



Arkansas Natural Resources Commission



J. Randy Young, PE
Executive Director

101 East Capitol, Suite 350
Little Rock, Arkansas 72201
<http://www.anrc.arkansas.gov/>

Phone: (501) 682-1611
Fax: (501) 682-3991
E-mail: anrc@arkansas.gov

Mike Beebe
Governor

MEMORANDUM

TO: Senator Henry Wilkins, IV, Co Chairman
Representative Allen Maxwell, Co Chairman
Legislative Council

FROM: J. Randy Young, P.E.
Executive Director
Arkansas Natural Resources Commission

SUBJECT: 2010-2011 Biennium Plan of Work for the Arkansas Water, Waste Disposal and
Pollution Abatement Facilities General Obligation Bond Program.

DATE: September 9, 2009

As requested by the Governor's office, I am providing copies of a 2010-2011 Biennium Plan of Work for the State of Arkansas Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond Program. In addition, a summary of the general revenues requirements for the expected grants or deferred loans totaling \$52.2 million in Bonds, issued in multiple series in the 2010-2011 biennium is enclosed.

As required by the Arkansas Water, Waste Disposal and Pollution Abatement Facilities Financing Act of 2007, after receiving the 2010-2011 biennium Plan of Work, upon conclusion of such studies, your advice to the Governor is requested prior to the issuance of a proclamation, authoring the Commission to proceed with the issuance of Bonds.

JRY/DF/pms

Enclosures

cc: Andrew Parker, Governor's Staff

Summary of Projected General Revenue Requirements
For
ANRC General Obligation Bond Program
For
2010 – 2011 Biennium

This summary comes from Section VI on page 5 of the Plan of Work:

Northwest Arkansas Conservation Authority	2,500,000.00
Ozark Mountain Regional Public Water Authority	860,000.00
Clean Water Revolving Loan Fund Match	800,000.00
Drinking Water State Revolving Fund Match	<u>1,300,000.00</u>
Total	5,460,000.00

These General Revenues would be used to repay bonds issued to raise the funds needed to fund the projects and match needs listed above. The funds would be needed each year for 10 years except for the NACA funds. Those funds would only be needed until SFY 2012.

ARKANSAS
Water, Waste Disposal and Pollution Abatement Facilities
General Obligation Bond Program

(ACT 631 OF 2007)



PLAN OF WORK

FISCAL YEARS ENDING
JUNE 30, 2010 AND JUNE 30, 2011

Adopted: July 15, 2009

ARKANSAS NATURAL RESOURCES COMMISSION
ARKANSAS
WATER, WASTE DISPOSAL AND POLLUTION ABATEMENT FACILITIES
GENERAL OBLIGATION BOND PROGRAM
(ACT 631 OF 2007)

PLAN OF WORK

**FOR THE FISCAL YEARS ENDING
JUNE 30, 2010 AND JUNE 30, 2011**

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ARKANSAS NATURAL RESOURCES COMMISSION
ARKANSAS
WATER, WASTE DISPOSAL AND POLLUTION ABATEMENT FACILITIES
GENERAL OBLIGATION BOND PROGRAM
(ACT 631 OF 2007)

PLAN OF WORK

**FOR THE FISCAL YEARS ENDING
JUNE 30, 2010 AND JUNE 30, 2011**

SECTION I - INTRODUCTION:

This Plan of Work (the “Plan”) is submitted to the Governor of the State of Arkansas (the “State”) by the Arkansas Natural Resources Commission (the “Commission”) pursuant to the requirements of Act 631 of 2007 (The Arkansas Water, Waste Disposal and Pollution Abatement Facilities Financing Act of 2007) (the “Act”). This Plan sets forth the criteria for selecting the programs and projects, the need for the programs or projects, and the benefits of the projects to be financed in whole or part under the Arkansas Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond Program (the “Program”) with the proceeds of the proposed sale by the Commission of the State of Arkansas Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds (the “Bonds”).

In November 2008, the Arkansas voters approved the issuance of the Bonds under the Act. The Act allows the Commission, upon authorization by the Governor, to issue Bonds up to \$300,000,000 in principal amount, of which no more than \$60,000,000 may be issued in any fiscal biennium without approval of the Arkansas General Assembly.

Loan projects which the Commission believes will have the greatest likelihood to produce or have made available acceptable revenues sufficient to defray bonded indebtedness will be a priority in the loan selection process. Thus, it is the Commission’s belief that after the construction period, the requirement for state general revenues to pay debt service on the portion of the Bonds allocated to loans will be significantly reduced.

Grant and deferred loan projects will be limited to projects the Commission believes will have the greatest likelihood to produce significant water quality or quantity, environmental, economic, health and social benefits to the citizens of Arkansas. Thus, it is the Commission’s intent that the requirements for state general revenues to pay debt service on the Bonds allocated to grants and deferred loans will be minimized and grants or deferred loans will be given only when the projects will provide significant benefits to the citizens of Arkansas.

SECTION II - NEEDS AND BENEFITS:

The 2007 Drinking Water Infrastructure Needs Survey of Arkansas' public water systems was conducted jointly by the Environmental Protection Agency and the Arkansas Department of Health. It projected Arkansas' current water needs to be over \$5.278 billion. Adequate supplies of pure potable water are essential for health, quality of life and economic development.

The 2004 Environmental Protection Agency's Clean Watershed Needs Survey shows that Arkansas has a total of \$878 million in water quality improvement needs. The total is composed of \$408 million in traditional wastewater collection and treatment projects and \$470 million in Non-Point Source projects. Adequate waste disposal and pollution abatement facilities and programs are essential for health, quality of life and economic development.

In addition to the traditional water and wastewater projects funded through the Program, there is a growing need to protect our groundwater resources. In particular, the Sparta aquifer which is designated as a critical groundwater aquifer is threatened. The Commission has a history of supporting projects that convert users from groundwater to surface water.

Historically, the majority of financing for Arkansas' water, waste disposal and pollution abatement facilities has come from the federal government. The Environmental Protection Agency (the "EPA"), United States Department of Agriculture - Rural Development (the "RD"), formerly Farmers Home Administration, the Economic Development Administration (the "EDA") and the Department of Housing and Urban Development (the "HUD") are important sources of funds for water and wastewater infrastructure construction and rehabilitation. In recent years, efforts to reduce the federal budget have resulted in radical reductions in real funds (constant dollars) available through these programs. The new administration in Washington, D.C. has shown a willingness to reverse these trends, but it is too early to know if additional funds will come out of the federal government.

The combined federal assistance for Arkansas' water, waste disposal and pollution abatement facilities projects from EPA, RD, EDA and HUD in the fiscal years ending June 30, 2010 and June 30, 2011 is projected to be about \$100 million in loans and grants. The limitation on these federal funds is that each federal agency has special requirements placed upon its programs. These conditions include: EPA – funds can only be used to obtain or maintain compliance with federal environmental laws or eliminate a public health threat, RD - communities must have populations under 10,000 and preferably under 5,000, EDA - funds must directly relate to creation or preservation of jobs; and HUD - funds must be directed to low to moderate income families. Although these programs fill real and pressing needs, many essential projects do not meet their requirements.

Even with all the federal assistance and the availability of funds from the commercial bond market, there are several essential water, waste disposal, pollution abatement, drainage and flood control, irrigation and wetlands preservation facilities projects that will not/could not be completed without the availability of the Program funds. Proceeds from the Bonds will provide an opportunity for entities to borrow much needed capital funds with reduced finance costs. The State, through the Commission, can obtain funds at interest rates lower than many of the entities could obtain on their own. The entities save a significant amount in interest costs over the life of their loan.

SECTION III - AUTHORITY TO ISSUE:

Pursuant to the Act, the Commission is authorized to issue the Bonds. The Act allows the Commission, upon authorization by the Governor, to issue Bonds up to \$60,000,000 in any fiscal biennium. No Bonds have heretofore been issued pursuant to the Act.

SECTION IV - PLAN OF ACTION:

It is the intent of the Commission, subject to receiving the approval of the Governor and advice of the Legislative Council, to proceed under this Plan to issue one or more series of Bonds with a total aggregate principal amount not to exceed \$60 million in the fiscal years ending June 30, 2010 and June 30, 2011.

The Commission will give primary emphasis in selection of final project applicants to objective selection criteria based on the factors described below. For a variety of reasons, including those mentioned below, one or more of the preliminary projects under consideration might not be selected as a final project for financing with Bond proceeds. The Commission will endeavor to work closely with all applicants in order that as many applicants as possible may qualify.

It is our plan to:

1. Make financial assistance available for one or more of the following types of projects, in accordance with the Act: water; waste disposal; pollution abatement; drainage and flood control; irrigation; wetlands preservation and other environmental projects. Bond proceeds will also be applied to pay those costs and expenses allowed by the Act, including without limitation, project administration costs of the Program and issuance costs of the Bonds. The type of project financial assistance may vary from grants or loans, taxable or tax exempt, fixed or variable rates, interim or permanent loans in accordance with the Act;
2. Apply a portion of the Bond proceeds to meet the required state match for federal grant programs or other state approved programs that benefit the public in accordance with the Act;
3. Fund the administrative costs of the Program. The Commission will provide the resources needed to:
 - a. Assess the funding needs of each project;
 - b. Provide rate and financial capability analysis to determine financial capability of each applicant and the type of assistance to be provided;
 - c. Provide financial, technical and managerial assistance to each applicant;
 - d. Determine if the project will be financed in whole or part;

- e. Monitor the project's compliance with all applicable federal and state laws, Commission regulations and transactional documents; and
- f. Monitor the Program's portfolio to ensure timely debt service payments.

SECTION V - PRELIMINARY PROJECT EVALUATION AND SELECTION CRITERIA:

Bonds issued and projects funded will conform to the requirements of the Act. To this end, the following threshold selection criteria will be used in evaluation and selection of projects:

1. **KNOWN HEALTH NEED** - Reflects presence of documented health hazards, water source inadequacy, potability problems, treatment or disposal inadequacy, system failures, etc.
2. **SPECIAL PRIORITY** - Special consideration may be given based upon the urgency of need for the project and the presence or absence of other alternatives.
3. **FINANCIAL LEVERAGING** - This item will reward applicants with other sources of funds (i.e., local, federal, private, etc.).
4. **COST PER CUSTOMER** - Lower cost per customer would improve project standing.
5. **DISADVANTAGED AREA** - Areas with high incidence of low income, unemployment, or elderly persons would receive special consideration.
6. **ABILITY TO PROCEED** - The project's ability to meet program requirements and immediately proceed into the construction phase.
7. **RESOURCE USE** - Priority will be given to projects that result in an improvement of identified water quality problems, aid in use attainment, minimize impacts on or protect extraordinary water resources, protect or create wetlands, change to a less stressed resource (i.e. changing from ground water to surface supply), protect life and property from flooding or drainage problems, provide water for beneficial agricultural uses, or provide a more efficient use of resources (i.e., supplying water on a regional basis)
8. **TYPE OF PROJECT** - Specific types of projects would determine the ranking on this item (i.e., new users might rank higher than fire protection or treatment capacity for future growth).

Procedure for Selection of Projects:

The Commission must receive an application to consider a project for funding from the Program. The application will provide the information needed to determine the type and amount of funding offered from the Program. Information to be contained in all applications will include: detailed descriptions of service areas, work to be performed, construction cost estimates, estimates of operation and maintenance expenses, project revenues or other sources of repayments and estimated benefits to accrue from the projects. This will allow any loan provided to be closed and repayment to begin. This will help reduce the draw on State general revenues.

The Commission believes it is desirable to evaluate the various projects in some order of priority, not to make the selection purely mechanical, but to provide an objective method using common standards to consider a multitude of different types of projects in communities of widely varying sizes, economic and environmental circumstances. It is the Commission's intent to consider each project individually and to make final selections based upon the applicant's needs and ability to repay the assistance provided.

The Commission intends to achieve a broad distribution of the available Bond proceeds throughout the State, not only to reduce the risk of local economic problems, but also to attain an equitable distribution of funds.

SECTION VI - PRELIMINARY LIST OF PROJECTS UNDER CONSIDERATION:

Included in Exhibit A are potential projects that have shown an interest in obtaining financing under the Program. It is not mandatory that a project listed in Exhibit A be funded, since the Commission is aware that other well qualified and deserving water, waste disposal, pollution abatement, drainage and flood control, irrigation, wetlands preservation and other environmental projects meeting the Commission's standards may be presented to the Commission at a later date.

The following grant or deferred loan projects have been identified by the Commission staff for possible funding during the fiscal years ending June 30, 2010 and June 30, 2011:

1. The Northwest Arkansas Conservation Authority (Deferred Loan):

The Northwest Arkansas Conservation Authority is a regional wastewater service provider in Benton and Washington Counties. The Commission has approved \$37 million and NACA received \$13 million for the construction of a wastewater treatment plant and the interceptor sewers to connect the treatment plant to the cities of Bentonville, Centerton, Highfill and Tontitown. They have requested an additional \$7 million to fund additional processes needed to meet the more stringent effluent limits they received in their permit after their initial application to the Commission. These funds would be raised by selling tax-exempt bonds with a thirty five-year repayment schedule. The expected interest rate is 4.75%. The General Revenues needed each year are expected to be \$2.5 million.

2. The Ozark Mountain Regional Public Water Authority (Grant):

The Ozark Mountain Regional Public Water Authority is a regional water service provider in Boone, Newton and Searcy Counties. They have requested \$6.7 million and received \$721,000 for the construction of a water treatment plant and the transmission lines to connect the treatment plant to the cities of Lead Hill, Valley Springs, Western Grove and eventually Newton and Searcy Counties. These funds would be raised by selling taxable bonds with a ten year repayment schedule. The expected interest rate is 5%. The General Revenues needed each year are expected to be \$860,000.

3. The Clean Water Revolving Loan Fund (Match):

The Clean Water Revolving Loan Fund expects to receive a total of \$31 million from the federal government during the biennium. The State is required to provide \$6.2 million in State funds. In the

past, this program has received much smaller grant and the State Match has been obtained from other sources. The new administration in Washington, D.C. has proposed much higher funding levels with corresponding higher Match requirements. The other sources used previously can not support this new proposed level of funding and the G.O. program will have to be used to partially fund the Match requirements. These funds would be raised by selling tax-exempt bonds with a ten-year repayment schedule. The expected interest rate is 4%. The General Revenues needed each year are expected to be \$800,000.

4. The Drinking Water State Revolving Fund (Match):

The Drinking Water State Revolving Fund expects to receive a total of \$55 million from the federal government during the biennium. The State is required to provide \$11 million in State funds. These funds would be raised by selling tax-exempt bonds with a ten-year repayment schedule. The expected interest rate is 4%. The General Revenues needed each year are expected to be \$1.3 million.

SECTION VII - PROCEDURES FOR TIMING AND SIZING THE BOND ISSUES:

When issuing each series of Bonds, the Commission will consult with its staff, financial advisor and bond counsel in evaluating when, what type, and size of issue. The evaluation will include, but not be limited to, the following items:

1. SUFFICIENT BOND AUTHORIZATION REMAINING UNDER THE ACT:

The total principal amount of Bonds to be issued during the fiscal years ending June 30, 2010 and June 30, 2011 will not exceed \$60,000,000.

2. SUFFICIENT ISSUE SIZE, TIMING AND TYPE OF ISSUE, AND LOAN DEMAND:

Evaluate the issuance cost effectiveness, interest rate trends, and urgency of project need for health and other reasons, and availability of other acceptable projects.

3. PROJECTED STATE GENERAL REVENUE IMPACT:

- a. The Commission will attempt to set origination points and/or the borrowers' interest rates at a level where the projected total loan repayments equal or exceed the total debt service on the Bonds allocated to loans.
- b. At least once a year, notify the Chief Fiscal Officer of the State for compliance with Revenue Stabilization Law of Arkansas.
- c. Annually notify the Chief Fiscal Officer of the State of the annual amount of general revenue funds required to be set aside from the State general revenues.

SECTION VIII - RECOMMENDATION:

Because of the demonstrated need for further development of water, waste disposal and pollution abatement facilities, and other environmental projects statewide, and the benefits to accrue from the availability of funding through the Program described herein, the Commission hereby requests the Governor approve this Plan, and as soon as practicable after receiving the advice of the Legislative Council and conferring with the Chief Fiscal Officer of the State in the matter, issue a Proclamation authorizing the issuance by the Commission during the fiscal years ending June 30, 2010 and June 30, 2011 of one or more series of State of Arkansas Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds in the maximum aggregate principal amount of \$60,000,000. The Plan has been executed by the Chairman on behalf of the Commission and attested by its Executive Director and Secretary, duly authorized thereunto by resolution of the Commission approving the Plan of Work and authorizing its execution, duly adopted the 15th day of July, 2009.

ARKANSAS NATURAL
RESOURCES COMMISSION

By: _____
Robert White
Chairman

ATTEST:

J. Randy Young, P.E.
Secretary-Executive Director

EXHIBIT A

**ARKANSAS WATER, WASTE DISPOSAL AND POLLUTION ABATEMENT
FACILITIES GENERAL OBLIGATION BOND PROGRAM**

**POTENTIAL PROJECTS FOR THE FISCAL YEARS ENDING
JUNE 30, 2010 AND JUNE 30, 2011**

As of 7/1/09

APPLICANT	TOTAL PRINCIPAL
Projects with ANRC Funding Commitments:	
Bull Shoals	\$ 400,000
Ferndale Cut-Off SWID of Pulaski County	1,050,000
Madison Co WFB	726,150
North Pike Co Rural WA	500,000
Northeast White County PFB	1,030,000
Northwest Arkansas Conservation Authority	<u>14,420,000</u>
SUBTOTAL	\$18,126,150
Projects without ANRC Funding Commitments:	
CWRLF & DWSRF State Match	\$17,200,000
Northwest Arkansas Conservation Authority	7,210,000
Ozark Mountain Regional PWA	<u>6,000,000</u>
SUBTOTAL	<u>\$30,410,000</u>
TOTAL	<u>\$48,536,150</u>