

Capability Review and Financial Assistance Requirements for Governmental Entities

WIFA Policy #: III.7

Purpose:

Section 1: Outline qualifications to determine an applicant's financial, legal, technical, and managerial capabilities.

Section 2: Summarize content of WIFA's review of an applicant's historical performance.

Section 3: Detail financial assistance requirements.

Policy:

Section 1: Capability Review - WIFA staff shall evaluate the applicant's financial, legal, technical, and managerial capability through a review of an applicant's Project Finance Application (PFA), supporting materials, and the information listed within WIFA's rules. Based on staff's evaluation, the Board will determine if an applicant is capable of entering into and repaying financial assistance. The Board may determine an applicant is not capable based on any one of (but not limited to) the following criteria:

Financial Capability

- The applicant or related party is delinquent on one or more outstanding WIFA loan(s).
- The applicant or related party is in default of any of its financial obligations.
- The applicant does not have a reliable recurring revenue source to repay the WIFA loan and other loan security is not available.
- The applicant has sustained large net deficits, negative cash flow, and declining revenues that are not likely to be reversed as the result of WIFA's investment in the system.
- The applicant does not have or fails to provide adequate or reliable financial information for WIFA to evaluate the financial capability of the applicant.

Legal Capability

- The applicant failed to establish itself in accordance with applicable state or federal law.
- The applicant does not have or fails to provide adequate or reliable documentation for WIFA to evaluate the legal capability of the applicant.
- The applicant failed to authorize the financial assistance in accordance with applicable state or federal law.
- The applicant failed to comply with the terms and conditions of existing indebtedness.

Technical Capability

- The applicant does not have or fails to provide adequate or reliable documentation for WIFA to evaluate the technical capability of the applicant.
- The applicant failed to comply with the technical terms and conditions of existing indebtedness.

Managerial Capability

- The applicant does not have or fails to provide adequate or reliable documentation for WIFA to evaluate the managerial capability of the applicant.
- The applicant failed to comply with the terms and conditions of existing indebtedness.

Section 2: Historical Performance - WIFA shall review at least a three-year history of the proposed pledged revenue source(s) (with the exception of General Obligation and Special Assessment Pledges). WIFA shall evaluate historical performance including revenues, expenses, assets, liabilities, and equity to measure trends relative to, but not limited to, the following criteria:

Financial Measures

Gross Revenues
Operating and Maintenance Expenses
Revenues Available for Debt Service
Net Fixed Assets
Net Working Capital

Ratios

Operating Ratio
Operating Efficiency (Net Take-Down)
Interest Coverage
Debt Service Coverage
Debt Service Safety Margin
Current Ratio
Debt Ratio

Section 3: Financial Assistance Requirements - WIFA will structure the financial assistance by source of repayment, and based on the applicant's historical and projected performance of the revenues pledged.

Pledge Requirement - WIFA will accept any one or a combination of the following revenue sources as the pledged repayment source:

- General Obligation
- Enterprise Revenues
- State Shared and Locally Collected Sales/Excise Taxes
- Special Assessments
- Other, if approved by the Board

Standard Loan Terms

Clean Water: The standard loan term for design loans shall be three years. The standard loan term for long-term loans shall not exceed 30 years or the useful life of the facilities financed if the useful life is less than 30 years.

Drinking Water: The standard loan term for design loans shall be three years. The standard loan term for long-term loans shall not exceed 20 years or the useful life of the facilities financed if the useful life is less than 20 years. In accordance with WIFA Policy

III.6, the Board may designate an applicant as disadvantaged and extend the term for long-term loans up to a maximum of 30 years, but not to exceed the useful life of the facilities.

Position Requirement - Unless approved by the Board, WIFA shall require WIFA-funded indebtedness to be senior or on parity with any of the applicant's pre-existing indebtedness.

Additional Debt Test - Unless approved by the Executive Director, the applicant's proposed and existing WIFA debt should be included in the test. Additional debt must also conform to WIFA's coverage requirements.

Coverage Requirements - As a condition for receiving financial assistance, WIFA may require different coverage levels by Repayment Source as detailed within Table 1. Refer to Policy III.11 Government Security Levels and Loan Structures.

Table 1: WIFA Coverage Requirements by Repayment Source

Repayment Source	Coverage Requirement
General Obligation	General Obligation Pledge
Enterprise Revenues	Net Revenues = 1.2 * Maximum Annual Debt Service
Sales/Excise Taxes	Gross Revenues = 2.0 * Maximum Annual Debt Service
Special Assessments	Full Cash Value of Benefiting Properties = 10 * Total Special Assessments
Other	Varies by source, subject to approval by the Board

Historical and Future Coverage – If an applicant failed to meet WIFA's coverage requirements for one or more of the most recent three years and/or for one or more years of WIFA's five-year projection, WIFA may require:

- additional repayment sources,
- a general obligation pledge,
- increases to rates and charges prior to the closing of financial assistance,
- monthly fixed payments of principal and interest,
- the applicant to make deposits to WIFA for a WIFA-administered debt service reserve, or
- modifications to the project to decrease cost.

Rate Covenant - As a condition for receiving financial assistance, WIFA will require applicants to adopt rate covenants as summarized in Table 2.

Table 2: WIFA Rate Covenants

Repayment Source	Rate Covenant
General Obligation	General Obligation Pledge
Enterprise Revenues	Rates and charges sufficient to operate and maintain facilities and maintain WIFA's Coverage Requirement. In turn, WIFA's Coverage Requirement is the source to fund a Debt Service Reserve and a Replacement Reserve.
Sales/Excise Taxes	Assess sales/excise taxes at rates sufficient to maintain WIFA's Coverage Requirement. For user fees and charges related to the construction of facilities financed by Sales/Excise Taxes, WIFA requires rates and charges sufficient to operate and maintain the facilities.
Special Assessments	Rates and charges sufficient to operate and maintain the facilities, for user fees and charges related to the construction of facilities financed by Special Assessments.
Other	Rates and charges sufficient to operate and maintain facilities and maintain Pro Forma Coverage Requirement.

Debt Service Reserve Requirements - As a condition for receiving financial assistance, WIFA may require the applicant to fund a Debt Service Reserve (Table 3).

Table 3: WIFA Debt Service Requirements

Repayment Source	Surety or Letter of Credit Accepted In lieu of Reserve?	Reserve Amount	Period Funded	Reserve Depository
General Obligation	n/a	n/a	n/a	n/a
Enterprise Revenues				
Community Facility Districts	Yes	<i>Maximum Annual Debt Service (MADS)</i>	within five years	WIFA or Local
Domestic Wastewater or Water Improvement Districts	Yes	MADS	within five years	WIFA or Local
Municipalities	Yes	MADS	within five years	WIFA or Local
County Operated Sewer Systems	Yes	MADS	within five years	Local
Sanitary Districts	Yes	MADS	within five years	WIFA or Local
Sales/Excise Taxes	Yes	MADS	within five years	WIFA or Local
Special Assessments	n/a	n/a	n/a	n/a
Other	Yes	MADS	within five years	WIFA

Frequency and Method of Repayment - As a condition for receiving financial assistance, WIFA will require the applicant to make principal repayments and interest payments in accordance with Table 4. Based on WIFA's review of the applicant's historical performance and WIFA's projection of future performance, WIFA may require

fixed monthly payments of principal and interest. Unless otherwise approved by the Executive Director, debt service payment structures will be level debt service and the payment method will be Demand Direct Debit for all applicants. Refer to Policy III.11 Government Security Levels and Loan Structures.

Table 4: Frequency and Method of Repayment

Repayment Source	Frequency of Interest Payments	Frequency of Principal Repayments
General Obligation	Semi-annually	Annually
Enterprise Revenues		
Community Facility Districts	Semi-annually or Monthly	Annually or Monthly
Domestic Wastewater or Water Improvement Districts	Semi-annually or Monthly	Annually or Monthly
Municipalities	Semi-annually or Monthly	Annually or Monthly
County Operated Sewer Systems	Semi-annually	Annually
Sanitary Districts	Semi-annually or Monthly	Annually or Monthly
Sales/Excise Taxes	Semi-annually or Monthly	Annually or Monthly
Special Assessments	In accordance with statute	
Other	Semi-annually or Monthly	Annually or Monthly

Responsibility: Chief Financial Officer

Statutory Reference: A.R.S. § 49-1244 & 1245

Rule Reference: A.A.C. R18-15-104, R18-15-207 and R18-15-307

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Approval:



Executive Director

 12/21/17
Date