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Allowing Tax-Exempt Use with WIFIA Loans Will Lower Borrowing Costs.

WASHINGTON — A provision in the new transportation funding law that lifts the ban on using tax-exempt bonds in conjunction with federal loans will result in lower borrowing costs for water utilities, Fitch Ratings said on Thursday.

The provision in the Fixing America's Surface Transportation (FAST) Act that President Obama signed on Dec. 4 removes the ban that had been included in the Water Infrastructure Finance and Innovation Act (WIFIA). WIFIA was part of the Water Resources and Reform Development Act enacted last year.

The five-year, $350 million WIFIA pilot program, modeled on the Transportation Infrastructure Finance and Innovation program, allows utilities to borrow up to 49% of the costs for large drinking water, wastewater, stormwater and water reuse projects. The loans can be used to leverage at least $3.5 billion.

However, as written, the program could not be used in conjunction with tax-exempt bonds. FAST lifts that ban.

"Over the long run, this will help some utilities with capital costs and rate increases related to capital," Shannon Groff, director of U.S. public finance for Fitch who authored the release issued by the rating agency, said in a brief interview.

"Utilities are facing significant costs to replace, rehabilitate and improve their aging infrastructure," Groff said in the release.

Water groups also cited the importance of the FAST provision.

"By removing the ban on using tax-exempt bonds with WIFIA loans, Congress has freed WIFIA to do its important work in addressing America's enormous water infrastructure challenge," said David LaFrance, chief executive officer of the American Water Works Association.

The AWWA estimates the cost of maintaining and expanding existing water systems will reach $1 trillion over the next 25 years.

Rep. Bob Gibbs, R-Ohio, chairman of the House Transportation and Infrastructure Committee's water resources and environment subcommittee who was a key proponent for WIFIA and lifting the ban, said recently, "I am pleased to see a provision included [in FAST] that supplements the funding of public water infrastructure. Municipalities across the country are dealing with expensive and necessary improvements to public water systems. The ability to combine WIFIA funding with tax-exempt bonds gives cities and counties the ability to affordably address their public health needs."

Another champion of the WIFIA fix was Sen. Barbara Boxer, D-Calif.

LaFrance said water groups, including the AWWA, the National Association of Clean Water Agencies, the Association of Metropolitan Water Agencies, and the Water Environment Federation fought for the ban to be lifted and are now urging Congress to provide WIFIA loans and state revolving fund programs in fiscal year 2016, which began Oct. 1.

“The sooner WIFIA is making loans for large water projects, the better,” LaFrance said.

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