impact of a WIFIA loan requires much more analysis, but this quick analysis does demonstrate the scale of the financial impact of this program—a bottom line impact that many utilities (and their customers) may be interested in tapping into.

Interested in more details about WIFIA? Here are some resources:

- EPA WIFIA Program Website



- WIFIA Program Handbook (66 pages)
- WIFIA Overview (1 page)
- WIFIA Information Sessions/Webinars
- UNC EFC Subsidized Benefits Calculator