WIFIA Loan Program: Truth and Innovation

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The Truth

WIFIA appears to be a successful loan program. But in reality, it faces serious issues:

Huge Cost: As WIFIA's low-fixed-rate loan commitments are funded by Treasury in a normalizing interest rate environment, the Program will incur huge funding losses. As of 9/30/21, WIFIA's current $11.5 billion portfolio has about $675 million of unrealized losses and $25 million of realized losses. If rates rise per CBO's most recent projections, realized losses from the current portfolio alone may exceed two billion dollars. These losses will require mandatory appropriations that are far in excess of the relatively small Congressional discretionary appropriations for the Program. The 'sticker shock' could become a Solyndra-style political issue.

Lack of Real-World Outcomes: It is not clear that WIFIA loans have caused any investment in water infrastructure to occur that would not have happened anyway. Rather, WIFIA loan benefits primarily lower financing costs slightly for the generally large and highly rated utilities that use WIFIA loans instead of a standard bond issue. This outcome can be characterized as 'large utility ratepayer welfare' that does not advance any real-world environmental, climatic or equity outcomes.

Unjustified Competition with Private Debt Markets: WIFIA loans compete directly with (and when successful, displace) tax-exempt water revenue bonds. OMB rules for federal credit programs specifically discourage such 'crowding out' of functioning private sector markets. The displacement is a significant share of annual water revenue bond volume. The municipal bond market, which has a politically powerful lobby, has a legitimate basis to quietly but relentlessly oppose the Program .

The Need for Innovation

If these issues are ignored or hidden, WIFIA will continue on its unsustainable path, and the Program will likely fail in the next few years, possibly in a spectacular manner. However, WIFIA's excellent institutional loan-making capability (unique among federal credit programs) can and should be repurposed to avoid this outcome:

Innovative Loan Products: WIFIA should develop innovative loan products that (1) directly seek to address environmental, climatic and equity issues that surround large-scale water infrastructure renewal, (2) are not interest rate-sensitive, and (3) are based on federal strengths in time horizon, risk management and policy-maximizing objectives. The EPA is well-positioned to support this kind of innovation.

Make Innovation a Major Initiative: A serious and well-publicized initiative to develop innovative loan products for real-world objectives will encourage ideas from new and existing WIFIA stakeholders. The initiative itself can help dispel the 'large utility welfare' characterization of WIFIA lending.

Develop WIFIA's Loan Guarantee Capability: WIFIA product development should include innovative uses of the Program's loan guarantee capability. Such guarantees avoid rate risk altogether and can be attached to taxable revenue bonds. Taxable bonds are a growing segment of the municipal bond market. Enhancing their usage for the US water sector is beneficial in itself – and can turn market opposition into WIFIA support.