

GREATER ARIZONA DEVELOPMENT AUTHORITY

FEASIBILITY STUDY

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**PREPARED FOR
THE
ARIZONA
DEPARTMENT OF COMMERCE**



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The Maguire Company

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INTRODUCTION

Economic Development in rural Arizona, as in rural areas throughout the nation, has often been restricted by the limited available public infrastructure. While the existing infrastructure may be adequate to meet the communities current needs, the increased utilization resulting from development often exceeds the existing systems' capacity. New businesses are reluctant to undertake substantial commercial development or construct new facilities without assurance that the community will be able to meet the infrastructure needs of the facility and its users. Adequate street and highway systems, reliable and safe water supplies, dependable wastewater systems and all other basic, public infrastructure systems are fundamental to the success of these ventures. Thus, without infrastructure improvements the further development of the community is limited. In recognition of this situation, local economic development officials and community leaders have repeatedly requested assistance from the state in meeting their basic infrastructure needs.

In response to these frequent requests from rural communities and Indian tribes for assistance in the development of public infrastructure, the Arizona Department of Commerce has embarked on a study of the feasibility of forming a state financing authority whose primary purpose would be to assist rural communities to develop and finance public infrastructure.

A consulting team of The Maguire Company and Rauscher Pierce Refsnes, Inc. was retained to assist the Department in the conduct of the feasibility study for the Greater Arizona Development Authority (GADA).

The first steps in assessing the need for and the proposed structure of a state level infrastructure financing authority are: 1) the development of basic information concerning the identified infrastructure needs of communities throughout Arizona; 2) a review of the structures used by other states for similar authorities; and 3) a survey of local government officials and other interested parties for suggestions and recommendations concerning the need for, purposes of and structure of such an organization.

Section One - Infrastructure Needs in Arizona

In order to assess the demand for the services that might be provided by such an authority, several approaches were undertaken to determine the infrastructure needs of communities throughout Arizona.

Survey of City CIPs

Initially, a review of the identified infrastructure needs of communities throughout Arizona was undertaken. Specifically, a sample survey of fifteen small to medium size cities that have developed a Capital Improvement Plan (CIP) was undertaken. In all cases, the infrastructure needs identified within the cities' CIPs for a five-year-period were compiled and categorized. Although some differences existed in the specific years covered by the various CIPs, in all instances a representative five-year-period was included. As a result of this survey, total needs of \$600 million were identified for the fifteen cities reviewed.

These needs fall into a variety of categories, including street and road projects, public safety projects, sewer and water system projects and several other categories. The largest single category included more than \$200 million in street and road projects and drainage projects. More than 700 projects were specifically identified. The average project size was slightly less than \$200,000.

The cities included in the sample represent approximately four percent of the total state population and seventeen percent of the state's population excluding the two urban counties. Extrapolating the sample data statewide (based on population) indicates statewide municipal needs of almost \$15 billion. Extrapolating to the non-urban counties population (all but Maricopa and Pima) indicates needs of almost \$3.6 billion.

The Capital Improvement Plans developed by the cities included a combination of funded and unfunded projects. In most cases the CIPs included only funded projects and where the cities had identified *unfunded* additional needs these projects were not included within the CIP. If additional resources had been identified at the time of developing the CIPs, it is likely that the CIPs would have expanded. As a result, it is difficult to draw any reliable conclusions as to the precise amount of unfunded infrastructure needs within the cities. However, the sample does indicate that substantial infrastructure needs do exist throughout the small to medium sized communities with Arizona.

City Survey Results

	Total	Streets & Roads	Public Safety	Sewers	Water	Govt. Facilities	Solid Waste	Airports	Cultural & Rec.	Other
Total Value (000,000's)	\$600.6	200.3	37.7	93.0	52.0	21.6	77.3	28.4	79.0	11.4
# of Projects	728	261	62	78	54	34	54	21	137	27
Percent of Projects		35.9%	8.5%	10.7%	7.4%	4.7%	7.4%	2.9%	18.8	3.7
Median Project Cost (000's)	191.3	181.5	182.3	329.1	500	310.9	339.5	739.6	91.0	191.2
Amount per capita (000's)	3,542	1,181	222	548	307	127	456	168	484	67.4

In addition to the survey of Capital Improvement Programs of a variety of Arizona cities, other existing sources of information that reflect infrastructure needs throughout Arizona were also reviewed.

Transportation Needs

The 1995 Transportation Needs Study, conducted by the Arizona Department of Transportation in conjunction with local governments throughout the state, indicates a total demand for transportation projects of almost \$7 billion over the next five years. Of this amount, \$6.7 billion is for street and highway purposes (which includes \$2 billion for Maricopa County freeways); up to \$464 million is for mass transit; up to \$450 million is for airport projects; and up to \$ 680 million is for rail projects.

Wastewater Treatment Needs

Another source of valuable information concerning infrastructure needs throughout Arizona is the Wastewater Treatment Facility Needs Survey conducted by the Wastewater Management Authority every four years. The 1996 survey indicates total need for wastewater treatment facilities throughout Arizona of almost \$2.2 billion over 20 years.

Needs on Indian Reservations

The National Center for American Indian Enterprise Development conducted an *Assessment of Infrastructure Needs on Arizona Indian Reservations* and concluded that "in assessing the infrastructure needs of Arizona's Indian reservations, it is apparent that an investment of at least \$1.4 billion is needed to meet basic needs."

Overall, these various sources of information lead to an indisputable conclusion that there is substantial need for additional public infrastructure throughout Arizona. Furthermore, the demand for infrastructure expansion substantially exceeds the available resources. In many cases, the anticipated infrastructure projects identified in the various studies reflect only a portion of the total need, projects without a clear source of funding have not been included in the estimates. Thus, total need for infrastructure is likely even greater than the numbers reflected in this analysis.

Overall Needs

In summary, based on the information described above, the infrastructure needs of the various political subdivisions, excluding the largest cities, and Indian tribes, conservatively total in excess of \$5.5 billion over the next five-year period.

Section Two - Review of Other State Programs

Another fundamental step in assessing the need for and the proposed structure of a state level infrastructure financing authority is the development of basic information concerning the operation, organization and effectiveness of similar programs operating in other states.

In order to assess the existing programs in other states, a survey of twenty states, with some type of identified local infrastructure lending program, was undertaken. Not surprisingly, the various state programs differ widely with regard to purpose, organizational structure, subsidies and the degree of state involvement. Despite the wide range of existing programs around the country, a number of generalizations can be drawn that may be useful in designing a potential program for Arizona. In all cases, the review focused on *state-funded* programs, not federally funded programs such as Community Development Block Grants, Farmer's Home Administration loans, or wastewater treatment revolving fund loan programs.

Specifically, in each state contacted, a variety of characteristics of the program were reviewed. The characteristics surveyed included: the structure of the program, eligibility by project type and by jurisdiction, the type of assistance available from the programs (e.g., grants, loans, technical assistance, etc.), any financial assistance or subsidies available from the program (e.g., reduced interest rates, cost sharing, etc.), the source of funding for any such subsidies, the financing structure (if any) used by the program to "pool" or leverage infrastructure loans through the program, the overall effectiveness of the program, and any suggestions for a new program.

States Surveyed

Alaska	Louisiana	New Mexico	Oregon
Colorado	Maine	New York	Pennsylvania
Florida	Michigan	North Dakota	Texas
Illinois	Nebraska	Ohio	Virginia
Kentucky	New Hampshire	Oklahoma	Wisconsin

In general the survey of the states revealed the following:

Eligibility and Qualifications

In most states virtually any type of *publicly owned* infrastructure is eligible for participation in the programs.

Similarly, in most states *any political subdivision* authorized to construct or operate infrastructure is eligible for participation in the programs.

All programs have some type of financial capability evaluation for participants to be eligible to receive a loan. The degree of security required varies substantially from program to program. Some programs permit borrowers to participate with revenues barely sufficient to meet the loan repayment requirements; other programs require substantial surplus local revenues beyond the loan repayment amounts.

Types of Assistance

Virtually all states provide substantial technical assistance to the participating local governments. This assistance often includes advice on the timing and planning of the proposed infrastructure and its financing.

States varied widely with respect to the types of financial assistance or subsidies available. Some states provided substantial subsidies in the form of low interest loans, partial grants and bond issuance cost subsidies, while others acted only as a *conduit* bond issuer passing all costs directly through to the local borrower.

Funding

Most state programs that provide subsidies receive recurring legislative appropriations for the subsidy costs. This legislative support comes in a variety of different forms. In some instances, the state appropriates amounts sufficient to meet the program's annual bond debt service payments, in others a dedicated revenue source is available for the program's use and in other cases substantial front-end appropriations to a dedicated, special fund provide a source of ongoing earnings to operate the program and finance any subsidies.

In states without ongoing appropriations, some programs that provide small subsidies (e.g., reduced costs of issuance) use interest earnings from a dedicated (sometimes pledged) fund to finance these subsidies as well as their ongoing operating expenses. Other state programs charge participating local governments an administrative fee, either annually throughout the life of the loan, upon closing or both. Again, these fees are typically used to provide operating funds for the program. However, the level of such fees is severely limited in programs that do not provide substantial interest cost subsidies.

Financing Structure

Many state programs issue bonds to finance the loans made to local governments for infrastructure development. In these instances, the state program lends money to local borrowers and in turn issues bonds fully or partially secured by the loan repayments. The bonds are issued in the name of the state program.

In virtually all states that issue bonds, the bonds are secured primarily by the local government revenue derived from the project being financed and used to make loan payments.

In addition, many states use either state-level general obligation bond authority or a state-level *moral obligation* (an implicit promise to pay in the event of a default) to improve the credit rating of the bonds issued by the state authority. In states without moral obligation authority, a dedicated fund is frequently used to provide additional security for the program's bonds.

Programs that do not rely on either state general obligation or moral obligation security use several techniques to strengthen their program's creditworthiness.

Typically, a special, dedicated fund has been established to strengthen the program's credit. Often monies in the fund are available as a debt service reserve, to make bond payments in the event of a shortfall in local loan payments and earnings from the fund are used to defray program costs.

In some cases, monies in the fund are used to match bond proceeds to make loans to local governments. In these cases the local loan repayments *exceed* the debt service on the program's bonds by the inverse of the matching ratio. These available excess monies strengthen the program's bond rating beyond the credit of the underlying borrowers.

In several states, a state aid "intercept" mechanism has been implemented by which the state treasurer (or the distribution agency) may redirect state-shared-revenues from a local borrower to the bond trustee to prevent a default on the program's bonds in the event a local borrower fails to make scheduled loan payments.

Most of the programs use a pooled financing structure through which several loans to local borrowers are bundled together to form the basis for a single state level bond issue. However, each borrower is responsible solely for the repayment of its loan. There is no cross liability among the various participants in state level bond issue.

Often the bonds are issued under the provisions of an "open" bond indenture that provides for a common debt service reserve fund to be shared by all bonds issued by the program. Under the "open indenture" structure any dedicated state fund can also be used as additional security for the state program's bonds.

In other states the local loans are combined into a single bond issue where the payments on each loan are segregated from all other loan payments. In these cases, the state program is simply a "conduit" issuer passing the loan payments and the "credit" of the local borrowers through to the bond holders. Typically, little, if any, credit enhancement is provided by the state program. Programs of this type usually have some other incentives to encourage participation. The incentives are as varied as the programs and are often related to the legal (constitutional and statutory) environment of the particular state.

Financing Process and Requirements

Virtually all the state programs have worked (and continue to work) to streamline the application, qualification and financing process. Some states have adopted a single application process and form for multiple programs. (One state is currently expecting approval to use a single form for both state and federal assistance programs.)

Virtually all the programs work with the local borrower to facilitate qualification. In many instances, state personnel assist local officials in determining the actions that must be taken to allow the local borrower to qualify. For example, a local community may need to increase or restructure its water and sewer charges to increase revenues, prior to receiving assistance.

Technical Assistance

Most state programs provide substantial technical assistance to local communities throughout the infrastructure development process. The assistance typically includes all phases of the project planning and financing process.

Often state program personnel provide advice and hands-on assistance to local officials in preparing their capital improvements plans, reviewing and evaluating project alternatives, developing required financial information, reviewing and evaluating the available revenues, identifying modifications to the pledged revenue structure, preparing the program application and generally assisting throughout the entire development and financing process.

In some states, the technical assistance programs operate independently of the financing process and are available to all communities including those not involved with a state loan of any type.

Often the participation of small communities in the financing program has been dependent on the technical assistance. Without substantial technical assistance, many small communities are not able to develop the basic information and organization necessary to participate in the state programs.

Section Three - Survey of Local Government Officials

As a final step in determining whether a state level infrastructure financing authority would be beneficial to Arizona, a series of discussions with officials from local government jurisdictions, including some that might participate in such a program, and other interested persons were undertaken. The purpose of these discussions was to determine the level of interest in such a program, if it existed, to ascertain their views of the potential benefits of such an authority, to solicit their suggestions on what such a program might offer to participating local jurisdictions as well as their assessment of the relative advantages of different organizational structures. Members of an Advisory Committee formed by the Arizona Department of Commerce were also solicited for their thoughts and suggestions concerning the structure and operation of such an authority.

Virtually all the individuals surveyed agreed that such an authority could be valuable, if properly organized and focused. Specifically, it was generally agreed that the authority's focus should be public infrastructure of the type currently developed by cities, towns, counties and special purpose districts in Arizona. Further, the authority should assist local governments to carry out their existing responsibilities without granting additional powers or imposing additional obligations on these jurisdictions.

Most, especially those from smaller communities, felt that the state could provide a valuable service by making qualified technical assistance available to local elected and appointed officials through every phase of the infrastructure development process. Such assistance would be valuable during the initial evaluation of local needs and alternative approaches, while reviewing proposed design alternatives, when determining the adequacy of existing revenue sources to finance the identified project, in construction bidding process, throughout the construction process and ultimately during the start-up phase of operation of certain facilities.

Many felt that a "pooled" loan program, which would provide loans to local governments, might be of significant value as well. Often smaller communities would finance an infrastructure project over several years, however the costs and complications associated with a bond issue are too great given the size of the project. A program that made such financing more cost effective and easier would be valuable to many small governments.

Whether specific jurisdictions would be likely to participate in such a program would be determined by the financial benefits of participation on a case by case basis. In general, larger jurisdictions with substantial infrastructure programs and established, favorable credit ratings would be unlikely to participate, while smaller communities that would benefit from the "pooling" process would be more likely to participate.

In addition, some method of improving the “marketability”, or perceived credit worthiness, of the debt of smaller Arizona communities was viewed as a potential benefit. Several approaches were suggested with the common objective of lowering the cost of borrowing for the participating jurisdictions, while not transferring the responsibility for repayment to the state.

There was no consensus regarding a requirement for a local public vote to authorize participation in any loan program. Some of those surveyed felt a clear expression of public support for the proposed infrastructure project, as expressed through voter authorization, is important. Others felt that no additional requirements, beyond those already in law for other forms of financing, should be imposed.

It was generally expressed that the control over the initiation and scope of any projects should remain at the local level. The state program should support the local jurisdictions’ efforts, not replace or redirect them.

In conclusion, those surveyed expressed a clear consensus that there was a genuine need for some form of assistance to local governments outside the major metropolitan areas in developing needed public infrastructure. A state level authority, by providing technical and financing assistance, would help smaller communities meet and address their essential needs in an effective and efficient manner.

Section Four.- Overview of Proposed Program

Need for a State Infrastructure Financing Authority

As discussed above, local government officials throughout Arizona, identified several specific areas of needs that appear common to many rural communities. Frequently, these communities need basic technical assistance in determining the scope and nature of an infrastructure project to undertake in order to respond to existing needs, changing conditions or state and federal mandates. This technical assistance must be available from the earliest planning stages in order to assist these jurisdictions in maximizing their use of and the benefits from limited local resources.

Small communities also often have difficulty accessing the national capital markets due to the small dollar size of their financing needs and their limited experience in such markets. Due to some of the fixed costs associated with bond issuance, financing smaller projects may not be cost effective. Further, the bond issuance process can be time consuming and uncomfortable for some local officials.

Often these communities have limited financial resources. The higher borrowing costs associated with small projects in small communities with lower credit ratings (due to the infrequency of financings, inexperience, a limited economic base, or other factors) effectively preclude these communities from financing their capital projects.

Benefits of a State Infrastructure Financing Authority

A state level organization that could provide technical and financing assistance to these local communities would be very useful in helping Arizona meet the substantial infrastructure needs identified in the survey of local jurisdictions. Such an authority, the Greater Arizona Development Authority (GADA), could assist smaller communities in developing and financing basic infrastructure projects.

In general, GADA will help local governments throughout the state finance those projects that they are currently authorized by law to undertake, but have not due to the difficulties described above. The purpose of GADA will not be to grant any additional powers or responsibilities to these local jurisdictions.

Specifically, GADA could provide technical, "hands on" assistance to local governments in designing, reviewing, planning, financing and managing their infrastructure projects. A centralized source of current information and expertise concerning managing infrastructure project development, financing and management would be of great value to local elected and appointed officials throughout the state.

In addition, GADA will provide improved access to the national capital markets for smaller communities with limited financial resources or experience that are seeking to finance lower dollar amount projects.

GADA could reduce the borrowing costs of these communities by simultaneously financing several smaller loans in a single, market sized bond issue. By combining several smaller borrowings into a single bond issue, GADA will be able to share many of the costs associated with a financing transaction among all the participating borrowers, thereby reducing these costs to each individual local government.

All existing, authorized political subdivisions of the state (counties, cities, towns, special districts) and Indian tribes would be eligible to finance projects through GADA. Similarly, any project currently authorized by state law as permitted undertaking of a political subdivision would be eligible for participation. It is not the GADA's purpose to alter the existing system of governance within the state.

In essence, GADA will serve as a supportive partner for local government in the development and financing of local infrastructure projects without increasing the powers or responsibilities of these jurisdictions. It should not be GADA's role to evaluate the merits of locally determined projects, as long the communities demonstrate the clear local support for the project and the associated indebtedness. Those decisions will remain a local issue, best decided at the local level.

Section Five - Services provided by GADA

The various local government officials and other interested parties as well as the survey of other states' programs indicate the benefits of a state level infrastructure development authority, such as GADA. The recommendations that follow reflect their suggestions and community concerns, in particular, the desirability of a structure to support local project development and to assist by lowering financing costs through pooling, cost sharing and standardization.

Technical Assistance

The first step in assisting local communities in developing and financing their infrastructure needs is providing "hands on" technical assistance through all phases of the development process. GADA will provide such assistance to local governments throughout the state. GADA will be available to assist both elected and appointed officials in understanding the various aspects to the infrastructure development process and in presenting the project to local residents.

Specifically, GADA will provide technical expertise and advice during the initial project conception process and during the planning and design of the project, including assisting in the selection of external technical consultants, when needed. GADA will be able to assist local officials evaluate alternative construction options and the associated costs and benefits. Subsequent to the planning and design phase, GADA will be able to assist local communities in preparing for and evaluating the financing of the project and will provide technical support and assistance throughout the financing process, regardless of the financing source.

During the construction phase, GADA can assist local officials oversee the project and help assure the timely and appropriate completion of construction in accordance with the design requirements. GADA will provide direct assistance to local communities, but will not replace all the various technical, professional consultants typically retained to assist these communities. For example, while GADA will be able to help in the evaluation, selection and management of a professional engineer hired to oversee the construction of a wastewater treatment facility, it will not be able to eliminate the need for such technical expertise.

By working with a variety of local jurisdictions throughout the state, GADA will be able to share the prior experiences of other communities. Over time, the "hands on" experience gained by GADA will become an invaluable resource for all communities. For example, comparative information regarding service charges in other communities can be important information for governing board discussions and public information on the costs and benefits of a proposed infrastructure project.

Financing Assistance

One means of providing financing assistance to local political subdivisions and Indian tribes will be through loans to finance infrastructure projects. GADA will combine several, smaller local loans into a single, larger bond issue for sale in the national financial markets. Interest on the loans to local participants would be at the same interest rate as the GADA bonds.

As discussed in greater detail below, the GADA bonds will be secured by the loan payments to be made by the participating local jurisdictions and by the dedicated funds of the Authority. In addition, GADA would establish a "back-up" pledge of state shared revenues to strengthen the credit of smaller cities and counties. These additional credit supports would effectively provide many communities with a significantly improved bond rating. The improved bond rating will result in lower interest rates and a lower cost of borrowing for the local jurisdictions.

In order to facilitate the timely construction of needed local infrastructure while maintaining the advantages of a "pooled" bond issue, GADA should consider establishing a regular schedule for its financings. Under such an approach, GADA might establish a semi-annual issue schedule (e.g., each April and October) so that local communities could plan accordingly and could rely on monies being available when needed to pay contractors. Alternatively, GADA could undertake a "pooled" bond issue whenever sufficient loans have been compiled to constitute an appropriately sized bond issue.

Local loans from GADA should match the expected useful life of the project to be financed, not to exceed twenty years. To maximize the resources of the Authority, loans should be repaid with equal annual payments, with interest paid semiannually and principal paid annually.

GADA may also be able to work cooperatively with local financial institutions to provide direct loans to local governments for infrastructure projects. In such cases, the loans would be additionally secured by GADA's dedicated funds.

Alternatively, GADA may provide financing assistance through other forms of credit enhancement to local borrowers including letter of credit assistance, bond insurance or supplemental reserve funds.

As GADA develops it may be possible to provide short-term financing for up-front project feasibility and/or design study costs, which could then be included in the overall project financing, or to provide short-term bridge financing between pooled loan bond issues.

Participation Requirements

In order to receive a GADA loan (through a pooled loan bond issue), a local community will be required to demonstrate the financial capacity to repay the GADA loan. The repayment of the loan must be guaranteed by a legally binding pledge of a specific local revenue source, such as

local water and sewer charges. Typically, such financial capability is demonstrated by historical, annual revenue collection, net of existing obligations, in an amount greater than the annual loan repayment amount. Local borrowers will also provide a "back-up" pledge of state shared revenues.

Local participants will also be required to fund a reserve fund in an amount equal to one year's loan payments. These monies will be available to make a required loan payment (which is in turn used to make a portion of a GADA bond debt service payment), if a local borrower fails to make a payment on time and "defaults" on its obligation.

While GADA's dedicated funds will be pledged as additional security for its bonds, these monies will only be used to make debt service payments in the unlikely event of a default by a local borrower. These monies will not be expected to be used to make routine payments on behalf of local participants.

"Pooled" Loan Bond Issue Structure

The pooled loan program operated by GADA will provide a simplified and cost-effective means for small communities to access the national capital markets. In order to simplify the financing process as much standardization should be developed as possible. For example, standardized loan agreements and legal forms will eliminate the need for customized legal documents for each local participant, thereby reducing the costs and review time associated with these project financings.

The basic structure of the pooled loan program will be based on loans made by GADA to local governments for infrastructure projects. These loans will be secured by a pledge of local revenues sufficient to repay the loan with interest. As mentioned above, historical, annual, pledged revenue collections, net of existing obligations, will have to be demonstrated to be greater than the annual loan repayment amount.

Locally imposed property and sales taxes, shared highway user revenue fund monies and charges and fees for local services, such as water and sewer service could be used as pledged revenues.

Unlike some other state's infrastructure development authorities that issue bonds secured by the *general obligation* or *moral obligation* authority of the state, because of Arizona's constitution, GADA's bonds will have to be additionally secured through several other means.

Local cities, towns and counties will be required to provide a "back-up" pledge of state shared revenues to make loan payments, in the event of a default by the local borrower. This "back-up" pledge of shared revenues will improve the security behind the local loans and therefore the bond rating of the GADA bonds in two ways. First, the shared revenues will provide an additional source of revenue to make loan payments if needed. Second, the statewide

collection source for these shared revenues will broaden and diversify the underlying economic base for the local community's pledged revenues. This second factor is of particular value to isolated communities and communities heavily dependent on a single industry or employer. The diversification gained by the "back-up" pledge of state shared revenues substantially reduces the risk associated with a single, isolated, local borrower.

Specifically, in the event of a loan payment default by a local borrower, the State Treasurer will withhold an amount equal to the shortage (plus costs) from the next scheduled distribution of state shared revenues. The monies withheld will be used to replace the shortage.

GADA will combine several smaller local loans into a single, larger GADA bond issue. The proceeds of the GADA bond issue will be used to fund the loans to the participating local jurisdictions and the loan payments from these local governments will be used to pay the debt service on the GADA bonds. The interest rate on each loan will be equal to the rate on the GADA bonds.

Following the closing of the GADA bond issue, the proceeds will be used to fund the loans to the local participants. Monies will be released on a reimbursement basis or directly to contractors at the borrower's direction.

Local participants will have to fund a loan payment reserve fund in order to participate in the program. This "local" reserve will be available to make a required loan payment if the local borrower *defaults*, that is fails to make a schedule loan payment on time. These reserves will be available only for the local government that funded them. In other words, a local reserve fund will not be available to cure a default by another participating jurisdiction.

In addition, GADA will pledge the monies in its dedicated fund to make GADA bond debt service payments in the event of a shortage in the local loan payments. These monies will provide additional security for purchasers of the GADA bonds and will also to act to improve the credit rating of the GADA bonds, which will result in lower borrowing costs.

The GADA "Reserve" Fund

A crucial aspect of the structure of GADA is the size and nature of its dedicated funding source. GADA must establish a dedicated fund to serve as an additional source of payment for its bonds, in the event of a shortfall in loan payments from a participating local government. In general, GADA should be able to make at least five dollars of loans (and issue five dollars in bonds) for each dollar available in its dedicated fund.

In order to be effective, the monies held by GADA must be irrevocably dedicated to the purposes of the Authority. This dedication must be similar to the dedication of the Highway User Revenue Fund to street and highway purposes. Without such dedication, the monies will not be

considered permanently available to secure any GADA bonds and the anticipated benefits will not be received (and passed on to the local borrowers).

The *source* of funding for GADA's dedicated fund is of less importance than the *permanence* and the amount of the dedicated monies.

Any appropriated monies received by GADA (excluding loan payments) should be deposited to a single fund to be used exclusively for the purposes of GADA. Monies in the GADA fund should be invested by the State Treasurer and the earnings returned to the fund. Earnings should be available to pay for the administration of the Authority, the Authority staff and overhead, the costs of technical assistance and the costs associated with the issuance of GADA's bonds.

The amount and nature of the dedicated monies are crucial to the success of GADA. Without sufficient funds, GADA's bonds will lack the critical additional security provided by the dedicated monies. This will reduce the creditworthiness of the GADA bonds and raise the cost of borrowing funds through GADA. As a result it will be less likely that eligible local governments will participate in the GADA program.

Furthermore, if the monies in the dedicated fund are insufficient, the earnings will not support the necessary level of technical assistance to local communities. Technical assistance is needed at the earliest stages of the infrastructure development process, as local communities attempt to define and develop projects that will eventually be financed. Therefore, GADA will begin to incur technical assistance costs shortly after start up and will need substantial front-end funding to carry out this critical aspect of its mission. In short, without adequate funding, GADA will fail.

Eligibility and Scope of Projects

All counties, cities, towns, special districts and Indian tribes should be eligible to participate in the programs offered by GADA. No categorical exclusion by population, size or geographic location should be imposed on participation.

Similarly, any publicly owned infrastructure constructed by these jurisdictions should be eligible for financing assistance through the Authority.

Although the primary focus of GADA will be on providing assistance and support to smaller communities, a categorical exclusion of larger communities would be inappropriate for a state level organization like the Authority. In practice, participation will be self regulating. Medium sized and larger communities, with more diversified economies and higher credit ratings, will receive no financial benefit from the Authority's "pooled" loan program and will therefore not participate. It is possible that some of these communities may be able to benefit from the experience and expertise GADA will develop through working with local governments over time.

To the extent this knowledge can be of assistance to any Arizona community, it should be available.

Any maximum limits on the size of a project that may receive assistance should be carefully considered. Larger projects are the most difficult for small communities to complete and are often those with the highest local priority as a result of a federal or state mandate. Smaller communities may frequently be able to complete routine capital improvements with available reserves, but are unable to undertake larger projects due to the financing requirements.

The need for a project size limit should be reviewed after several years of GADA's operation to determine if circumstances have changed. At the same time, the possibility of a limit on the total amount of loans to a single community should also be reviewed. Again, such a limit need not be initially imposed because the financial capability requirements of the loan program will impose a natural (market) limit on the loan capacity of each participating community.

Project Prioritization and Selection

The Authority should develop criteria and guidelines for the prioritization of local infrastructure projects for the receipt of technical and financing assistance. These guidelines will allow GADA to focus its limited resources on the projects with the highest priority from a statewide perspective.

The prioritization criteria should be developed by the Authority following careful consideration of the suggestions and recommendations of local public officials from throughout the state. However, some general priorities can be suggested as an initial system.

Projects that 1) meet current infrastructure needs; 2) address public health and safety concerns, OR 3) provide basic infrastructure for growing areas (projected within the next five years) should be given the highest priority. Basic infrastructure projects needed to encourage general economic development should be given the second highest priority. Projects that provide other types of infrastructure for other public purpose should be given third priority.

Local jurisdictions should submit potential projects for evaluation on an annual basis. Based on the projects submitted and using the established criteria, GADA should prioritize the projects for technical and financing assistance. Typically, a project will be eligible for technical assistance prior to being prioritized for financing assistance.

Selected projects should be announced following the evaluation process and should be eligible for assistance immediately thereafter. The number of projects selected each year will vary depending on the complexity of the projects and the availability of GADA resources. Many projects receiving technical assistance may not be completed in a single year and therefore ongoing project requirements will have to be considered in determining the number of projects to be selected for the following year. If the projects selected are completed prior to the next annual

application and selection process, GADA may be able to provide assistance to additional communities from the previous list of applicants.

Technical assistance should be available to local communities throughout the project development process. This assistance from GADA should be available on an as needed basis, however, GADA cannot and should not replace the involvement of local officials or their qualified external professional consultants. Rather, GADA experience and expertise should supplement and compliment the local "project team". Local governments must commit the time and resources necessary to complete their infrastructure project. GADA cannot devote scarce resources to projects that do not receive essential local support.

Financing assistance should be available to local communities when infrastructure projects are ready for construction. Often the pre-construction phase may take several years. Projects should be selected for financing assistance when the necessary feasibility studies, engineering design and specifications reviews and other required analyses have been completed. In addition, a source of revenue that will be pledged to the repayment of the GADA loan will have to be identified and evaluated and all necessary approvals needed to proceed with the project will have to be in place.

Section Six - GADA Organizational Structure and Administration

Organizational Structure

GADA must be established as an independent Authority, separate from the State of Arizona. It should be controlled by a board of directors composed of nine members. Five members appointed by the Governor and approved by the state Senate. In addition, the Director of the Department of Commerce, the Director of the Department of Transportation, the Director of the Department of Environmental Quality and the State Treasurer should serve as *ex officio* voting members of the board.

The Chairman of the board should be the appointed member serving the final year of his term. If that member was appointed to fill a vacancy less than one year earlier (or chooses not to serve as chairman), the member next nearest the end his term should serve as chairman. Appointed members should be permitted to serve up to two consecutive terms.

The appointed members of the board should be private citizens representing different areas of the state. The appointed members of the board should be appointed for staggered, terms of five years. Vacancies should be filled by appointment for the remainder of the unexpired term. Appointed members should continue to serve until a successor has been appointed by the Governor.

All policies and procedures of the Authority should be approved by the Board. The Board should also finally determine projects to receive technical and financing assistance. The Board should approve all loans and issue bonds in the name of the Authority.

The Authority should be staffed by competent professionals selected by the Director of the Department of Commerce. The department should provide space and equipment for the Authority staff and the Board.

Initially an executive director, a program specialist and an administrative assistant should be assigned to the Authority. As the programs of the Authority develop, additional professional staff may be required. The salaries, benefits and expense of GADA staff should be paid from earnings on the Authority's dedicated fund.

In addition to the internal staff, GADA will need to retain external professionals to assist in providing technical assistance to local participants. These external professionals may become less necessary as the GADA staff expands and gains experience. However, some external professional assistance will continue to be required on an as needed basis through the life of the program. These professionals should also be paid with earnings from the dedicated fund.

As with all development and financing authorities, GADA will be expected to retain professional assistance in connection with issuing bonds. Bond counsel, a financial advisor,

underwriters, a trustee and various other professionals will be required. Typically, these costs would be paid with proceeds of the "pooled" bond issue and included in the amount of the local loan repayments. However, to the extent that sufficient monies are available, the Authority may choose to pay some of these costs from earnings thereby reducing the costs borne by the local borrowers.

Because the Authority will be issuing bonds and managing substantial amounts of money, it is essential that adequate financial record keeping system be initially established. Detailed revenue and expenses tracking as well as an automated loan payment monitoring system should be implemented.

Careful accounting and allocation of all dedicated monies must be maintained. The financial records of the Authority should be maintained in accordance with the standardized practices applicable to government agencies established by the Governmental Accounting Standards Board (GASB) and audited by an independent auditor annually. Detailed reports of all expenditures and revenues should be present to the Board quarterly and an annual report prepared and presented to the Governor and the Legislature. Again the costs associated with these activities should be paid with earnings.

Finally, it may be permissible to redirect some federal funds received by the state and particularly by the Department of Commerce, to pay some of the costs incurred by the Authority. To the extent such reallocation is possible, it should be considered.

Interrelation with Other Bonding Entities

The GADA will join the existing Wastewater Management Authority and the planned State (Transportation) Infrastructure Bank as a source of assistance to local communities developing infrastructure.

The Wastewater Management Authority is responsible for overseeing the wastewater treatment revolving fund, which makes low cost loans to local communities to finance the cost of treatment facilities. The WMA will also, probably, be responsible for the drinking water revolving fund authorized by the federal Clean Water Act, which will provide similar loans for drinking water projects.

The State (Transportation) Infrastructure Bank is currently being established by the Arizona Department of Transportation in response to a federal pilot program and will provide assistance to local communities in developing streets and highways.

Although the specific purpose and mission of each of the organizations is different, all have a common objective of helping local governments develop infrastructure. As a consequence it is critically important that all three organizations cooperate and coordinate their efforts.

GADA will have the broadest charge of any of these entities and therefore may be able to assist communities that cannot receive assistance for certain projects from the other state level organizations. In some instances, a combination of GADA assistance and assistance from the SIB or WMA may facilitate the completion of a project.

Section Seven - Start-up Procedures

Overview

The first year of operation of a new organization like GADA is both a difficult and critically important phase in the entire life of the organization. The establishment of appropriate rules, procedures and operating practices will largely determine the future success or failure of the program.

The transition from a conceptual proposal to an operating organization is a difficult process that requires careful planning and scheduling. The following time line illustrates some of the major events that should occur during the Authority's first year of operation.

Time line

<u>Date</u>	<u>Event</u>	<u>Comments</u>
Spring 1997	Legislative Hearings on GADA legislation	Local support, if possible
April	Enactment of legislation	
May	Selection of GADA staff by Commerce Director	
June	Selection of private members by Governor	
	Staff begins preparation of draft rules and procedures	
	Staff establishes accounting system for dedicated monies	
July	Informal meeting of board members to discuss procedures	In anticipation of start-up
Mid-summer	Legislation becomes effective	90 days after the end of legislative session
August	First Board Meeting Review of draft rules and procedures for selection of projects	

August (con't)	First Board Meeting (con't) Adoption of operating budget for current fiscal year	
	Initial public announcement of GADA organization and programs	
	Annual League of Cities Conference	Opportunity for Presentation
September	Second Board Meeting Adoption of rules and procedures and submission to rulemaking process	
	Governor's Rural Development Conference	Opportunity for Presentation
October	Third Board Meeting Quarterly Report of revenues and expenses	
	Distribution of Preliminary application procedures (subject to final adoption of rules)	
	Regional outreach seminars on GADA's activities	
November	Fourth Board Meeting Final approval of rules and procedures	
	Announcement of application deadline of February 1	
December	Fifth Board Meeting Selection of program consultants	
	Staff assist local officials in preparing application forms	
January 1998	Sixth Board Meeting	

January 1998 (con't)	Quarterly Report of revenues and expenses
	Regional outreach seminars on GADA's activities
February	Application for assistance due
	Seventh Board Meeting Preliminary review of applications
	Staff reviews applications and scores based on criteria
March	Eighth Board Meeting Preliminary review of project prioritizations for technical and financing assistance
April	Ninth Board Meeting Announcement of projects selected for technical assistance
	Quarterly Report of revenues and expenditures
	Initial technical assistance meeting on selected projects
	Staff develops budget for next fiscal year
May	Tenth Board Meeting Announcement of projects selected for financing assistance
	Budget for next fiscal year adopted
June	Eleventh Board Meeting Pooled loan bond issue scheduled for September
	Staff prepares for close of fiscal year

July **Twelfth Board Meeting**
Quarterly Report of revenues and expenditures
Board reviews progress on bond issue

August **Thirteenth Board Meeting**
Annual report on revenues and expenditures

Report on technical assistance projects

Board reviews progress on bond issue

September **Fourteenth Board Meeting**
Board issues pooled loan bonds

Annual League of Cities Conference Opportunity for presentations

Audit of prior year financial records

Staff prepares annual report

Governor's Rural Development Conference Opportunity for presentations

October **Fifteenth Board Meeting**
Quarterly Report on revenues and expenditures