

Wifia Loan Program and Post-COVID-19 Economic Recovery

Discussion Outline

March 23, 2020

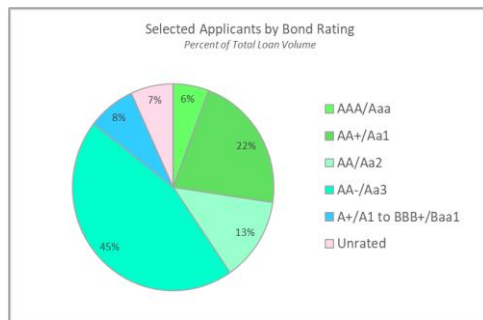
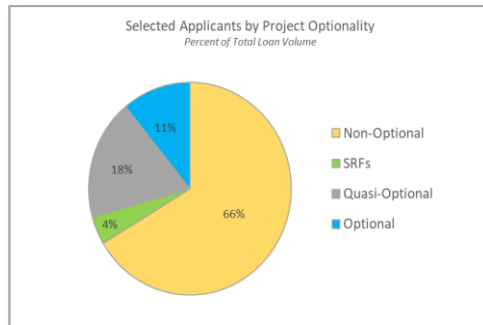
Summary

The Wifia Loan Program is likely to be highly relevant for post-COVID-19 economic recovery efforts to maintain and expand necessary investment in US long-lived public infrastructure.

1. Over just three years of operations, Wifia has completed the selection process on 89 projects totaling nearly \$14 billion of loan volume. Projects are generally essential investments in basic systems. Consistent and measurable results indicate clear purpose.
2. The Program is emerging as an important 'adjunct' to the municipal bond market for capitalizing long-lived infrastructure assets. Like other credit markets, the muni market has been stressed by the COVID-19 crisis and difficult conditions may persist for some time.
3. Wifia loan parameters and Program capability can be easily expanded by straightforward statutory amendments. Expanded capabilities will be immediately operational with highly predictable outcomes.
4. The Program is a directly transferrable model for post-COVID-19 recovery efforts in other US public infrastructure sectors that will benefit from a muni market adjunct for long-lived assets.
5. Federal lender metrics and policy outcomes are very positive and precisely determinable without the need for assumptions about project performance or economic growth.

1. The Program is Successful, with Consistent and Measurable Results

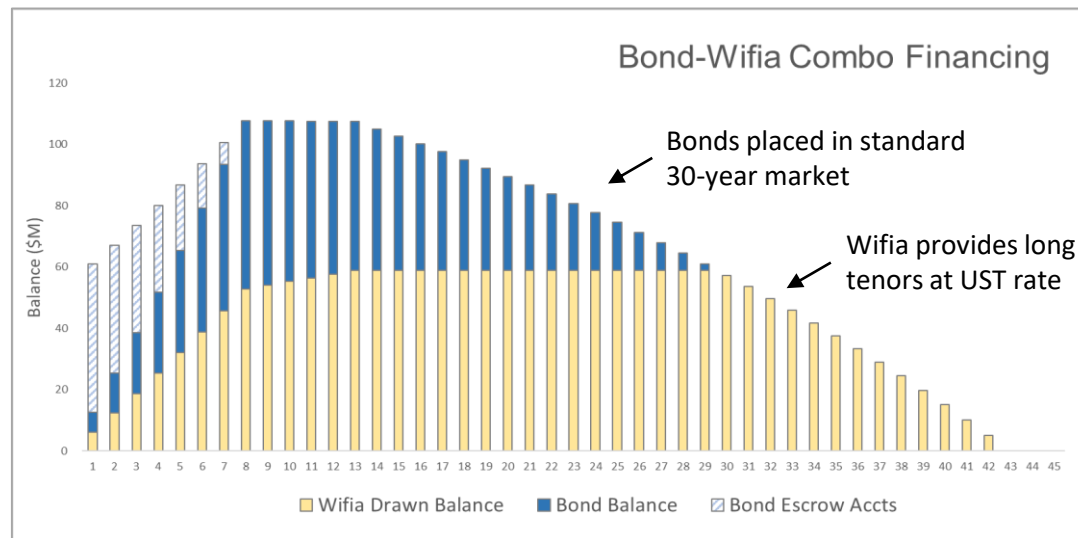
- In annual NOFAs 2017-2019, Wifia completed the selection and approval process for 89 projects with total Wifia loan volume of \$13.6 billion. Most if not all will proceed to closing.
- Steady growth reflects the fact that Program is effective and efficient for US water sector.
- Results show consistent and measurable trends that indicate what the Program is accomplishing.



- Wifia projects are almost universally non-optional or required investment in essential water infrastructure systems.
- Average project size is about \$300 million, but the Program also makes loans to SRFs for small systems. This is an efficient division.
- Program borrowers are generally very highly rated, with 85% being rated AA-/Aa3 or better.
- These borrowers are sophisticated and have cost-effective financing alternatives – Wifia loans are clearly meeting a need in the sector.

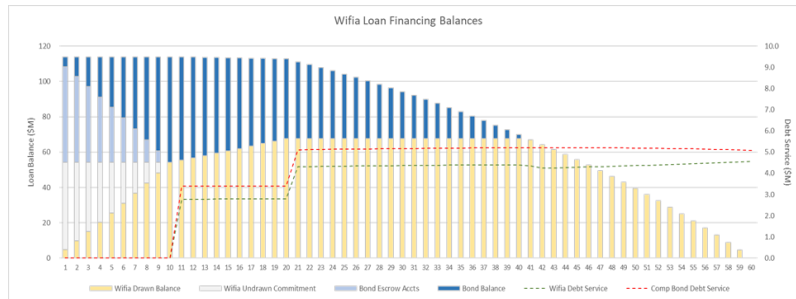
2. Wifia Loans Provide a Useful 'Adjunct' to the Municipal Bond Market

- Wifia loans are relatively straightforward private placements for highly rated public water agencies, usually done in combination with a muni bond financing.
- Due to tenor and interest rate management features, a Wifia loan provides significant benefits for long construction and amortization periods. This allows borrowers to use muni bond capacity in the most cost-effective and efficient manner. The combination optimizes capitalization for long-lived assets.
- In effect, Wifia loans provide a placement adjunct to the municipal bond market. In this role, the Program is supporting US public infrastructure's mainstream capital market.

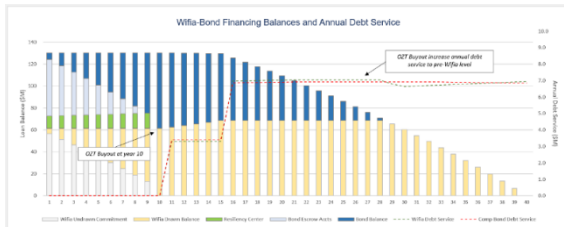


3. Expanded Capabilities are Straightforward and Immediately Operational

- In latest appropriation, Program annual loan capacity is about \$11 billion supported by \$50 million of credit subsidy (reflecting high credit quality of borrowers). This can be simply increased.
- Wifia loan parameters may also be expanded or extended in straightforward technical ways that are immediately operational in current Program set-up, prudent for federal taxpayers and with predictable results.



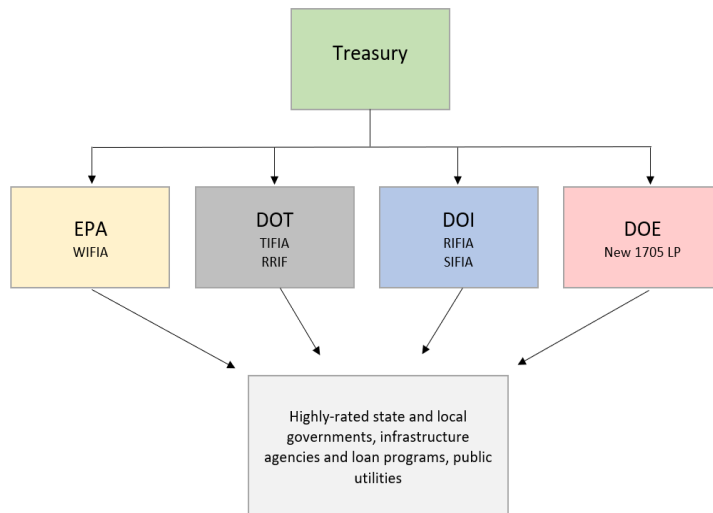
- Core terms can be extended to 10 years of deferral and 50-year post-completion amortization (from 5 and 35 years respectively) for highly rated borrowers with long-lived assets and a qualifying plan.
- Extended terms will significantly improve Wifia’s capabilities as muni market adjunct.



- Expanded definitions of specific costs and assets that may be financed by a Wifia loan can encourage other forms of privately-placed specialty capital (e.g. P3, impact investment, OZ funds) to participate in innovative ways.

4. Directly Analogous Model for Adjuncts in Other Infrastructure Sectors

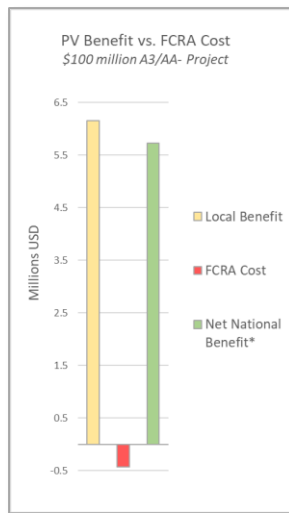
- Since many other US public infrastructure sectors also rely on the municipal bond market, the Program can serve as a directly analogous model to quickly provide similar market adjunct benefits through specific expansions of existing programs or creation of new ones.
- Consistent financial and market parameters can be coordinated and administered centrally, perhaps through Treasury. Sectoral expertise, borrower relationships and program administration would remain at agency or department level.



- Water: Wifia (EPA), as current or expanded
- Transport: Tifia (DOT), adjunct addition to existing program
- Reclamation: Rifia (DOI), new program (currently proposed)
- Social: 'Sifia' (DOI), new program for long-lived assets, directly modelled on Wifia
- Energy: LPO (DOE), adjunct addition to existing 1705 program for publicly-owned energy systems.

5. Federal Metrics are Precisely Determinable and Very Positive

- In its role as an adjunct to a mainstream capital market, the Wifia Program has metrics and outcomes that are precisely determinable from standard comparative financial analyses and extensive market data. Additional job creation or long-term project performance is not per se relevant – such potential ‘stimulus’ effect can be seen purely as upside.
- Primary Program cost, FCRA credit subsidy, is based on deep and well-established default data for highly rated borrowers. Primary Program benefit is lower present value (PV) of borrower debt service, which can be determined precisely at loan execution.
- FCRA credit subsidy and borrower PV benefit are directly comparable metrics.



- Prior to COVID-19 crisis, typical borrower PV benefit was about 6% of project cost. In current market, the benefit is far higher, perhaps near 25%. This is expected to revert to a lower level as markets stabilize later in the year but may remain elevated.
- FCRA credit subsidy level for highly rated borrowers is typically very low number (about 0.5%). This may migrate upwards due to long-term effects of the crisis, but likely not significantly for essential public agencies.
- Overall, the net national benefit in terms of specific benefits and costs of a Wifia loan is likely to remain extremely positive

InRecap Links and Contact

Wifia Program Performance To Date and Role as Market Adjunct

- [Explaining Two Trends in Wifia Loan Program Selected Applications 2017-2019](#)

Expanding Program Capabilities

- [Wifia Loan Program: Transformational Development Concepts](#)
- [Benefit-Cost Impact of Wifia Loan Program Extended Term Modifications](#)

Including Specialty Capital in a Wifia Financing

- [Including an Opportunity Zone Investment Tranche in a Wifia Infrastructure Financing](#)
- [Leveraging Infrastructure Impact Investment with EIB and CBP3 Components](#)
- [Potential Role for P3 Investors in the Utilization and Expansion of Infrastructure Loan Programs](#)

Wifia Loan Benefit and Cost Models and Benchmarks

- [Wifia Benefit-Cost Demonstration Model User Guide](#)
- [Bond-Wifia Indicative Benchmark Comparison 29-Jan-2020](#)
- [Bond-Wifia Indicative Benchmark Comparison 20-Mar-2020](#)

InRecap

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