



December 13, 2017

The Honorable John Boozman
Chair
The Honorable Cory A. Booker
Member
Subcommittee on Fisheries, Water and Wildlife
United States Senate
Washington, DC 20510

Dear Senators Boozman and Booker,

We are aware of draft legislation circulating on Capitol Hill that would create preferential borrowing terms and exclusive, dedicated budget authority within the Water Infrastructure Finance and Innovation Act (WIFIA) program for state revolving loan funds (SRFs). We urge you to oppose this idea. It does not make sense particularly from an economic standpoint.

The SRF programs have been an important finance tool, primarily, but not exclusively, for small to medium-sized projects. WIFIA was created to provide low-cost financing for projects costing at least \$20 million, larger than typical SRF projects. That said, there is provision in WIFIA allowing communities serving less than 25,000 to apply for WIFIA loans if their projects cost at least \$5 million. In addition, states may aggregate projects to meet either the \$5 million or \$20 million threshold.

A new WIFIA just for SRFs is therefore unnecessary. Every one of the SRF projects eligible under that proposal is already eligible to seek financing under WIFIA, given that SRFs can bundle smaller projects to meet the project size thresholds, as the State of Indiana has done. We believe we at least ought to see how the Indiana project plays out, and the level of SRF interest in WIFIA generally, before creating and dedicating outsized funding to another SRF program within WIFIA.

We have additional concerns. We believe the enormous interest rate subsidy in this new draft proposal – funding loans at one-half of Treasury rates – is a significant step backward from our collective effort under WIFIA to leverage limited federal funds to support much-needed water infrastructure investment. With the 12 WIFIA loan applications EPA is processing now, the agency has estimated it will leverage WIFIA capitalization funds at a **ratio of 92:1**. We estimate that loans under the proposed SRF preference would consume an enormous amount of budget authority with the interest rate subsidy, resulting in a dramatically lower leveraging ratio of **just 6:1**.

At 6:1, these SRF preference loans could support about \$1.2 billion in loans, which, in turn, would support about **\$2.4 billion** in total water infrastructure investment with their **\$200 million proposed authorization**.

In contrast, at 92:1, EPA has informally estimated that the agency can support twice that level of loans -- \$2.3 billion -- and twice the level of total infrastructure investment -- **\$5 billion** in projects -- with **just \$25 million in WIFIA authorizations**.

Would not Congress want to see its appropriations stretch further, as the original WIFIA would do? Also, why shouldn't states compete on their merits for WIFIA dollars just like the other entities?

Additionally, the draft bill appears to give the EPA Administrator complete discretion in making loans at half the Treasury rate, so this interest rate subsidy is apparently not targeted to rural or under-resourced systems. There also appears to be no provision for the rate savings to be passed along to the borrowers from the SRF.

Another concern is that the draft SRF WIN proposal would newly impose a sunset on the WIFIA program at the end of the 2022 fiscal year, thereby forcing Congress to act to keep the program functional beyond that date. This introduces an unnecessary threat to the future of WIFIA.

Finally, there is a provision in the draft SRF WIN bill that would theoretically protect the SRF programs and WIFIA by saying that this new program could not be funded unless the SRFs and WIFIA got the same amount of money as they did the previous year. We believe that once CBO scores this bill, that provision will likely be removed to help reduce the deficit the new program would cause. In addition, this language would create a de facto cap on SRF and WIFIA appropriations at FY 2017 levels, where the WIFIA authorizing legislation provided for increased funding each year for WIFIA.

Because of these concerns, we are unable to offer our support to the draft SRF WIN proposal. However, we would be happy to continue conversations on the SRFs, WIFIA, the Safe Drinking Water Act, the Clean Water Act and water infrastructure finance. Please do not hesitate to contact us or our staffs.

Sincerely,

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Cc/ Members, Senate Committee on Environment and Public Works

Members, Senate Appropriations Subcommittee Interior, Environment and Related
Agencies