

SFY 2018

Drinking Water Intended Use Plan



Water Infrastructure
Finance Authority of
Arizona



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INTRODUCTION

The Arizona Finance Authority Board of Directors is pleased to release Arizona's Drinking Water State Revolving Fund (DWSRF) Intended Use Plan (IUP) for the State Fiscal Year (SFY) 2018 funding cycle. The DWSRF IUP describes the Water Infrastructure Finance Authority's (WIFA) plan to utilize various sources of funds to finance drinking water infrastructure and support related program activities during the SFY 2018 funding cycle from July 1, 2017 through June 30, 2018. This IUP is a required element of the grant application documentation to obtain the Federal Fiscal Year (FFY) 2017 grant award.

Because the final funding level for the FFY 2017 Federal Capitalization Grant has not been established at this time, this IUP is based upon Arizona's FFY 2016 funding level (\$15,008,000). If the final amount of the Capitalization Grant is less than the FFY 2016 amount, WIFA will distribute the reduction equally through the budget and sources table. If the final amount of the Capitalization Grant is more than the FFY 2016 amount, budget items will be revised as necessary.

Arizona herewith submits its IUP for the FFY 2017 funds available to Arizona for the purposes of continuing the development, implementation and administration of the DWSRF program in Arizona.

The Arizona DWSRF Loan Program funds publicly and privately-owned community water systems and non-profit non-community water systems. Eligible projects include treatment, transmission and distribution, source, storage, consolidation and creation of new systems. Projects to acquire land or to refinance debt obligations of publicly-owned systems may also be eligible. The program also places an emphasis on small and disadvantaged communities and on programs that emphasize compliance and health advisories, as well as prevention and sustainability as tools for ensuring safe drinking water.

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. The following are the short-term goals of the loan program:

- WIFA will make drinking water infrastructure loans more accessible and affordable to small communities by subsidizing all loans;
- If available, WIFA will provide additional assistance to communities who are identified as disadvantaged;
- WIFA will provide any required percentage/amount of the Capitalization Grant amount as additional subsidization in the form of forgivable principal;
- WIFA will continue to encourage borrowers to address green stormwater infrastructure, water and energy efficiency improvements and other environmentally innovative activities.

Section 2: Long Term Goals

For the purposes of this IUP, a 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;
- 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 may adjust the interest vs. fee ratio of the Combined Interest and Fee Rate (CIFR) during SFY 2018.

On August 6, 2016, Arizona House Bill 2666 became effective, transitioning WIFA to the newly established Arizona Finance Authority (AFA). The existing WIFA Board was replaced with the Arizona Finance Authority Board (Board), consisting of five members appointed by the Governor.

To support WIFA programs and to maintain the expertise of WIFA leadership, the AFA Board approved the membership of the Water and Infrastructure Finance Authority Advisory Board (Advisory Board). The membership includes the previous members of the WIFA Board. The AFA Board also authorized the Advisory Board to continue its review responsibilities and provide recommendations for action to the AFA Board. The Director of ADEQ serves as the Chair of the WIFA Advisory Board.

Under the new approval process, the WIFA Advisory Board meets every other month, providing board actions are necessary, reviews all staff recommendations, and approves recommended actions (including recommended loan approvals) for presentation to the AFA Board. The AFA Board meets approximately one week after the Advisory Board meeting to act on these recommendations.

WIFA is in the process of revising its rules and policies to support and complement recent state statutory changes as a result of Arizona House Bill 2666. The rulemaking will update WIFA’s rules to reflect the new governance of the Clean Water and Drinking Water Revolving Fund programs.

Section 4: Agreement to Enter Data into PBR and NIMS

WIFA agrees to enter data into PBR 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 March 16, 2017 through March 30, 2017.

WIFA solicited public review and comment on the draft SFY 2018 DWSRF IUP and Project Priority List (PPL) according to the following schedule:

March 16, 2017	Distribution and Web posting of the draft DWSRF IUP and PPL to all interested parties.
March 27, 2017	Public Hearing – 100 N. 15th Ave, Suite 103, Phoenix, Arizona 85007 at 1:00 P.M.
March 30, 2017	Deadline for public comments on the draft DWSRF IUP and PPL.
April 12, 2017	Advisory Board recommendation of adoption of the final draft DWSRF IUP and PPL.
April 26, 2017	Arizona Finance Authority Board of Directors’ adoption of the final draft DWSRF IUP and PPL. IUP will then be sent to EPA for final approval.
July 1, 2017	Begin implementation of the Approved DWSRF 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 public water 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 DWSRF PPL.

WIFA intends on providing up to 20% 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 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, following a statewide solicitation for projects, WIFA develops a statewide priority list of projects. Projects are scored and ranked on the list based upon public health risk, SDWA compliance, and financial need. Projects to address health advisories are a priority for DWSRF funding, as well as projects to address MCLs exceedances. Currently, WIFA's DW PPL has nine project priority list applications totaling \$8,246,561. Staff are in discussions with communities with potential DW projects that may be added to the PPL list during the year, including one project with an expected loan amount of \$60 million.
 - **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 DW PPL by adding or deleting projects or adjusting the fundable range for design or construction projects. The decision to update the DW 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 DW PPL at a public meeting and the updates are posted on WIFA's website. All projects must meet the applicable requirements under the Safe Drinking Water Act, 42 U.S.C. § 300f to 300j-26.

- **Project Readiness to Proceed**

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

- Approved debt authorization has been received by 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 and Emergency Funding 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.

WIFA may approve emergency funding for eligible applicants if a declaration of emergency is made by the Governor of Arizona or the Federal Emergency Management Agency (FEMA). The term of the loan will not exceed one year and be no more than \$250,000 per emergency event.

Section 10: Sources and Uses Table

Arizona DWSRF Sources & Uses for SFY 2018 (FFY 2017 Capitalization Grant)				
	Federal Contributions	WIFA Revenues	WIFA Loan Accounts	Total
Funding Sources				
Estimated fund balance as of 7/1/2017	\$ -	\$ 5,842,114	\$ 59,492,351	\$ 65,334,465
New funds expected in SFY 2018	\$ 15,008,000	\$ 2,481,661	\$ 12,705,906	\$ 30,195,567
**Banked Funds (see below)				
Total Funding Sources	\$ 15,008,000	\$ 8,323,776	\$ 72,198,256	\$ 95,530,032
Funding Uses				
Financial Assistance Loans	\$ 8,764,220	\$ 3,001,600	\$ 60,432,436	\$ 72,198,256
15% Set-Aside Wellhead Protection (ADEQ)	\$ 1,851,200			\$ 1,851,200
15% Set-Aside Technical Assistance (WIFA)	\$ 300,000			\$ 300,000
10% Set-Aside PWSS (ADEQ)*	\$ 1,500,800			\$ 1,500,800
4% Set-Aside Administration (WIFA)	\$ 600,320	\$ 694,680		\$ 1,295,000
2% Set-Aside Capacity Development (ADEQ)	\$ 300,160			\$ 300,160
Forgivable Principal \$3,001,600 (20%) Green Project Reserve (voluntary) Banked FFY 2014 funds** (10% to ADEQ)	\$ 1,691,300			\$ 1,691,300
Total Funding Uses	\$ 15,008,000	\$ 3,696,280	\$ 60,432,436	\$ 79,136,716
<i>* ADEQ will provide the additional match required for this portion of the Capitalization Grant.</i>				
<i>**ADEQ banked \$1,000,000 from the FFY 14 and \$691,300 from the FFY 13 Capitalization Grants' 10% set-aside.</i>				
<i>There are no banked funds in the FFY 17 Capitalization Grant.</i>				

The Safe Drinking Water Act §1452(g) and §1452(k) allows States to set aside up to 31% of the Capitalization Grant for specific activities. These are referred to as the 2%, 4%, 10%, and 15% set-asides and are further described below. Funds not expended in these categories by the end of SFY 2018 will revert to the DW Loan Fund Account.

15% Set-aside

State and Federal Statutes allow setting aside up to 15% of the Federal Capitalization Grant funds to provide local assistance to water systems in Arizona. ADEQ has requested \$1,851,200 for Wellhead Protection activities to protect underground sources of drinking water. WIFA will utilize \$300,000 of this set-aside. (See Professional Technical Assistance in Section 11 below.) \$200,000 will be provided as planning and design assistance through a competitive process (see Planning and Design Technical Assistance Program in Section 11 below). An additional \$100,000 may also be used to provide technical, managerial and financial capacity development assistance.

10% Set-aside

State and Federal Statutes allow setting aside up to 10% of the Federal funds for the Public Water System Supervision activities. This set-aside requires an additional 1:1 match which will be provided by ADEQ Fees. ADEQ will use this funding for the PWSS Program, which encompasses all of the various activities involved in implementing the Safe Drinking Water Act requirements in Arizona. These activities include operator certification, source water assessment and protection, development of regulatory guidance and assistance documents, assisting systems in obtaining the technical, financial, and managerial capability to comply with drinking water regulations, and technical consultations on water system and treatment system design. ADEQ is requesting \$1,500,800.

4% Set-aside

State and Federal Statutes allow setting aside up to 4% of the Federal funds for the administration of the DWSRF program. WIFA will utilize this set-aside to pay salaries and associated expenses of program's personnel devoting time to the administration of the funds as well as the necessary ancillary services performed by other agencies. These funds will also be used to procure equipment and training necessary for the adequate performance of staff. Expenses for DWSRF-related public meetings, workshops and conferences will also be paid for out of this set-aside. Funds not used immediately will be reserved for use in future years. As evidenced in the Sources and Uses Table, WIFA will provide additional program administration support through use of WIFA Fees.

2% Set-aside

State and Federal Statutes allow setting aside 2% of the Federal funds to provide local assistance to water systems in Arizona. The 2% set-aside in the amount of \$300,160 will be used by ADEQ's Capacity Development Program (see Staff Technical Assistance in Section 11 below).

ADEQ Drinking Water Program

The Drinking Water program is federally mandated to ensure safe drinking water supplies for the public. Staff reviews water system construction plans, conducts compliance inspections on drinking water systems, reviews water quality monitoring data, initiates enforcement actions in response to continued or significant noncompliance, and conducts outreach to educate stakeholders on regulatory requirements. The program also evaluates source waters to ascertain their susceptibility to contamination, promotes voluntary community programs aimed at protecting aquifers for

drinking water use, and administers the monitoring assistance program to assist public water systems in complying with monitoring requirements under the federal Safe Drinking Water Act.

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

WIFA provides low interest loans for projects eligible under the Safe Drinking Water Act. Eligible projects include treatment, transmission and distribution, source, storage, consolidation and creation of new systems. Projects to acquire land or to refinance debt obligations of publicly-owned systems may also be eligible.

- Subject to the limitation that loan terms are not to exceed the useful life of the project, 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.
- WIFA may provide additional subsidization to projects for communities who cannot otherwise afford the projects. WIFA intends on providing up to 20% 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).

WIFA also provides three types of Technical Assistance:

- **Staff Technical Assistance** - ADEQ's Capacity Development Unit assists small drinking water systems, serving 10,000 or fewer people, to improve their day-to-day operation. For more information contact ADEQ's Drinking Water Division Director.
- **Professional Technical Assistance** – Professional Technical Assistance includes studies, surveys and other types of reports that provide benefit to a range of drinking water systems statewide. Additional funds may also be used to provide technical, managerial and financial capacity development assistance.
- **Planning and Design Technical Assistance Program** – 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 establishes the scoring criteria on which the applications are evaluated. Awards are capped at \$35,000 per project.

Financial Terms of Loans

1. 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.
2. Loan disbursements are to be made on a cost reimbursement basis.
3. 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.
4. Up to 20% of the FFY 2017 Capitalization Grant funds will be provided as forgivable principal (unless the grant requirement is higher, in which case this percentage will be adjusted accordingly).
5. All contracts for DWSRF construction financial assistance will require the borrower to comply with the Davis-Bacon Act regardless of the source of funding if required as part of the FFY 2017 Capitalization Grant.

6. All contracts for DWSRF construction financial assistance will require the borrower to comply with the Use of American Iron and Steel as described in WIFA’s Capitalization Grant regardless of the source of funding if required as part of the FFY 2017 Capitalization Grant.
7. 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
Non-Governmental	Prime Rate plus 200 basis points 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 2017 Capitalization Grant.

Section 13: Identification of Overmatch

Through February 2017, WIFA has overmatched the federal grants when viewed in a cumulative perspective by \$4,542,239 (through June 30, 2016 the overmatch was \$6,064,640).

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, WIFA Procedure has established a target CIFR ranging between 70% and 95% of the tax-exempt AAA MMD Rate for governmental entities and the Prime Rate plus 200 basis points for non-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 DWSRF.

Section 19: Fees Charged if Applicable and Uses of Fees

Section 11 describes how fees are charged. The Sources and Uses table demonstrates how fees will be used for SFY 2018, providing match to the federal grant and administration of the SRF.

Section 20: Overview of Program Financial Status and Management

Based on FFY 2016’s amount, the Federal Capitalization Grant for FFY 2017 is anticipated to be \$15,008,000.

The Arizona DWSRF program supports the EPA Strategic Plan Goal 2 (Clean and Safe Water), Objective 1 (Protect Human Health), Sub-objective 1 (Water Safe to Drink) listed below. Specifically, Arizona established and is managing the revolving loan fund to make low cost loans and other types of assistance to water systems to finance the cost of infrastructure projects to achieve or maintain compliance with Safe Drinking Water Act requirements. Arizona DWSRF activities support USEPA Program Reporting Measure SDW-04 Fund Utilization and SDW-05 DWSRF projects that have initiated operations.

All planned and prior year loans have assisted public water systems in meeting the federal and state drinking water compliance requirements. Details of Arizona’s DWSRF activities supporting EPA’s Strategic Plan will be included in the DWSRF Annual Report as well as in the Drinking Water National Information Management System (DW NIMS), Drinking Water Project Benefit Reporting System (PBR); and the Federal Funding Accountability and Transparency Act (FFATA) Reporting System.

Measure	Measure Text	National Planning Target	Region 9 Commitment	Arizona Target
SDW-04	Fund utilization rate [cumulative dollar amount of loan agreements divided by cumulative funds available for projects] for the DWSRF	89%*	90%*	100%
SDW-05	Number of DWSRF projects that have initiated operations (cumulative)	9,000*	519*	190

* Data from Office of Water: FY 2016-2017 National Water Program Guidance, at the following link: <http://www.epa.gov/water-planning-evaluation/fy-2016-2017-national-water-program-guidance>

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 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 DW PPL, WIFA expects to enter into binding commitments at 55% (dollars on PPL vs. the federal cap grant). Although this is less than the

required 120%, WIFA is currently in discussions with numerous borrowers on potential projects that will be added to the SFY 2018 PPL as the year progresses. WIFA's process is to accept PPL applications throughout the fiscal year instead of locking the PPL at the beginning of the year. Additionally, it must be noted that two very large drinking water projects were funded by WIFA in SFY 2017, one for \$49,013,733 and one for \$11,000,000. WIFA staff are in discussions with a potential borrower with a \$60,000,000 drinking water project expected to be added to the PPL in SFY18.

Section 23: Grant Payment Schedule

WIFA will receive all payments in the first quarter available.

Sections 24-33: (These Sections are for CWSRF)

These Sections are for CWSRF, not applicable to DWSRF.

Section 34-43: Fundable List

Arizona combines the Fundable and Comprehensive lists into one list. WIFA applies all crosscutters to all DWSRF projects with the exception of FFATA. FFATA is treated on an equivalency basis. At this time, which projects WIFA will report for FFATA is unknown. WIFA expects a large project that is not yet on the PPL will be funded this fiscal year. It is unknown at this time which projects will be awarded forgivable principal.

Arizona’s Drinking Water Revolving Fund Project Priority List – SFY 2018 Funding Cycle

PPL Rank	Applicant	Population	County	PWS Number	Project Name	Description	Project Number	Amount Requested	Subsidy
1	Tierra Buena Water Company Inc.	320	Maricopa	AZ0407073	Arsenic Remediation Project 3	The Company's single source production well has exceeded the MCL for arsenic. This project will install a centralized arsenic treatment system.	008 2018	\$656,662.00	80%
2	¹ Golden Shores Water Company	3,100	Mohave	AZ0408024	Meter and Valve Replacement & Backup Generator	The Company will install radio read meters, a backup generator and replace faulty isolation valves to facilitate future repairs.	006 2018	\$514,699.50	80%
3	Lyn-Lee Water Company	90	Pima	AZ0410007	Water Storage	The system is in need of water storage and electrical updates to comply with PDEQ standards.	002 2018	\$40,000.00	85%
4	¹ Globe, City of	7,495	Gila	AZ0404008	2017 Water System Improvements	The City needs to improve/stabilize pressure zones and replace high priority lines to ensure dependable access and minimum pressure. The City needs to improve metering and leak detection throughout the system.	004 2018	\$3,000,000.00	80%
5	¹ Q Mountain Mobile Home Park	400	La Paz	AZ0415509	Q Mountain Vista Water Pipeline Replacement and Upgrade	Q Mountain experiences high water loss. The distribution system will be replaced with new valves and meters. Additional storage capacity, booster pumps and rehabilitation of a well will also be components of this project.	003 2018	\$1,600,000.00	75%

PPL Rank	Applicant	Population	County	PWS Number	Project Name	Description	Project Number	Amount Requested	Subsidy
6	¹ Navajo Tribal Utility Authority	1,747	Apache	NN0403102	Arizona Windsong Water System Infrastructure Improvements	Arizona Windsong's well exceeds the MCL for uranium and current system assets are deteriorated. The system has been acquired by NTUA. This project proposes to install an interconnect, replace distribution lines and meters.	007 2018	\$1,797,200.00	75%
7	Truxton Canyon Water Company	2,202	Mohave	AZ0408035	Hualapai 1 Well Conversion	The Hualapai 1 well has 2 natural gas engines that are 52 years old that need replacement. Replace the two existing engines with a single electric motor. Equip the well to adapt to the new electric motor. Run electrical service to the well from the main electrical transmission line	005 2018	\$280,000.00	85%
8	¹ Montezuma Rimrock Water Company LLC	450	Yavapai	AZ0413071	Storage Tank Replacement	The two existing 10,000 gallon storage tanks leak profusely, have been repaired numerous times and are beyond repair. In order to meet customer demand, two 40,000 gallon storage tanks must be constructed.	001 2018	\$108,000.00	80%
9	Kearny, Town of	1,950	Pinal	AZ0411031	Well 3 Rehabilitation	The Town is in need of an additional water supply to serve as a reliable backup supply. Well #3, which is currently offline, will be rehabilitated by cleaning the well casing, replacing piping, installing a new in-line turbine pump and electrical controls.	009 2018	\$250,000.00	85%

Total: \$8,246,561.50

¹ Eligible for disadvantaged community designation

Section 44: IUP Includes Set-Asides Taken and Authority to be Banked if Applicable

See Sources and Uses Table for Set-Aside budgeted for FFY 2018.

Section 45: IUP Includes Uses of the Set-Aside Funds and Expected Timeline of Expenditure

Section 10 describes the uses of the set-aside funds. ADEQ provides a timeline in a separate work plan for their portion.

Section 46: IUP Includes Expected Outcomes of the Set-Aside Funds

Provided by ADEQ under separate cover.