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Fitch: WIFIA Tax Exempt Ruling Is Positive for US Water Credits.

Fitch Ratings-New York-10 December 2015: Recent legislation lifting a ban on the use of tax-exempt bonds in conjunction with federal loans provided by the Water Infrastructure Finance and Innovation Act (WIFIA) pilot program will result in lower borrowing costs for US water utilities, Fitch Ratings says.

Utilities are facing significant costs to replace, rehabilitate, and improve their aging infrastructure. The American Water Works Association estimated the cost of maintenance of existing systems and expansion at $1 trillion over the next 25 years. Utilities will benefit from an overall lower cost of financing to the extent they are able to use low-cost loans from the five-year WIFIA pilot program in combination with tax-exempt bond proceeds. The legislation could also temper the need of some issuers to obtain rate increases related to capital.

WIFIA allows utilities to borrow up to 49% of the project cost at Treasury rates with 35-year amortization periods. However, the original legislation prohibited issuers from using tax-exempt financing for the remaining 51% of the cost. This recent legislation lifts that ban.

WIFIA was modeled after the more established Transportation Infrastructure Finance and Innovation Act program and was enacted in 2014 to provide $350 million in loans over five years for water, wastewater, storm water and water reuse projects, allowing for leverage of at least $3.5 billion. The WIFIA loans, authorized by the Water Resources Reform and Development Act, are the first new federal water finance tool established since the 1996 Drinking Water State Revolving Fund.

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