

Water Infrastructure Finance Authority

SFY 2014 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) 2014 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 2014 funding cycle from July 1, 2013 through June 30, 2014. This IUP is a required element of the grant application documentation to obtain the FFY 2013 grant award. Arizona herewith submits its IUP for the FFY 2013 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, water reclamation and reuse facilities, and stormwater infrastructure. 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 2014.

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 June 4, 2013 through June 18, 2013.

WIFA will solicit public review and comment on the draft SFY 2014 CWSRF IUP and Project Priority List (PPL) according to the following schedule:

June 4, 2013	Distribution and Web posting of the draft CWSRF IUP and PPL to all interested parties.
June 18, 2013	Public Hearing – 1110 West Washington, Room 130, Phoenix, Arizona 85007 from 1:00 P.M. to 2:00 P.M.
June 18, 2013	Deadline for public comments on the draft CWSRF IUP and PPL.
June 19, 2013	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, 2013	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 notify its borrowers of the requirement to 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 at or above the 50th percentile on the CWSRF PPL; and
 - b. WIFA awarded the project 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. 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, WIFA develops a statewide priority list of projects. Currently, WIFA's CW PPL has seven project priority list applications totaling \$55,676,268.
 - **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 range 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 Range. The WIFA Board of Directors adopts the updated CWSRF-PPL at a public meeting and the updates are 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 submitted to 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 CWSRF Sources & Uses for SFY 2014 (FFY 2013)				
	Federal	WIFA	WIFA	
	Contributions	Revenues	Loan Accounts	Total
Funding Sources				
Estimated fund balance as of 7/1/2012	\$ -	\$ 1,909,400	\$ 35,965,310	\$ 37,874,710
New funds expected in SFY 2013	\$ 9,542,000	\$ 350,000	\$ 18,926,000	\$ 28,818,000
Total Funding Sources	\$ 9,542,000	\$ 2,259,400	\$ 54,891,310	\$ 66,692,710
Funding Uses				
Financial Assistance Loans	\$ 9,160,320	\$ 1,908,400	\$ 54,891,310	\$ 65,960,030
Clean Water Programs (ADEQ)				\$ -
Technical Assistance		\$ 161,000		\$ 161,000
Administration	\$ 381,680	\$ 131,720		\$ 513,400
Forgivable Principal \$530,310				
Green Infrastructure \$954,200 (10%)				
Total Funding Uses	\$ 9,542,000	\$ 2,201,120	\$ 54,891,310	\$ 66,634,430
<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>				

Financial Assistance Funds for Loans

Eligible projects include planning, design and construction or replacement of wastewater facilities, sewer collection systems, reclamation, and recharge, and stormwater infrastructure. A minimum of 10% of the federal grant 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 SFY 2014 (FFY 2013) Funding Cycle Table for detail.**

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 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 construction of capital improvement projects. 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

Professional assistance includes studies, surveys and other types of reports that provide benefit to a range of wastewater systems statewide. This year, WIFA will provide \$11,000 for the annual Wastewater Residential Rate Survey.

Throughout the Funding Cycle and as circumstances require, WIFA may fund additional Professional Technical Assistance projects. The Board will act to add Professional 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 2013 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. This number may be adjusted when EPA provides final funding levels and requirements.

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 2013 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 stormwater infrastructure or other environmentally innovative activities). This number may be adjusted when EPA provides final funding levels and requirements.
8. All contracts for construction 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 2013 Capitalization Grant.
9. WIFA will assess 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) for 20 Year Loans

Financial Structure	CIFR
Governmental	Municipal Market Data Index (MMD) or 3.5%, whichever is higher, multiplied by the Subsidy Rate
Non-Governmental	Prime Rate plus 200 basis points or 4%, whichever is higher, multiplied by the Subsidy Rate

Section 12: State Match Sources

As demonstrated in the Sources and Uses Table, WIFA revenues will provide match for the FFY 2013 Capitalization Grant.

Section 13: Identification of Overmatch

Through April 2013, WIFA has overmatched the federal grants when viewed in a cumulative perspective by \$34,039,486.

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

With the overmatch, WIFA will draw 100% federal funds until the overmatch is depleted. Once the overmatch is depleted, WIFA will draw the state match equivalency prior to drawing federal funds.

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: Combined Interest and Fee Rate (CIFR)

For 20 year term loans, the WIFA Board of Directors has established a target CIFR rate ranging between 70% and 95% of the tax-exempt AAA MMD Rate (or 3.5%, whichever is higher) for governmental entities and the Prime Rate plus 200 basis points (or 4%, whichever is higher) for non-governmental entities. CIFR/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

The Sources and Uses table demonstrates how fees will be used for SFY 2013, providing match to the federal grant and administration of the SRF.

Section 20: Overview of Program Financial Status and Management

With the FFY 2013 Federal Capitalization Grant, WIFA will have received 24 Capitalization Grants (including ARRA) totaling \$250,106,273. In addition WIFA has received and passed through three SAAP grants totaling \$9,621,347 for a total federal investment of 27 grants totaling \$259,727,670.

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 (CWNIMS Line 110) by the cumulative CWSRF Funds available as of June 30 2012 (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 583% of the federal cap grant amount (dollars on PPL vs the federal cap grant).

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.

Sections 24-33: Fundable List

Arizona combines the Fundable and Comprehensive lists into one list. WIFA applies all crosscutters to all projects with the exception of FFATA. FFATA is treated on an equivalency basis. See yellow highlight below. It is unknown at this time which projects will be awarded forgivable principal. Projects which qualify for the GPR are highlighted in green.

Arizona’s Clean Water Revolving Fund Project Priority List – 2014 Funding Cycle

PPL Rank	Applicant	Population	County	AZPDES Permit Number	Project Name	Description	Project Number	Amount Requested / Probable Green Amount	Subsidy
1	*Pinewood Sanitary District	6,000	Coconino	AZ0025879	Sewering of East and West Commercial Areas, North Lodge Subdivision and Northernaire Subdivision	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.	001 2014	\$3,000,000.00	75%
2	*Alhambra DWWID	100	Gila		Sewer Hookup to Globe	District has been experiencing failing leach fields and surfacing of effluent. County is concerned about water quality and issued NOV in 2009. The best solution is to connect to City of Globe sewer system including piping, a lift station and other necessary infrastructure.	002 2014	\$440,000.00	75%
3	*Tri-City Regional Sanitary District	4,014	Gila		Tri-City Regional Sanitary District	Wastewater is presently being disposed into septic systems and cesspools. Proposed project would benefit by disposing and treating wastewater in a central facility.	003 2014	\$42,931,768.00	80%
4	*** Bisbee, City of	5,575	Cochise	AZ0026077	San Jose WWTP Solar Addition	San Jose WWTP consumes approx 1,100,000 kw hrs annually in excess of \$100,000 annually. City will install a solar system to help offset power consumption. The system would produce 1,000,000 kW-hrs annually and reduce the operation and maintenance cost at the plant by \$20 million over the next 20 years.	004 2014	\$1,500,000.00 / Categorical \$1,500,000.00	80%

5	San Luis, City of	25,505	Yuma		Juan Sanchez, 7th Ave Lift Station	San Luis has one treatment plant at 90% capacity and another at 8% capacity. The new lift station and force main will divert flows from the higher to the lower capacity plant.	005 2014	\$3,000,000.00	80%
6	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 2014	\$4,609,500.00	85%
7	Tapadero DWWID	30	Yavapai		Tapadero DWWID 2013	Properties within the boundaries of the District must disconnect from existing wastewater facility due to law suit. Construct sewer main line for connection to Prescott Valley.	006 2014	\$195,000.00	85%

Total: **\$55,676,268.00**

* Disadvantaged community

*** Eligible for Green Project Reserve