

SFY 2017

# Clean 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 Clean Water State Revolving Fund (CWSRF) Intended Use Plan (IUP) for the State Fiscal Year (SFY) 2017 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 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 CWSRF program in Arizona.

The Arizona CWSRF Loan Program provides funds for publicly-owned municipal wastewater systems and nonpoint source projects. Eligible projects include planning, design and construction of new wastewater treatment plants, improvements and upgrades to existing wastewater treatment plants, sewer collection systems, water reclamation and reuse facilities, stormwater infrastructure and nonpoint source projects. The program places an emphasis on small and disadvantaged communities and on projects that promote sustainability through water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities. Loan repayments to the State will provide a continuing source of infrastructure financing into the future.

### **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.

- WIFA will make wastewater infrastructure loans more accessible and affordable to small communities by subsidizing all loans and providing below market rate interest.
- WIFA will provide additional assistance to communities who are identified as disadvantaged. WIFA will provide between 10% and 20% of the Capitalization Grant amount as additional subsidy in the form of forgivable principal.
- WIFA will provide 10% of the Capitalization Grant amount (as required by the terms of the Capitalization Grant) for sustainable construction efforts such as water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities.

### **Section 2: Long Term Goals**

For purposes of this IUP, long-term 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 who cannot otherwise afford projects (including disadvantaged communities) and green projects may receive forgivable principal.

### **Section 4: Agreement to Enter Data into CBR and NIMS**

WIFA agrees to enter data into CBR 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 will be conducted from May 30, 2016 through June 14, 2016.

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

May 30, 2016	Distribution and Web posting of the draft CWSRF 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 CWSRF IUP and PPL.
June 15, 2016	The WIFA Board of Directors to adopt the final draft CWSRF IUP and PPL. IUP will then be sent to EPA for final approval.
July 1, 2016	Begin implementation of the Approved CWSRF 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 wastewater 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 CWSRF PPL.

WIFA intends on providing up to 20% of the capitalization grant in 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, WIFA develops a statewide priority list of projects. Currently, WIFA’s CW PPL has three project priority list applications totaling \$25,863,448. The Sources and Uses table provides approximately \$120 million for new CW loans, and staff are in discussions regarding other CW projects that should be added to the PPL list during the year.
  - **Fundable Range:** The Fundable Range includes the applicants which are ready to receive design or construction financial assistance.

- **Project Priority List Updates**

The WIFA Board of Directors may update the CW PPL by adding or deleting projects or adjusting the fundable range for design or construction projects. The decision to update the CW PPL may be based on a project’s readiness to proceed, 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 CW PPL at a public meeting and the updates are posted on WIFA’s website.

- **Project Readiness to Proceed**

Applicants accrue readiness to proceed points based on the following criteria:

- Approved debt authorization has been submitted to 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

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.

Arizona CWRP Sources & Uses for SFY 2017 (FFY 2016)					
		Federal Contributions	WIFA Revenues	WIFA Loan Accounts	Total
<b>Funding Sources</b>					
	Estimated fund balance as of 7/1/2016	\$ -	\$ 1,967,393	\$ 188,347,774	\$ 190,315,167
	New funds expected in SFY 2017	\$ 9,015,000	\$ 1,128,516	3,687,839	\$ 13,831,355
	<b>Total Funding Sources</b>	\$ 9,015,000	\$ 3,095,909	\$ 192,035,613	\$ 204,146,522
<b>Funding Uses</b>					
	Financial Assistance Loans	\$ 8,654,400	\$ 1,803,000	\$ 110,000,000	\$ 120,457,400
	Clean Water Programs (ADEQ)				\$ -
	Technical Assistance		\$ 170,000		\$ 170,000
	Administration	\$ 360,600	\$ 718,100		\$ 1,078,700
	Forgivable Principal \$1,803,000				
	Green Project Reserve \$901,500				
	<b>Total Funding Uses</b>	\$ 9,015,000	\$ 2,691,100	\$ 110,000,000	\$ 121,706,100
<i>State match can be WIFA bond proceeds, WIFA CW fees or state general fund monies.</i>					

### Section 10: Sources and Uses Table

During SFY2016, WIFA received an unusually high dollar amount of loan prepayments primarily due to the City of Lake Havasu prepaying all of the City’s outstanding WIFA CW debt (in excess of \$200 million). To date in SFY2016, WIFA has closed \$65,744,432 in CW loans. The Sources and Uses table provides approximately \$120 million for new CW loans. The SFY2017 CW PPL includes \$25,863,448 in new applications. WIFA is continuing its efforts to market the WIFA program to prospective borrowers, staff are in discussions regarding other CW projects that should be added to the PPL list during the year. We are also in discussions with a City to finance a \$40 million wastewater project. Finally, WIFA has begun to defease outstanding bond debt when it makes fiscal sense.

## **Financial Assistance Funds for Loans**

Eligible projects include planning, design and construction or replacement of wastewater facilities, sewer collection systems, reclamation, recharge, nonpoint source and stormwater infrastructure. A minimum of 10% of the federal grant will be used to finance sustainable projects that emphasize water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities. See the **Arizona CWSRF Sources & Uses for SFY 2017 (FFY 2016) Funding Cycle Table for detail.**

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

### **Technical Assistance**

Technical Assistance available from WIFA includes planning and design assistance and professional assistance.

#### **1. Planning and Design Technical Assistance Program**

WIFA will use up to \$100,000 for planning and design assistance. WIFA solicits applications from Arizona's political subdivisions and Indian communities. 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 issued establishes the scoring criteria on which the applications are evaluated. Awards are capped at \$35,000 per project.

#### **2. Professional Assistance**

Professional assistance includes studies, surveys and other types of reports that provide benefit to a range of wastewater systems statewide. This year, WIFA will provide \$20,000 for the wastewater portion of the annual Water and Wastewater Residential Rate Survey. 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. An additional \$50,000 may also be used to provide technical, managerial and financial capacity development assistance.

Throughout the Funding Cycle and as circumstances require, WIFA may fund additional Professional Technical Assistance projects. The Board will act to add Professional Technical Assistance projects at a public meeting of the Board.

### **Program Administration (4% Set-Aside plus WIFA Fees)**

Section 603(d)(7) of the revised FWPCA, allows the greatest of a maximum of 4% of all grant awards to such fund under this tile, \$400,000 per year, or 1/5 percent per year of the current valuation of the fund based on the most recent audited financial statements to cover the reasonable costs of administering the fund.

WIFA will use \$360,600 (4%) for administrative costs. These funds will be used to pay salaries and associated expenses of program personnel devoting time to the administration of the funds.

### **Forgivable Principal**

WIFA may provide additional subsidization in the form of forgivable principal for up to 90% of the loan amount, based on financial need and/or projects eligible under the green project reserve.

The required additional subsidization under the FY 2016 Enacted Appropriation is 10% (\$901,500 for Arizona) of the capitalization grant. Between 0% and 30% of the capitalization grant may be provided as additional subsidy consistent with WRRDA provisions. This amount is separate from what is required by

the FY2016 Enacted Appropriation. In addition to the 10% requirement, WIFA may provide a total of up to 20% (\$1,803,000) in subsidy as principal forgiveness to projects.

**Financial Terms of Loans**

1. Subject to the limitation in item 2 of this list, 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.
2. Loan terms are not to exceed the useful life of the project.
3. Terms of financial assistance to publicly-owned wastewater systems serving disadvantaged communities are addressed in Section 7.
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. Loan disbursements are to be made on a cost reimbursement basis.
6. 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.
7. A maximum of \$1,803,000 of the FFY 2016 Capitalization Grant funds will be provided as forgivable principal. A minimum of \$901,500 will be provided for green projects (water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities).
8. Contracts for financial assistance for all CWSRF treatment works projects will require the borrower to comply with Davis-Bacon wage rates.
9. All contracts for construction financial assistance with the exception of nonpoint source projects will require the borrower to comply with the Use of American Iron and Steel requirements.
10. 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

**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**

As of June 30, 2015, WIFA has overmatched by \$29,600,075. As of April 2016, WIFA has overmatched by \$28,003,831.

**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. 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 CWSRF.

### **Section 19: Fees Charged if Applicable and Uses of Fees**

The Sources and Uses table demonstrates how fees will be used for SFY 2017, providing match to the federal grant and administration of the SRF. WIFA is currently in discussions with EPA HQ and Region 9 on the inclusion of fees in the retained earnings calculation. After these discussions have been concluded, WIFA will be in a position to estimate program versus non-program fees to be collected.

### **Section 20: Overview of Program Financial Status and Management**

With the FFY 2016 Federal Capitalization Grant, WIFA will have received 27 Capitalization Grants (including ARRA) totaling \$277,471,273. In addition WIFA has received and passed through three SAAP grants totaling \$9,621,347 for a total federal investment of 30 grants totaling \$287,092,620.

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, 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.

All planned and prior year loans have assisted public wastewater systems in meeting the federal and state clean water compliance requirements. Details of Arizona's CWSRF 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) and the Federal Funding Accountability and Transparency Act (FFATA) Reporting System.

### **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 PPL, WIFA expects to enter into binding commitments at 287% of the federal cap grant amount (dollars on PPL vs the federal cap grant).

### **Section 23: Grant Payment Schedule**

WIFA will receive all payments in the first quarter available.

**Sections 34-43:**

These Sections are for DWSRF, not applicable to CWSRF.

**Water Resources Reform and Development Act Amendments**

The Water Resources Reform and Development Act (WRRDA) requires all CWSRF treatment works projects funded in SFY2017, regardless of funding source, to pay their workers the federal Davis-Bacon wage rates for their job classification, and to comply with American Iron and Steel (AIS) requirements.

WRRDA requires that Borrowers must provide a Fiscal Sustainability Plan (FSP). The requirement applies to all loans with PPL applications submitted on or after October 1, 2014. WIFA has incorporated this requirement into its loan application process, developed a certification form and criteria, and created a webpage where these documents can be found.

WRRDA required that WIFA develop “Affordability Criteria” for additional subsidization by September 30, 2015. The criteria were made available for public comment and incorporated into WIFA’s Additional Subsidy Procedure on August 27, 2015.

Section 603(b)(13) of WRRDA requires WIFA obtain a certification from all applicants that the facility planning has studied and evaluated cost effectiveness and efficiency of water and energy use, reuse, and production. WIFA is implementing this requirement for all projects funded on or after October 1, 2015.

WRRDA Section 602(b)(14) requires that for any capitalization grant awarded after October 1, 2014, all architectural and engineering (A/E) contracts must comply with the federal procurement processes for A/E services as identified in 40 U.S.C. 1101 *et. seq.*, or an equivalent State requirement. WIFA has elected to apply the federal A/E requirements to equivalency projects only.

**Sections 24-33: Fundable List**

Arizona combines the Fundable and Comprehensive lists into one list. WIFA applies all crosscutters to all CWSRF projects, with the exception of FFATA and the requirement of federal procurement processes for A/E contracts. Both are treated on an equivalency basis. The project(s) in yellow is identified as potential equivalency project(s). It is unknown at this time which projects will be awarded forgivable principal.

**Arizona’s Clean Water Revolving Fund Project Priority List – 2017 Funding Cycle**

PPL Rank	Applicant	Population	County	Permit Number	Project Name	Description	Project Number	Amount Requested / Probable Green Amount	Subsidy
1	<sup>2</sup> Prescott, City of	35,752	Yavapai	NA	Wastewater System Centralization Project Phase 1	The Sundog Force Main and Lift Station project will construct a lift station and force main at the Sundog WWTP to move flows and process solids to the Airport WRF. The Sundog Trunk Main project includes the replacement/realignment of 28,000 LF of deteriorated and undersized sewer trunk main up to 24" with new mains up to 36". The Airport Trunk Main Sewer Improvement project is for the sewer line upsized to achieve the single WWTP centralization.	001 2017	\$21,600,000.00 / \$200,000	80%
2	<sup>1</sup> Tri-city Regional Sanitary District	4,014	Gila	NA	Tri-City Regional Sanitary District	Wastewater is currently being disposed into septic systems and cesspools that has caused the introduction of raw wastewater into the environment. Proposed project would benefit the area and residents by disposing and treating wastewater in a central facility.	003 2017	\$3,263,448.00	70%
3	<sup>2</sup> Wickenburg, Town of	6,363	Maricopa	NA	Mariposa Drive and Kerkes/Hassayampa School Stormwater Drainage Improvements	Mariposa Drive – Culverts and roadway embankment were undermined along with significant erosion of the downstream channel during an extreme storm event. The culverts, embankment, head and wing walls will be reconstructed, and erosion protection will be installed. Kerkes/Hassayampa School Drainage - This area has experienced repeated damage from stormwater causing erosion damage and heavy metal and oil transport to the Hassayampa River. This project will incorporate approximately 250 LF of vegetated swale to allow for stormwater infiltration and to reduce erosion.	002 2017	\$1,000,000.00	85%

**Total:** **\$25,863,448.00**

<sup>1</sup> Eligible for disadvantaged community designation

<sup>2</sup> Eligible for Green Project Reserve