

SFY 2020

Clean Water Intended Use Plan



Water Infrastructure
Finance Authority of
Arizona



Table of Contents

INTRODUCTION	1
Section 1: Short-Term Goals	1
Section 2: Long-Term Goals	2
Section 3: Important Program Changes	2
Section 4: Agreement to Enter Data into CBR and NIMS.....	2
Section 5: Description of Public Notice Process and Actions Taken to Address Public Comments.....	2
Section 6: Assurances and Specific Proposals.....	2
Section 7: Disadvantaged Community Program	3
Section 8: Criteria and Methods for Distribution of Funds (Priority Setting Criteria)	3
Section 9: Bypass Procedures	3
Section 10: Sources and Uses Table.....	4
Section 11: Identify Types of Assistance Provided and Terms (Principal Forgiveness, Extended Terms)	4
Section 12: State Match Sources	6
Section 13: Identification of Overmatch	6
Section 14: Anticipated Cash Draw Ratio (proportionality) or Statement of Match Drawdown then Federal	6
Section 15: Estimated Disbursement Schedule	6
Section 16: Identification of any Intended Transfers between Funds.....	6
Section 17: Identification and Explanation of any Cross Collateralization	6
Section 18: Combined Interest and Fee Rate (CIFR)	6
Section 19: Fees Charged if Applicable and Uses of Fees	6
Section 20: Overview of Program Financial Status and Management	6
Section 22: Binding Commitment Schedule	7
Section 23: Grant Payment Schedule	7
Sections 24-33: Fundable List	8

INTRODUCTION

The Arizona Finance Authority 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) 2020 funding cycle. The CWSRF IUP describes the Water Infrastructure Finance Authority's (WIFA) plan to utilize various sources of funds to finance clean water infrastructure and support related activities during the SFY 2020 funding cycle from July 1, 2019 through June 30, 2020. This IUP is a required element of the grant application documentation to obtain the Federal Fiscal Year (FFY) 2019 grant award.

Arizona herewith submits its IUP for the FFY 2019 funds available to Arizona for the purposes of continuing the development, implementation and administration of the CWSRF program in Arizona. This IUP is based upon the FFY 2019 CWSRF Federal Appropriation of \$1,694,000,000. Of this, Arizona's Capitalization Grant is anticipated to be \$10,732,000.

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 (providing below market interest rates).
- If available, WIFA will provide up to 30 percent of the Capitalization Grant amount as additional subsidy in the form of forgivable principal to communities who are identified as disadvantaged, for projects that mitigate stormwater or fulfill the Green Project Reserve requirement.
- WIFA will provide any required percentage/amount of the Capitalization Grant amount for sustainable construction efforts such as water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities.
- WIFA will continue its efforts to allocate uncommitted funds to new projects and when appropriate, to pay off or defease bond debt prior to maturity dates.

As of April 2019, WIFA's undispersed funds are as follows:

Federal grant awards	\$ 14,227,067
Other available funds	<u>\$111,954,591</u>
Total	\$126,181,658

Of this amount, \$38.4 million is committed to active loans.

In October 2018, WIFA redeemed callable bonds in the amount of \$19,621,935. In addition, WIFA continues its marketing efforts (see Exhibit 1) and anticipates that remaining uncommitted funds will be used for future projects and to pay off or defease outstanding bond debt.

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. See Exhibit 1 – WIFA’s Marketing Strategy.

Section 3: Important Program Changes

WIFA may adjust the interest vs. fee ratio of the Combined Interest and Fee Rate (CIFR) during SFY 2020.

HB2464 will become effective in August 2019. This bill amends A.R.S. § 9-571 to allow cities and towns with populations 150,000 and under to borrow from WIFA without an election (they will now obtain debt authorization through city/town councils as only cities and towns 50,000 and under did previously). With this amendment, eight additional cities can now more affordably and easily pursue WIFA financing.

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 was conducted from May 6, 2019 through May 20, 2019.

WIFA solicited public review and comment on the draft SFY 2020 CWSRF IUP and Project Priority List (PPL) according to the following schedule.

May 6, 2019	Distribution and Web posting of the draft CWSRF IUP and PPL to all interested parties.
May 20, 2019	Public Hearing – 100 N. 15th Ave, Suite 103, Phoenix, Arizona 85007 at 1:00 p.m.
May 20, 2019	Deadline for public comments on the draft CWSRF IUP and PPL (5:00 pm).
June 19, 2019	Advisory Board recommendation of adoption of the final draft CWSRF IUP and PPL.
June 26, 2019	Arizona Finance Authority Board of Directors’ adoption of the final draft CWSRF IUP and PPL. IUP then sent to EPA for final approval.
July 1, 2019	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 review 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.

WIFA has made, and continues to make, a good faith effort to solicit projects to meet the green project reserve (GPR) requirement. The Clean Water Project Priority List currently has one \$3,500,000 project which will fulfill the GPR requirements for FFY 2019. WIFA's GPR marketing strategy is included in Exhibit 1 and describes the efforts takes to solicit green projects.

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 30 percent of the Capitalization Grant in additional subsidy as forgivable principal (unless the grant requirement is higher, in which case this percentage will be adjusted accordingly) to communities who cannot otherwise afford projects (including disadvantaged communities). WIFA's Disadvantaged Policy allows for forgivable principal, a reduced interest rate 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 applications totaling \$16,307,000. Staff are in discussions with several communities with potential CW projects to be added to the PPL during the year.
- **Fundable Range:** The Fundable Range includes the applicants ready to receive design or construction financial assistance.

- **Project Priority List Updates**

The Board 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 Board adopts the updated CW PPL at a public meeting and the updates are posted on WIFA's website.

Section 9: Bypass Procedures

The Fundable Range process is used to bypass projects that are not ready to proceed. In determining which projects may be included on the Fundable Range, WIFA evaluates each project for evidence of debt authorization according to A.A.C. R18-15-104. WIFA may not present an application to the Board for consideration until the applicant has provided such evidence. If sufficient funds are not available to fund all projects that are ready to proceed, WIFA will use tie breaking procedures established in A.A.C. R18-15-204.

Section 10: Sources and Uses Table

Arizona CWSRF Sources & Uses for SFY 2020 (FFY 2019)			
	Federal Contributions	WIFA Revenues	Total
Funding Sources			
New funds expected in SFY 2020	\$ 10,732,000	\$ 14,454,155	\$ 25,186,155
Total Funding Sources	\$ 10,732,000	\$ 14,454,155	\$ 25,186,155
Funding Uses			
Financial Assistance Loans	\$ 10,302,720	\$ 13,933,435	\$ 24,236,155
Technical Assistance		\$ 200,000	\$ 200,000
4% Administration	\$ 429,280	\$ 320,720	\$ 750,000
Forgivable Principal (up to \$3,219,600)			
Green Project Reserve (\$1,073,200)			
Total Funding Uses	\$ 10,732,000	\$ 14,454,155	\$ 25,186,155

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. The required percentage/amount 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 2020 (FFY 2019) 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 staff assistance and professional assistance.

Staff Technical Assistance

WIFA will use up to \$200,000 to provide staff technical assistance to borrowers. The purpose of WIFA’s Staff Technical Assistance Program is to help prepare systems for construction of capital improvement projects. Awards will be made to small or disadvantaged systems that need assistance in completing the design phase of an infrastructure project, or any system that needs assistance to comply with WIFA’s environmental review process, or to prepare a Cost and Effectiveness Analysis or Fiscal Sustainability Plan. Under agreements between the councils of governments and WIFA, the councils of governments will be reimbursed to oversee compliance with Davis-Bacon and to provide assistance with contractor procurement. Fees will be provided to the councils of governments to defray the cost of Davis-Bacon monitoring and procurement. The SFY 2020 allocation for these activities will be \$50,000 (included as part of the \$200,000 staff technical assistance budget). Funds will be available for projects funded with a WIFA construction loan.

Professional Technical Assistance

Professional Technical Assistance includes studies, surveys and other types of reports that provide benefit to a range of wastewater systems statewide.

EPA has not launched the 2016 Clean Watershed Needs Survey, therefore, WIFA has not allocated funds for the Survey. In the case that the 2016 Clean Watershed Needs Survey launches in FFY 2019, WIFA would use existing fee money to fund the Survey.

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 percent Set-Aside plus WIFA Fees)

Section 603(d)(7) of the revised Federal Water Pollution Control Act allows the greatest of a maximum of 4 percent of all grant awards to such fund under this title, \$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 \$429,280 or 4 percent of the final grant amount 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 percent of the loan amount, based on financial need and/or projects eligible under the green project reserve.

WIFA may provide a total of up to 30 percent of the Capitalization Grant in subsidy as principal forgiveness to projects.

Financial Terms of Loans

1. All loans for the financing of projects will be for a term not to exceed 30 years from loan closing date. Loan terms are not to exceed the useful life of the project.
2. Terms of financial assistance to publicly-owned wastewater systems serving disadvantaged communities are addressed in Section 7.
3. 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 loan closing, whichever is earlier.
4. Loan disbursements are to be made on a cost reimbursement basis.
5. 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.
6. A maximum of 30 percent of the FFY 2019 Capitalization Grant funds will be provided as forgivable principal. A minimum of 10 percent will be provided for green projects (water efficiency, energy efficiency, green stormwater infrastructure or other environmentally innovative activities).
7. Contracts for financial assistance for all CWSRF treatment works projects will require the borrower to comply with Davis-Bacon wage rates.
8. 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.
9. 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)

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 2019 Capitalization Grant.

Section 13: Identification of Overmatch

As of June 30, 2018, WIFA has overmatched by \$25,807,554. As of March 2019, WIFA has overmatched by \$26,150,215.

Section 14: Anticipated Cash Draw Ratio (proportionality) or Statement of Match Drawdown then Federal

With the overmatch, WIFA will draw 100 percent of federal funds until the overmatch is reduced. Once the overmatch is depleted, WIFA will draw the proportional state match amount 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)

WIFA Procedure has established a target CIFR ranging between 70 percent and 95 percent of the tax-exempt AAA MMD Rate for governmental entities. CIFR/subsidies on each loan will be set pursuant to the criteria below:

- Total Points; and
- Local fiscal capacity of the area served by the system requesting assistance.

Section 19: Fees Charged if Applicable and Uses of Fees

The Sources and Uses table demonstrates how fees will be used for SFY 2020, providing match to the federal grant through loan disbursements, administration of the SRF and technical assistance. WIFA is collecting program fees and using those for the administration of the program. WIFA is currently tracking its program income and will be reporting the revenue received and spent on its Federal Financial reports.

Section 20: Overview of Program Financial Status and Management

With the FFY 2019 Federal Capitalization Grant, WIFA will have received 30 Capitalization Grants (including ARRA) totaling \$306,093,273. In addition, WIFA has received and passed through three SAAP grants totaling \$9,621,347 for a total federal investment of 33 grants totaling \$315,714,620.

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 and nonpoint source projects 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).

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 Advisory Board at each Advisory Board meeting defining WIFA's current cash position and lending capacity. At this time, WIFA does not expect a Bond Issue during this fiscal year.

Section 22: Binding Commitment Schedule

When the Board 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 152 percent 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.

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 – SFY 2020 Funding Cycle

PPL Rank	Applicant	Population	County	Project Name	Description	Project Number	Amount Requested / Probable Green Amount	Subsidy
1	¹ Tri-city Regional Sanitary District	5,700	Gila	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.	CW-004-2020	\$12,000,000	70%
2	^{1, 2} Safford, City of	9,566	Graham	Reclaimed Water Pipeline Project - Graham County Fairgrounds	The project proposes to capture 130.5 million gallons of Class A+ reclaimed water that is currently not being utilized. The reclaimed water will replace potable water used at city properties and recreational facilities for outdoor water use.	CW-003-2020	\$3,500,000 / \$3,500,000	85%
3	Kachina Village Improvement District	2,800	Coconino	Second Clarifier Installation	KVID's WWTP has only a single, aging secondary clarifier. It is not possible to take it offline to refurbish or replace it. KVID would construct a new clarifier to run in parallel with the existing clarifier. It would be located in the area currently used for sludge storage and processing. KVID would also construct a new aerobic sludge digester for sludge storage.	CW-002-2020	\$807,000	85%
Total:							\$16,307,000	

¹ Eligible for disadvantaged community designation

² Eligible for Green Project Reserve

Exhibit 1 – WIFA’s SFY 2020 Marketing Strategies

Programs/Initiatives

1. **Communities between 50,000 and 150,000 persons**

An Arizona statute will be amended in August 2019. Previously this statute required cities and towns with populations greater than 50,000 to obtain voter approval for WIFA debt, while cities and towns with populations of 50,000 and under could borrow from WIFA without an election. These smaller cities and towns could obtain debt authorization through their city/town councils. The 2019 amendment changes the population threshold to 150,000. With this amendment, eight additional cities can now more affordably and easily pursue WIFA financing. WIFA has developed a plan to outreach specifically to these eight cities, with targeted strategies based on each city’s unique circumstances.

2. **Redesigned Technical Assistance Program**

In SFY 2019, WIFA redesigned its Planning and Design Technical Assistance Program. The redesigned program helps water and wastewater facilities develop, fund and implement capital improvement projects. Awards are made to small or disadvantaged systems that need assistance in completing the design phase of an infrastructure project, or any system that needs support to comply with federal requirements. Funds are available for projects to be funded with a WIFA construction loan. WIFA contracts directly with the engineer or other consultant to negotiate a scope of work, time frame and cost. This is intended to ensure projects funded through the Technical Assistance Program move forward to infrastructure construction. In SFY 2020, WIFA will enter into agreements with the councils of government (COGs). The COGs will serve as a resource to WIFA’s borrowers by assisting them with Davis-Bacon compliance.

3. **Longer loan terms**

A recent change to WIFA policy established the standard loan term to be 30 years (not to exceed the useful life of the facilities financed). WIFA is promoting this as it makes WIFA loans more attractive and affordable to wastewater utilities.

4. **CIP Financing**

WIFA is marketing its ability to fund a utility’s entire CIP, through “CIP Financing” loans. This type of financing provides a stable, predictable funding source for the municipality, as well as a simplified application process. For WIFA, these CIP Financing loans provide a guaranteed source of regular disbursements that allow for reliable cash flow planning and reduces the risk of unliquidated obligations.

5. **Expedited (Streamlined) Projects/Loans**

“Streamlined” projects are exempt from American Iron and Steel requirements and are categorically excluded from WIFA’s environmental review process (assuming all work is within the original footprint). Types of projects which are considered “streamlined” include: meters, generators, pumps and drinking water treatment systems (for example, arsenic).

6. **Green Project Reserve**

WIFA’s good faith efforts to solicit GPR projects are various and rigorous and include:

- WIFA incentivizes GPR projects by offering forgivable principal (up to 20 percent of project costs) or a reduced interest rate (up to 30 basis points) for these projects. These incentives

are documented in Procedure III.20.1 - Additional Subsidy Procedure and Procedure III.7.1 – Green Project Reserve Incentive.

- Information on the Green Project Reserve is included in WIFA’s standard outreach approaches (press releases, website, social media, presentations, workshops, webinars, fact sheets, one-on-one meeting, etc.).
- When appropriate, WIFA funds drinking water meter projects through the CWSRF.
- All wastewater projects are required to prepare a cost and effectiveness analysis and select, to the maximum extent practicable, a project that maximizes the potential for efficient water use, reuse, recapture, and conservation, and energy conservation. This analysis of clean water projects identifies project components eligible for the GPR.
- The Technical Assistance Program acts as an incentive by providing funds to assist with federal requirements associated with WIFA loans (Cost and Effectiveness Analyses and Fiscal Sustainability Plans, and Environmental Review Documents).

Approaches

In addition to WIFA’s regular marketing strategies (press releases, e-mails to distribution list, Website, factsheets or flyers, communications with RWIC partners and regulatory agencies, social media, workshops, webinars, presentations (consultants, conferences, etc.), and occasional booths), the following approaches are planned for SFY 2020.

1. Focus Group Outcomes

In March 2018, in conjunction with EPA Headquarters CW’s contractor, WIFA conducted an online survey of current SRF borrowers, consultants, and communities that had never borrowed from WIFA. A focus group is scheduled for May 2019 to follow up on the survey results. WIFA will use the outcomes from the focus group to re-evaluate its offerings, adapt its marketing plan to emphasize the most effective marketing messages, and reach out to participants.

2. One on One Meetings with Potential Borrowers

WIFA staff frequently meet with potential borrowers to discuss specific projects and financing options. Materials are prepared to address the communities’ unique needs and incentives that WIFA may be able to offer. In addition to offering these meetings to communities who contact WIFA, staff will also use this approach to provide outreach to the eight cities affected by the statute change as discussed above.

3. Brand Refresh and Digital Modernization

In coordination with an office move scheduled for June 2019, WIFA will commence refreshing its brand identity and websites. The updated website materials will focus on usability and proper content management. Implementing analytic tools into WIFA’s digital strategy will provide more insight into the effectiveness of marketing and provide WIFA with the ability to routinely evaluate and adapt marketing strategies.