



WIFIA

PROGRAM

WIFIA OVERVIEW WEBINAR

NOVEMBER 29,
2016



PURPOSE OF THE SESSION

The purpose of this webinar series is to:

- Foster a greater understanding of the requirements of the WIFIA program
- Clarify the purpose and goals of the WIFIA program
- Pave the way for successful applications to the WIFIA program



CONTACT US

Website: www.epa.gov/wifia

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Register to receive updates on the WIFIA program at <https://public.govdelivery.com/accounts/USAEPAOW/subscriber/new>. Select “Finance and Funding.”



MISSION STATEMENT

The Water Infrastructure Finance and Innovation Act (WIFIA) program accelerates investment in our nation's water and wastewater infrastructure by providing long-term, low cost, supplemental credit assistance under customized terms to creditworthy water and wastewater projects of national and regional significance.



PROGRAM PRIORITIES

Priorities for the WIFIA program reflect water sector challenges that require innovative tools to assist municipalities in managing and adapting to our most pressing public health and environmental challenges

EPA has identified four project priorities:

- Adaptation to extreme weather and climate change including enhanced infrastructure resiliency, water recycling and reuse, managed aquifer recovery
- Enhanced energy efficiency of treatment works, public water systems, and conveyance systems, including innovative, energy efficient nutrient treatment
- Green infrastructure
- Repair, rehabilitation, and replacement of aging infrastructure and conveyance systems



STATUS OF THE WIFIA PROGRAM

- Rules
- Application Materials
- Notice of Funding Availability
- Application Handbook



BACKGROUND

- Water Resources Reform and Development Act (WRRDA) of 2014 was signed by the President in June, 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
- WIFIA was amended by the FAST Act of 2015 (Highways) to allow the use of tax-exempt financing in WIFIA funded projects



APPROPRIATIONS AND FUNDING

- As a Federal loan program, WIFIA is governed by the Federal Credit Reform Act of 1990 (FCRA)
- As budget law, FCRA governs over 100 active loan programs across government, including WIFIA
- FCRA requires that the Congress appropriate “credit subsidy” funding to pay for estimated credit losses, without which WIFIA cannot accept applications or letters of interest
- The President has requested \$15 million in credit subsidy funding for fiscal year 2017, but the Congress has not yet acted on that request
- Appropriated but unobligated credit subsidy and loan limits may carry over to future years
- The Congress has already appropriated \$2.2 million to fund the operations and set-up of WIFIA, which is what makes today’s training and its content possible



USING CREDIT SUBSIDY TO MAKE LOANS

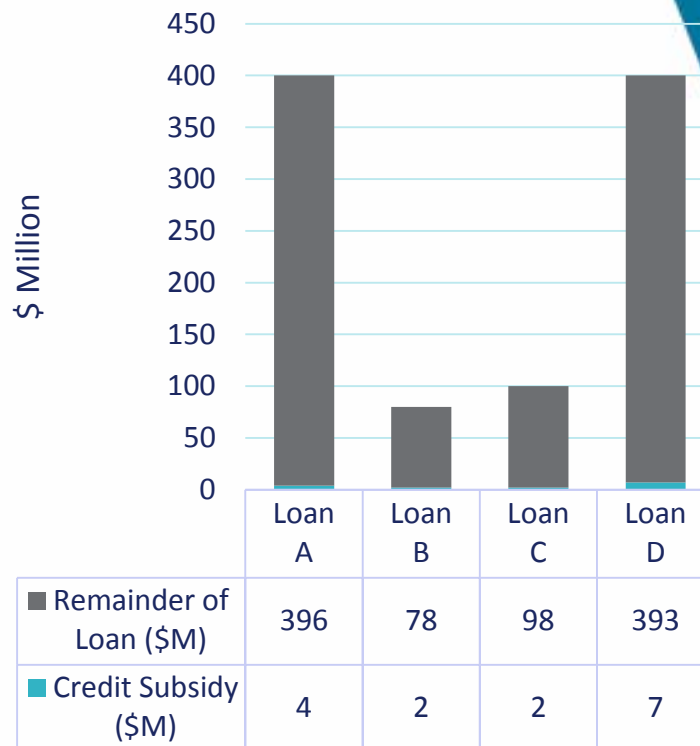
- Once credit subsidy is appropriated and a Notice of Funding Availability (NOFA) is released, WIFIA can open for business
- Credit subsidy is required to fund estimated losses on loans (not the full loan amount) and must be estimated and set-aside before closing
- Since the President estimated that default losses should typically be 2% or less of the loan amount, each dollar of credit subsidy may support an estimated \$50-\$100 in loan amount
- Once applications are received and underwritten, each prospective borrower and its project will be individually evaluated for credit risk and the corresponding consumption of credit subsidy
- Individual credit subsidy consumption estimates are internal to WIFIA and will not be shared with either the applicant or the public



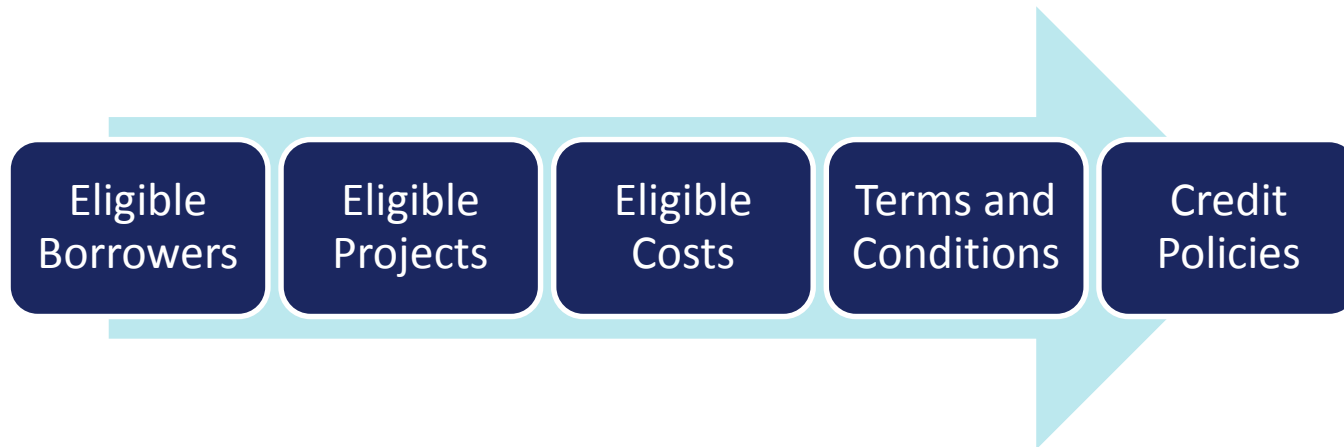
PRESIDENT'S REQUEST

- The President requested \$15 million in credit subsidy
- He estimated that this would accommodate no more than \$1.84 billion in total lending
- Actual aggregate loan amounts will depend upon the credit quality of successful applicants
- A high credit quality portfolio would allow aggregate loan amounts to reach the President's requested limit of \$1.84 billion
- A lower credit quality portfolio would limit aggregate loan amounts to a level below the President's requested limit

Example WIFIA Cohort



WIFIA PROGRAM REQUIREMENTS



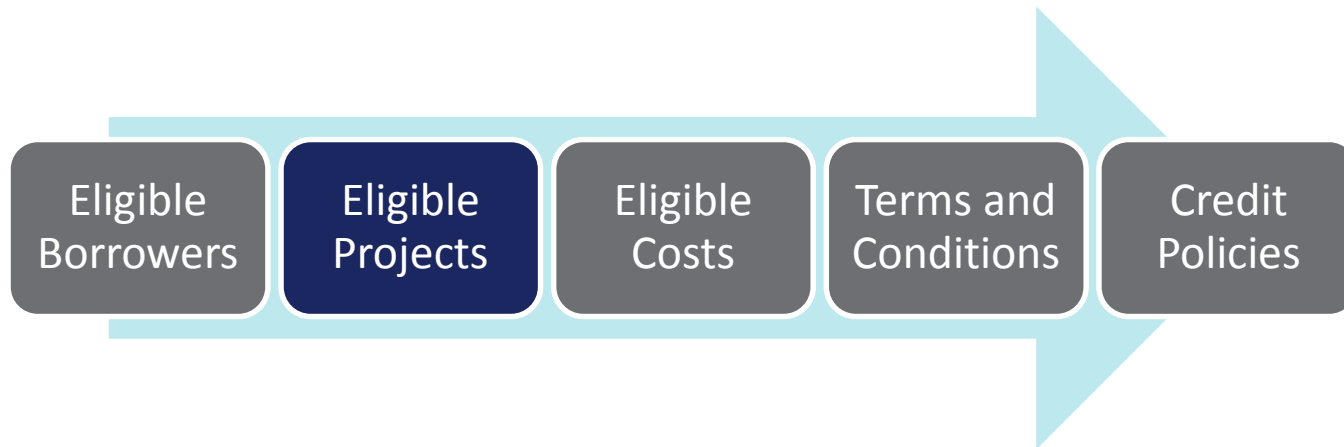
ELIGIBLE BORROWERS

The entity applying for a WIFIA loan must be one of the following:

- A corporation
- A partnership
- A joint venture
- A trust
- A federal, state or local government entity, agency, or instrumentality
- A tribal government or consortium of tribal governments
- A state infrastructure financing authority, as defined by the Clean Water Act and the Safe Drinking Water Act



ELIGIBLE PROJECTS



ELIGIBLE PROJECTS

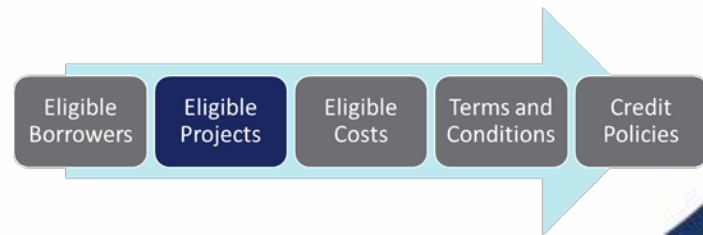
Prospective borrowers may only apply for WIFIA loans with the purpose of undertaking one or several eligible projects

1. **Wastewater projects that are eligible for the Clean Water State Revolving Fund** as described under section 603 of the Federal Water Pollution Control Act, notwithstanding the public ownership requirement under paragraph (1) of that subsection
2. **Drinking water projects that are eligible for the Drinking Water State Revolving Fund** as described in section 1452(a)(2) of the Safe Drinking Water Act
3. **Projects that enhance energy efficiency** in the operation of a public water system or a publicly owned treatment works
4. **Projects 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)



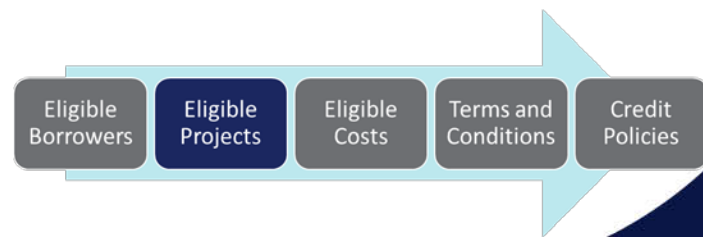
ELIGIBLE PROJECTS

5. **A brackish or sea water desalination project, a managed aquifer recharge project, or a water recycling project**
6. **The acquisition of real property or an interest in real property** that is either integral to an eligible project, or would mitigate the environmental impacts of water resources infrastructure projects otherwise eligible for WIFIA assistance, as determined by the Administrator.
7. **A combination of SRF-eligible wastewater or drinking water projects** for which a state infrastructure financing authority submits a single application
8. **A combination of eligible projects** secured by a common security pledge, for which a single eligible entity, or a combination of eligible entities, submits a single application



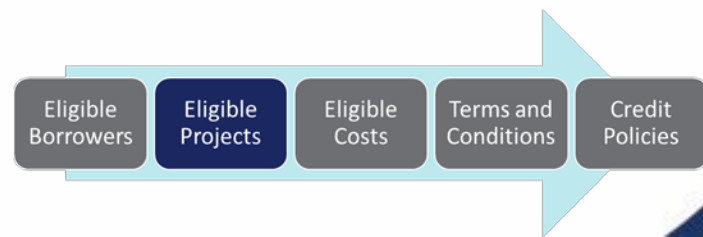
OTHER ELIGIBILITY REQUIREMENTS

- Projects must be reasonably anticipated to cost no less than \$20 million
 - \$5 million for small community projects (serves a community of no more than 25,000)
 - Any amount if bundled into a single application for at least \$20 million



OTHER ELIGIBILITY REQUIREMENTS

- Prospective private borrower must demonstrate that it has consulted with and gained the support of the affected state, local, or tribal government in which the project is located, by:
 - Certified letter signed by the approving municipal department or similar agency, mayor or other similar designated authority
 - Local ordinance
 - Any other means by which government approval can be evidenced

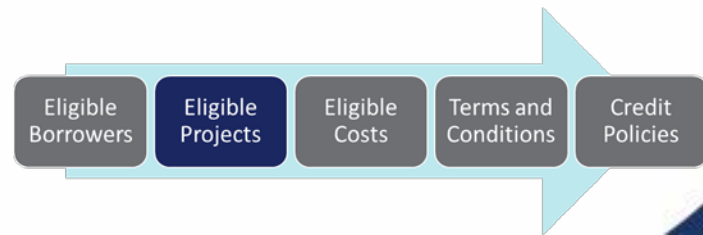


CREDITWORTHINESS

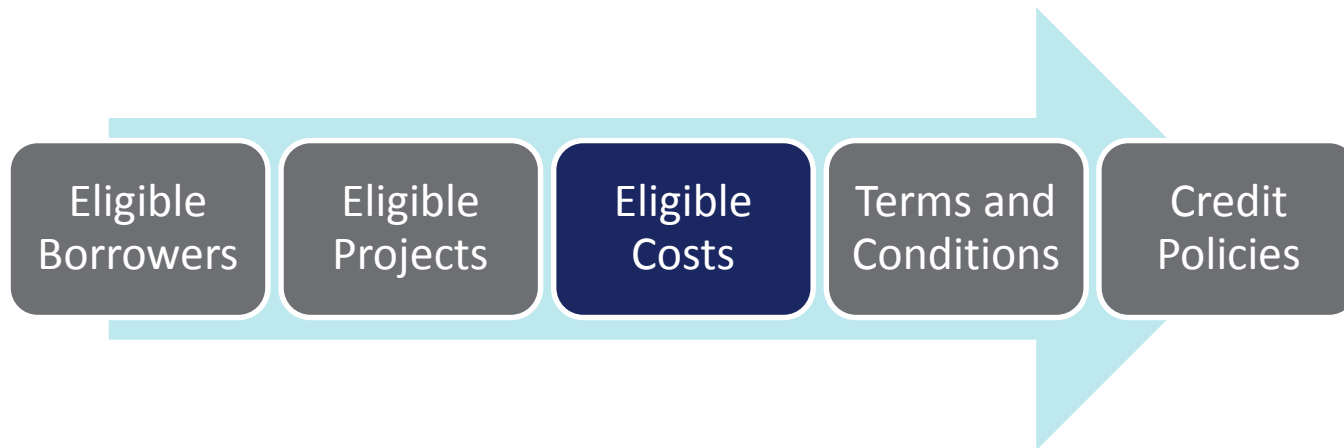
Projects applying for WIFIA loans must demonstrate a reasonable assurance of repayment of the loan over the term of the loan

EPA will examine:

- The terms, conditions, financial structure and security features of the proposed financing
- The dedicated revenue sources that will secure or fund the project obligation
- The financial assumptions upon which the project is based
- The financial soundness, credit history, and outlook of the prospective borrower

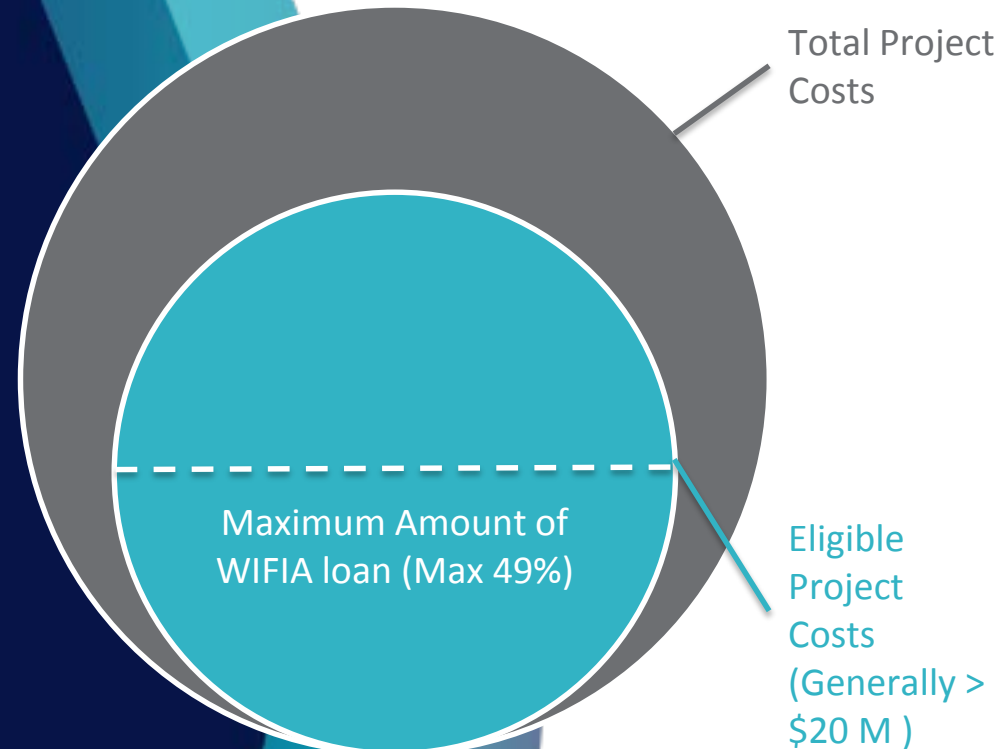


ELIGIBLE COSTS



ELIGIBLE COSTS

- Not all costs associated with eligible projects are eligible project costs
- The WIFIA program must:
 - Verify the eligibility of the project costs
 - Calculate the total amount of eligible project costs included in the project
 - Ensure that total eligible project costs meet the threshold for minimum project size
 - Ensure that the amount of the WIFIA loan as a percentage of total eligible project costs does not exceed the maximum percentage allowed under the statute, budget authority, and funding legislation



Eligible Borrowers

Eligible Projects

Eligible Costs

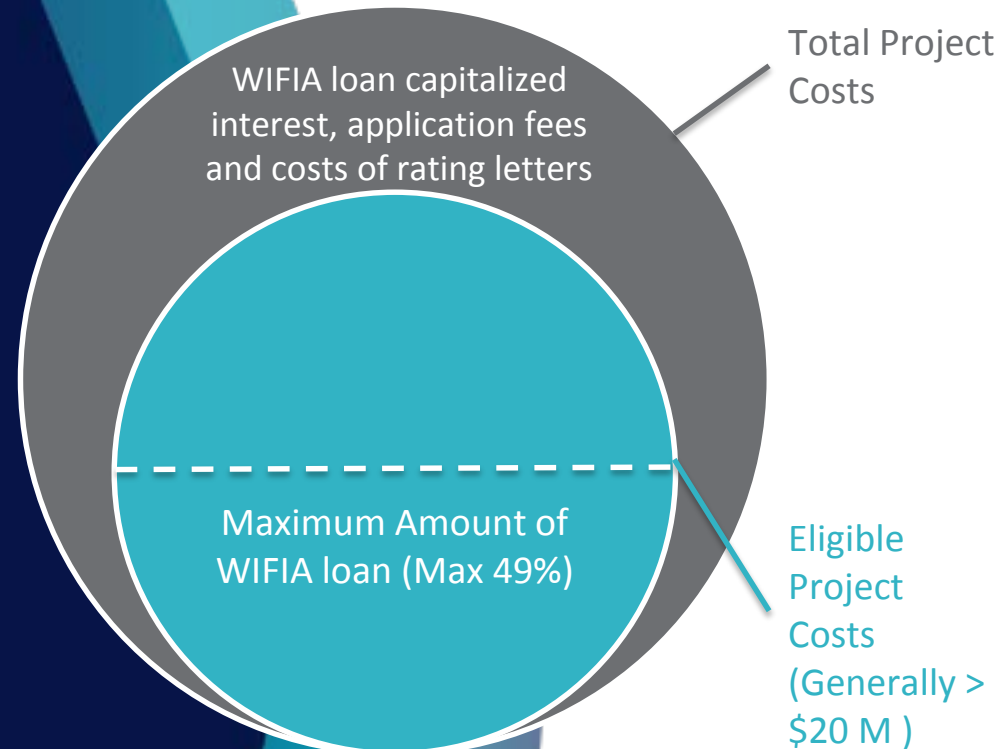
Terms and Conditions

Credit Policies



ELIGIBLE COSTS

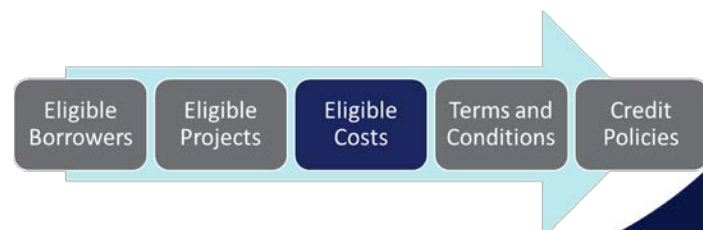
- Ineligible project costs
 - Capitalized interest on the WIFIA loan
 - Application charges or any other expenses associated with the application process, including the cost of the preliminary and final rating opinion letters



ELIGIBLE COSTS

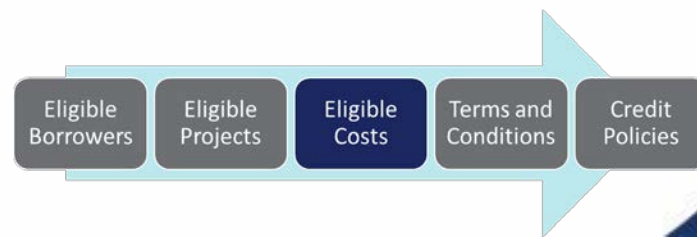
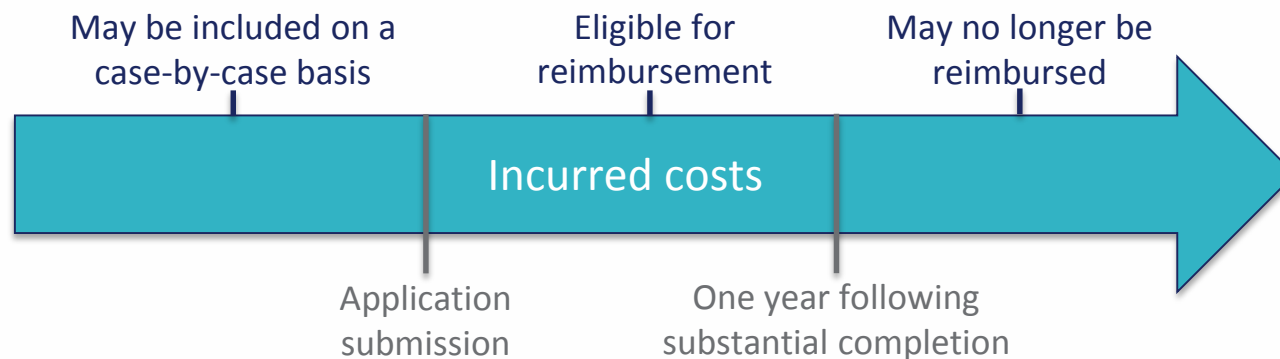
Eligible project costs are costs associated with the following activities, as defined in the statute

- **Development-phase activities**, including planning, feasibility analysis (including any related analysis necessary to carry out an eligible project), revenue forecasting, environmental review, permitting, preliminary engineering and design work, and other preconstruction activities
- **Construction, reconstruction, rehabilitation, and replacement activities**
- **The acquisition of real property or an interest in real property**(including water rights, land relating to the project, and improvements to land), environmental mitigation (including acquisitions that would mitigate the environmental impacts of water resources infrastructure projects otherwise eligible for WIFIA credit assistance), construction contingencies, and acquisition of equipment
- **Capitalized interest** necessary to meet market requirements, reasonably required **reserve funds, capital issuance expenses**, and other **carrying costs** during construction



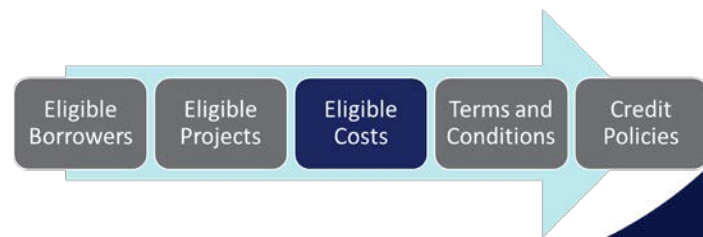
ELIGIBLE COSTS

- Eligible Costs incurred prior to submission of an application may be included as a part of eligible project costs
 - Such costs will be approved on a case-by-case basis
- Incurred eligible costs may be reimbursed up to one year following substantial completion of the project



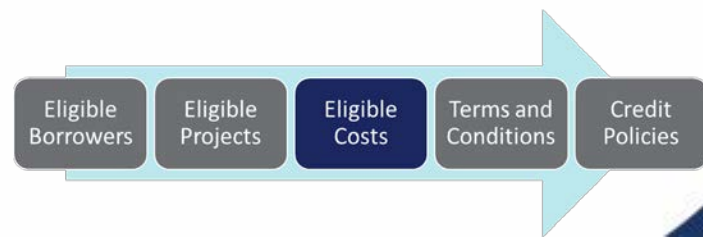
COMPLIANCE REQUIREMENTS

- Projects receiving a WIFIA loan must comply with all relevant federal laws and regulations, including, but not limited to:
 - Use of American Iron and Steel
 - Davis-Bacon Wage Requirement
 - National Environmental Policy Act
 - Floodplain management
 - National Historic Preservation Act
 - Endangered Species Act
 - All Civil Rights Acts



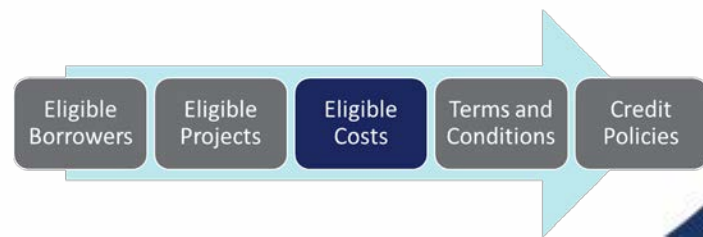
ADDITIONAL CONSIDERATIONS

- Small communities set-aside
 - The WIFIA program must set aside, for small communities, 15% of the amount appropriated
 - Population no greater than 25,000
 - On June 1st of the year in which the funds were appropriated, these funds become available for all WIFIA projects
 - Expiration of set-aside does not preclude funding of small community projects

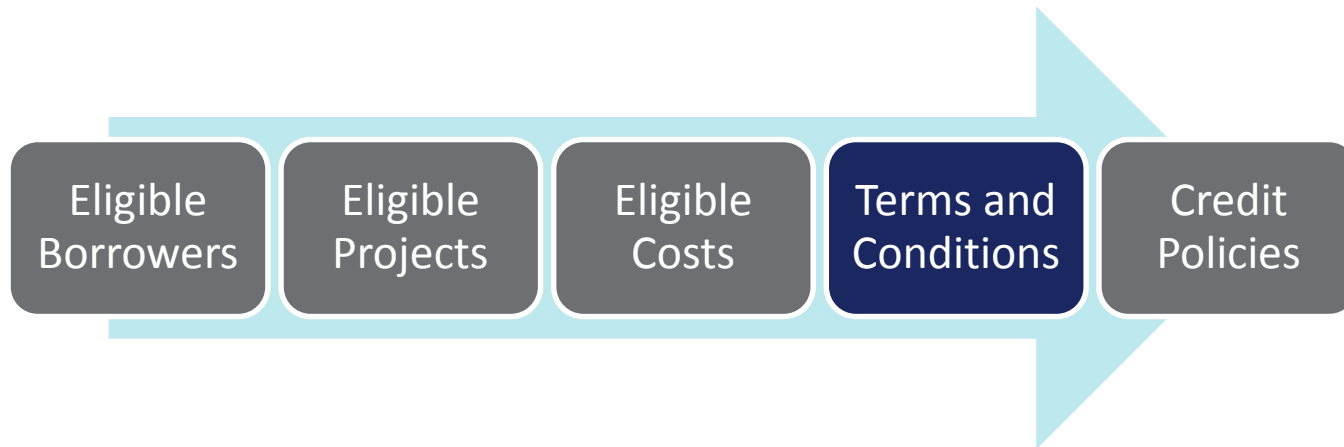


ADDITIONAL CONSIDERATIONS

- Up to 25% of the funds available may be used for projects to fund in excess of 49% of the project costs
 - Only used in extraordinarily exceptional circumstances at EPA's discretion
 - EPA will not entertain applications or proposals for use of this authority



TERMS AND CONDITIONS



LIEN PRIORITY

Lien priority

- WIFIA loans may be junior (i.e., subordinate) to the project's Senior debt obligations in the priority of its lien on the project's cash flow
- In the event of bankruptcy, insolvency, or liquidation, the WIFIA credit instrument will have a parity lien with respect to the project's pre-petition senior creditors



* WIFIA credit will spring to parity in the event of bankruptcy, insolvency, or liquidation



CREDIT RATING REQUIREMENT

At the time of application

- A preliminary rating opinion letter from at least 1 credit rating agency indicating that the senior obligations of the project have the potential to achieve an investment grade rating; and

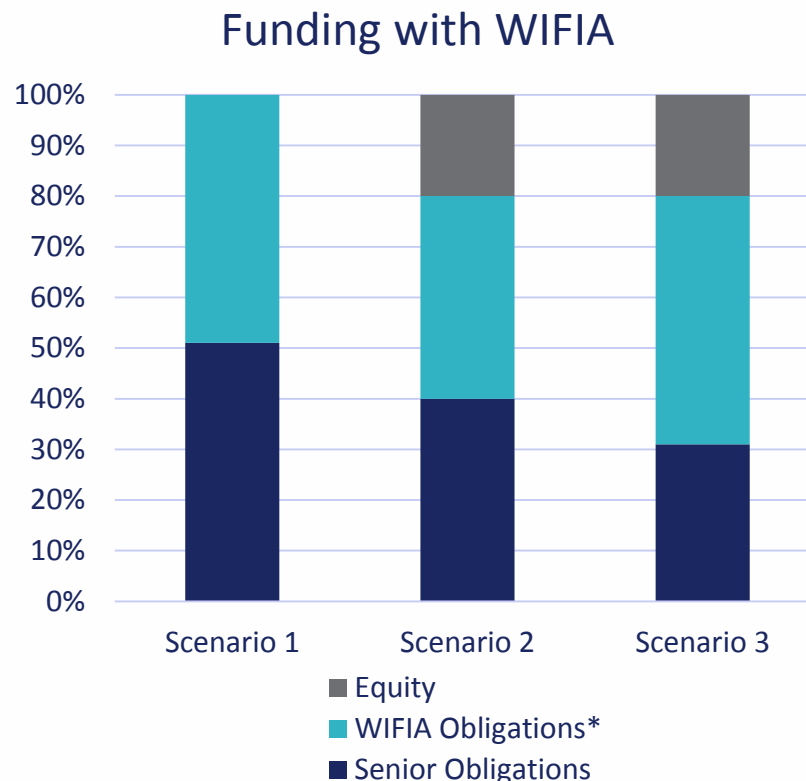
At closing

- Final rating opinions from at least 2 credit rating agencies indicating that the senior obligations have an investment grade rating.

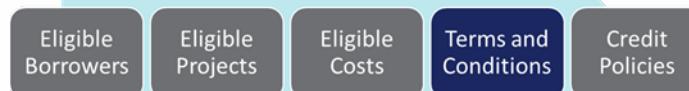
	Moody's	S&P	Fitch
Investment Grade	Aaa	AAA	AAA
	Aa	AA	AA
	A	A	A
	Baa	BBB	BBB
Speculative	Ba	BB	BB
	B	B	B
	Caa	CCC	CCC
	Ca	CC	CC

AMOUNT OF WIFIA LOAN

- Maximum amount: 49% of the reasonably anticipated eligible project costs
 - The amount of the WIFIA loan may not exceed the amount of the project's senior obligations unless the WIFIA loan obtains an investment-grade rating
- Maximum federal involvement: 80% of total project costs



* In Scenario 3, the WIFIA obligations must have an investment-grade rating



INTEREST RATE

Interest rate: no less than the yield on U.S. Treasury securities of a similar maturity to that of the WIFIA loan on the date of execution of the credit agreement

- The WIFIA program estimates the yield on comparable Treasury securities by adding one basis point to the SLGS daily rate with a maturity that is equal or greater than the weighted average life (WAL) of the WIFIA loan

The interest rate will be a single fixed rate established at closing

- The prospective borrower may receive multiple disbursements, but the interest rate will be the same for all disbursements
- In many cases, the interest rate will be lower than the 30 year SLGS rate, which was 2.52% as of October 18, 2016



AMORTIZATION

Maturity date

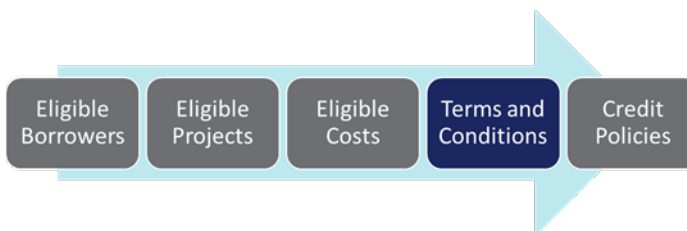
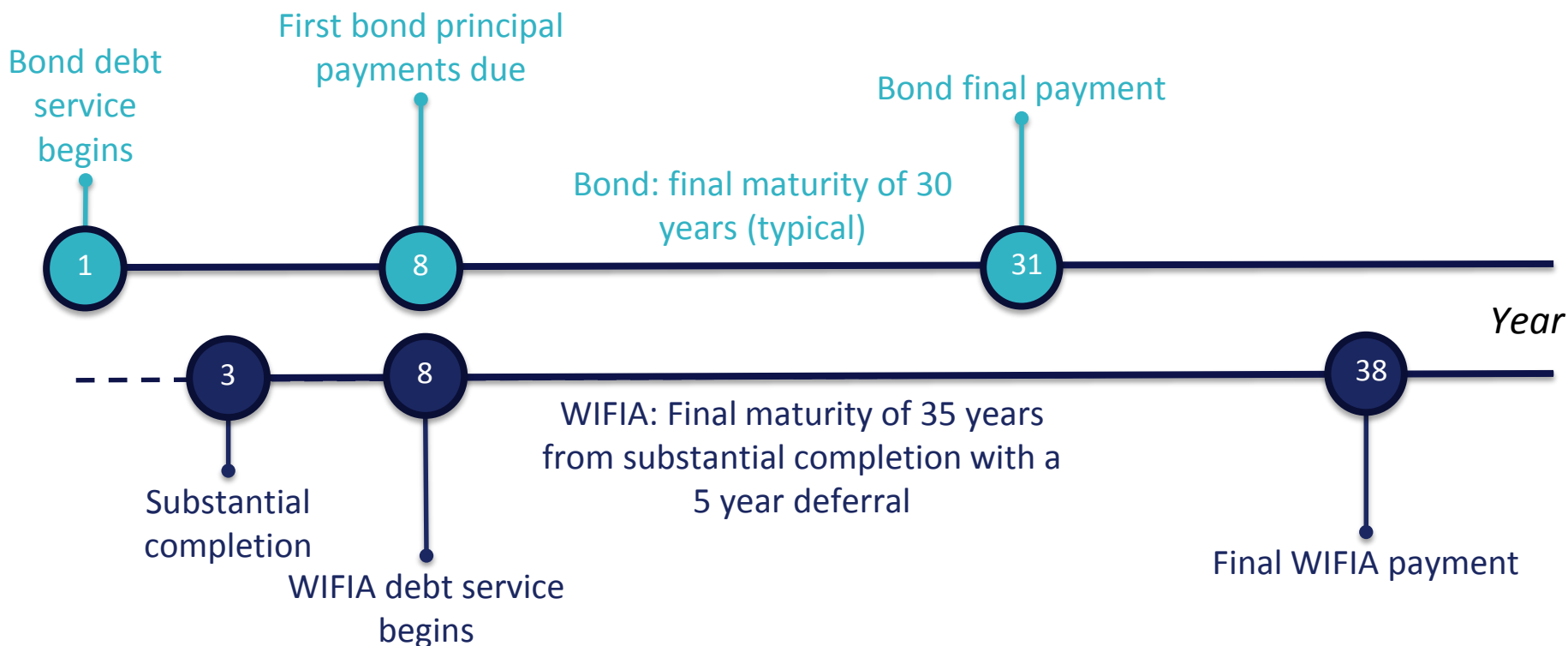
- Must be the earlier of 35 years after the date of substantial completion of the project, or the useful life of the project

Debt service payment

- Payments must commence no later than 5 years following substantial completion of the project
- May be sculpted to accommodate the projected cash flow from project revenues and other sources

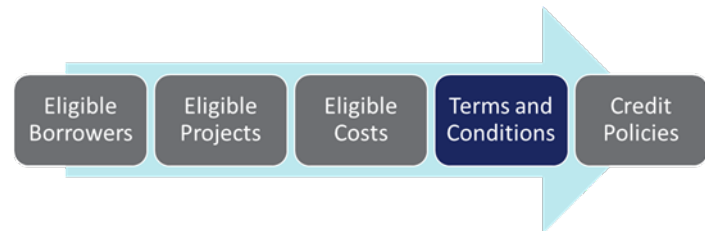
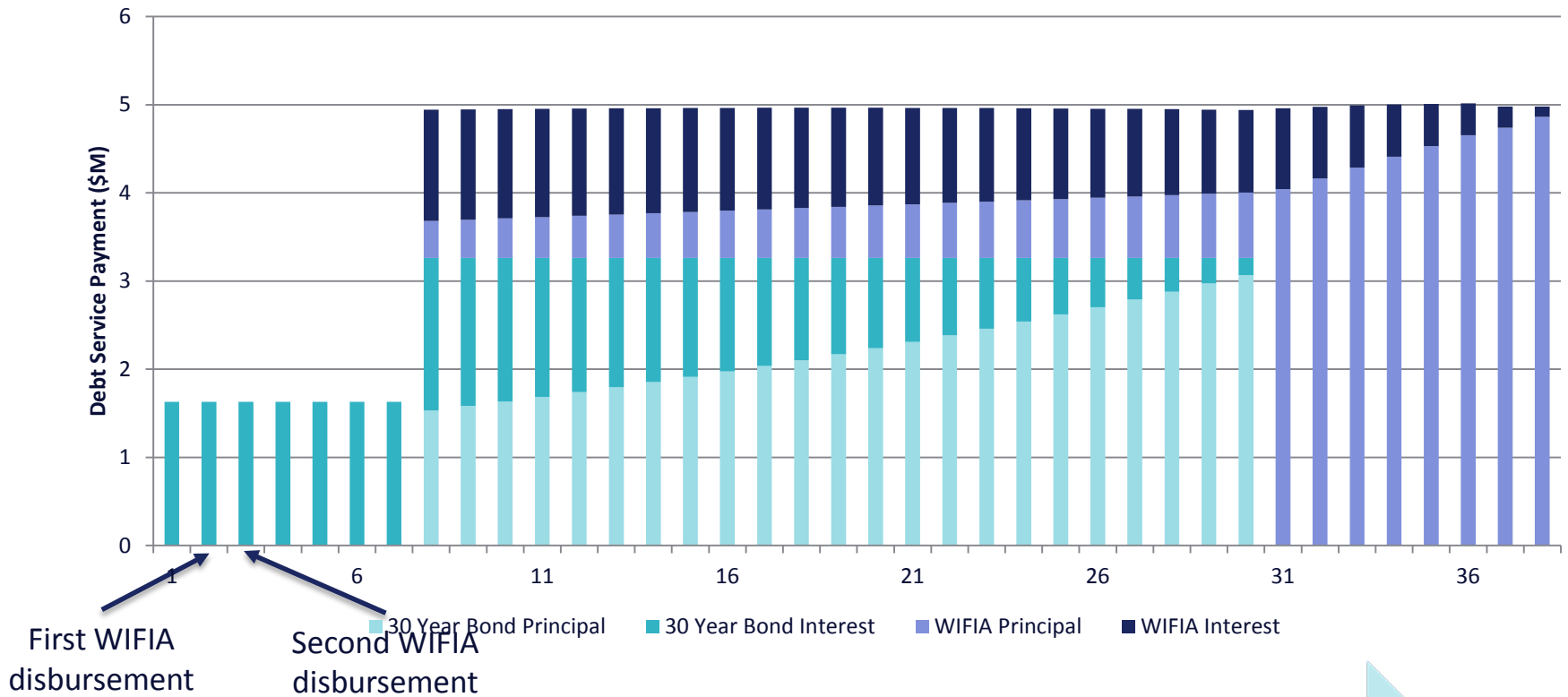


AMORTIZATION: BOND AND WIFIA



WIFIA LOAN SCULPTED AROUND A BOND

Amortization of a \$100M Financing



REPAYMENT SOURCE AND SECURITY FEATURES

Dedicated source of repayment

- WIFIA loan must be repaid using a dedicated source of repayment or security pledge that is the same in all material respects as the security pledged to the project's senior obligations
- Taxes, rate revenue, debt service income from issued loans, transfers pledged from state or local governments, dedicated taxes, a municipal general obligation pledge, revenues that are pledged for the purpose of retiring debt on the project, and general recourse corporate undertakings

Security features

- WIFIA loan shall include a rate covenant, coverage requirement, or similar security feature supporting the project obligations



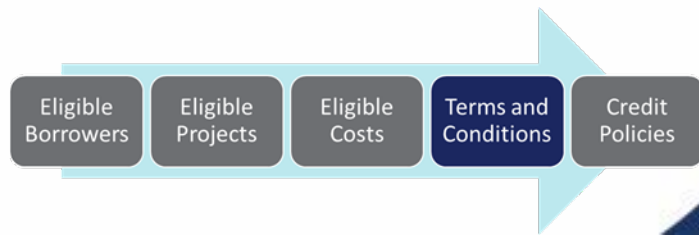
DEFERRALS AND PREPAYMENT

Deferrals

- May be granted at the sole discretion of the Administrator
- May be contemplated in the credit agreement
- Must be a reasonable assurance of repayment of the WIFIA credit instrument
- Final maturity of the WIFIA credit instrument must remain unchanged

Prepayment conditions

- May prepay in whole or in part at any time without penalty
- May not use federal funds to prepay



FEES

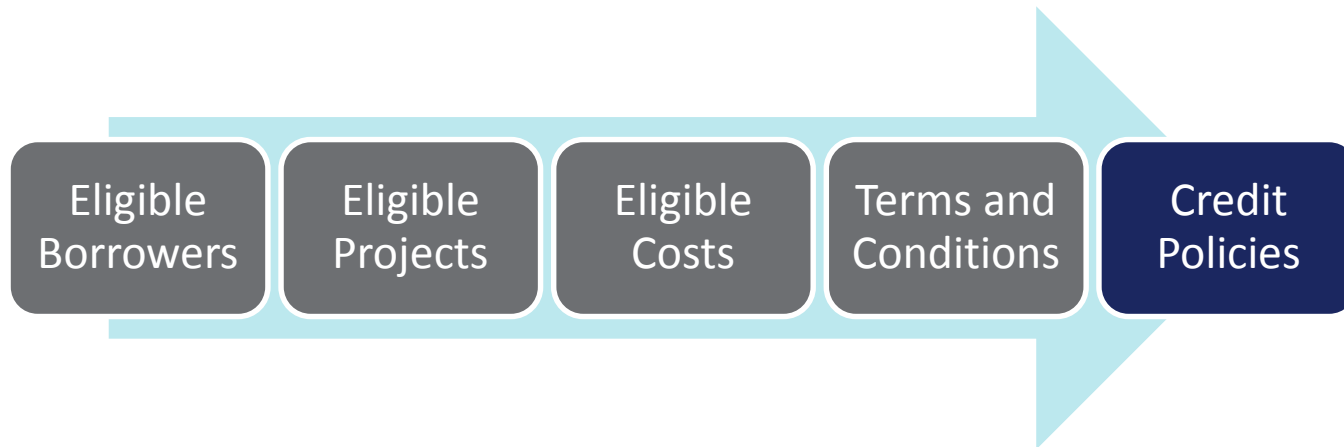
WIFIA loans may be subject to fees to cover all or a portion of the costs associated with providing loans

- The WIFIA Program will propose a fee rule which includes two fees associated with the application submission
- One fee will be due at application submission
- Credit processing fee will be payable at loan closing

Fee Type	Timing
Application Fee	Due at submission of application
Credit Processing Fee	Invoice at Closing



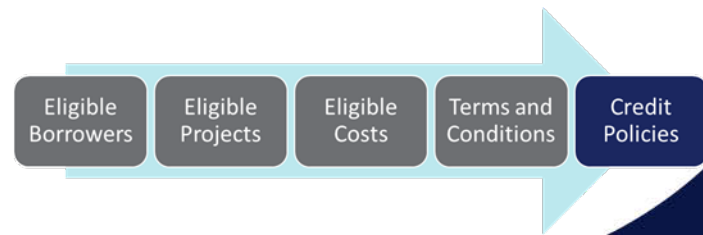
CREDIT POLICIES



CREDIT POLICIES

Established by the WIFIA program, these policies influence the structuring of project financing plans and guide the WIFIA program's creditworthiness determination

- The WIFIA program will consider exceptions based on the specific needs of the project and may grant exceptions at its sole discretion



CREDIT POLICIES

Disbursements of WIFIA loan

- Proceeds will be disbursed to fund eligible project costs incurred based on submitted invoices and receipts
- Disbursement timing can be structured around the needs of the project financing plan but shall be insulated from funding risk

Variable rate debt

- The WIFIA credit instrument shall not be exposed to material amounts of unhedged variable rate debt in the borrower's financing structure



CREDIT POLICIES

Interest capitalization

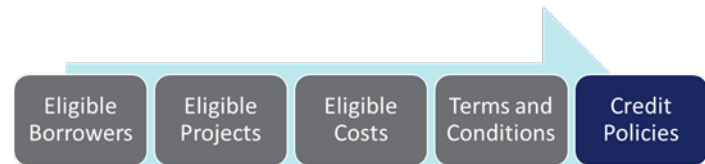
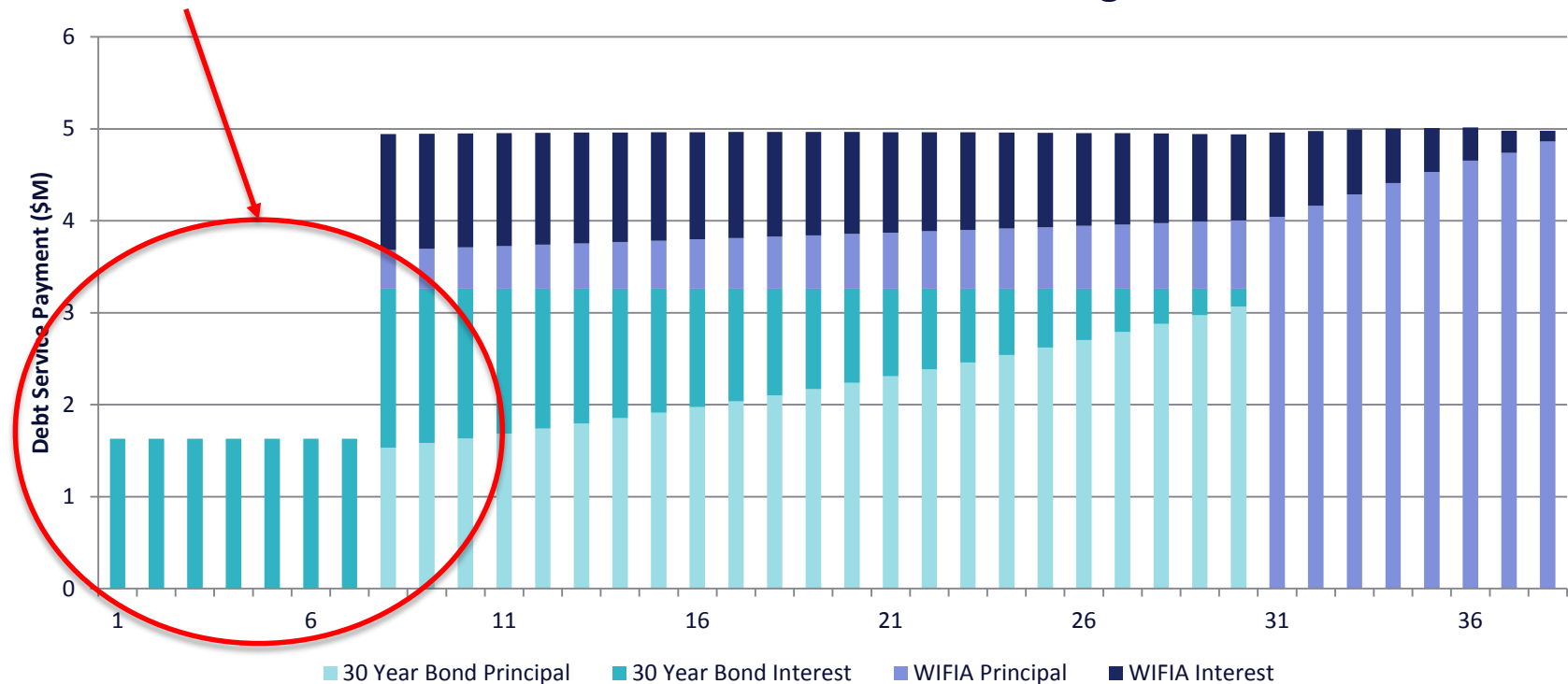
- WIFIA loans may capitalize interest as warranted by the cash flow profile of the project
- WIFIA program will not increase its investment in a project by capitalizing interest when other project creditors are withdrawing their investment through principal amortization



WIFIA LOAN CAPITALIZATION

Interest-only period
for Bond

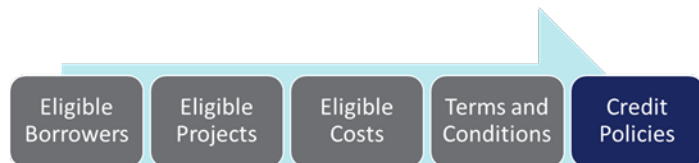
Amortization of a \$100M Financing



CREDIT POLICIES

Amortization requirement

- The WIFIA program shall seek to amortize the WIFIA credit instrument over the useful life of the project
- Debt service may be sculpted to accommodate the projected cash flow from project revenues and other sources
- The WIFIA program may require borrowers to prepay WIFIA credit instruments with excess revenues, refinancing proceeds, or trapped cash flow, as appropriate



CREDIT POLICIES

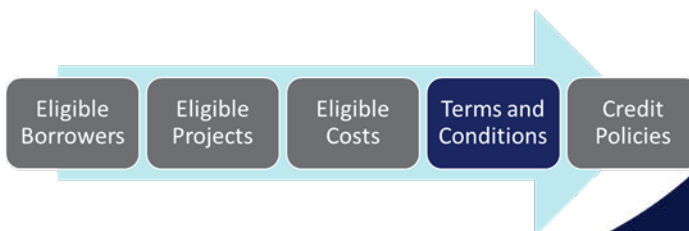
Distributions

- The WIFIA program will require equity investors, who will be subordinate to the WIFIA credit instrument, to maintain a material equity interest in the project through final maturity of the WIFIA credit instrument
- The WIFIA credit agreement will not permit any distribution to equity holders until all current and accrued interest is paid on the WIFIA credit instrument and at least one (1) scheduled principal payment has been made



ADVANTAGES OF THE WIFIA PROGRAM

- ✓ A single, fixed, low interest rate for all disbursements
- ✓ In most cases, final maturity of the loan is based on substantial completion of the project and is long-term
- ✓ Can be subordinate to other sources of financing
- ✓ Up to a five-year deferral period, during which neither principal nor interest are due
- ✓ Payments are deferred during the construction period



CONTACT US

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