

## 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** - As more fully described below, WIFA shall review the applicant's financial, legal, technical, and managerial capability to enter into and repay WIFA financial assistance.

**Financial Capability** - Based on the review of an applicant's Project Finance Application (PFA), supporting materials, and the information listed within WIFA's financial capability rules, WIFA's Board of Directors will determine if an applicant is financially capable of receiving and repaying financial assistance. WIFA's Board of Directors may determine an applicant is not financially capable based on any one of the following criteria:

- The applicant or related party is delinquent on one or more outstanding WIFA loans.
- 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 projected annual residential user rate exceeds 5% of the area's Median Household Income.
- 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** - Based on the review of an applicant's PFA, supporting materials, and the information listed within WIFA's legal capability rules, WIFA's Board of Directors will determine if an applicant is legally capable of receiving and repaying financial assistance. WIFA's Board of Directors may determine an applicant is not legally capable based on any one of the following criteria:

- 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** - WIFA's Board of Directors will determine if an applicant is technically capable of receiving and repaying financial assistance, based on review of an applicant's PFA and supporting materials, including reports from regulatory agencies and information required under WIFA's technical capability rules.

**Managerial Capability** - Based on the review of an applicant's PFA, supporting materials, reports from regulatory agencies, and the information listed within WIFA's managerial capability rules, WIFA's Board of Directors will determine if an applicant is managerially capable of receiving and repaying financial assistance.

**Section 2: Historical Performance** - WIFA shall review at least a three-year history of revenues (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 variables:

**Financial Measures**

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

**Ratios**

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

**Section 3: Financial Assistance Requirements** - WIFA will structure the financial assistance for each applicant 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 WIFA's Board of Directors

**Standard Loan Term** - 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 beyond 20 years up to a maximum of 30 years.

**Position Requirement** - Unless approved by WIFA's Board of Directors, WIFA shall require WIFA-funded indebtedness to be at least 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.

**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 of Directors

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 will 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	MADS*	w/in 5 Years	WIFA or Local
Domestic Wastewater or Water Improvement Districts	Yes	MADS	w/in 5 Years	WIFA or Local
Municipalities	Yes	MADS	w/in 5 Years	WIFA or Local
County Operated Sewer Systems	Yes	MADS	w/in 5 Years	Local
Sanitary Districts	Yes	MADS	w/in 5 Years	WIFA or Local
Sales/Excise Taxes	Yes	MADS	w/in 5 Years	WIFA or Local
Special Assessments	n/a	n/a	n/a	n/a
Other	Yes	MADS	w/in 5 Years	WIFA

\* MADS: Maximum Annual Debt Service

**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 approved by the Executive Director, payment method for all applicants will be Demand Direct Debit. Refer to Policy III.11.

**Table 4: Frequency and Method of Repayment**

Repayment Source	Frequency of Interest Payments	Frequency of Principal Repayments	Debt Service Payment Structure
General Obligation	Semi-Annually	Annually	@ LDS **
Enterprise Revenues			
Community Facility Districts	Semi-Annually or Monthly	Annually or Monthly	@ LDS & Possible FMP ***
Domestic Wastewater or Water Improvement Districts	Semi-Annually or Monthly	Annually or Monthly	@ LDS via FMP
Municipalities	Semi-Annually or Monthly	Annually or Monthly	@ LDS & Possible FMP
County Operated Sewer Systems	Semi-Annually	Annually	@ LDS
Sanitary Districts	Semi-Annually or Monthly	Annually or Monthly	@ LDS & Possible FMP
Sales/Excise Taxes	Semi-Annually or Monthly	Annually or Monthly	@ LDS & Possible FMP
Special Assessments	In accordance with statute		
Other	Semi-Annually or Monthly	Annually or Monthly	@ LDS & Possible FMP

\*\* LDS: Level Debt Service

\*\*\* FMP: Fixed Monthly Payments

**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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**Most Recent Amendment Date:** October 20, 2010 (*Replaces All Previous Versions*)

**Approval:**

  
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**Interim Executive Director**

10/20/10  
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**Date**