

# **Water Infrastructure Finance Authority**

## **SFY 2013 Clean Water Intended Use Plan**



**Arizona Clean Water State Revolving Fund**

## **INTRODUCTION**

The WIFA Board of Directors is pleased to release Arizona's Clean Water State Revolving Fund (CWSRF) Intended Use Plan (IUP) for the State Fiscal Year (SFY) 2013 funding cycle. The CWSRF IUP describes WIFA's plan to utilize various sources of funds to finance clean water infrastructure and support related activities during the SFY 2013 funding cycle from July 1, 2012 through June 30, 2013. This IUP is a required element of the grant application documentation to obtain the FFY 2012 grant award. Arizona herewith submits its IUP for the FFY 2012 funds available to Arizona for the purposes of continuing the development, implementation and administration of the CWSRF program in Arizona.

The Arizona CWSRF Loan Program provides funds for publicly-owned municipal wastewater systems. Eligible projects include planning, design and construction of new wastewater treatment plants, improvements and upgrades to existing wastewater treatment plants, sewer collection systems and water reclamation and reuse facilities. The program places an emphasis on small and disadvantaged communities and on projects that promote sustainability through water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities. Loans made under the program currently have interest rates of less than 4 percent. Loan repayments to the State will provide a continuing source of infrastructure financing into the future.

### **Section 1: Short Term Goals**

For the purposes of this IUP, a short-term goal is an activity intended to be initiated and, in some cases, completed within a year.

- WIFA will make wastewater infrastructure loans more accessible and affordable to small communities by subsidizing all loans and providing below market rate interest.
- WIFA will provide additional assistance to communities who are identified as disadvantaged.
  - WIFA must provide between 20% and 30% of the Capitalization Grant amount as additional subsidization in the form of forgivable principal. However, this requirement only applies to the portion of the CWSRF capitalization grant appropriation that exceeds \$1 Billion nationally.
- WIFA will provide 10% of the Capitalization Grant amount (as required by the terms of the Capitalization Grant) for sustainable construction efforts such as water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities.

### **Section 2: Long Term Goals**

For purposes of this IUP, long-term is defined as the life of the program. The following are the long-term goals of the loan program:

- Award WIFA's resources in accordance with the needs of Arizona's citizens;
- Maintain the fiscal integrity of WIFA's funds and assure continuous enhancement for future generations;
- Facilitate access to and efficiently deliver financial and technical assistance to Arizona's wastewater facilities; and
- Coordinate with other funding agencies through the Rural Water Infrastructure Committee (RWIC).

### **Section 3: Important Program Changes**

WIFA plans to adjust the interest vs. fee ratio of the Combined Interest and Fee Rate (CIFR) during SFY 2013.

### **Section 4: Agreement to Enter Data into CBR and NIMS**

WIFA agrees to enter data into CBR and NIMS. WIFA is currently working with Northbridge Consulting to improve the historical data in NIMS.

## Section 5: Description of Public Notice Process and Actions Taken to Address Public Comments

Public review and written comment period of this IUP will be conducted from May 23, 2012 through June 1, 2012.

WIFA will solicit public review and comment on the draft SFY 2013 CWSRF IUP and Project Priority List (PPL) according to the following schedule:

|               |  |
|---------------|--|
| May 23, 2012  | Distribution and Web posting of the draft CWSRF IUP and PPL to all interested parties.                                   |
| May 30, 2012  | Public Hearing – 1110 West Washington, Room 130, Phoenix, Arizona 85007 from 1:00 P.M. to 2:00 P.M.                      |
| June 1, 2012  | Deadline for public comments on the draft CWSRF IUP and PPL.   |
| June 20, 2012 | The WIFA Board of Directors to adopt the final draft CWSRF IUP and PPL. IUP will then be sent to EPA for final approval. |
| July 1, 2012  | Begin implementation of the Approved CWSRF IUP and PPL   |

## Section 6: Assurances and Specific Proposals

WIFA intends to comply with the following:

- WIFA will comply with its Environmental Policy as approved by EPA;
- WIFA will comply with the Davis Bacon requirements outlined in the Capitalization Grant Terms and Conditions;
- WIFA will make every effort to comply with EPA's guidance for timely and expeditious use of funds; and
- WIFA agrees to the remaining required assurances and proposals in the grant application or the IUP.

## Section 7: Disadvantaged Community Program

WIFA is committed to providing assistance to Wastewater Systems serving Disadvantaged Communities. The Board may designate an applicant as a Disadvantaged Community if the applicant satisfies one of the following:

1. The community is a designated "colonia" community through the federal government, or
2. The applicant meets the following criteria:
  - a. The applicant's project is above the 50th percentile on the CWSRF PPL; and
  - b. WIFA awarded the applicant 50 or more Local Fiscal Capacity points on the CWSRF PPL.

WIFA intends on providing the additional subsidy as forgivable principal to disadvantaged communities. WIFA's Disadvantaged Policy allows for extended term, reduced interest or a combination. None of the disadvantaged community projects are listed on the PPL have moved to the 'ready to proceed' category which is when the decision for additional subsidization is made. WIFA may choose to provide additional subsidization to 'fix it first' projects if they are identified on the PPL and move into the 'ready to proceed' category.

## Section 8: Criteria and Methods for Distribution of Funds (Priority Setting Criteria)

- **Project Priority List and Fundable Range**
  - **Project Priority List (PPL):** On an annual basis, following a statewide solicitation for projects, WIFA develops a statewide priority list of projects. Currently, WIFA's CW PPL has eight project priority list applications totaling \$24,709,500.00.

- **Fundable Range:** The Fundable Range includes the applicants ready to receive design or construction financial assistance.
- **Project Priority List Updates**  
The WIFA Board of Directors may update the CWSRF-PPL by adding or deleting projects or adjusting the fundable ranges for design or construction projects. The decision to update the CWSRF-PPL may be based on a project's readiness to proceed, refined project cost estimates, availability of other funding sources or other new information affecting the expansion or contraction of the PPL and Fundable Ranges. The WIFA Board of Directors will adopt the updated CWSRF-PPL at a public meeting and the updates will be posted on the WIFA website.
- **Project Readiness to Proceed**  
Applicants accrue readiness to proceed points based on the following criteria:
  - Approved debt authorization has been received by WIFA.
  - Plans and specifications are complete.
  - Local and state permits have been obtained.
  - The bid or solicitation process has been initiated.

### Section 9: Bypass Procedures

The Fundable Range process is used to bypass projects that are not ready to proceed. As part of this process, readiness to proceed points are awarded for each of the criteria identified above, with a project needing to accrue at least 40 points out of 100 possible. Projects which have not received at least 40 points are bypassed, allowing projects which are ready to proceed to move forward with obtaining financing.

### Section 10: Sources and Uses Table

| Arizona CWRF Sources & Uses for SFY 2013 (FFY 2012)   |                                       |                     |                     |                      |                      |
|---|---------------------------------------|---------------------|---------------------|----------------------|----------------------|
|   |                                       | Federal             | WIFA                | WIFA                 |                      |
|   |                                       | Contributions       | Revenues            | Loan Accounts        | Total                |
| <b>Funding Sources</b>  |                                       |                     |                     |                      |                      |
|   | Estimated fund balance as of 7/1/2012 | \$ -                | \$ 1,909,400        | \$ 50,344,211        | \$ 52,253,611        |
|   | New funds expected in SFY 2013        | \$ 9,542,000        | \$ 4,731,460        | \$ 1,099,925         | \$ 15,373,385        |
|   | <b>Total Funding Sources</b>          | <b>\$ 9,542,000</b> | <b>\$ 6,640,860</b> | <b>\$ 51,444,136</b> | <b>\$ 67,626,996</b> |
| <b>Funding Uses</b>   |                                       |                     |                     |                      |                      |
|   | Financial Assistance Loans            | \$ 9,160,320        | \$ 1,908,400        | \$ 51,444,136        | \$ 62,512,856        |
|   | Clean Water Programs (ADEQ)           |                     | \$ 1,597,000        |                      | \$ 1,597,000         |
|   | Technical Assistance                  |                     | \$ 157,500          |                      | \$ 157,500           |
|   | Administration                        | \$ 381,680          | \$ 932,211          |                      | \$ 1,313,891         |
|   | Forgivable Principal \$530,310        |                     |                     |                      |                      |
|   | Green Infrastructure \$954,200 (10%)  |                     |                     |                      |                      |
|   | <b>Total Funding Uses</b>             | <b>\$ 9,542,000</b> | <b>\$ 4,595,111</b> | <b>\$ 51,444,136</b> | <b>\$ 65,581,247</b> |
| <i>State match can be WIFA bond proceeds, WIFA CW fees or state general fund monies.</i>                    |                                       |                     |                     |                      |                      |
| <i>WIFA may sell water quality revenue bonds; proceeds will be used to increase WIFA's lending capacity</i> |                                       |                     |                     |                      |                      |

#### A. Financial Assistance Funds for Loans

Eligible projects include planning, design and construction or replacement of wastewater facilities, sewer collection systems, reclamation and recharge, water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities. A

minimum of 10% will be used to finance sustainable projects that emphasize water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities. See the **Arizona CWSRF Sources & Uses for FFY 2011 Funding Cycle Table for detail.**

**B. Clean Water Programs (WIFA Revenues to ADEQ)**

The Clean Water Program is composed of activities that protect both surface water and ground water in Arizona. Surface water quality is protected by controlling point source discharges from wastewater treatment plants, concentrated animal feeding operations, storm-water, industrial, commercial and other facilities. Surface water is also protected from discharges of non-point source pollution by irrigated agriculture, livestock grazing, silviculture, urban runoff, and construction, mining, and recreation activities. Arizona's Aquifer Protection Permit Program protects the state's aquifers through the issuance of permits to discharging facilities, registration of dry wells and issuance of reclaimed water permits. Funds not used for these purposes during SFY 2013 (July 1, 2012 through June 30, 2013) will revert to standard project loans after August 1, 2013 and will be reflected in the SFY 2014 CW IUP.

ADEQ accomplishes its clean water goals by administering all relevant statutory and regulatory program activities, including: (1) Arizona Pollutant Discharge Elimination System (AZPDES) program, (2) Aquifer Protection Permit (APP) program, (3) engineering review, (4) compliance inspections, (5) outreach and education, (6) enforcement, (7) statewide watershed management, (8) grants to eliminate or mitigate nonpoint source pollution, (9) water quality standards, and (10) water quality monitoring and assessment. For more information please contact ADEQ's Water Quality Division Deputy Director.

**Section 11: Identify Types of Assistance Provided and Terms (Principal Forgiveness, Extended Terms)**

**Technical Assistance**

Technical Assistance available from WIFA includes planning and design assistance grants, staff assistance, and professional assistance.

**1. Planning and Design Assistance Grants**

WIFA will use up to \$150,000 for planning and design assistance grants. WIFA solicits grant applications from Arizona's political subdivisions and Indian communities. The purpose of WIFA's Planning and Design Grant Program is to help prepare systems for future infrastructure project construction. Typically, awards are made to facilities with limited resources that need assistance in completing the planning and/or design phase of an infrastructure project. WIFA has also placed high priority on projects that improve water or energy efficiency. The Request for Grant Applications issued for each grant cycle establishes the scoring criteria on which the applications are evaluated. Awards are capped at \$35,000 per project.

**2. Professional Assistance**

WIFA will provide \$7,500 for the annual Clean Water Rate Survey and \$200,000 for the Clean Water Needs Survey.

Throughout the Funding Cycle and as circumstances require, WIFA may fund additional Professional and Staff Technical Assistance projects. The Board will act to add Professional and Staff Technical Assistance projects at a public meeting of the Board.

**Program Administration (4% Set-Aside plus WIFA Fees)**

Four percent of the grant and clean water fees will be used to pay salaries and associated expenses of program personnel devoting time to the administration of the funds.

### Forgivable Principal

Based upon the FFY 2012 Additional Subsidization Table provided by EPA, WIFA is required to provide a minimum amount of additional subsidization of \$530,310. WIFA will provide this additional subsidization in the form of forgivable principal for up to 90% of the loan amount, based on financial need.

### Financial Terms of Loans

1. Subject to the limitation in item 2 of this list, all loans for the financing of projects will be for a term not to exceed 20 years from loan closing date, except that under certain conditions including loans to disadvantaged communities project financing may be made for a period of up to 30 years.
2. Loan terms are not to exceed the useful life of the project.
3. Terms of financial assistance to publicly-owned wastewater systems serving disadvantaged communities are addressed in Section 7.
4. Repayment of loan principal must begin within 12 months of project completion based on the construction schedule available at the loan closing date or actual completion date or three years from the date of the initial principal advance, whichever is earlier.
5. Loan disbursements are to be made on a cost reimbursement basis.
6. The decision to leverage will be based on demand on the loan fund for projects to address public health concerns, market conditions and long-term impact to the fund.
7. A minimum of \$530,310 and a maximum of \$795,465 of the FFY 2012 Capitalization Grant funds will be provided as forgivable principal. A minimum of \$954,200 will be provided for green projects (water efficiency, energy efficiency, green infrastructure or other environmentally innovative activities).
8. All contracts for financial assistance will require the borrower to comply with the Davis-Bacon Act regardless of the source of funding if required as part of the FFY 2012 Capitalization Grant.
9. WIFA will allocate income from the Standard Combined Interest and Fee Rate (CIFR) as either fee income or interest income in accordance with the following table.

### Combined Interest and Fee Rate (CIFR)

| Financial Structure | CIFR   | Fees | Interest    |
|---------------------|--|------|-------------|
| Governmental        | Municipal Market Data Index (times) Subsidy Rate | 1.5% | CIFR – 1.5% |
| Non-Governmental    | Prime Rate (times) Subsidy Rate                  | 3.0% | CIFR – 3.0% |

### Section 12: State Match Sources

As demonstrated in the Sources and Uses Table, WIFA revenues will provide match for the FFY 2012 Capitalization Grant.

### Section 13: Identification of Overmatch

WIFA has overmatched the federal grants when viewed in a cumulative perspective through SFY 2011. However, it is WIFA's intention to simply meet match requirements for each subsequent award.

### Section 14: Anticipated Cash Draw Ratio (proportionality) or Statement of Match Drawdown then Federal

WIFA will fund loan disbursements with WIFA revenues prior to drawing down federal grant monies.

### Section 15: Estimated Disbursement Schedule

| First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---------------|----------------|---------------|----------------|
| 20%           | 35%            | 35%           | 10%            |

**Section 16: Identification of any Intended Transfers between Funds**

WIFA currently has no planned transfers between the CWSRF and the DWSRF.

**Section 17: Identification and Explanation of any Cross Collateralization**

The Authority maintains the CWSRF and DWSRF as separate and distinct programs. Revenues generated by either program will remain within that program. Any transfers between funds will be temporary in nature and done only to alleviate short term cash shortages.

**Section 18: Loan Interest Rate**

The WIFA Board of Directors has established a target interest rate ranging between 70% and 95% of tax-exempt AAA Bond Rate for government entities. This subsidy rate is based on the local fiscal capacity which is measured by the area’s median household income, user rates and charges, the system’s outstanding and proposed debt, and cost effectiveness of the project. Interest rates/subsidies on individual loans will be set pursuant to the criteria below:

- Priority of the project;
- Local fiscal capacity of the area served by the system requesting assistance; and,
- Lending capacity of Arizona’s CWSRF.

**Section 19: Fees Charged if Applicable and Uses of Fees**

Section 11 describes how fees are charged. The Sources and Uses table demonstrates how fees will be used for SFY 2013, providing match to the federal grant, administration of the SRF, and providing support to ADEQ’s water programs.

**Section 20: Overview of Program Financial Status and Management**

With the FFY 2012 Federal Capitalization Grant, WIFA will have received 23 Capitalization Grants (including ARRA) totaling \$240,564,273. In addition WIFA has received and passed through 3 SAAP grants totaling \$9,621,347 for a total federal investment of 26 grants totaling \$250,185,620.

The Arizona CWSRF program supports the National USEPA Strategic Plan Goal 2 (Clean and Safe Water), Objective 2.2 (Protect Water Quality), Sub-objective 2.2.1 (Improve Water Quality on a Watershed Basis). Specifically, Arizona established and is managing the revolving loan fund to finance the cost of infrastructure improvements which will achieve or maintain compliance with the Clean Water Act requirements. Arizona CWSRF activities support USEPA Program Reporting Measure WQ-17 Fund Utilization.

All planned and prior year loans have assisted public wastewater systems in meeting the federal and state clean water compliance requirements. Details of Arizona’s CWSRF activities supporting the National USEPA Strategic Plan will be included in the CWSRF Annual Report as well as in the Clean Water Benefit Reporting system (CBR) and the Clean Water National Information Management System (CWNIMS) and the Federal Funding Accountability and Transparency Act (FFATA) Reporting System.

The CWSRF Fund Utilization is calculated by dividing the cumulative funds provided as of June 30, 2011 (CWNIMS Line 110) by the cumulative CWSRF Funds available as of June 30 2011 (CWNIMS Line 283).

| Measure | Measure Text   | National Target | Region 9 Target | Arizona Target |
|---------|--|-----------------|-----------------|----------------|
| WQ-17   | Fund utilization rate [cumulative loan agreement dollars to the cumulative funds available for projects] for the Clean Water State Revolving Fund (CWSRF). | 94.5%           | 95%             | 100%           |

**Section 21: Leveraging Plan**

As a matter of practice, WIFA pays close attention to its cash position and lending capacity. This practice includes reports to the WIFA Board of Directors at each Board meeting defining WIFA's current cash position and lending capacity. As a result of slow loan demand and prepayments, it appears that WIFA's next Bond Issue won't be needed until late summer 2013.

**Section 22: Binding Commitment Schedule**

When the WIFA Board of Directors approves an applicant's financial assistance request, WIFA staff prepares and circulates financial assistance (loan) documents to evidence the binding commitment in accordance with applicable federal and state requirements. Based on the PPL, WIFA expects to enter into binding commitments at 2,590 % (min is 120%) (dollars on PPL (\$24,709,500) vs the federal cap grant \$9,542,000)).

**Section 23: Grant Payment Schedule**

WIFA will receive all payments in the first quarter available.

**NOTE: Sections 34-43:**

These Sections are for DWSRF, not applicable to CWSRF.

**Section 24-33: Fundable List**

**Arizona's Clean Water Revolving Fund Project Priority List – 2013 Funding Cycle**

| <b>PPL Rank</b> | <b>Applicant</b>            | <b>Population</b> | <b>County</b> | <b>Permit#</b> | <b>Project Name</b>   | <b>Description</b>  | <b>Project Number</b> | <b>Amount Requested / Probable Green Amount</b> | <b>Subsidy Rate</b> |
|-----------------|-----------------------------|-------------------|---------------|----------------|---|---|-----------------------|---|---------------------|
| 1               | *Pinewood Sanitary District | 6,000             | Coconino      | AZ0025879      | East and West Commercial Sewering and Sewering Northlodge Subdivision and Northernaire Subdiv | These unsewered areas of Munds Park have long been serviced by failing or inadequate septic systems. The solution is to provide the infrastructure for centralized sewers.  | 002<br>2013           | \$2,500,000.00                                  | 80%                 |
| 2               | *Ash Fork Sanitary District | 650               | Yavapai       |                | Centralized Wastewater Collection/Treatment System  | Ash Fork's wastewater disposal methods consist of a 12-connection centralized system, with majority of rest of population on unapproved septic or cesspool. District was established to develop centralized wastewater collection/treatment system. | 004<br>2013           | \$5,500,000.00                                  | 80%                 |
| 3               | *Springerville, Town of     | 1,900             | Apache        | P100827        | Sewer System Rehabilitation - Line Replacement and East Lift Station and Monitor System       | Replacement of aging infrastructure (fix-it-first): Lift station reconstruction and line replacement/rehabilitation (replace 75 year old clay pipe).  | 003<br>2013           | \$600,000.00                                    | 80%                 |
| 4               | Gila Bend, Town of          | 1,980             | Maricopa      | AZ0020231      | Wastewater Treatment Plant  | WWTP would improve compliance by eliminating discharge from current lagoon system. Project includes piping and a lift station.  | 007<br>2013           | \$4,609,500.00                                  | 80%                 |

|   |   |        |          |           |                                     |   |             |   |     |
|---|---|--------|----------|-----------|-------------------------------------|---|-------------|---|-----|
| 5 | Buckeye, Town of                                  | 25,000 | Maricopa | AZ0025518 | Reclaimed Water System Improvements | Design and construct several reclaimed water system improvements to provide for increased reclaimed water usage and recharge, including: 6.25 miles of reclaimed water line, a PRV between pressure delivery zones, and 16 turnouts along reclaimed water pipeline. Provide electrical, instrumentation and operational modifications for the Beloat and Sundance systems, as required. | 006<br>2013 | \$4,500,000.00 /<br>Categorical<br><br>\$490,000.00 | 80% |
| 6 | Big Park Domestic Wastewater Improvement District | 2,500  | Yavapai  | AZ0024082 | Big Park DWWID 2012                 | Existing wastewater tank is at its life expectancy (tank walls are deteriorating). Existing WWTP cannot treat effluent to current permit requirements and needs to be expanded to 700,000 gpd with new treatment methods and change in filter to meet permit requirements.  | 005<br>2013 | \$5,000,000.00                                      | 85% |
| 7 | Buckeye, Town of                                  | 25,000 | Maricopa | AZ0025518 | Industrial Park Lift Station        | Install a sewer lift station.   | 008<br>2013 | \$1,400,000.00                                      | 80% |
| 8 | Buckeye, Town of                                  | 25,000 | Maricopa | AZ0025518 | Apache Road sewer line extensions   | Construct sewer line extensions from Apache Road to developing property.  | 009<br>2013 | \$600,000.00  | 80% |

\* Disadvantaged communities

**Total:**

**\$24,709,500.00**

