

# **Water Infrastructure Finance Authority**

## **2008 Intended Use Plan**



**Arizona Drinking Water State Revolving Fund**

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## **I. INTROUCTION**

### **A. History and Legislation**

In August 1996 the Safe Drinking Water Act Amendments were passed by congress. This Act authorized the states to establish drinking water revolving funds for community drinking water infrastructure needs for the first time.

Passage of H.B. 2304 by the Arizona Legislature April 22, 1997, transformed the Wastewater Management Authority of Arizona into the Water Infrastructure Finance Authority of Arizona (WIFA). The WIFA was charged with administering the Clean Water State Revolving Fund (CWSRF) for wastewater projects and the new Drinking Water State Revolving fund (DWSRF) for drinking water infrastructure needs. The Board of Directors was expanded from seven to twelve members.

Title 18, Chapter 15 of the Arizona Administrative Code establishes detailed rules for the Water Infrastructure Finance Authority.

The 2008 Intended Use Plan describes how WIFA intends to use available DWSRF funds for the year to meet the objectives of the Safe Drinking Water Act and further the goal of protecting public health.

### **B. Financial Status of the Arizona DWSRF**

Since program inception, Arizona has received eleven DWSRF Capitalization Grants from EPA for a total of \$154,309,950.

The WIFA Board of Directors is pleased to release Arizona's Drinking Water State Revolving Fund (DWSRF) Intended Use Plan (IUP) for the 2008 funding cycle. The DWSRF IUP describes WIFA's plan to utilize various sources of funds to finance drinking water infrastructure and support related program activities during the 2008 funding cycle from January 1, 2008 through December 31, 2008.

### **C. Arizona Request**

This Intended Use Plan (IUP) is a required element of the grant application documentation to obtain the FFY 2008 grant award. Arizona herewith submits its IUP for the FFY 2008 funds available to Arizona for the purposes of continuing the development, implementation and administration of the DWSRF program in Arizona. The total available to Arizona from EPA's FFY 2008 allotment is \$23,118,000. This allotment will be matched by the 20% state match requirement of \$6,006,600. Arizona intends to divert \$3,332,720 of this allotment to the account for set-aside programs, leaving \$19,785,280 in federal funds for the revolving loan fund.

## **II. TYPES OF PROJECTS TO BE FUNDED FROM THE VARIOUS DWSRF ACCOUNTS**

### **A. The types of projects for which loan funds from the account for the revolving fund are intended include:**

1. The construction/upgrading of water treatment facilities;
2. Supplemental water source interconnect;
3. Arsenic treatment to meet public health standards and to protect public health;
4. Consolidation and interconnection of public water systems;
5. Planning and engineering associated with eligible projects;
6. Replacement/rehabilitation of transmission lines and storage facilities;
7. New water wells;
8. Water system expansion;
9. Other projects necessary to address compliance/enforcement or security issues.

### **B. Activities intended to be funded from the account for set-aside programs include:**

1. Administration of the DWSRF program;
2. Public Water System Supervision (PWSS);
3. Local assistance;
4. Capacity development, wellhead protection, operator certification;
5. Technical assistance grants to small public water systems serving 10,000 or fewer persons.

### **III. DWSRF LOAN PROGRAM DESCRIPTION & GOALS**

#### **A. DWSRF Loan Program General Information**

The Arizona DWSRF Loan Program funds publicly- and privately-owned community water systems and non-profit non-community water systems. Eligible projects include installation and replacement of failing treatment facilities, eligible storage facilities and transmission and distribution systems. Projects to consolidate water systems may also be eligible. Loans made under the program currently have interest rates of less than 4 percent (except in the case of a privately owned facility). Loan repayments to the State will provide a continuing source of infrastructure financing into the future. The program also places an emphasis on small and disadvantaged communities and on programs that emphasize prevention and sustainability as tools for ensuring safe drinking water.

#### **Financial Terms of Loans for Public Water System Projects:**

1. Subject to the limitation in paragraph 2 of this section, all loans for the financing of projects, will be for a term not to exceed 20 years from loan closing date, except that under some conditions, loans to disadvantaged communities for financing projects may be made for a period of up to 30 years from loan closing date;
2. Loan terms are not to exceed the useful life of the project;
3. Terms of financial assistance to public water systems serving disadvantaged communities are addressed in Section VI;
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. Loans are to be made on a cost reimbursement basis;
6. Leveraging: The decision to leverage will be based on demand on the loan fund for projects to address health concerns, market conditions and long term impact to the fund;
7. WIFA has not implemented forgivable principal because WIFA is a leveraged program;
8. The Controller will allocate income from the Standard Combined Interest and Fee rate (CIFR) as either fee income or interest income in accordance with the table located on page 4.

**Combined Interest and Fee Rate (CIFR)**

| <b>Financial Structure</b> | <b>CIFA</b>   | <b>Portion of CIFR Allocated as Fees</b> | <b>Portion of CIFR Allocated as Interest</b> |
|----------------------------|---|--|--|
| Governmental Loan          | *Set in accordance with Section 1 of this Procedure | 1.5%                                     | Remainder of CIFR                            |
| Non-Governmental Loan      |   | 3.0%                                     | Remainder of CIFR                            |
| Linked Deposit Guarantees  |   | Determined on a case by case basis       | Determined on a case by case basis           |

\*Government Loan – Tax Exempt AAA Bond Rate (times) Subsidy Rate

\*Non-Government Loans – Prevailing Prime Rate (times) Subsidy Rate

**DW Fee Income and Uses**

| <b>Fee Income</b> | <b>Interest Income</b> | <b>Technical Assistance Grants</b> | <b>Set -Asides</b> | <b>Contractors</b> |
|-------------------|------------------------|------------------------------------|--------------------|--------------------|
| \$1,172,095       | \$356,852              |                                    | \$477,000          | \$80,000           |

**B. Long-Term Goals**

For purposes of this IUP, long term goal 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 drinking water facilities;
- Coordinate with other funding agencies through the Rural Water Infrastructure Committee (RWIC).

**C. Short-Term Goal**

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.

- Make drinking water infrastructure loans more accessible and affordable to small communities by making \$48,782,463 in funding available for below market rate interest loans.



requirements in Arizona. These activities include operator certification, source water assessment and protection, development of regulatory guidance and assistance documents, assisting systems in obtaining the technical, financial, and managerial capability to comply with drinking water regulations, and technical consultations on water system and treatment system design. For more information please contact Tony Bode at (602) 771-4648.

**C. Local Assistance: (15% set-aside) \$1,025,000**

State and Federal Statutes allows setting aside 15% of the Federal funds to provide Local Assistance to water systems in Arizona. During State Fiscal Year 2008, Arizona will set aside 4.4% (1,025,000) for local assistance.

**\$375,000** will be used by ADEQ for Wellhead Protection activities to protect underground sources of drinking water. For more information contact Drinking Water Monitoring and Protection Unit: Donna Calderon, Unit Manager Phone: (602) 771-4641.

**\$650,000** will be used for Technical Assistance. WIFA (\$500,000) and ADEQ (\$150,000) will share these funds to provide assistance to water systems in two (2) categories:

- **Project Technical Assistance** – WIFA will assist an individual drinking water or wastewater system to conceive, plan, design, and develop infrastructure.
- **Operational Technical Assistance** – The Arizona Department of Environmental Quality will assist individual drinking water systems to improve day-to-day operations.

**Technical Assistance Intended Use Plan – Two Fundable Ranges**

There are two annual fundable ranges for technical assistance awards, referred to in Phase I and Phase II of the funding cycle. The Board shall approve a Technical Assistance Intended Use Plan (TA IUP) for the Phase I awards at the June board meeting, at which time the Board may reserve a portion of the annual Technical Assistance funding for the Phase II awards. The Board shall approve a revised TA IUP for the Phase II awards at the December board meeting. The TA IUP shall include:

- A description of the types of technical assistance the Board expects to fund;
- A summary of the sources and uses of funds by type of technical assistance;
- A Drinking Water Project Technical Assistance Priority List for Phase I and Phase II awards;
- A Wastewater Project Technical Assistance Priority List for Phase I and Phase II awards.

**Technical Assistance Funding – Annual Cycle**

| <b>Phase</b> | <b>Applications Due</b> | <b>TA IUP Approved</b> | <b>Grants Awarded</b> |
|--------------|-------------------------|------------------------|-----------------------|
| Phase I      | Mid April               | June Board Meeting     | July I                |
| Phase II     | Mid October             | December Board Meeting | January I             |



#### **D. Program Administration (4% Set-aside) \$924,720**

This set-aside will be used to pay salaries and associated expenses of programs personnel devoting time to the administration of the funds as well as the necessary ancillary services performed by other agencies. These funds will also be used to procure equipment and training necessary for the adequate performance of staff. Expenses for DWSRF-related public meetings, workshops and conferences will also be paid for out of this set-aside. Funds not used immediately will be revised for use in future years.

### **V. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS**

**A. Priority List (PL) Exhibit A** – On an annual basis, following a statewide solicitation for projects, WIFA develops a statewide priority list of water projects. For funding cycle 2008 WIFA received 23 project priority list applications totaling \$48,136,844.

**Fundable Range for Design, Exhibit B** – Includes the highest ranking applicants ready to receive design assistance during the funding cycle.

**Fundable Range for Construction, Exhibit C** – Includes the highest ranking applicants ready to receive construction assistance.

**B. Priority List Updates** The WIFA Board of Directors may update the DWRF-PL by adding or deleting projects or adjusting the fundable ranges for design or construction projects. The decision to update the DWRF-PL may be based on a projects' readiness to proceed, refined project cost estimates, availability of other funding sources or other new information affecting the expansion or contraction of the PL and fundable ranges. The WIFA Board of Directors will adopt the updated DWRF PL at a public meeting and the updates will be posted on the WIFA web site as per R18-15-305, R18-15-306, R18-15-307 and R18-15-308. All projects must meet the applicable requirements under the Safe Drinking Water Act, 42 U.S.C. § 300f to 300j-25.

**C. Project Readiness to Proceed: WIFA considers a project “ready to proceed” when the following criteria are met:**

1. Approved debt authorization has been received by WIFA
2. Plans and specifications are received by WIFA
3. All local and state permits are issued
4. Construction bid/bids awarded

**D. Assistance to Small Systems:** –WIFA uses \$650,000 of the 15% Drinking Water set aside for Technical Assistance (\$500,000) grants to small systems and Operational Technical Assistance through ADEQ (\$150,000). WIFA's outreach program is also directed towards small systems. WIFA directs funding to small systems by convening meetings of the \*Rural Water Infrastructure Committee (RWIC) in rural areas of Arizona. WIFA has developed and maintains a RWIC web site that enables the small system to submit a summary of their needs and the RWIC committee members respond to the system if they have a program that will address their need. There are

many times when WIFA along with a RWIC funding partner are both able to help the system with financial and/or technical assistance.

*\* Arizona's RWIC (Rural Water Infrastructure Committee) is composed of representatives from various federal and state agencies with loan, grant and technical assistance programs.*

**E. WIFA Loan & Subsidy Rates** – 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 and 70% to 95% of the prevailing prime rate for non-government entities. The subsidy rate is based on the local fiscal capacity which is measured by the area's median household income, user rates and charges, the community's outstanding and proposed debt and cost effectiveness of 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 DWRF.

**F. Emergency Funding**

WIFA can provide up to \$250,000 for emergency funding under the criteria set forth in Policy 1.019 below:

**Eligible Applicants**

Cities  
Towns  
Tribes  
Counties  
Municipal Improvement Districts

**Required Conditions**

- The term of the loan does not exceed one year.
- The dollar amount of the loan does not exceed two hundred fifty thousand dollars (\$250,000) per borrower, per emergency event.
- The purpose of the loan is to provide assistance for designing, redesigning, engineering, reengineering, constructing or reconstructing water or wastewater systems that have failed as the result of a disaster, a natural disaster or a catastrophic event.
- The disaster, natural disaster or catastrophic event is memorialized in a declaration of emergency by the governor or the federal emergency management agency.

**G. Binding Commitments** – If the WIFA Board of Directors approves an applicant's financial assistance request, WIFA staff will prepare and circulate financial assistance (loan) documents to evidence the binding commitment in accordance with applicable federal and state requirements.

## **VI. ASSISTANCE TO PUBLIC WATER SYSTEMS SERVING DISADVANTAGED COMMUNITIES**

### **A. Disadvantaged Community WIFA Policy 1.012:**

The WIFA Board may designate an entity a “Disadvantaged Community” if the entity fails to meet the 1.2 debt service coverage, and

- The applicant’s project is above the 50 percentile on the DWRP or the CWRP Project Priority List, and
- WIFA awarded the applicant 50 or more Local Fiscal Capacity points on the DWRP or the CWRP Project Priority List, or
- The Community is a designated “Colonia” Community through the federal government.
- WIFA may reduce the combined interest and fee rate (CIFR) and/or extend the loan term up to 30 years for a “Disadvantaged Community.”

## **VII. U.S. ENVIRONMENTAL PROTECTION AGENCY STRATEGIC PLAN GOALS AND OBJECTIVES**

The Arizona DWSRF program supports the National USEPA Strategic Plan Goal 2 (Clean and Safe Water), Objective 1 (Protect Human Health), Sub-objective 1 (Water safe to Drink). Arizona established and is managing the revolving loan fund to make low cost loans and other types of assistance to water systems to finance the cost of infrastructure projects to achieve or maintain compliance with Safe Drinking Water Act requirements.

## **VIII. Public Review and Comment**

Public review and written comment period will be conducted from November 30, 2007 thru December 13, 2007.

WIFA will solicit public review and comment on the draft 2008 DWSRF IUP and PL according to the following schedule:

|                   |   |
|-------------------|---|
| November 30, 2007 | Distribution and Web posting of the draft DWRP IUP and PL to all interested parties.                |
| December 13, 2007 | Public Hearing – 1110 West Washington, Room 130, Phoenix, Arizona 85007 from 1:00 P.M. to 2:00 P.M. |
| December 13, 2007 | Deadline for public comments on the draft DWSRF IUP and PL is 5:00 P.M.                             |
| December 19, 2007 | The WIFA Board of Directors adopts the final DWSRF IUP and PL.                                      |
| January 2, 2008   | Final DWSRF IUP and PL become effective. Distribution and Web posting of final DWSRF IUP and PL.    |

WIFA will solicit public review and comment on the revised draft 2008 DWSRF IUP and PL according to the following schedule:

|                   |   |
|-------------------|---|
| February 8, 2008  | Distribution and Web posting of the draft DWRF IUP and PL to all interested parties.                |
| February 21, 2008 | Public Hearing – 1110 West Washington, Room 130, Phoenix, Arizona 85007 from 1:00 P.M. to 2:00 P.M. |
| February 21, 2008 | Deadline for public comments on the draft DWSRF IUP and PL is 5:00 P.M.                             |
| March 5, 2008     | The WIFA Board of Directors adopts the final DWSRF IUP and PL.                                      |
| March 10, 2008    | Final DWSRF IUP and PL become effective. Distribution and Web posting of final DWSRF IUP and PL.    |

**Arizona's Drinking Water Revolving Fund**  
**2008 Funding Cycle - Priority List for Drinking Water Revolving Fund**  
**Prepared Date: 11/28/2007**

| Rank | Applicant                                  | Population | Project Title   | Project # | Amount Requested | Subsidy Rate Index |
|------|--|------------|---|-----------|------------------|--------------------|
| 1    | Cave Creek, Town of                        | 5,000      | Cave Creek Water Co. Treatment Plant Improvements               | 023 2008  | \$5,000,000.00   | 70%                |
| 2    | SoHi Domestic Water Improvement District   | 460        | Supplemental Water Source Interconnect                          | 017 2008  | \$650,000.00     | 70%                |
| 3    | El Mirage, City of                         | 30,000     | Mandated Water System Improvements                              | 018 2008  | \$8,000,000.00   | 70%                |
| 4    | Alpine Domestic Water Improvement District | 600        | Transfer Water Service from Alpine Water Systems to Alpine DWID | 004 2008  | \$1,400,000.00   | 70%                |
| 5    | Chino Valley, City of                      | 450        | Wilhoit Water Company Acquisition                               | 011 2008  | \$250,000.00     | 70%                |
| 6    | Chino Valley, City of                      | 525        | Appaloosa Water Company Acquisition                             | 013 2008  | \$750,000.00     | 70%                |
| 7    | Cave Creek, Town of                        | 4,100      | Water System Improvements - Phase 2                             | 021 2008  | \$5,150,000.00   | 80%                |
| 8    | Wilhoit Water Co. - Blue Hills #3          | 200        | Arsenic Remediation System                                      | 005 2008  | \$30,000.00      | 70%                |
| 9    | Wilhoit Water Co. - Thunderbird Meadows    | 320        | Storage Tank Replacement  | 007 2008  | \$131,058.00     | 70%                |
| 10   | Livco Water Co.                            | 1,100      | Upgrade/replace old water meters                                | 022 2008  | \$100,000.00     | 70%                |
| 11   | Rancho Del Conejo Community Water Co-op    | 942        | Rancho Del Conejo - Arsenic Removal Project - Well #3           | 002 2008  | \$200,000.00     | 70%                |
| 12   | WATCO, Inc                                 | 831        | Silver Lake Estates & Bourden Ranch Estates Storage & Tie-line  | 015 2008  | \$600,000.00     | 70%                |
| 13   | Yavapai-Apache Nation                      | 2,000      | Yavapai-Apache Nation-Tunlil and Clarkdale Infrastructure       | 020 2008  | \$3,785,386.00   | 75%                |
| 14   | Wilhoit Water Co. - Thunderbird Meadows    | 320        | Well Installation for Thunderbird Meadows                       | 006 2008  | \$145,000.00     | 70%                |
| 15   | Chino Valley, City of                      | 6,600      | City of Prescott Service in Chino Valley                        | 012 2008  | \$3,100,000.00   | 70%                |
| 16   | Somerton, City of                          | 9,750      | Water Company System & Municipal System Improvements            | 009 2008  | \$2,850,000.00   | 75%                |
| 17   | Chino Valley, City of                      | 2,250      | Chino Meadows II Water Company Acquisition                      | 014 2008  | \$2,500,000.00   | 75%                |
| 18   | Sonoita Valley Water Company               | 327        | Sonoita Valley Water Co. System Expansion                       | 003 2008  | \$629,000.00     | 80%                |
| 19   | Eagar, Town of                             | 4,435      | Town of Eagar Water System Expansion                            | 019 2008  | \$1,000,000.00   | 80%                |
| 20   | Chino Valley, City of                      | 2,250      | Chino Meadows II Water Company Acquisition                      | 010 2008  | \$2,500,000.00   | 80%                |
| 21   | Chino Meadows II Water Company             | 3,800      | Chino Meadows Unit III  | 001 2008  | \$466,400.00     | 80%                |
| 22   | Flagstaff, City of                         | 65,918     | New Water Wells   | 008 2008  | \$8,500,000.00   | 75%                |
| 23   | Christian Children's Ranch                 | 0          | Westwood Ranch Water Co.  | 016 2008  | \$400,000.00     | 80%                |

**Total:**

**\$48,136,844.00**

**Attachment B:**

**2008 Funding Cycle Priority List**

**Arizona's Drinking Water Revolving Fund**

**Arizona's Drinking Water Revolving Fund**  
**2008 Funding Cycle - Fundable Range for Design Financial Assistance**  
**Prepared Date: 11/28/2007**

| <b>Fundable Range Rank</b> | <b>MPL Rank</b> | <b>Applicant</b> | <b>Population</b> | <b>Project Title</b> | <b>Project #</b> | <b>Amount Requested</b> | <b>Subsidy Rate Index</b> |
|----------------------------|-----------------|------------------|-------------------|----------------------|------------------|-------------------------|---------------------------|
|----------------------------|-----------------|------------------|-------------------|----------------------|------------------|-------------------------|---------------------------|

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No borrowers requested design assistance for their projects as of the date of this report.

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**Attachment C:**

**2008 Funding Cycle Priority List**

**Arizona's Drinking Water Revolving Fund**



**Arizona's Drinking Water Revolving Fund**  
**2008 Funding Cycle - Fundable Range for Construction Financial Assistance**  
**Prepared Date: 11/28/2007**

| <b>Fundable Range Rank</b> | <b>Applicant</b>      | <b>Population</b> | <b>Project Title</b>                | <b>Project #</b> | <b>Amount Requested</b> | <b>Subsidy Rate Index</b> |
|----------------------------|-----------------------|-------------------|-------------------------------------|------------------|-------------------------|---------------------------|
| 1                          | El Mirage, City of    | 30,000            | Mandated Water System Improvements  | 018 2008         | \$8,000,000.00          | 70%                       |
| 2                          | Yavapai-Apache Nation | 2,000             | Tunlii and Clarkdale Infrastructure | 020 2008         | \$3,785,386.00          | 75%                       |
| 3                          | Flagstaff, City of    | 65,918            | New Water Wells                     | 008 2008         | \$8,500,000.00          | 75%                       |
| 4                          | Eagar, Town of        | 4,435             | Water System Expansion              | 019 2008         | \$1,000,000.00          | 80%                       |

**Total:**

**\$21,285,386.00**