Cleaning Water and Cutting Budgets: A Case for the Water Infrastructure Finance and Innovation Act

By G. Tracy Mehan, III and Ian D. Gansler

We expect that when we make our morning coffee or mix a baby’s formula, we’re using water that is safe to drink. In reality, our nation is facing an investment crisis, with $1 trillion needed over the next 25 years if we are to maintain current levels of service for a growing population. The longer this investment is delayed, the more expensive it will become.

This is truly a bipartisan issue, with Democrats and Republicans alike admitting it is time to find a solution. On the campaign trail President Donald Trump called attention to the issue, promising to, “refocus the EPA on its core mission of ensuring clean air and clean, safe drinking water for all Americans” at a speech in Pittsburgh. In his first address to Congress, President Trump reiterated his call for a $1 trillion infrastructure investment package.

At the same time, the Federal Government faces immense budgetary constraints. According to the Congressional Budget Office’s report, “The Budget and Economic Outlook: 2017-2027,” federal debt is projected to rise from 77% of GDP today to an all-time high of 145% of GDP by 2047, exceeding record post-WWII levels of 106% of GDP. Entitlement spending programs like Social Security, Medicare, and Medicaid also loom in the future as crippling budgetary outlays, dwarfing the current levels of federal debt. Lawmakers face twin pressures to solve problems and save money.

The Water Infrastructure Finance and Innovation Act (WIFIA) is one solution that could strike that balance. WIFIA is a financing program, meaning its assistance comes in the form of loans. Any money paid out for projects comes back to the government as the loan is repaid. Towns and cities undergoing infrastructure projects often do not have the cash on hand to pay for the work, so they look to loans and bonds to raise funds, paying it back over the years. Rather than taking out a high-interest loan, WIFIA allows borrowers to take out a loan from the US Treasury, which offers the lowest interest loans on the market.

The current appropriation for WIFIA is $20 million. While this is a drop in the bucket when it comes to the federal budget, that drop will go a long way. The $20 million is only the “subsidy cost” of WIFIA, meaning it covers infrastructure projects that will default and never pay back the loan. The Fitch Rating Agency estimates that only about 0.04% of water infrastructure projects end in default, an extremely reliable rate. That means every dollar appropriated to WIFIA can leverage $67 in investment. If Congress
appropriates WIFIA the full $45 million that it authorized for FY2018, the program could leverage in excess of $2 billion in credit assistance.

WIFIA is set up to complement the State Revolving Funds (SRF), a long-standing federal grant program that gives funding to the states to distribute for water infrastructure projects. President Trump, on his campaign website under the “Infrastructure” heading, promised to “Triple funding for state revolving loan fund programs.” Only 49% of a project can be funded through WIFIA; the other 51% must come from other sources, allowing space for the SRF and private equity investments.

SRF’s have a right of first refusal over WIFIA applications, allowing them to elect to fund a WIFIA project themselves if they prefer to do so at the same interest rate as WIFIA. SRF’s can also apply for WIFIA loans themselves, bolstering their funds to finance one or a group of projects. Many state SRF’s just don’t have the capacity to fund some larger infrastructure projects. The minimum project cost for a WIFIA loan is $20 million (or $5 million for a small community), which allows SRF to focus on a greater number of smaller projects.

In a budget climate that puts every penny of taxpayer money under a magnifying glass, WIFIA makes a big impact at a small price, creating more than $2 billion in capital with only a $45 million expenditure. In a November New York Times interview, then President-elect Trump said, “Crystal-clean water is vitally important.” Too often we take this for granted. When we turn on the tap, the water that comes out safe to drink. President Trump believes in the importance of clean water. WIFIA would be a powerful tool to make it a reality for every American. It is a program he can build upon to achieve his goal of infrastructure renewal.

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