

Addressing Large Mandatory Spending at the WIFIA Loan Program

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The Issue

- Under WIFIA's current statutory framework, WIFIA loans and tax-exempt municipal bonds are **close substitutes**. Most importantly, WIFIA's US Treasury-based interest rates are close to, and highly correlated with, tax-exempt yields in the municipal bond market.
- As a result, many WIFIA borrowers (the vast majority of which are highly rated public water agencies that regularly issue in the tax-exempt bond market) can utilize a WIFIA fixed-rate loan commitment as a type of **interest rate option** during a years-long project construction period. If rates rise, the loan commitment will be drawn at the original commitment rate. But if rates fall, a WIFIA borrower can cancel the commitment and finance the project with tax-exempt bonds. To avoid cancellations, the Program has typically re-executed loan commitments at then-current lower rates.
- The cost to federal taxpayers of this option is not funded by discretionary appropriations. Instead, it is covered in a FCRA account through **mandatory appropriations**. In the WH FY26 Budget Technical Appendix, mandatory spending for FY24 and FY25 totals about \$1.6 billion. When amounts from FY22 and FY23 Budget Technical Appendices are included, **WIFIA's total mandatory spending is over \$2 billion — about 9% of the Program's \$22 billion portfolio**, an amount far above WIFIA's discretionary funding.

The Solution

- Interest rate management features are critical for financing large, long-lived infrastructure projects, and the WIFIA Program should continue to offer them. But the use of such features for interest rate options can be minimized by **differentiating** WIFIA loans and tax-exempt bonds through amendment of Program loan non-rate characteristics and parameters. That way, WIFIA financing will be primarily utilized as a **unique component** of water project capitalization, a commitment for which borrowers will be reluctant to cancel, regardless of interest rate movement.
- Priorities for differentiating amendments should be (1) usefulness to borrowers in facilitating local funding, (2) deployment of intrinsic federal lending strengths, relative to other financing alternatives, and (3) predictably low or zero cost to federal taxpayers.
- **The 55-year loan term** in the recently re-introduced [Water Infrastructure Finance and Innovation Act \(WIFIA\) Amendments of 2025](#) is an example of effective and practical differentiation. WIFIA Program stakeholders and water advocacy groups should strongly support its enactment.

For more detail, see InRecap page [WIFIA Mandatory Spending](#)