

Water Infrastructure Finance Authority

2011 Intended Use Plan



Arizona Clean Water State Revolving Fund

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I. INTRODUCTION

A. History and Legislation

Before 1987 the federal government funded wastewater infrastructure needs through a construction grants program. By 1987 it became obvious that the need for facilities was growing faster than the grants could be funded. The Water Quality Act of 1987 (Clean Water Act) attempted to address this construction facility issue by authorizing clean water revolving funds (then called state revolving funds) to be established in each state. EPA oversight under the construction grants program was replaced by state management.

In 1989, the Arizona Legislature created the Wastewater Management Authority (WMA) to administer wastewater facilities dollars provided by the Clean Water Act Amendments through the State Revolving Fund (SRF). The program was established in Title 49, Chapter 2, Article 11, *Wastewater Facilities Financing*.

Passage of H.B. 2304 by the Arizona Legislature on April 22, 1997 transformed the Wastewater Management Authority into the Water Infrastructure Finance Authority of Arizona (WIFA). The WIFA was charged with administering the Clean Water Revolving Fund (CWRP) [formerly the State Revolving Fund] for wastewater projects and the new Drinking Water Revolving Fund (DWRP) for drinking water infrastructure needs. The Board of Directors was expanded from seven to 12 members, including representatives from the Arizona Corporation Commission, Arizona Department of Water Resources and Tribes.

B. Financial Status of the Arizona CWSRF

This is the twenty-third (23rd) EPA CWSRF Capitalization Grant that Arizona has received for a total of \$226,394,673. The WIFA Board of Directors is pleased to release Arizona's Clean Water State Revolving Fund (CWSRF) Intended Use Plan (IUP) for the 2011 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 2011 funding cycle from July 1, 2010 through June 30, 2011.

C. Arizona Request

This Intended Use Plan (IUP) is a required element of the grant application documentation to obtain the EPA CWSRF grant award. Arizona herewith submits its IUP for the CWSRF funds available to Arizona for the purposes of funding the construction of wastewater infrastructure. The total available to Arizona from EPA's allotment available to States of \$2,058,000,000 is 0.6737% (\$13,762,000). Arizona intends to use \$550,480 for program administration, leaving \$13,211,520 in federal funds for financing wastewater construction including \$2,061,111 in forgivable principal loans and \$2,752,400 for green project reserve funded loans. WIFA bond proceeds will fund the 20% State Match of \$2,752,400.

II. TYPES OF PROJECTS TO BE FUNDED FROM THE CWSRF

A. Types of Projects for which CWSRF Loan Funds are Intended

1. Water efficiency, energy efficiency, green infrastructure or other environmentally innovative activities;
2. Construction of wastewater treatment plants including planning and design;
3. Construction of improvements and upgrades to wastewater treatment plants including planning and design;
4. Design of a sewer collection system;
5. Construction of a sewer collection system;
6. Water reclamation and reuse facility expansion;
7. Non-point source projects.

III. CWSRF LOAN PROGRAM DESCRIPTION AND GOALS

A. CWSRF Loan Program General Information:

The Arizona CWSRF Loan Program funds publicly owned community wastewater systems. Eligible projects include construction of wastewater treatment plants including planning and design, improvements and upgrades to wastewater treatment plants including planning and design, construction of sewer collection systems and water reclamation and reuse facilities including planning and design. The program also places an emphasis on small and disadvantaged communities and on projects that emphasize water efficiency, energy efficiency, green infrastructure or other environmentally innovative activities. Loans made under the program currently have interest rates of less than four (4) percent. Loan repayments to the State will provide a continuing source of infrastructure financing into the future.

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 VII;
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 will provide \$2,061,111 in forgivable principal;

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 below.

Combined Interest and Fee Rate (CIFR)

Financial Structure	CIFR	Portion of CIFR Allocated as Fees	Portion of CIFR Allocated as Interest
Governmental Loan	*Set in accordance with formula below.	1.5%	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

CW Fee Income and Uses

Fee Income	Interest Income	CWSRF Administration	ADEQ	Technical Assistance	Contractors
\$8,182,461	\$114,554	\$350,000	\$3,355,976	\$107,500	\$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 clean water facilities;
- Coordinate with other funding agencies through the Rural Water Infrastructure Committee (RWIC).

C. 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.

- Make wastewater infrastructure loans more accessible and affordable to small communities by making \$65,151,621 in funding available for below market rate interest loans.
- From the 2010 EPA Grant Award provide \$2,061,111 in forgivable principal to borrowers and at least \$2,752,400 for the construction of water efficiency, energy efficiency, water conservation, green infrastructure or other environmentally innovative activities.

IV. CWRP SOURCES & USES

Table 1: Arizona CWRP Sources & Uses for 2011 Funding Cycle					
	Federal Contributions	State Contributions*	WIFA Revenues	WIFA Loan Accounts	Total
Funding Sources					
Financial Assistance Funds**	\$ -	\$ 2,752,400	\$ 3,638,476	\$ 49,187,701	\$ 55,578,577
2010 Federal Funds	\$ 13,762,000				\$ 13,762,000
Total Funding Sources	\$ 13,762,000	\$ 2,752,400	\$ 3,638,476	\$ 49,187,701	\$ 69,340,577
Funding Uses					
Financial Assistance Loans	\$ 13,211,520	\$ 2,752,400		\$ 49,187,701	\$ 65,151,621
Clean Water Programs			\$ 3,180,976		\$ 3,180,976
Technical Assistance			\$ 107,500		\$ 107,500
Administration	\$ 550,480	\$ -	\$ 350,000		\$ 900,480
Forgivable Principal	\$ 2,061,111				
Green Infrastructure 20%	\$ 2,752,400				
Total Funding Uses	\$ 13,762,000	\$ 2,752,400	\$ 3,638,476	\$ 49,187,701	\$ 69,340,577
<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 of which the proceeds will be used to increase WIFA's lending capacity</i>					

A. Financial Assistance for Loans: \$65,151,621

Eligible projects include planning, design and construction or replacement of wastewater facilities, sewer collection systems, reclamation and recharge, water efficiency, energy efficiency, green infrastructure or other environmentally innovative activities. From the 2010 EPA Clean Water Grant a minimum of (\$2,061,111) will be given out in forgivable principal for up to 90% of the loan amount based on financial need. A minimum of 20% (\$2,752,400) will be used to finance water efficiency, energy efficiency, green infrastructure or other environmentally innovative activities.

B. Clean Water Programs: (WIFA Revenues \$3,180,976)

The Clean Water Program is composed of activities that protect both surface water and underground water in Arizona. Surface water quality is protected by controlling point source discharges from wastewater treatment plants, concentrated animal feeding operations, storm-water, industrial, commercial and other facilities. Surface water is also protected from discharges of non-point source pollution by irrigated agriculture, livestock grazing, silviculture, urban runoff, and construction, mining, and recreation activities. Arizona's Aquifer Protection Permit Program protects the state's aquifers through the issuance of

permits to discharging facilities, registration of dry wells and issuance of reclaimed water permits.

ADEQ accomplishes its clean water goals by administering all relevant statutory and regulatory program activities, including: (1) Arizona Pollutant Discharge Elimination System (AZPDES) program, (2) Aquifer Protection Permit (APP) program, (3) engineering review, (4) compliance inspections, (5) outreach and education, (6) enforcement, (7) statewide watershed management, (8) grants to eliminate or mitigate nonpoint source pollution, (9) water quality standards, and (10) water quality monitoring and assessment. For more information please contact John Calkins at 602-771-4617.

C. Technical Assistance: (WIFA Revenues \$107,500)

WIFA will use up to \$100,000 for non-construction Technical Assistance for municipalities to prepare for construction, water and energy audits, planning and design of water efficiency, energy efficiency, green infrastructure and other environmentally innovative projects. The WIFA Board may approve a separate IUP for the awards at the June 16, 2010 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 Wastewater Project Technical Assistance Priority List for Phase I and Phase II awards.

Technical Assistance Funding – Annual Cycle

Phase	Applications Due	TA IUP Approved	Assistance Awarded
Phase I	Mid April	June Board Meeting	July 1
Phase II	Mid October	December Board Meeting	January 1

D. Program Administration (4% Set-Aside \$550,480)(WIFA Fees \$350,000)

Four percent of the grant and \$350,000 from clean water fees will be used to pay salaries and associated expenses of programs personnel devoting time to the administration of the funds.

E. Forgivable Principal (\$2,061,111) a minimum of (\$2,061,111) will be given out in forgivable principal for up to 90% of the loan amount based on financial need.

F. Expeditious and Timely Expenditures – In accordance with 40 CFR 35-3135 (d), WIFA will expend CWRP grant funds in a timely and expeditious manner.

G. First Use of Funds – In accordance with 40 CFR 35-3135 (e) WIFA has met this condition.

H. Environmental Review Requirements – In accordance with 40 CFR 35-3140, WIFA will continue to conduct environmental reviews pursuant to applicable federal and state statutes and rules.

V. LENDING CAPACITY

During the 2010 funding cycle, the lending capacity of Arizona’s CWSRF will depend on the:

1. Amount of state contributions to Arizona’s CWSRF;
2. Amount of federal contributions to Arizona’s CWSRF;
3. Financing structure needs of communities;
4. Interest rate on the CWSRF financial assistance;
5. WIFA’s ability to partner with other funding sources to jointly-finance projects;
6. Leveraging capability of fund.

VI. 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 2011 WIFA received 14 project priority list applications totaling \$83,583,652.

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 CWSRF-PL by adding or deleting projects or adjusting the fundable ranges for design or construction projects. The decision to update the CWSRF-PL 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 PL and fundable ranges. The WIFA Board of Directors will adopt the updated CWSRF-PL at public meetings and the updates will be posted on the WIFA web site.

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. 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. 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:
1. Priority of the project;
 2. Local fiscal capacity of the area served by the system requesting assistance;
 3. Lending capacity of Arizona’s CWSRF.

E. 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.

- F. 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.

- G. Green Infrastructure, Water or Energy Efficiency** – The Federal 2010 appropriation requires that, to the extent there are sufficient eligible project applications, not less than 20% of the funds provided for projects must be used for water or energy efficiency, green infrastructure, or other environmentally innovative activities.

VII. 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.”
- Additional subsidy (up to \$2,061,111) will first be offered to a community or communities that meet the definition of a “Disadvantaged Community.”

VIII. Public Review and Comment

Public review and written comment period will be conducted from May 21, 2010 through June 9, 2010.

WIFA will solicit public review and comment on the draft FY 2011 CWSRF IUP and PL according to the following schedule:

May 21, 2010	Distribution and Web posting of the draft CWSRF IUP and PL to all interested parties.
June 02, 2010	Public Hearing – 1110 West Washington, Room 130, Phoenix, Arizona 85007 from 1:00 P.M. to 2:00 P.M.
June 09, 2010	Deadline for public comments on the draft CWSRF IUP and PL.
June 16, 2010	The WIFA Board of Directors adopts the final CWSRF IUP and PL.
July 01, 2010	Final CWSRF IUP and PL become effective. Distribution and Web posting of final CWSRF IUP and PL.

Attachment A:

2011 Priority List

Arizona's Clean Water Revolving Fund

**Arizona's Clean Water Revolving Fund
2011 Funding Cycle - Priority List for Clean Water Revolving Fund
Prepared Date: 5/21/2010**

Rank	Applicant	Population	Project Title	Project #	Amount Requested	Subsidy Rate Index
1	Kingman, City of	14,000	Downtown WWTP upgrade	007 2011	\$18,000,000.00	70%
2	Show Low, City of	10,490	Design Waste Water Treatment Plant	013 2011	\$3,000,000.00	70%
3	Ash Fork Sanitary District	650	Septic to Sewer Improvements	009 2011	\$400,000.00	70%
4	Gila Bend, Town of	1,980	WWTP Upgrades	012 2011	\$4,509,500.00	75%
5	Holbrook, City of	5,599	Rebuild Lift Stations and Sewer Force Main	001 2011	\$483,000.00	70%
6	Show Low, City of	10,490	Manhole Rehabilitation II	014 2011	\$500,000.00	75%
7	Inscription Canyon Ranch SD	1,125	Sanitary District WWTP Upgrade and Expansion	006 2011	\$4,500,000.00	80%
8	Marana, Town of	100	Marana Airport Septic Tank	010 2011	\$600,000.00	85%
9	Clarkdale, Town of	2,323	Broadway Water Reclamation Facility	008 2011	\$11,641,152.00	85%
10	Marana, Town of	6,145	Cottonwood Wastewater Treatment Plant (1MGD)	011 2011	\$33,750,000.00	85%
11	Surprise, City of	106,000	SPA 1 Water Reclamation Facility Recharge Wells	003 2011	\$6,000,000.00	85%
12	Surprise, City of	106,000	SPA 1 Parkview Lane and Greenway Road 16	004 2011	\$1,500,000.00	90%
13	Surprise, City of	106,000	SPA 1 Greenway Road 16	002 2011	\$2,000,000.00	90%
14	Surprise, City of	106,000	Greenway/Ashton Road 16	005 2011	\$2,700,000.00	90%

Total:

\$89,583,652.00

Attachment B:

2011 Funding Cycle Fundable Range for Design

Arizona's Clean Water Revolving Fund

Arizona's Clean Water Revolving Fund
2011 Funding Cycle - Fundable Range for Design Financial Assistance
Prepared Date: 5/21/2010

Fundable Range Rank	MPL Rank	Applicant	Population	Project Title	Project #	Amount Requested	Subsidy Rate Index
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No borrowers requested design assistance for their projects as of the date of this report.

Attachment C:

2011 Funding Cycle Fundable Range for Construction

Arizona's Clean Water Revolving Fund

Arizona's Clean Water Revolving Fund
2011 Funding Cycle - Fundable Range for Construction Financial Assistance
Prepared Date: 5/21/2010

Fundable Range Rank	MPL Rank	Applicant	Population	Project Title	Project #	Amount Requested	Subsidy Rate Index
1	9	Clarkdale, Town of	2,323	Broadway Water Reclamation Facility	008 2011	\$11,641,152.00	85%
2	11	Surprise, City of	106,000	SPA 1 Water Reclamation Facility Recharge Wells	003 2011	\$6,000,000.00	85%

Total: **\$17,641,152.00**

Attachment D

20% Green Project Reserve

**Arizona's Clean Water Revolving Fund
2011 Funding Cycle - Priority List for Clean Water Revolving Fund
Prepared Date: 5/21/2010**

Rank	Applicant	Population	Project Title	Project #	Amount Requested	Subsidy Rate Index	Probable Green Project
1	Kingman, City of	14,000	Downtown WWTP upgrade	007 2011	\$18,000,000.00	70%	Categorical \$47,500
2	Show Low, City of	10,490	Design Waste Water Treatment Plant	013 2011	\$3,000,000.00	70%	
3	Ash Fork Sanitary District	650	Septic to Sewer Improvements	009 2011	\$400,000.00	70%	
4	Gila Bend, Town of	1,980	WWTP Upgrades	012 2011	\$4,509,500.00	75%	Categorical \$47,500
5	Holbrook, City of	5,599	Rebuild Lift Stations and Sewer Force Main	001 2011	\$483,000.00	70%	
6	Show Low, City of	10,490	Manhole Rehabilitation II	014 2011	\$500,000.00	75%	
7	Inscription Canyon Ranch SD	1,125	Sanitary District WWTP Upgrade and Expansion	006 2011	\$4,500,000.00	80%	
8	Marana, Town of	100	Marana Airport Septic Tank	010 2011	\$600,000.00	85%	
9	Clarkdale, Town of	2,323	Broadway Water Reclamation Facility	008 2011	\$11,641,152.00	85%	Categorical \$5,000,000
10	Marana, Town of	6,145	Cottonwood Wastewater Treatment Plant (1MGD)	011 2011	\$33,750,000.00	85%	Categorical \$20,000,000
11	Surprise, City of	106,000	SPA 1 Water Reclamation Facility Recharge Wells	003 2011	\$6,000,000.00	85%	Categorical \$6,000,000
12	Surprise, City of	106,000	SPA 1 Parkview Lane and Greenway Road 16	004 2011	\$1,500,000.00	90%	Categorical \$1,500,000
13	Surprise, City of	106,000	SPA 1 Greenway Road 16	002 2011	\$2,000,000.00	90%	Categorical \$1,000,000
14	Surprise, City of	106,000	Greenway/Ashton Road 16	005 2011	\$2,700,000.00	90%	Categorical \$1,350,000
Total:					\$89,583,652.00	Total GPR	\$34,945,000.00
						GPR Required: \$2,752,400	

Attachment E

EPA's Strategic Planning

FY-11 Clean Water State Revolving Fund (CWSRF)

U.S. Environmental Protection Agency Strategic Plan Goals & Objectives

Commitments

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, the 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 water systems in meeting the federal and state clean water compliance requirements. Details of Arizona's DWSRF 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 (CW NIMS).

Measure	Measure Text	National Target	Region 9 Target	Arizona Target
QW-17	Fund utilization rate [cumulative loan agreement dollars to the cumulative funds available for projects] for the Clean Water State Revolving Fund (CWSRF).	94%	94%	95%