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Fitch: WIFIA Loans Chip at Aging US Water Infrastructure Costs.

Fitch Ratings-San Francisco-09 August 2017: The Water Infrastructure Finance and Innovation Act (WIFIA) program will provide \$2.3 billion in low-cost loans for water and wastewater projects this year, benefitting issuers that receive those loans with less expensive funding for their projects, Fitch Ratings says.

However, WIFIA's loan amounts are small compared to estimates of the total cost. The American Society of Civil Engineer's estimates \$150 billion in water and wastewater infrastructure costs from 2016-2025 and the U.S. Environmental Protection Agency estimates approximately \$655 billion will be required over the next 20 years.

WIFIA selected 12 water utilities, four of which are in California, to submit final applications for the loans. The California projects include the City of San Diego's (water revenue bonds 'AA'/'AA-'/Stable) Pure Water program, the Orange County Water District's (revenue bonds 'AAA'/Stable) Groundwater Replenishment System expansion, San Francisco Public Utility Commission's Biosolids Digester Facilities, and the City of Morro Bay's water reclamation facility.

Projects in other states selected by WIFIA include: water or wastewater facilities in King County, WA; City of Omaha; Metro St. Louis Sewer District (wastewater revenue bonds 'AA+'/'Stable'); Indiana Finance Authority (SRF program bonds 'AAA'/Stable); City of Oak Ridge, TN; Maine Water Company; Baltimore City Department of Public Works; and Miami-Dade County (water and sewer revenue bonds 'A+'/'Stable').

The water utilities that receive the WIFIA loans will see lower expenses as WIFIA loans have lower financing costs than the financial markets. WIFIA allows utilities to borrow up to 49% of the project cost at Treasury rates with 35-year amortization periods. In addition, WIFIA loans are larger than other types of financing, which can be important to projects with substantial costs due to scope and/or complexity.

The water utilities that have planned large infrastructure projects and do not get WIFIA loans will likely rely on public debt for their main funding. State revolving fund programs are generally too small - they can provide funding for some water maintenance programs but do not have sufficient assets to fund large, complex projects.

Water utilities that are not chosen to receive WIFIA loans will see some rise in capital projects expenses as their debt service costs will increase. Some issuers have more flexibility in passing these costs on to rate payers than others. Rate payers in California, for example, may be more sensitive to cost increases as recent years of drought-related conservation meant years of increasing rates to recoup revenue losses.

WIFIA's goal is to advance steady investment in water infrastructure development for regionally and nationally significant projects and to address the effects of persistent underfunding of capex, delayed system upkeep and shortages of quality water. These issues are taking on more urgency as

issues like the Flint, MI toxic water crisis and cases of elevated lead levels in drinking water arise across the U.S.

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