

WIFIA: Financing Innovation in Water

February 13, 2015

Purpose and Background

- WIFIA became law on June 14, 2014
- 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 (ASDWA, ACWA, CIFA, NCPPP)

Listening Sessions (continued)

- Key comments:
 - Overview and loan process
 - Project eligibility, evaluation & selection
 - Potential projects

Listening Sessions (continued)

- 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

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!**

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

The Role of SRFs

- How will WIFIA interact with the SRFs
- Right of first refusal
 - EPA must notify SRF programs about applications for project funding through WIFIA
 - SRF programs have 60 days to respond showing intent to fund the project at or over the amount requested from WIFIA
 - SRF programs have 180 days to close the deal
 - Rates and terms must be at least as favorable as WIFIA
- Credit review of proposed WIFIA projects
 - EPA responsible for credit review of applicants
 - Will want to take advantage of lessons learned by state SRF programs

The Role of SRFs

- WIFIA *and* SRF may be able to jointly fund a project
- Possible opportunities include:
 - Co-fund WIFIA projects with EPA
 - 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
- Joint funding may make WIFIA effective, highlighting the importance of the SRF programs
 - SRFs are essential to the success of WIFIA
 - Both programs, in tandem, are essential for making large infrastructure investments affordable.

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.

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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WIFIA for Civil Works: Eligibility Considerations

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NCPPP Federal P3 Summit WIFIA Panel

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USACE Current Efforts

- Collaborating with USEPA on Institutional Platform
 - Finalizing Interagency MOA
 - Base platform being stood-up by USEPA to serve both agencies
- Investigating eligibility considerations, policy purposes & targets specific to civil works
 - This talk focuses on eligibility considerations
 - First provides contextual overview of civil works projects

Eligible Projects Span Priority Civil Works Missions

- Inland Navigation
 - Channels, locks & dams on Inland Waterway System
- Deep draft navigation
 - Harbor approach channels & turning basins
- Flood Risk Management (FRM)
 - Dams on large rivers, Mississippi River & Tributaries project (MR&T), local protection projects
- Ecosystem Restoration
 - Hydro-geomorphic conditions for desired biological ends

Construction Process for Civil Works Projects

- Each project must be individually authorized by Congress
 - Based on USACE study & Chief's recommendation
- Project authorization specifies required non-federal cost share for construction
- Authorization does NOT guarantee federal appropriations for construction will be made
 - If appropriations are made they must be matched with proportional required non-federal funds

Management of Built Projects

- Responsibility for funding/implementing O&M and other management varies by type of project
- Federal responsibility
 - Inland navigation channels & assets
 - Deep draft harbors (HMTF)
 - FRM dams, MR&T
- Non-federal responsibility
 - FRM local protection projects
 - Ecosystem restoration projects

Eligibility Considerations for Civil Works

- Statutory Criteria:
 - Relate to obligor cost & delivery responsibility for project construction, O&M and other management
- Federal Interests Test
 - Relate to USACE policy and technical tests for project engineering, economic, and environmental acceptability
- Federal Budgeting Issues
 - Relate to availability of appropriations and budget scoring considerations

Key Statutory Eligibility Criteria

- Project must meet USACE engineering, economic, and environmental standards
- Obligor must develop O&M plan & identify adequate revenue to implement
- No federal O&M assistance for projects not authorized
- Credit can be used toward non-federal cost share if repayable with non-federal funds
- Combined credit assistance & federal share capped at 80% of project cost

Eligibility Considerations: Federal Interest Test

- Question: Could credit be made available for a project that has NOT been Congressionally authorized?
- Authorized projects
 - Unbuilt projects -- have already been studied & determined by Congress to be in federal interest
 - Modifications to built projects - already in place are USACE project data & processes for technical evaluation as well as authorities & policies for decision-making

Eligibility Considerations: Federal Appropriations

- Question: Could credit be made available for a project that depends on federal funds for construction completion?
 - Will the project be prioritized in federal budget?
 - Will appropriations that are made available ensure timely construction completion?
 - Does the revenue source pledged to repay credit depend on construction completion & project operation?

Eligibility Considerations: Budget Scoring

- OMB budget scoring of credit proposed for some project determines the amount of agency budget authority needed to extend credit
- Activities deemed to be Non-Federal:
 - Scoring based on the credit risk subsidy cost (risk adjusted estimate of expected loss from default)
 - In TIFIA, loans have been scored at an average of 10% of face value of loan
 - So \$10M loan requires \$1M in agency budget authority

Eligibility Considerations: Budget Scoring - continued

- Activities deemed to be Federal:
 - How scored depends on whether nature of the activity is deemed by OMB to be “governmental”
 - Is the activity initiated, controlled & funded largely by the federal government for governmental purposes?
 - Determination considers various factors that bear on whether federal government has an economic stake in the project
 - If a project is deemed governmental, then a WIFIA loan for that project could be scored at 100% of loan face value

Next Steps

- Propose program policy purposes, targets, and eligibility rules
 - Reach out to potential borrowers to assess potential demand
- Propose application process & selection criteria and evaluate agency specific administrative requirements
- Report on program development to appropriations committees and OMB
- Finalize interagency MOA; continue collaboration with USEPA on institutional platform