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How WIFIA is Surviving the EPA Firestorm.

A federal loan program for water projects appears to be flowing freely despite an ethics scandal at the Environmental Protection Agency, which administers it, and the Trump Administration's efforts to scale back EPA regulations.

Two of the applicants for the Water Infrastructure and Finance Act's low interest loan program in Kings County, Washington, and Omaha, Nebraska, have closed on loans and the Orange County, California, Water District expects to close on its loan by the end of the month.

EPA director Scott Pruitt resigned last week amid an ethics scandal at the agency, which has come under fire from environmental groups for perceived attempts to weaken air and water pollution regulations.

WIFIA – which Joseph Kane, a senior research associate at the Brookings Institute, said is in its nascent stage – appears to have bipartisan support.

Though the loan program was created in 2014 under the Obama Administration, it fits the current administration's model of setting up infrastructure programs that encourage private investment, Kane said.

"It transcends the partisanship – or left vs. right perspectives on how each would pay for infrastructure," Kane said. "I think there is bipartisanship interest in trying to explore all potential avenues. Particularly on a pilot process."

The WIFIA program provides low-cost loans and loan guarantees to eligible borrowers for water and wastewater projects. It is designed to work in conjunction with tax exempt debt and other financial resources. WIFIA can provide up to 45% of funding for a project.

The inaugural WIFIA round will provide about $1 billion in credit assistance to finance $2.3 billion in water infrastructure investment from $20 million of budget authority, according to the EPA.

The WIFIA program received $25 million in funding, including an additional $8 million in the Consolidated Appropriations Act of 2017 that President Donald Trump signed into law on May 5, 2017. That funding enabled EPA to structure the program and move ahead in April 2017 with requests that state and local water agencies send letters of interest.

In a July 2017 statement announcing the federal funding, Pruitt said that "rebuilding America's infrastructure is a critical pillar of the President's agenda."

Acting EPA Administrator Andrew Wheeler also told the Washington Post in a July 6 article that he "doesn't think the agency is going to change that much, because we are implementing what the president has laid out for the agency. He made several campaign promises that we are working to fulfill here."

EPA announced in April that it was seeking letters of interest for state and local water projects on an additional $5.5 billion in funding. And in May, it extended the deadline for those letters of interest on this second round of funding from July 18 to July 31.

EPA received 43 letters of interest across 19 different states for projects in April 2017 for the initial $2.3 billion allocated for the program created in 2014. Once the finalists were selected by EPA they had to undergo financial and engineering reviews to make sure the project was viable and the agencies had the financial ability to repay the loans.

The agency selected 12 entities across nine different states to apply for funding in the program's first round.

The projects selected represented large and small communities across the country seeking funding for wastewater, drinking water, stormwater and water recycling projects.

King County, Washington and City of Omaha, Nebraska water agencies closed on their WIFIA loans. King County received $134.5 million for its $275 million rain and wastewater treatment project on the loan that closed April 20. Omaha received on June 21 a $69.7 million WIFIA loan to build a $142.2 million partially underground structure to store and treat sewage.

King County will save up to $32 million from financing with a WIFIA loan compared to a bond issuance, according to EPA's online description of the financing.

Though the Omaha description doesn't specifically mention bonds, it says the city will save $20 million in interest costs.

"Omaha has worked closely with the EPA at all levels to execute the Clean Solutions for Omaha Program in a way that will be sustainable for the future and save our ratepayers about $20 million dollars in interest on this project," Omaha Jean Stothert said in a statement.

Orange County, Calif. Water District expects to close on its $124 million TIFIA loan that will help fund a $253 million expansion of its groundwater replenishment project by July 26.

Three states – California, Maryland and Indiana – are receiving the most funding.

California submitted 19 of the 43 applications in the initial round. The Golden State's efforts were rewarded as it received $1.3 billion, more than half of the WIFIA loan total, Kane wrote in a blog post on the Brooking's website. Indiana received $436 million and Maryland received $200 million, he wrote.

Kane partly attributed the size of California's programs – Pure San Diego's project costs $1.2 billion and it requested $492 million – for the state's share of WIFIA loans.

"It is not random or a mistake that some of the biggest water needs are in California given the drought concerns," he said. "Some of the more progressive utilities are in California, so they have the capacity to understand what WIFIA is about and to apply in time."

It is a new program and other places might not understand its parameters or have California's technical capacity, he said.

Fitch Ratings gave OCWD's $135 million WIFIA loan a AAA rating and affirmed a top rating for the water district's outstanding debt.

"The WIFIA loan is a very low cost loan," Fitch analyst Shannon Groff said. "They had already planned on doing the final expansion, so we had already baked that into our rating."

The program makes the water district less dependent on more expensive water from wholesaler Metropolitan Water District of Southern California, Groff said. If needed, OCWD could stop the purchase of Met water for year, she said.

"They get a great interest rate through the WIFIA loan, just as they would with bonds," Groff said, "but they are able to delay payment for five years past project completion."

The water district expects to begin construction in November 2019 and finish by second or third quarter 2002, but doesn't have to begin loan repayment until 2028, Groff said.

"We are estimating a 3% interest rate for our WIFIA loan – and even though we are AAA-rated, that is still better than we could get in the open market based on our projections," said Randy Fick, the water district's chief financial officer.

Orange County's project probably made the cut for WIFIA's first round, "because it's a proven project that has been in place for quite a while," Groff said.

When the initial ground replenishment project was completed in 2008, it added 70,000 acre feet of water to the water district's system. The second expansion added another 30,000 acre feet and the latest iteration will bring output to 133,000 acre feet, Fick said.

The WIFIA funding helps pay for the second expansion, said Fick said.

The project takes highly-treated sewage designed for the Pacific Ocean through several more steps of treatment involving reverse osmosis and microfiltration before injecting it into the county's groundwater storage system.

Water districts around California are now trying to imitate Orange County's ground water replenishment system, which was controversial when it was first proposed in the early 2000s and residents were referring to it as a toilet-to-tap plan.

To date, an EPA spokeswoman said the agency has received applications from seven of the 10 remaining entities that were selected. EPA expects to close two of those loans in the next month and the remaining five by the end of the year. Two agencies are in the process of submitting their applications. The Maine Water Company has decided not to submit an application for its Saco River Water Treatment Facility project.

The latest surveys from EPA suggest that states and localities nationally will need $700 billion over the next two decades to meet their water needs, Kane said.

"Given the scale of the demand we are seeing from the entities applying, it reveals there is a need for an alternative channel for low cost financing," Kane said. "Traditional finance channels of borrowing through municipal bonds and state revolving funds is clearly not adequate to drive or accelerate the investment needed."

By Keeley Webster

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