

SFY 2017

Drinking Water Intended Use Plan



Water Infrastructure
Finance Authority of
Arizona



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INTRODUCTION

The WIFA Board of Directors is pleased to release Arizona's Drinking Water State Revolving Fund (DWSRF) Intended Use Plan (IUP) for the State Fiscal Year (SFY) 2017 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 SFY 2017 funding cycle from July 1, 2016 through June 30, 2017. This IUP is a required element of the grant application documentation to obtain the FFY 2016 grant award. Arizona herewith submits its IUP for the FFY 2016 funds available to Arizona for the purposes of continuing the development, implementation and administration of the DWSRF program in Arizona.

The Arizona DWSRF Loan Program funds publicly and privately-owned community water systems and non-profit non-community water systems. Eligible projects include treatment, transmission and distribution, source, storage, consolidation and creation of new systems. Projects to acquire land or to refinance debt obligations of publicly-owned systems may also be eligible. 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.

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. The following are the short-term goals of the loan program:

- WIFA will make drinking water infrastructure loans more accessible and affordable to small communities by subsidizing all loans;
- WIFA will provide additional assistance to communities who are identified as disadvantaged;
- WIFA will provide at least 20% of the Capitalization Grant amount as additional subsidization in the form of forgivable principal;
- WIFA will continue to encourage borrowers to address green stormwater infrastructure, water and energy efficiency improvements and other environmentally innovative activities.

Section 2: Long Term Goals

For the purposes of this IUP, a 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;
- Effectively and efficiently deliver financial and technical assistance;
- Market agency programs and advocate the importance of safe, reliable water through presentations, networking and outreach.

Section 3: Important Program Changes

WIFA plans to adjust the interest vs. fee ratio of the Combined Interest and Fee Rate (CIFR) during SFY 2017. WIFA has implemented a policy providing guidance on the application of additional subsidies which includes how communities that cannot otherwise afford projects (including disadvantaged communities) and green projects (if required by the Capitalization Grant) may receive forgivable principal.

Section 4: Agreement to Enter Data into PBR and NIMS

WIFA agrees to enter data into PBR and NIMS.

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

Public review and written comment period of this IUP was conducted from May 30, 2016 through June 14, 2016.

WIFA solicited public review and comment on the draft SFY 2017 DWSRF IUP and Project Priority List (PPL) according to the following schedule:

May 30, 2016	Distribution and Web posting of the draft DWSRF IUP and PPL to all interested parties.
June 13, 2016	Public Hearing – 1110 West Washington, Room 130, Phoenix, Arizona 85007 from 1:00 P.M. to 2:00 P.M.
June 14, 2016	Deadline for public comments on the draft DWSRF IUP and PPL.
June 15, 2016	The WIFA Board of Directors adopted the final draft DWSRF IUP and PPL. IUP will then be sent to EPA for final approval.
July 1, 2016	Begin implementation of the Approved DWSRF 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 notify its borrowers of the requirement to comply with the American Iron and Steel requirements outlined in the Capitalization Grant Terms and Conditions; and
- WIFA will make every effort to comply with EPA’s guidance for timely and expeditious use of funds.

WIFA agrees to the remaining required assurances and proposals in the grant application and the IUP.

Section 7: Disadvantaged Community Program

WIFA is committed to providing assistance to public water 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 community received 60 or more Local Fiscal Capacity points on the DWSRF PPL.

WIFA intends on providing the 20% additional subsidy as forgivable principal to communities who cannot otherwise afford projects (including disadvantaged communities). WIFA’s Disadvantaged Policy allows for extended term, reduced interest or a combination.

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. Projects are scored and ranked on the list based upon public health risk, SDWA compliance, and financial need. Projects to address health advisories are a priority for DWSRF funding, as well as projects to address MCLs exceedances. Currently, WIFA's DW PPL has nine project priority list applications totaling \$51,452,656.60.
 - **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 DW PPL by adding or deleting projects or adjusting the fundable range for design or construction projects. The decision to update the DW 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 DW PPL at a public meeting and the updates are posted on WIFA's website. All projects must meet the applicable requirements under the Safe Drinking Water Act, 42 U.S.C. § 300f to 300j-26.
- **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 and Emergency Funding 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.

WIFA may approve emergency funding for eligible applicants if a declaration of emergency is made by the Governor of Arizona or the Federal Emergency Management Agency (FEMA). The term of the loan will not exceed one year and be no more than \$250,000 per emergency event.

Section 10: Sources and Uses Table

Arizona DWSRF Sources & Uses for SFY 2017 (FFY 2016 Capitalization Grant)					
		Federal	WIFA	WIFA Loan	
		Contributions	Revenues	Accounts	Total
Funding Sources					
	Estimated fund balance as of 7/1/2016	\$ -	\$ 3,445,997	\$ 77,687,249	\$ 81,133,246
	New funds expected in SFY 2017	\$ 15,008,000	\$ 2,701,899	18,196,683	\$ 35,906,582
	**Banked Funds (see below)				
	Total Funding Sources	\$ 15,008,000	\$ 6,147,896	\$ 95,883,932	\$ 117,039,828
Funding Uses					
	Financial Assistance Loans	\$ 9,295,420	\$ 3,001,600	\$ 83,586,912	\$ 95,883,932
	15% Set-Aside Wellhead Protection (ADEQ)	\$ 1,300,000			\$ 1,300,000
	15% Set-Aside Technical Assistance (WIFA)	\$ 320,000			\$ 320,000
	10% Set-Aside PWSS (ADEQ)*	\$ 1,500,800			\$ 1,500,800
	4% Set-Aside Administration (WIFA)	\$ 600,320	\$ 694,680		\$ 1,295,000
	2% Set-Aside Capacity Development (ADEQ)	\$ 300,160			\$ 300,160
	Forgivable Principal \$3,001,600 (20%)				
	Green Project Reserve (voluntary)				
	Banked FFY 2014 funds** (10% to ADEQ)	\$ 1,691,300			\$ 1,691,300
	Total Funding Uses	\$ 15,008,000	\$ 3,696,280	\$ 83,586,912	\$ 102,291,192
<i>* ADEQ will provide the additional match required for this portion of the Capitalization Grant.</i>					
<i>**ADEQ banked \$1,000,000 from the FFY 14 and \$691,300 from the FFY 13 Capitalization Grants' 10% set-aside.</i>					
<i>There are no banked funds in the FFY 16 Capitalization Grant.</i>					

The Safe Drinking Water Act §1452(g) and §1452(k) allows States to set aside up to 31% of the Capitalization Grant for specific activities. These are referred to as the 2%, 4%, 10%, and 15% set-asides and are further described below. Funds not expended in these categories by the end of SFY 2017 will revert to the DW Loan Fund Account.

15% Set-aside

State and Federal Statutes allow setting aside up to 15% of the Federal Capitalization Grant funds to provide local assistance to water systems in Arizona. ADEQ has requested \$1,300,000 for Wellhead Protection activities to protect underground sources of drinking water. WIFA will utilize \$320,000 of this set-aside. \$20,000 will support the drinking water portion of the annual Water and Wastewater Residential Rate Survey. (See Professional Technical Assistance in Section 11 below.) \$200,000 will be provided as planning and design assistance through a competitive process (see Planning and Design Technical Assistance Program in Section 11 below). An additional \$100,000 may also be used to provide technical, managerial and financial capacity development assistance.

10% Set-aside

State and Federal Statutes allow setting aside up to 10% of the Federal funds for the Public Water System Supervision activities. This set-aside requires an additional 1:1 match which will be provided by ADEQ Fees. ADEQ will use this funding for the PWSS Program, which encompasses all of the

various activities involved in implementing the Safe Drinking Water Act 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. ADEQ is requesting \$1,500,800.

The Sources and Uses Table (Section 10) provides approximately \$95M for new DW loans. WIFA is in discussions regarding other DW projects that may be added to the PPL list during the year.

4% Set-aside

State and Federal Statutes allow setting aside up to 4% of the Federal funds for the administration of the DWSRF program. WIFA will utilize this set-aside to pay salaries and associated expenses of program's 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 reserved for use in future years. As evidenced in the Sources and Uses Table, WIFA will provide additional program administration support through use of WIFA Fees.

2% Set-aside

State and Federal Statutes allow setting aside 2% of the Federal funds to provide local assistance to water systems in Arizona. The 2% set-aside in the amount of \$300,160 will be used by ADEQ's Capacity Development Program (see Staff Technical Assistance in Section 11 below).

ADEQ Drinking Water Program

The Drinking Water program is federally mandated to ensure safe drinking water supplies for the public. Staff reviews water system construction plans, conducts compliance inspections on drinking water systems, reviews water quality monitoring data, initiates enforcement actions in response to continued or significant noncompliance, and conducts outreach to educate stakeholders on regulatory requirements. The program also evaluates source waters to ascertain their susceptibility to contamination, promotes voluntary community programs aimed at protecting aquifers for drinking water use, and administers the monitoring assistance program to assist public water systems in complying with monitoring requirements under the federal Safe Drinking Water Act. This effort has been funded through WIFA Revenues in the past, but no funds have been requested for FFY 2016.

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

WIFA provides low interest loans for projects eligible under the Safe Drinking Water Act. Eligible projects include treatment, transmission and distribution, source, storage, consolidation and creation of new systems. Projects to acquire land or to refinance debt obligations of publicly-owned systems may also be eligible.

- Subject to the limitation that loan terms are not to exceed the useful life of the project, 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.

- WIFA may provide additional subsidization to projects for communities who cannot otherwise afford the projects. The minimum additional subsidy required to be distributed under the FFY 2016 Capitalization Grant is \$3,100,600.

WIFA also provides three types of Technical Assistance:

- **Staff Technical Assistance** - ADEQ's Capacity Development Unit assists small drinking water systems, serving 10,000 or fewer people, to improve their day-to-day operation. For more information contact ADEQ's Drinking Water Division Director.
- **Professional Technical Assistance** – Professional Technical Assistance includes studies, surveys and other types of reports that provide benefit to a range of drinking water systems statewide. WIFA will complete the drinking water portion of the Water and Wastewater Residential Rate Survey with these funds. This effort includes a survey of approximately 500 utilities, updates to the Rates Dashboard by the University of North Carolina’s Environmental Finance Center, survey analysis and final report. Additional funds may also be used to provide technical, managerial and financial capacity development assistance.
- **Planning and Design Technical Assistance Program** – The purpose of WIFA’s Planning and Design Technical Assistance 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. The request for applications establishes the scoring criteria on which the applications are evaluated. Awards are capped at \$35,000 per project.

Financial Terms of Loans

- 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.
- Loan disbursements are to be made on a cost reimbursement basis.
- 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.
- A minimum of 20% of the FFY 2016 Capitalization Grant funds will be provided as forgivable principal.
- All contracts for DWSRF 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 2016 Capitalization Grant.
- All contracts for DWSRF construction financial assistance will require the borrower to comply with the Use of American Iron and Steel as described in WIFA’s Capitalization Grant regardless of the source of funding if required as part of the FFY 2016 Capitalization Grant.
- 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) multiplied by the Subsidy
Non-Governmental	Prime Rate plus 200 basis points multiplied by the Subsidy

Section 12: State Match Sources

As demonstrated in the Sources and Uses Table, WIFA revenues will provide match for the FFY 2016 Capitalization Grant.

Section 13: Identification of Overmatch

Through April 2016, WIFA has overmatched the federal grants when viewed in a cumulative perspective by \$6,013,262 (through June 30, 2015 the overmatch was \$9,587,440).

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 ranging between 70% and 95% of the tax-exempt AAA MMD Rate for governmental entities and the Prime Rate plus 200 basis points for non-governmental entities. CIFR/subsidies on individual loans will be set pursuant to the criteria below:

- Total Priority Value Points;
- Local fiscal capacity of the area served by the system requesting assistance; and,
- Lending capacity of Arizona’s DWSRF.

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 2017, providing match to the federal grant, administration of the SRF, and providing support to ADEQ’s Drinking Water Program.

Section 20: Overview of Program Financial Status and Management

The Federal Capitalization Grant for FFY 2016 will be \$15,008,000. See Table below.

AZ DWSRF Capitalization Grants		
	Document	Total Amount
1	FS99989498	\$16,938,300.00
2	FS99990299	\$14,863,800.00
3	FS99990200	\$7,905,300.00
4	FS99990201	\$7,937,900.00
5	FS99990202	\$9,126,300.00
6	FS99990203	\$9,071,400.00
7	FS99990204	\$9,410,300.00
8	FS99990205	\$9,455,400.00
9	FS99990206	\$23,350,750.00
10	FS99990207	\$23,358,750.00
11	FS99990208	\$23,118,000.00
12	FS99990209	\$23,118,000.00
13	2F00T05809	\$55,340,000.00
14	FS99990210	\$27,259,000.00
15	FS99990211	\$18,614,000.00
16	FS99990212	\$18,026,000.00
17	Supplement	\$301,000.00
18	FS99990213	\$16,913,000.00
19	FS99990214	\$15,969,000.00
20	FS99990215	\$15,864,000.00
21	FS99990216	\$15,008,000.00
	Total	\$360,948,200.00

The Arizona DWSRF program supports the EPA Strategic Plan Goal 2 (Clean and Safe Water), Objective 1 (Protect Human Health), Sub-objective 1 (Water Safe to Drink) listed below. Specifically, 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. Arizona DWSRF activities support USEPA Program Reporting Measure SDW-04 Fund Utilization and SDW-05 DWSRF projects that have initiated operations.

All planned and prior year loans have assisted public water systems in meeting the federal and state drinking water compliance requirements. Details of Arizona’s DWSRF activities supporting EPA’s Strategic Plan will be included in the DWSRF Annual Report as well as in the Drinking Water National Information Management System (DW NIMS), Drinking Water Project Benefit Reporting System (PBR); and the Federal Funding Accountability and Transparency Act (FFATA) Reporting System.

Measure	Measure Text	National Planning Target	Region 9 Commitment	Arizona Target
SDW-04	Fund utilization rate [cumulative dollar amount of loan agreements divided by cumulative funds available for projects] for the DWSRF	89%*	90%*	100%
SDW-05	Number of DWSRF projects that have initiated operations (cumulative)	9,000*	519*	180

* Data from Office of Water: FY 2016-2017 National Water Program Guidance, at the following link: <http://www.epa.gov/water-planning-evaluation/fy-2016-2017-national-water-program-guidance>

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 in the year or early next year.

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 DW PPL, WIFA expects to enter into binding commitments at 343% (dollars on PPL vs. the federal cap grant). WIFA is currently in discussions with borrowers on potential projects that will likely be added to the SFY2017 PPL. WIFA's process is to accept PPL applications throughout the fiscal year instead of locking the PPL at the beginning of the year.

Section 23: Grant Payment Schedule

WIFA will receive all payments in the first quarter available.

Sections 24-33: (These Sections are for CWSRF)

These Sections are for CWSRF, not applicable to DWSRF.

Section 34-43: Fundable List

Arizona combines the Fundable and Comprehensive lists into one list. WIFA applies all crosscutters to all DWSRF projects with the exception of FFATA. FFATA is treated on an equivalency basis. The project(s) in yellow are identified as potential equivalency project(s). It is unknown at this time which projects will be awarded forgivable principal.

Arizona's Drinking Water Revolving Fund Project Priority List – SFY 2017 Funding Cycle

PPL Rank	Applicant	Population	County	PWS Number	Project Name	Description	Project Number	Amount Requested / Probable Green Amount	Subsidy
1	Tierra Buena Water Company Inc.	320	Maricopa	AZ0407073	Arsenic Remediation Project 3	The Company's single source production well has exceeded the MCL for arsenic. This project proposes to install a centralized arsenic treatment system to achieve an acceptable level below the MCL.	008 2017	\$656,662.00	80%
2	^{1,2} Ponderosa Park DWID	600	Yavapai	AZ0413044	Smart Meter Installation	The District maintains numerous water meters that are in difficult to reach and remote places and proposes to replace them with remote read meters.	003 2017	\$116,000.00 / \$116,000.00	80%
3	Lyn-Lee Water Company	90	Pima	AZ0410007	Water Storage	The system is in need of water storage and electrical updates to comply with PDEQ standards.	009 2017	\$40,000.00	85%
4	³ Golden Shores Water Company	3,100	Mohave	AZ0408024	Meter and Valve replacement project, purchase back up generator and upgrade to infrastructure	Golden Shores Water Company will install radio read meters, a back up generator and replace faulty isolation valves to facilitate future repairs.	001 2017	\$550,344.60 / \$378,459.40	80%
5	¹ Navajo Tribal Utility Authority	1,747	Apache	NN0403102	Arizona Windsong Water System Infrastructure Improvements	Arizona Windsong's well exceeds the MCL for uranium and current system assets are deteriorated. The system is going to be/has been acquired by NTUA. This project proposes to install an interconnect, replace distribution lines and meters.	005 2017	\$1,797,200.00	75%

PPL Rank	Applicant	Population	County	PWS Number	Project Name	Description	Project Number	Amount Requested / Probable Green Amount	Subsidy
6	¹ Ash Fork Development Association Inc. dba: Ash Fork Water Service	2,150	Yavapai	AZ0413008	Arsenic Treatment AF #2	The Company's Well #2 exceeds the allowable MCL for arsenic. This project proposes to install a centralized arsenic treatment plant to treat the water to an acceptable level.	007 2017	\$150,000.00	75%
7	¹ Montezuma Rimrock Water Company LLC	450	Yavapai	AZ0413071	Storage Tank Replacement	Fix-it-first: The two existing 10,000 gallon storage tanks leak profusely, have been repaired numerous times and are beyond repair. In order to meet customer demand, two 40,000 gallon storage tanks must be constructed.	002 2017	\$108,000.00	80%
8	¹ Eagletail Water Company, LLC	96	Maricopa	AZ0407032	Storage Tank Replacement	The existing 500,000 gallon steel storage tank is over 40 years old and is leaking from the bottom. This project will install a new 250,000 gallon water tank.	006 2017	\$174,450.00	80%
9	Peoria, City of	162,000	Maricopa	AZ0407096	Pyramid Peak WTP Expansion	The City of Peoria currently reaches its 11MGD capacity requirements during peak water use months. The City has concluded an agreement with the City of Glendale to fund a 13MGD expansion of the Pyramid Peak WTP (shared by both cities) on the existing plant site for completion by the end of FY2019.	004 2017	\$47,860,000.00	90%

Total: **\$51,452,656.60**

¹ Eligible for disadvantaged community designation

² Eligible for Green Project Reserve

Section 44: IUP Includes Set-Asides Taken and Authority to be Banked if Applicable

See Sources and Uses Table for Set-Aside budgeted for FFY 2017.

Section 45: IUP Includes Uses of the Set-Aside Funds and Expected Timeline of Expenditure

Section 10 describes the uses of the set-aside funds. ADEQ provides a timeline in a separate work plan for their portion.

Section 46: IUP Includes Expected Outcomes of the Set-Aside Funds

Provided by ADEQ under separate cover.