CONGRESSIONAL UPDATE **July 13, 2018**
Infrastructure/WIFIA/SRFs **Special Report #2204**

On July 11, the Senate Committee on Environment and Public Works held a hearing entitled, "The Long-Term Value to U.S. Taxpayers of Low-Cost Federal Infrastructure Loans. Witnesses included Doug Holtz-Eakin, American Action Forum and former CBO Director; Brian Motyl, Delaware Department of Transportation (DelDOT); and Vincente Sarmiento, Orange County Water District (OCWD).

Chair John Barrasso (R-WY) noted that this was the Committee's seventh hearing on improving the highways, bridges, and water projects so critical to the nation's prosperity. "As America's population and economy have grown, our infrastructure has not kept pace. Maintenance shortfalls and project backlogs have left many key elements of our transportation and water infrastructure in need of major repair or replacement…. Loan and loan-guarantee programs often allow expensive projects to be delivered in a timely fashion and at a reduced cost…. These programs enable state and local project sponsors to borrow money at lower long-term costs, and to complete construction years sooner than if funding was secured through other means. As we have heard in past hearings, leveraging federal funds to maximize investment is a tool the Trump administration strongly supports."

Barrasso also explained the funding constraints under Congressional rules, which require that bills be scored by the Congressional Budget Office (CBO) to assess the amount of taxpayer dollars that will be spent, as well as the Joint Committee on Taxation (JCT) to determine whether any federal revenue will be lost. "States use tax-free bonds for infrastructure projects. JCT assumes that the federal treasury will lose tax revenue when the states borrow. Under this theory, the $12B in increased state infrastructure spending is presumed to cost the federal treasury $2.6B." The Committee cut back the size of programs to address the scoring issue, but noted, "If states aren't able to finance their infrastructure needs, federal taxpayers will inevitably be on the hook to directly fund more projects in the future."

Eakin summarized the Water Infrastructure Finance and Innovation Act (WIFIA) and the Securing Required Funding for Water Infrastructure Now Act (SRF-WIN) programs, and addressed their economic and budgetary impacts. He noted that the programs allow relatively few federal dollars to support a very large base of water infrastructure investments. The Office of Management and Budget's (OMB) estimate subsidy rate of 1.55% for WIFIA projects suggests that "every $1 of WIFIA contract authority, on average, will enable the EPA to issue $102 in WIFIA loans (1:102 direct loan leverage ratio). Since WIFIA can cover up to 49% of project total costs, WIFIA appropriations could yield a total water infrastructure investment ratio of 1:208, on average…. EPA estimated that its budget authority ($55M) would provide approximately $5.5B in credit assistance, which could support an estimated $11B in water infrastructure."

Eakin pointed out the differences between the core economic questions of infrastructure investment, which considers costs and benefits, sources of revenue, and rates of return, versus the federal budgetary treatment of these investments: (1) the federal budget focuses on the costs of programmatic activities, with no attempt to quantify benefits or to systemically investigate the benefit-cost question; (2) the federal budget does not attempt to measure the social costs, or the costs borne by state and local governments or private investors; and (3) the focus on financing the investment looks at the subsidy cost that covers the probability of less than full recovery of the investment, as well as the revenue forgone from taxing the return on private sector investment.

Motyl described the process DelDOT went through to obtain a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for $211M, to improve a bottleneck along a regional highway network. "The time from the submission of the Letter of Intent to apply to the loan closing was almost three years…and substantial documentation had to be provided." He described the terms of the loan negotiated by both parties, and the process of disbursing the loan and oversight of the project. While providing the compliance documentation has been a positive experience, the length of time between project expenditures and reimbursement has the potential to be burdensome, between 30 and 60 days. "There may be opportunity to streamline the pre-closing phases of the program which could be beneficial to future borrowers…. The loan process was at times cumbersome and loan term negotiations were time consuming. However, the benefits of the TIFIA Loan far outweighed the…lengthy process required with this program."

Sarmiento described OCWD's Groundwater Replenishment System (GWRS) project, developed in collaboration with the Bureau of Reclamation under the Title XVI program ($20M grant) and the Environmental Protection Agency's (EPA) State Revolving Fund (SRF) program ($135M loan). The Orange County Sanitation District contributed $194M, and California water bonds added another $37M. The project had to provide a sustainable, drought-proof water supply, and the water costs had to be aligned with existing potable sources for ratepayers to support the value of the project.

The final phase of the GWRS project will be financed in part through a $135M WIFIA loan, Sarmiento said, enabling them to borrow for almost a full percentage point lower than issuing tax-exempt bonds, representing a savings of $18M. "If WIFIA had not been available, it is unclear how we would have proceeded with the project's financing given the over subscription of California's SRF. It is highly likely we would have proceeded, but the costs of the project would have grown, putting pressures on the ratepayers. In short, WIFIA is creating a savings for the ratepayers and the federal government is receiving a return on its investment through loan repayment and the dividends created in the development of a sustainable water supply that will support robust economic growth and improved public health."

Sarmiento also discussed the need for Congress to increase SRF funding, recognizing how difficult that is under current budgetary constraints. Current infrastructure needs surpass the incremental funding increases. "In addition, the allocation formula that determines how much SRF assistance is allocated to each state has not been updated since the 1980s." He acknowledged that updating the formula for a more equitable apportionment of resources is a zero-sum game and unlikely to be addressed.

In light of these difficulties, "How can Congress continue to ensure a meaningful federal partnership to improve our vital water infrastructure and avoid delays in constructing such projects?" Sarmiento testified in support of the approach taken in America's Water Infrastructure Act (S. 2800), which he said would establish a new financial assistance program at WIFIA-like rates to support the individual states' SRF programs. With this leveraged assistance, the states could address their backlog of priority projects on their Intended Use Plan or Priority List. The bill mandates that the traditional SRF programs be funded at FY2018 levels prior to funding the new SRF-WIN program. "As we noted, every tool in the toolbox needs to be available to support public agencies' needs, but the primacy of the SRF must be preserved in any given year…. And we would urge the committee that as the bill proceeds through Congress that this commitment be re-enforced to ensure that no 'wiggle' room exists that might, in later years, undermine the SRF."