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SECTOR IN-DEPTH

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Water and Wastewater Utilities - US

More WIFIA delays in 2026 would raise ratepayer costs, worsen affordability

Summary

Water Infrastructure Finance and Innovation Act (WIFIA) lending dropped sharply in 2025, despite a growing need for investment in water and wastewater systems driven by aging infrastructure, regulatory requirements and the impacts of climate change. **If program delays persist in 2026 or beyond, some utility borrowers will likely pivot to financing in the capital markets and construction expenses could escalate while projects await financing.** This would increase costs for projects and, in turn, for ratepayers. In 2025, only eight WIFIA loans were executed totaling just under \$900 million, the lowest dollar amount in any year since the program began in 2018.

- » **WIFIA lending came to a near halt in 2025.** Only eight loans were closed last year. Although the WIFIA program operates on a rolling basis, just one loan was executed during an 11-month stretch from mid-January to mid-December, causing delays for loan applications that were already in the approval process.
- » **Further WIFIA lending reductions will increase ratepayer costs and add to affordability pressure.** **If program delays continue into 2026,** it is likely that some of the 70 borrowers in various stages of the program's application process **will need to pursue alternative financing.** Project budgets will increase because of higher costs of financing and rising construction and labor costs. Ratepayers would shoulder the burden of those increased costs at a time when affordability is already a sectorwide challenge.
- » **WIFIA loans generate significant cost savings for local governments.** The program offers long-term financing at Aaa treasury rates for critical infrastructure projects that, in most cases, must proceed whether or not WIFIA financing is available. **Additionally, the program offers structuring flexibility that borrowers often do not have in the capital markets, which generates further cost savings.**

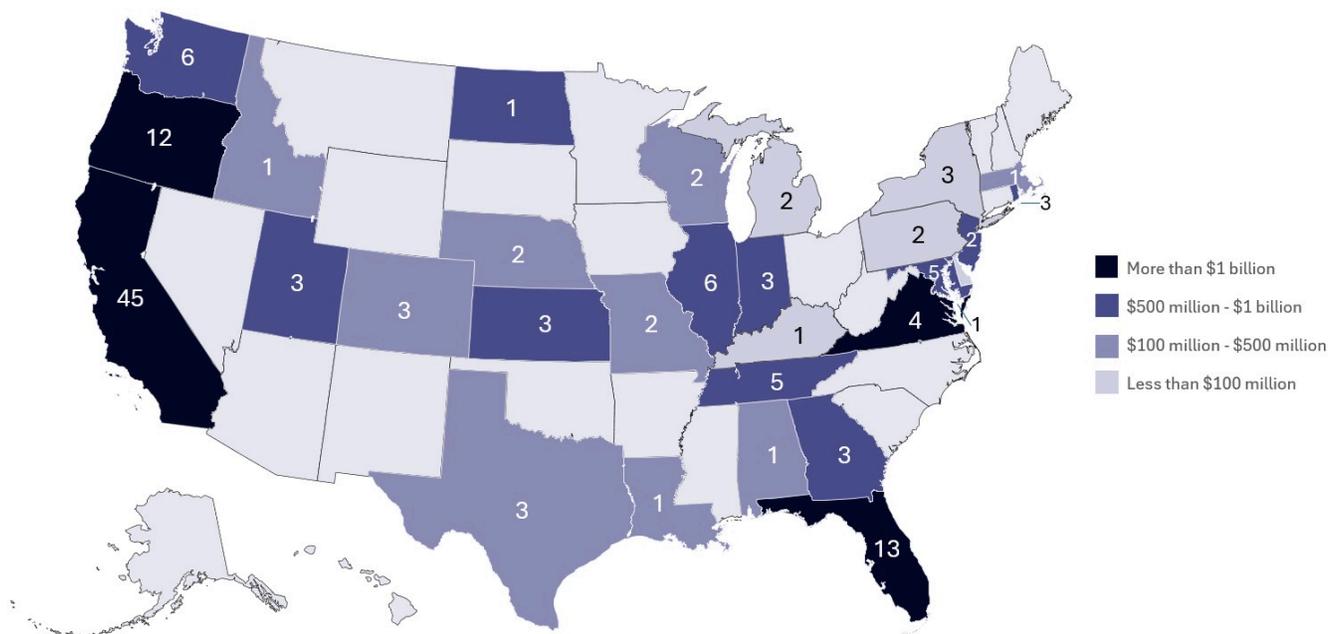
WIFIA lending came to a near halt in 2025

Since the program began in 2018, WIFIA has lent \$22.4 billion to more than 100 public borrowers in 29 states and the District of Columbia (see Exhibit 1). In 2025, however, the dollar value of loans executed was the lowest of any year since the program began in 2018. **The 2025 lending slowdown preceded the federal government shutdown**, one loan closed between mid-January and mid-December.

Exhibit 1

WIFIA lending has supported critical investments across all regions

Loan volume by dollar value and project count since 2018



Source: Environmental Protection Agency

On a federal fiscal-year basis, **only \$380 million in financing was extended from the \$6.5 billion that the Environmental Protection Agency (EPA) said would be available for fiscal 2025** (ended September 30), a figure that was consistent with previous years. Funding for the program comes from an annual congressional appropriation that covers the subsidy cost of the program. The EPA has recently announced that **funding levels for fiscal 2026 will remain stable**. While the program's lending activity **typically falls below the maximum appropriated**, in 2025, volume was constrained by disruptions in program operations, not congressional appropriations.

In order to close on a loan, WIFIA requires an investment-grade rating from a national rating organization on a senior obligation of the project. During the 11-month period that loans were delayed, we rated five WIFIA loans for prospective borrowers totaling \$1.1 billion to support a range of water and wastewater projects. All five issuers had their expected closing dates delayed. Two borrowers, the [City of Ashland, OR's Water Enterprise](#) (Aa3) and [Rockwood Water People's Utility District, OR](#) (Aa3), closed their loans at the end of December, roughly eight months and five months, respectively, after they received a public rating.

WIFIA loan activity in calendar year 2025 totaled \$890 million, the lowest dollar amount of any year since the program's start in 2018 (see Exhibit 2). **2025 was also the fourth consecutive year that the dollar amount declined**, after reaching a peak of more than \$5.5

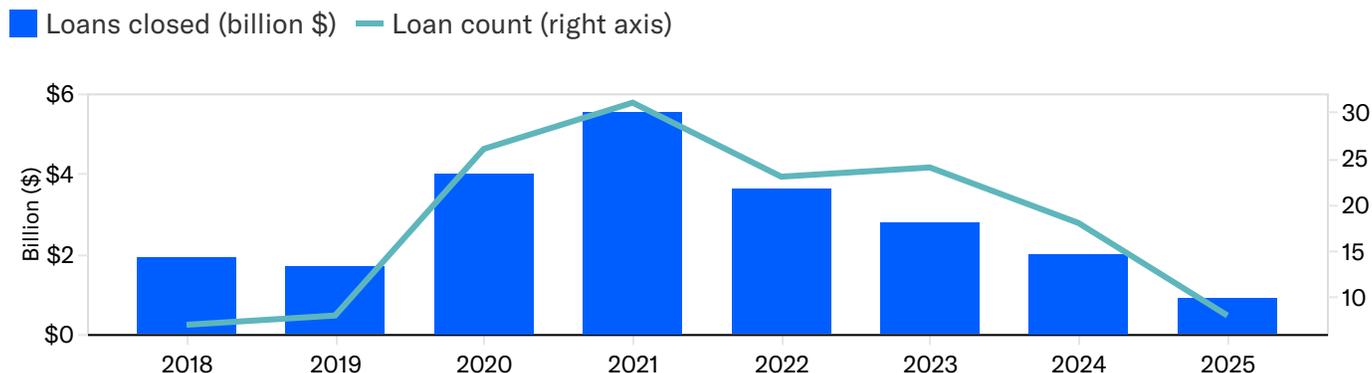
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billion in 2021, when borrowers benefited from Treasury rates below 2%. Similar to dollar amount, 2025 lending by volume was also the fourth year of decline and was on a par with the program's first two years of operations.

Exhibit 2

Only eight WIFIA loans were executed in 2025 despite a growing list of eligible projects

Loans closed by dollar and volume



Source: Environmental Protection Agency

Delays in program lending come at a time when investment needs for water and wastewater infrastructure are accelerating and other sources of federal funding for utility projects are threatened. The EPA estimates that more than \$1.25 trillion is required over the next 20 years to address water and wastewater capital needs. In 2025, municipal issuers financed more than \$26 billion in water and sewer revenue backed securities through the capital markets. The sector's growing need for capital investment is also reflected in the WIFIA program's expanding list of interested borrowers. There are currently about 70 unique public borrowers in 20 states that have either submitted successful letters of interest (LOI) to the program, completed a loan application following their LOI, or have temporarily paused their application.

Further WIFIA lending reductions will increase ratepayer costs and add to affordability pressure

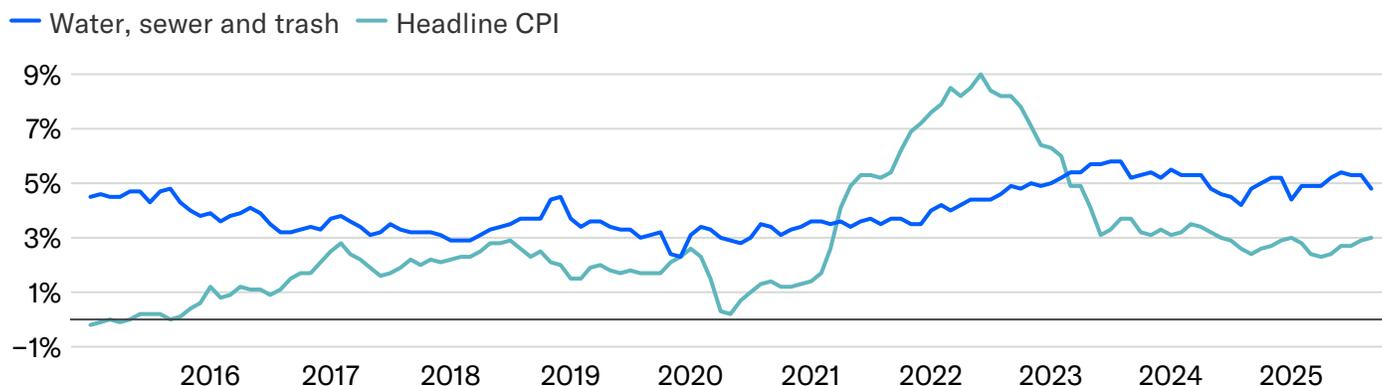
Ratepayer costs will increase if there are further program disruptions in 2026 and WIFIA applicants are forced to pursue alternative, more expensive financing. Affordability is already a key challenge for many utilities. User rates are the primary – and sometimes only – mechanism that utilities employ to pay for their operations, which includes debt service. When project expenditures increase, costs are ultimately passed down to ratepayers.

Utility rates have historically grown at a greater rate than general inflation, consuming larger proportions of ratepayers' budgets (see Exhibit 3). The Congressional Research Service estimates that household costs for water and sewer services have increased at about twice the rate of inflation between 1998 and 2024. As of September 2025, the year-over-year increase in utility bills was 4.8% compared with headline CPI of 3.0%.

Exhibit 3

Residential utility bills typically run ahead of general inflation

Annual percentage change in consumer price index (CPI) for water, sewer and trash collection services



Source: Bureau of Labor Statistics

If financing uncertainty delays projects, rising construction and labor costs could further inflate budgets. Although construction material prices largely stabilized after peaking at year-over-year growth of more than 30% in 2021, they started rising again in the second quarter of 2025 (see Exhibit 4). Additionally, construction labor costs will continue to increase steadily, with hourly wages increasing year over year by 3.7% in the second quarter of 2025, and climbing nearly 13% over the past three years.

Exhibit 4

Construction material prices started to rise again in 2025 while labor costs increased steadily

Annual percentage change in construction material prices and construction hourly wages



Source: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis and Moody's Ratings

If there are continued program delays in 2026, borrowers will need to decide whether to continue to wait for their financing to be executed through WIFIA, or pursue alternative options. There are currently about 32 public borrowers with approved WIFIA applications for projects that are close to, or are, construction-ready. Another 28 borrowers have submitted successful LOIs and an additional 12 have temporarily paused their applications.

Some projects have flexible timelines, and borrowers are likely to delay construction until WIFIA financing becomes available. Other projects are on tighter schedules and may need to pivot to other financing sources in order to avoid delays or meet state or federal regulatory requirements. WIFIA funds up to 49% of the cost of a project, and up to 80% for smaller borrowers, so all borrowers regardless of size have other financing identified. It is possible that delayed projects could proceed with other financing as borrowers await closing of a delayed WIFIA loan.

To be sure, many projects will likely be able to accommodate some financing delays as well as potential construction delays (to the extent that financing affects scheduling). For example, we rated a \$73 million WIFIA loan for the City of Ashland's water enterprise in April 2025 that did not close until mid-December. While the closing was later than expected, the utility's construction schedule was not affected. The WIFIA loan will finance up to 80% of a new water treatment plant that replaces and relocates an aging facility exposed to flooding and fires. Though the project is a critical part of the enterprise's larger Water System Resiliency Improvement Project, the existing plant continued to operate safely during financing delays. The city estimates that using the WIFIA program will generate \$11 million in costs savings.

WIFIA loans generate significant cost savings for local government issuers

The WIFIA program creates savings in several ways for borrowers and, in turn, ratepayers. Borrowers benefit from low-interest rates that generate interest savings relative to what would be available in the capital markets. Interest rates are locked in on the date of loan closing at the daily rate for State and Local Government Series (SLGS) investments plus one basis point, or the Aaa Treasury rate. As of the first week of January 2026, the thirty-year SLGS rate plus one basis point was 4.8%, compared with prevailing interest rates for investment-grade water and sewer revenue bonds of about 5.0%.

On a \$120 million WIFIA loan, the median loan size of the program to date, a 20 bp difference in interest rate would save a borrower \$5.3 million in interest costs over the life of a 30-year loan (see Exhibit 5). Savings are greatest for borrowers with lower credit quality. Additionally, WIFIA can take a subordinate position to outstanding senior lien revenue bonds. Further savings can be realized since borrowers do not have to incur additional financing costs associated with a subordinate pledge.

Exhibit 5

The median WIFIA loan can save more than \$5 million in interest on a 30-year loan compared with market rates

Total principal and interest (\$ millions)

	WIFIA loan	Aaa revenue bond	Aa revenue bond	A revenue bond
Years to maturity	30	30	30	30
Interest rate	4.8%	4.9%	5.0%	5.1%
Loan/bond amount	\$120.0	\$120.0	\$120.0	\$120.0
Total principal and interest	\$227.7	\$230.3	\$232.9	\$235.6
Additional interest paid		NPV -- 1.4 \$2.6	2.8 \$5.3	4.2 \$7.9

Interest rates are hypothetical. Principal and interest payments are estimated using declining balance method.

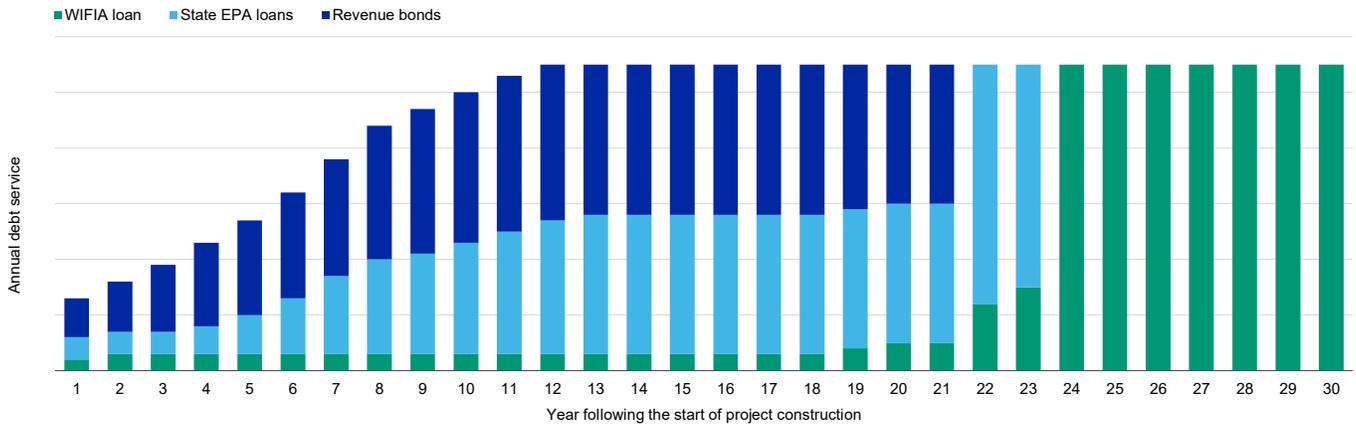
Source: Moody's Ratings

Borrowers benefit from locking in an interest rate before needing to draw upon the loan. Through this structure, borrowers can take advantage of favorable interest rates in advance of incurring project expenditures, which can further reduce the costs of borrowing by delaying interest payments. Additionally, the program allows borrowers one opportunity to reset the interest rate following loan execution.

Savings are also generated through the program's flexible debt structuring. Loans can be repaid up to 35 years from construction completion, rather than from the date of closing. The opportunity for a longer repayment period can lower annual debt service costs and allows for a slower ramp-up of rate increases to ease the burden on ratepayers (see Exhibit 6). Additionally, the program allows borrowers to customize maturity schedules so that the loan repayment wraps around existing debt obligations. Interest-only payments may begin up to five years after project completion.

Exhibit 6

WIFIA's customizable repayment schedule allows borrowers to pay off higher interest debt first and enact slower rate increases
 Sample repayment schedule for a project funded roughly equally between a WIFIA loan, state EPA loan and revenue bonds



Source: Moody's Ratings

WIFIA's flexible debt structuring can be used for backloaded repayment schedules that allow borrowers to pay off more expensive debt first. For example, the [City of Joliet, IL's Water and Sewer Enterprise](#) (A1 stable) has closed on three WIFIA loans totaling about \$400 million. The utility has developed a customized WIFIA repayment schedule that wraps around state EPA loans and revenue bonds. The schedule backloads some WIFIA principal until other financing has matured. Notably, one of the WIFIA loans does not begin to pay principal until 20 years after project completion. The utility is not afforded such flexibility on its financing in the capital markets.

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