



Arkansas Natural Resources Commission



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Mike Beebe
Governor

MEMORANDUM

TO: Senator Paul Bookout, Co Chairman
Representative John Charles Edwards, Co Chairman
Legislative Council

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

SUBJECT: 2014-2015 Biennium Plan of Work for the Arkansas Water, Waste Disposal and
Pollution Abatement Facilities General Obligation Bond Program of Act 607 of
1997.

DATE: June 6, 2013

As requested by the Governor's office, I am providing copies of a 2014-2015 Biennium Plan of Work for the State of Arkansas Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond Program under Act 607 of 1997. In addition, a summary of the general revenues requirements for the expected grants or deferred loans totaling \$60 million in Bonds, issued in multiple series in the 2014-2015 biennium is enclosed.

As required by the Arkansas Water, Waste Disposal and Pollution Abatement Facilities Financing Act of 1997 (Act 607 of 1997), after receiving the 2014-2015 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/ss

Enclosures

cc: Jon Moran, Governor's Staff

Summary of Projected General Revenue Requirements
For
ANRC General Obligation Bond Program of Act 607 of 1997
For
2014 – 2015 Biennium

This summary comes from Section VI on page 6 of the Plan of Work:

Bayou Meto Irrigation District, or White River Regional Irrigation Water Distribution District, or Some combination of the two not exceeding \$60 million	<u>7,200,000.00</u>
Total	7,200,000.00

These General Revenues would be used to repay bonds issued to raise the funds needed to fund project needs listed above. The funds would be needed each year for 10 years.

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

(ACT 607 OF 1997)



PLAN OF WORK

FISCAL YEARS ENDING
JUNE 30, 2014 AND JUNE 30, 2015

Adopted: May 15, 2013

ARKANSAS NATURAL RESOURCES COMMISSION

ARKANSAS
WATER, WASTE DISPOSAL AND POLLUTION ABATEMENT FACILITIES
GENERAL OBLIGATION BOND PROGRAM
(ACT 607 OF 1997)

PLAN OF WORK

FOR THE FISCAL YEARS ENDING
JUNE 30, 2014 AND JUNE 30, 2015

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ARKANSAS NATURAL RESOURCES COMMISSION
ARKANSAS
WATER, WASTE DISPOSAL AND POLLUTION ABATEMENT FACILITIES
GENERAL OBLIGATION BOND PROGRAM
(ACT 607 OF 1997)

PLAN OF WORK

**FOR THE FISCAL YEARS ENDING
JUNE 30, 2014 AND JUNE 30, 2015**

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 607 of 1997 (The Arkansas Water, Waste Disposal and Pollution Abatement Facilities Financing Act of 1997) (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 1998, 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. The maximum authorization of \$300,000,000 is reduced by the principal amount of any bonds issued after the effective date of the Act (August 1, 1997) under Act No. 496 of 1981, as amended, codified as A.C.A. §§15-22-601, et seq., and Act No. 686 of 1987, codified as A.C.A. §§15-22-701, et seq. (collectively, the "Prior Acts"). The Commission issued \$39,655,000 in bonds under the Prior Acts after the effective date of the Act. Therefore, the Commission may issue \$260,345,000 in Bonds under the Act.

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 2008 Environmental Protection Agency's Clean Watershed Needs Survey shows that Arkansas has a total of \$866 million in water quality improvement needs. The total is composed of \$470 million in traditional wastewater collection and treatment projects and \$396 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. The Commission is currently working with two local irrigation districts to provide match funds needed to obtain federal funding of their irrigation projects. Both projects will provide surface water for agricultural purposes and reduce the use of the alluvial and Sparta aquifers.

One of the projects is the Grand Prairie Area Demonstration Project sponsored locally by the White River Regional Irrigation Water Distribution District. The Grand Prairie Area Demonstration Project is designed to use water from the White River for irrigation of crops. This project has a \$420 million construction cost estimate.

The second project is the Bayou Meto Irrigation Project sponsored locally by the Bayou Meto Water Management District. The Bayou Meto Irrigation Project is designed to use water from the Arkansas River for irrigation of crops. This project has a \$590 million construction cost estimate.

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, we have seen an increase in funding of these programs as the federal government tried to stimulate the economy through public works projects. More recently, we have seen a backlash to that spending and the resultant deficit and funding is projected to be drastically reduced.

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, 2014 and June 30, 2015 is projected to be about \$50 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.

1.	Total Bonds authorized by the Act:	\$ 300,000,000
2.	Bonds Issued under the Prior Acts: *	
	WGO Series 1997B issued on November 13, 1997	\$ 14,700,000
	WGO Series 1998 issued on March 17, 1998	9,955,000
	PGO Series 1997A issued on November 13, 1997	5,000,000
	PGO Series 1998A issued on June 2, 1998	<u>10,000,000</u>
		\$ 39,655,000
3.	Bonds Previously issued under the Act: *	
	Series 2000A issued on July 6, 2000	\$ 5,000,000
	Series 2001A issued on May 23, 2001	9,700,000
	Series 2001B issued on May 23, 2001	3,600,000
	Series 2002G issued on August 28, 2002	5,000,000
	Series 2002J issued on September 27, 2002	4,020,000
	Series 2003C issued on September 23, 2003	20,000,000
	Series 2004A issued on July 29, 2004	15,000,000
	Series 2006A issued on March 7, 2006	18,505,000
	Series 2006B issued on March 22, 2006	10,190,000
	Series 2007A issued on May 31, 2007	7,500,000
	Series 2008 issued on February 14, 2008	25,425,000
	Series 2009A issued on June 3, 2009	15,275,000
	Series 2010B issued on June 24, 2010	<u>37,595,000</u>
		\$176,810,000
4.	Total of Bonds issued under the Act and Bonds issued under the Prior Acts:	\$216,465,000
5.	Remaining Bond authorization under the Act:	\$ 83,535,000
6.	Requested maximum amount of Bonds to be issued in fiscal years ending June 30, 2014 and June 30, 2015:	\$ 60,000,000
7.	Remaining Authorization at the end of the fiscal year ending June 30, 2015 assuming maximum issuance in the fiscal years ending June 30, 2014 and June 30, 2015:	\$ 23,535,000

* Note: Refunding Bonds do not count against the Act's overall authorization.

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, 2014 and June 30, 2015.

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 projects identified by the Commission staff for possible funding during the fiscal years ending June 30, 2014 and June 30, 2015 are as follows:

1. \$60 million in deferred loans for the White River Regional Irrigation Distribution District is anticipated. The annual General Revenue needs during the deferral period is expected to be \$7.2 million.
2. The Bayou Meto Irrigation Project is expected to need a total of \$60 million from the Commission in the fiscal years ending June 30, 2014 and June 30, 2015. This project may be owned by the Commission until such time as the Bayou Meto Water Management District provides funding to complete the project, assumes responsibility for the project and purchases the Commission's interest in the project. The Commission currently expects the Bayou Meto Water Management District to obtain financing in such amount as to enable such District to purchase the Commission's interest in the project. If such financing is not obtained by the Bayou Meto Water Management District, the Commission may choose to not require purchase of the Commission's interest in the project prior to conveying its interest in the project to the Bayou Meto Water Management District. Alternatively, if the Commission determines that it is not in the best interest of the Commission to initially own the project, then grants and deferred loans to the Bayou Meto Water Management District may be utilized by the Commission. The annual General Revenue needs during the deferral period is expected to be \$7.2 million.

At this time, the amount needed by either or both of these projects is unknown. The total aggregate principal amount will not exceed \$60 million in the fiscal years ending June 30, 2014 and June 30, 2015.

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, 2014 and June 30, 2015 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, 2014 and June 30, 2015 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 May, 2013.

ARKANSAS NATURAL
RESOURCES COMMISSION

By: 
Ann Cash
Chairman

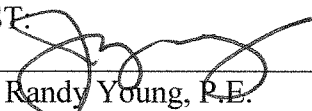
ATTEST: 
J. Randy Young, P.E.
Secretary-Executive Director

EXHIBIT A

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

**POTENTIAL PROJECTS FOR THE FISCAL YEARS ENDING
JUNE 30, 2014 AND JUNE 30, 2015**

As of 3/27/2013

APPLICANT	TOTAL PRINCIPAL
Bayou Meto Water Management District	\$60,000,000
White River Regional Irrigation Water Distribution District	\$60,000,000
Total	\$120,000,000