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Fitch: Full-Spectrum Funding Needed for U.S. Water Projects.

Fitch Ratings-New York-02 June 2014: The recently passed Water Resources Reform and Development Act of 2014 (WRRDA) is an important step toward strengthening U.S. water infrastructure. Public sector and private sector participation are important to completing the \$630 billion in water and sewer infrastructure needs projected over the long term. However, the ban on the use of tax-exempt bond proceeds for projects receiving Water Infrastructure Finance and Innovation Act (WIFIA) support will limit the reach of the program, Fitch Ratings says. Access to the full spectrum of funding options would improve project economics and could enlarge the number of projects under consideration within the WIFIA program.

WRRDA establishes a public-private partnership (PPP) that promotes private investment in much-needed water and wastewater infrastructure. WIFIA, modeled on the successful Transportation Infrastructure Finance and Innovation Act (TIFIA) program for surface transportation, provides low-cost loans capped at 49% of a project's cost. However, TIFIA doesn't exclude the use of tax-exempt financing.

PPPs provide a useful alternative to advance project delivery for public service needs. Tax-exempt financing enables PPPs to lower the marginal cost of project development. Allowing tax-exempt private activity bonds and other financing tools to be used with WIFIA support would maximize access to diverse funding sources for critical infrastructure development and invite worthy proposals that might not apply for WIFIA under the current prohibition.

For example, the San Diego County Water Authority recently began a desalination project that leans heavily on tax-exempt bond proceeds. The Carlsbad Desalination Plant improves the water authority's source diversification and drought tolerance. Proceeds for the plant are funded by the California Pollution Control Financing Authority (CPCFA) through a nearly \$800 million bond issue of plant and pipeline bonds. Fitch rated the CPCFA's bond issue 'BBB-' with a Stable Outlook. This important project would not be eligible for WIFIA support due to its use of a tax-exempt financing option.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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