

Water Infrastructure Finance Authority

2008 Intended Use Plan



Arizona Drinking Water State Revolving Fund

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I. INTROUCTION

A. History and Legislation

In August 1996 the Safe Drinking Water Act Amendments were passed by congress. This Act authorized the states to establish drinking water revolving funds for community drinking water infrastructure needs for the first time.

Passage of H.B. 2304 by the Arizona Legislature April 22, 1997, transformed the Wastewater Management Authority of Arizona into the Water Infrastructure Finance Authority of Arizona (WIFA). The WIFA was charged with administering the Clean Water State Revolving Fund (CWSRF) for wastewater projects and the new Drinking Water State Revolving fund (DWSRF) for drinking water infrastructure needs. The Board of Directors was expanded from seven to twelve members.

Title 18, Chapter 15 of the Arizona Administrative Code establishes detailed rules for the Water Infrastructure Finance Authority.

The 2008 Intended Use Plan describes how WIFA intends to use available DWSRF funds for the year to meet the objectives of the Safe Drinking Water Act and further the goal of protecting public health.

B. Financial Status of the Arizona DWSRF

Since program inception, Arizona has received eleven DWSRF Capitalization Grants from EPA for a total of \$154,309,950.

The WIFA Board of Directors is pleased to release Arizona's Drinking Water State Revolving Fund (DWSRF) Intended Use Plan (IUP) for the 2008 funding cycle. The DWSRF IUP describes WIFA's plan to utilize various sources of funds to finance drinking water infrastructure and support related program activities during the 2008 funding cycle from January 1, 2008 through December 31, 2008.

C. Arizona Request

This Intended Use Plan (IUP) is a required element of the grant application documentation to obtain the FFY 2008 grant award. Arizona herewith submits its IUP for the FFY 2008 funds available to Arizona for the purposes of continuing the development, implementation and administration of the DWSRF program in Arizona. The total available to Arizona from EPA's FFY 2008 allotment is \$23,118,000. This allotment will be matched by the 20% state match requirement of \$6,006,600. Arizona intends to divert \$3,332,720 of this allotment to the account for set-aside programs, leaving \$19,785,280 in federal funds for the revolving loan fund.

II. TYPES OF PROJECTS TO BE FUNDED FROM THE VARIOUS DWSRF ACCOUNTS

A. The types of projects for which loan funds from the account for the revolving fund are intended include:

1. The construction/upgrading of water treatment facilities;
2. Supplemental water source interconnect;
3. Arsenic treatment to meet public health standards and to protect public health;
4. Consolidation and interconnection of public water systems;
5. Planning and engineering associated with eligible projects;
6. Replacement/rehabilitation of transmission lines and storage facilities;
7. New water wells;
8. Water system expansion;
9. Other projects necessary to address compliance/enforcement or security issues.

B. Activities intended to be funded from the account for set-aside programs include:

1. Administration of the DWSRF program;
2. Public Water System Supervision (PWSS);
3. Local assistance;
4. Capacity development, wellhead protection, operator certification;
5. Technical assistance grants to small public water systems serving 10,000 or fewer persons.

III. DWSRF LOAN PROGRAM DESCRIPTION & GOALS

A. DWSRF Loan Program General Information

The Arizona DWSRF Loan Program funds publicly- and privately-owned community water systems and non-profit non-community water systems. Eligible projects include installation and replacement of failing treatment facilities, eligible storage facilities and transmission and distribution systems. Projects to consolidate water systems may also be eligible. Loans made under the program currently have interest rates of less than 4 percent (except in the case of a privately owned facility). Loan repayments to the State will provide a continuing source of infrastructure financing into the future. The program also places an emphasis on small and disadvantaged communities and on programs that emphasize prevention and sustainability as tools for ensuring safe drinking water.

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 VI;
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 has not implemented forgivable principal because WIFA is a leveraged program;
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 located on page 4.

Combined Interest and Fee Rate (CIFR)

Financial Structure	CIFA	Portion of CIFR Allocated as Fees	Portion of CIFR Allocated as Interest
Governmental Loan	*Set in accordance with Section 1 of this Procedure	1.5%	Remainder of CIFR
Non-Governmental Loan		3.0%	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

*Non-Government Loans – Prevailing Prime Rate (times) Subsidy Rate

DW Fee Income and Uses

Fee Income	Interest Income	Technical Assistance Grants	Set -Asides	Contractors
\$1,172,095	\$356,852		\$477,000	\$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 drinking water facilities;
- Coordinate with other funding agencies through the Rural Water Infrastructure Committee (RWIC).

C. Short-Term Goal

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 drinking water infrastructure loans more accessible and affordable to small communities by making \$48,782,463 in funding available for below market rate interest loans.

IV. DWSRF SET-ASIDE PROGRAM DESCRIPTION

The SDWA § 1452(g) and 1452(k) allow States to set aside up to 31% of the capitalization grant for the activities described in Section II. B.

The DWSRF account for set-aside programs includes four specific set-aside categories identified as the 4%, 10%, and 15% set-asides. If all of the set-aside funds within a set-aside activity are not expended, those remaining funds may be redirected to another set-aside activity as long as the maximum allowed for that activity has not been reached for the fiscal year from which the funds were derived.

The sources and uses for the 2008 funding cycle shown in Table 1 are based on the FY 2008 federal budget and WIFA's funding plan as of February 2008. The 2008 DWSRF federal budget allocation is \$829,029,000 million, minus the national set-asides the funds available to states is \$814,594,000 million, of which, Arizona received 2.84%.

The following sections describe each of the set-asides individually. Each section contains a general description of the set-aside and a description of the programs to be funded. WIFA revenues are derived from fees.

	Federal Contributions	State Contributions*	WIFA Revenue	WIFA Loan Accounts	Total
Funding Sources					
Financial Assistance Funds**		\$ 6,006,600	\$ 477,000	\$ 24,373,583	\$ 30,857,183
2008 Federal Funds	\$ 23,118,000		\$ -	\$ -	\$ 23,118,000
Total Funding Sources	\$ 23,118,000	\$ 6,006,600	\$ 477,000	\$ 24,373,583	\$ 53,975,183
Funding Uses					
Financial Assistance Loans	\$ 19,785,280	\$ 4,623,600	\$ -	\$ 24,373,583	\$ 48,782,463
Public Water System Supervision	\$ 1,383,000	\$ 1,383,000	\$ 477,000	\$ -	\$ 3,243,000
Capacity Development	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Wellhead Protection	\$ 375,000	\$ -	\$ -	\$ -	\$ 375,000
Technical Assistance	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
Administration	\$ 924,720	\$ -	\$ -	\$ -	\$ 924,720
Total Funding Uses	\$ 23,118,000	\$ 6,006,600	\$ 477,000	\$ 24,373,583	\$ 53,975,183

* State match can be WIFA bonds funds, WIFA fees or state general fund monies.
 ** During the funding cycle, WIFA may sell water quality revenue bonds of which the proceeds will used increase WIFA's lending capacity

A. Financial Assistance for Loans: \$48,782,463

Eligible projects include installation and replacement of failing treatment facilities, eligible storage facilities and transmission and distribution systems. Projects to consolidate water systems may also be eligible.

B. Public Water System Supervision (10% set-aside): \$1,383,000

State and Federal Statutes allows setting aside up to 10% of the Federal funds for the Public Water System Supervision (PWSS) activities. The PWSS program will receive (5.6%) \$1,383,000 from the 10% set-aside, \$477,000 from DW fees and \$1,383,000 for ADEQ match. 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

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. For more information please contact Tony Bode at (602) 771-4648.

C. Local Assistance: (15% set-aside) \$1,025,000

State and Federal Statutes allows setting aside 15% of the Federal funds to provide Local Assistance to water systems in Arizona. During State Fiscal Year 2008, Arizona will set aside 4.4% (1,025,000) for local assistance.

\$375,000 will be used by ADEQ for Wellhead Protection activities to protect underground sources of drinking water. For more information contact Drinking Water Monitoring and Protection Unit: Donna Calderon, Unit Manager Phone: (602) 771-4641.

\$650,000 will be used for Technical Assistance. WIFA (\$500,000) and ADEQ (\$150,000) will share these funds to provide assistance to water systems in two (2) categories:

- **Project Technical Assistance** – WIFA will assist an individual drinking water or wastewater system to conceive, plan, design, and develop infrastructure.
- **Operational Technical Assistance** – The Arizona Department of Environmental Quality will assist individual drinking water systems to improve day-to-day operations.

Technical Assistance Intended Use Plan – Two Fundable Ranges

There are two annual fundable ranges for technical assistance awards, referred to in Phase I and Phase II of the funding cycle. The Board shall approve a Technical Assistance Intended Use Plan (TA IUP) for the Phase I awards at the June board meeting, at which time the Board may reserve a portion of the annual Technical Assistance funding for the Phase II awards. The Board shall approve a revised TA IUP for the Phase II awards at the December 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 Drinking Water Project Technical Assistance Priority List for Phase I and Phase II awards;
- 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	Grants Awarded
Phase I	Mid April	June Board Meeting	July I
Phase II	Mid October	December Board Meeting	January I

D. Program Administration (4% Set-aside) \$924,720

This set-aside will be used to pay salaries and associated expenses of programs 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 revised for use in future years.

V. 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 2008 WIFA received 23 project priority list applications totaling \$48,136,844.

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 DWRF-PL by adding or deleting projects or adjusting the fundable ranges for design or construction projects. The decision to update the DWRF-PL may be based on a projects' 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 DWRF PL at a public meeting and the updates will be posted on the WIFA web site as per R18-15-305, R18-15-306, R18-15-307 and R18-15-308. All projects must meet the applicable requirements under the Safe Drinking Water Act, 42 U.S.C. § 300f to 300j-25.

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. Assistance to Small Systems: –WIFA uses \$650,000 of the 15% Drinking Water set aside for Technical Assistance (\$500,000) grants to small systems and Operational Technical Assistance through ADEQ (\$150,000). WIFA's outreach program is also directed towards small systems. WIFA directs funding to small systems by convening meetings of the *Rural Water Infrastructure Committee (RWIC) in rural areas of Arizona. WIFA has developed and maintains a RWIC web site that enables the small system to submit a summary of their needs and the RWIC committee members respond to the system if they have a program that will address their need. There are

many times when WIFA along with a RWIC funding partner are both able to help the system with financial and/or technical assistance.

** Arizona's RWIC (Rural Water Infrastructure Committee) is composed of representatives from various federal and state agencies with loan, grant and technical assistance programs.*

E. 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 for government entities and 70% to 95% of the prevailing prime rate for non-government entities. 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:

- ✓ Priority of the project;
- ✓ Local fiscal capacity of the area served by the system requesting assistance; and,
- ✓ Lending capacity of Arizona's DWRF.

F. 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.

G. 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.

VI. 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.”

VII. U.S. ENVIRONMENTAL PROTECTION AGENCY STRATEGIC PLAN GOALS AND OBJECTIVES

The Arizona DWSRF program supports the National USEPA Strategic Plan Goal 2 (Clean and Safe Water), Objective 1 (Protect Human Health), Sub-objective 1 (Water safe to Drink). 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.

VIII. Public Review and Comment

Public review and written comment period will be conducted from November 30, 2007 thru December 13, 2007.

WIFA will solicit public review and comment on the draft 2008 DWSRF IUP and PL according to the following schedule:

November 30, 2007	Distribution and Web posting of the draft DWRP IUP and PL to all interested parties.
December 13, 2007	Public Hearing – 1110 West Washington, Room 130, Phoenix, Arizona 85007 from 1:00 P.M. to 2:00 P.M.
December 13, 2007	Deadline for public comments on the draft DWSRF IUP and PL is 5:00 P.M.
December 19, 2007	The WIFA Board of Directors adopts the final DWSRF IUP and PL.
January 2, 2008	Final DWSRF IUP and PL become effective. Distribution and Web posting of final DWSRF IUP and PL.

WIFA will solicit public review and comment on the revised draft 2008 DWSRF IUP and PL according to the following schedule:

February 8, 2008	Distribution and Web posting of the draft DWRF IUP and PL to all interested parties.
February 21, 2008	Public Hearing – 1110 West Washington, Room 130, Phoenix, Arizona 85007 from 1:00 P.M. to 2:00 P.M.
February 21, 2008	Deadline for public comments on the draft DWSRF IUP and PL is 5:00 P.M.
March 5, 2008	The WIFA Board of Directors adopts the final DWSRF IUP and PL.
March 10, 2008	Final DWSRF IUP and PL become effective. Distribution and Web posting of final DWSRF IUP and PL.

**Arizona's Drinking Water Revolving Fund
2008 Funding Cycle - Priority List for Drinking Water Revolving Fund
Prepared Date: 11/28/2007**

Rank	Applicant	Population	Project Title	Project #	Amount Requested	Subsidy Rate Index
1	Cave Creek, Town of	5,000	Cave Creek Water Co. Treatment Plant Improvements	023 2008	\$5,000,000.00	70%
2	SoHi Domestic Water Improvement District	460	Supplemental Water Source Interconnect	017 2008	\$650,000.00	70%
3	El Mirage, City of	30,000	Mandated Water System Improvements	018 2008	\$8,000,000.00	70%
4	Alpine Domestic Water Improvement District	600	Transfer Water Service from Alpine Water Systems to Alpine DWID	004 2008	\$1,400,000.00	70%
5	Chino Valley, City of	450	Wilhoit Water Company Acquisition	011 2008	\$250,000.00	70%
6	Chino Valley, City of	525	Appaloosa Water Company Acquisition	013 2008	\$750,000.00	70%
7	Cave Creek, Town of	4,100	Water System Improvements - Phase 2	021 2008	\$5,150,000.00	80%
8	Wilhoit Water Co. - Blue Hills #3	200	Arsenic Remediation System	005 2008	\$30,000.00	70%
9	Wilhoit Water Co. - Thunderbird Meadows	320	Storage Tank Replacement	007 2008	\$131,058.00	70%
10	Livco Water Co.	1,100	Upgrade/replace old water meters	022 2008	\$100,000.00	70%
11	Rancho Del Conejo Community Water Co-op	942	Rancho Del Conejo - Arsenic Removal Project - Well #3	002 2008	\$200,000.00	70%
12	WATCO, Inc	831	Silver Lake Estates & Bourden Ranch Estates Storage & Tie-line	015 2008	\$600,000.00	70%
13	Yavapai-Apache Nation	2,000	Yavapai-Apache Nation-Tunlil and Clarkdale Infrastructure	020 2008	\$3,785,386.00	75%
14	Wilhoit Water Co. - Thunderbird Meadows	320	Well Installation for Thunderbird Meadows	006 2008	\$145,000.00	70%
15	Chino Valley, City of	6,600	City of Prescott Service in Chino Valley	012 2008	\$3,100,000.00	70%
16	Somerton, City of	9,750	Water Company System & Municipal System Improvements	009 2008	\$2,850,000.00	75%
17	Chino Valley, City of	2,250	Chino Meadows II Water Company Acquisition	014 2008	\$2,500,000.00	75%
18	Sonoita Valley Water Company	327	Sonoita Valley Water Co. System Expansion	003 2008	\$629,000.00	80%
19	Eagar, Town of	4,435	Town of Eagar Water System Expansion	019 2008	\$1,000,000.00	80%
20	Chino Valley, City of	2,250	Chino Meadows II Water Company Acquisition	010 2008	\$2,500,000.00	80%
21	Chino Meadows II Water Company	3,800	Chino Meadows Unit III	001 2008	\$466,400.00	80%
22	Flagstaff, City of	65,918	New Water Wells	008 2008	\$8,500,000.00	75%
23	Christian Children's Ranch	0	Westwood Ranch Water Co.	016 2008	\$400,000.00	80%

Total:

\$48,136,844.00

Attachment B:

2008 Funding Cycle Priority List

Arizona's Drinking Water Revolving Fund

Arizona's Drinking Water Revolving Fund
2008 Funding Cycle - Fundable Range for Design Financial Assistance
Prepared Date: 11/28/2007

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:

2008 Funding Cycle Priority List

Arizona's Drinking Water Revolving Fund

Arizona's Drinking Water Revolving Fund
2008 Funding Cycle - Fundable Range for Construction Financial Assistance
Prepared Date: 11/28/2007

Fundable Range Rank	Applicant	Population	Project Title	Project #	Amount Requested	Subsidy Rate Index
1	El Mirage, City of	30,000	Mandated Water System Improvements	018 2008	\$8,000,000.00	70%
2	Yavapai-Apache Nation	2,000	Tunlii and Clarkdale Infrastructure	020 2008	\$3,785,386.00	75%
3	Flagstaff, City of	65,918	New Water Wells	008 2008	\$8,500,000.00	75%
4	Eagar, Town of	4,435	Water System Expansion	019 2008	\$1,000,000.00	80%

Total:

\$21,285,386.00