

July 1, 2012

CWSRF

2013

Investing Resources
in our
Communities

Intended Use Plan

State of Oklahoma
OWRB
WATER RESOURCES BOARD
the water agency

CLEAN WATER STATE REVOLVING FUND
INTENDED USE PLAN

Financial Assistance Division
Oklahoma Water Resources Board

Mission

The mission of the OWRB is to enhance the quality of life for Oklahomans by managing, protecting, and improving the state's water resources to ensure clean, safe, and reliable water supplies, a strong economy, and a healthy environment.

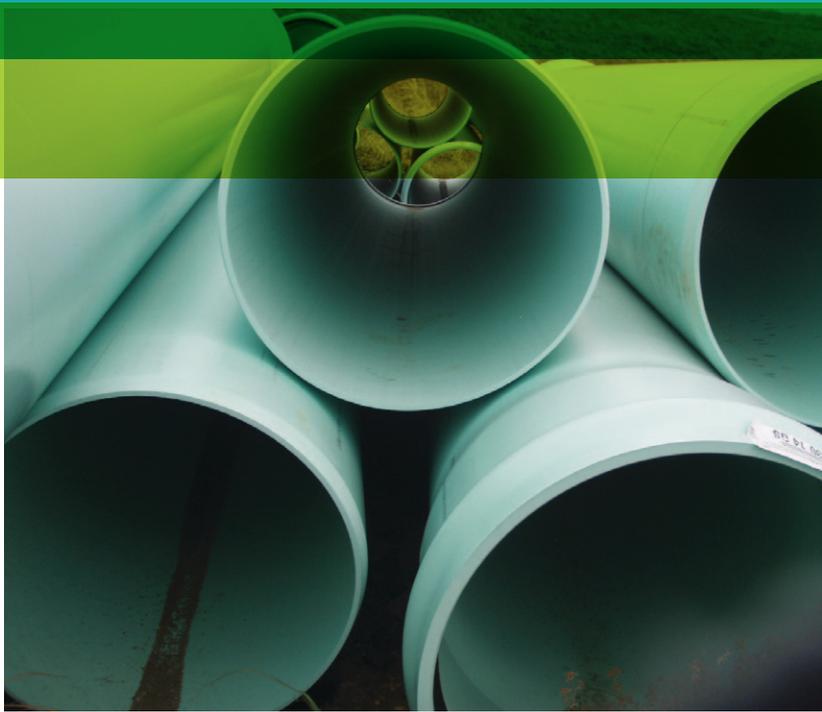




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Appendices are available online at www.owrb.ok.gov/financing/loan/cwsrfloans.php.

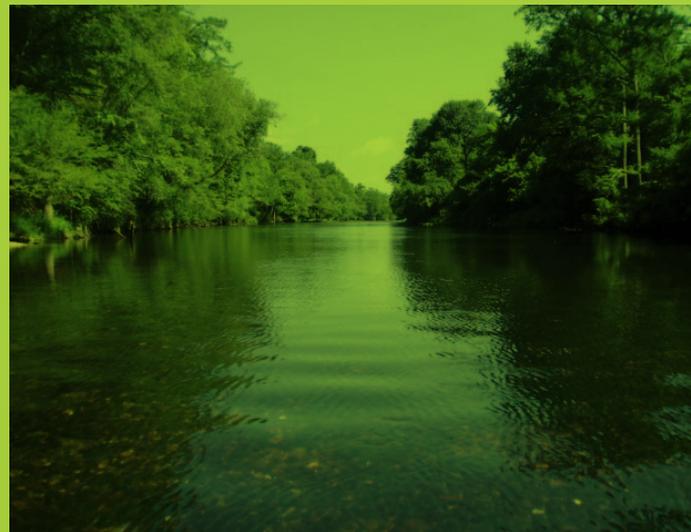


INTENDED USE PLAN

MISSION

"When the well's dry,
we know the worth of
water."

Benjamin Franklin



2012



ABOVE:

Back Row L to R: John Baron, Joe Freeman-Chief, Kathy Koon, Robert Lindemberger, Charles DeCoune, Simeon Stoitzev, Tamara Griffin, Laura Oak, Jennifer Wasinger-Assistant Chief, Shelly Bacon.

Front Row L to R: Tony Mensah, Byju Sudhakaran, Lori Johnson, Barry Fogerty, Daniel Hughes, Anita Ray, Kate Burum, Claressa Bailey.

(not pictured: Vivek Rajaraman, Sonia Mock, Michelle Reeves)

J.D. STRONG
EXECUTIVE DIRECTOR



MARY FALLIN
GOVERNOR

STATE OF OKLAHOMA
WATER RESOURCES BOARD

As Oklahoma's water agency for more than 50 years, the Oklahoma Water Resources Board (OWRB) has been instrumental in managing, protecting and improving the state's water resources through reliable, efficient research, planning, permitting and financial assistance programs.

We delivered the final 2012 Update of the Oklahoma Comprehensive Water Plan (OCWP) to the Governor and Legislature on February 13, 2012. The OCWP was developed using a tandem approach of robust public input and detailed technical studies. The end result of this cooperative work is accurate and timely water-related data, intensive studies of available water and future needs, and more defensible permitting decisions that recognize both the inevitability of drought and the need for water conservation.

From a broader viewpoint, the OWRB continues to expand the nature and scope of its water management programs while employing the most innovative technologies. At the same time, the agency and our state, federal and local partners work closely to identify common objectives, thus providing Oklahoma citizens with superior results at minimum cost. Our Financial Assistance Division plays a pivotal role in this vital water planning effort.

Since 1983, the Financial Assistance Division has provided approximately 65% of all the financing for Oklahoma's water and wastewater infrastructure needs. To date we have funded over \$2.6 billion dollars with our loan and grant programs, which in turn leads to an interest savings of over \$860 million for our communities and rural water districts. Striving for both sound financing and unparalleled environmental protection, the Financial Assistance Division is proud of our natural AAA ratings on all of our bond issues and our use of innovative methods to meet Oklahoma's infrastructure needs.

As we move into FY 2013, we will continue to fund the most water and energy efficient water and wastewater projects, including both traditional and innovative green projects. We look forward to continuing our role in helping Oklahoma build a brighter future!

Sincerely,


J. D. Strong
Executive Director


Joe Freeman, Chief
Financial Assistance Division



OKLAHOMA'S COMPREHENSIVE WATER PLAN

Water, more than any other element or natural resource, has reached a crucial level of importance to Oklahomans. Water unites us and occasionally divides us. But undeniably, water provides an integral societal benefit. It provides supply for municipal and rural residents alike. It drives the state's agricultural industry: it irrigates wheat, hay, corn, and other crops. It nourishes cattle, sheep, chickens, hogs, horses, and aquaculture operations. It produces oil and gas as well as more conventional industries and mining operations that rely upon withdrawals from surface and groundwater sources. It's counted upon to generate power and sustain countless environmental and recreational uses. With less water or limited access to it, Oklahoma will cease to grow.

It was this recognition, combined with yet another devastating drought in 2006, that provided the impetus for development of the 2012 update of the Oklahoma Comprehensive Water Plan (OCWP), the most detailed and inclusive such effort in the state's history. The initial 1980 and subsequent 1995 plans were responsible for considerable improvements in how surface and groundwater supplies were managed, studied, and protected. The 2012 update takes planning to the next necessary level in its extensive analysis of Oklahoma's water past, present, and future.

However, in recent years, Oklahomans have experienced a clear and

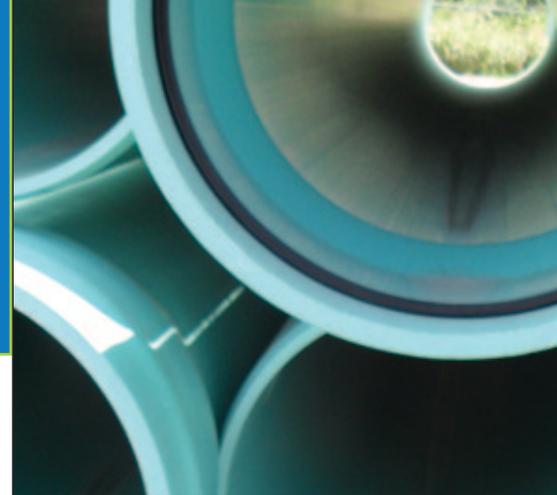
Oklahoma Comprehensive Water Plan
OCWP

THIRTEEN
WATERSHED PLANNING
REGIONS

13

distinctive shift in attitudes about water's importance. Citizens have demanded and assumed more responsibility for their surface and groundwaters and, as a result, they desire direct input into its management and protection. This update was founded upon that premise.

Although Oklahoma is blessed with an abundance of water, many citizens lack access to dependable water sources. This is due to the distance to supplies, insufficient infrastructure or storage, water quality constraints, and many other limiting factors. In many areas, surface water supplies are subject to seasonal fluctuations. Often, supplies are at their lowest when demand is the highest. The ability to store water in reservoirs—integral to surface water availability—can do much to mitigate the impacts of drought episodes and other water emergencies. Groundwater supplies, particularly bedrock aquifers, are less susceptible to seasonal fluctuations, yet concentrated demands or prolonged periods of decreased recharge can temporarily reduce their ability to provide a sufficient supply. Often, complex geologic factors impact a particular aquifer's ability to supply water; the amount of storage, depth to water, and well yields can vary significantly. In relatively shallow alluvial aquifers, both the aquifer and overlying stream are often hydrologically linked, each resource impacting the other.



The Oklahoma Comprehensive Water Plan (OCWP) Water Demand Analysis considered all factors impacting Oklahoma’s water use throughout the next 50 years in 82 planning basins consolidated into 13 Watershed Planning Regions. This analysis predicts that future consumptive demands will put a strain on surface and groundwater supplies in most areas of the state, some much more than others. The OCWP evaluated the impacts of forecasted demands on the physical availability of Oklahoma’s surface and groundwater supplies through 2060. Utilizing a suite of planning tools, the

effectiveness in addressing gaps and depletions; a number were found to be potentially effective.

Water quality, which varies considerably across the state, also has major implications for water users. Utilizing both current and historical data, including an analysis of water quality trends, the OCWP assessed surface water quality in all 82 basins. Increasing use, coupled with growth and development, will continue to pose water quality challenges, but OCWP information will provide enhanced confidence in the selection of future supply sources.

planning basin, despite a general decline in some aquifer levels. The OCWP also evaluated several measures that could be implemented to improve the accuracy of water availability calculations and minimize future conflicts in the administration of water rights and permits.

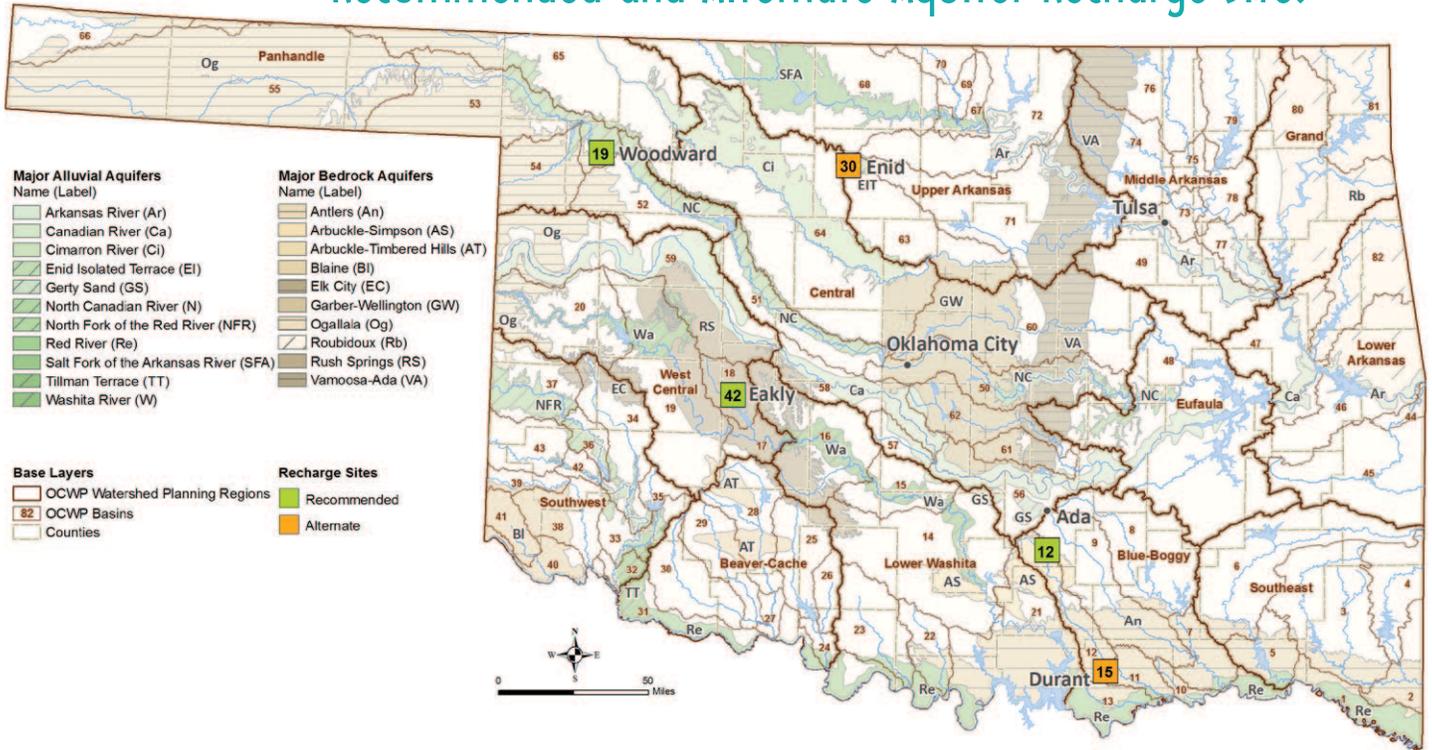
The OCWP has concluded that providing reliable future water supplies to Oklahoma citizens will be seriously jeopardized without adequate funding to address the state’s burgeoning infrastructure requirements. The absence of adequate and compliant drinking water and wastewater systems—even in the presence of abundant, high quality water—can limit economic growth and community development, impact water quality, threaten human health, increase future costs, and result in the waste and inefficient use of water. The



OCWP predicted the amount, timing, and probability of potential water shortages. A number of planning basins showed significant surface water supply shortages (referred to as “gaps”) and moderate groundwater depletions (where use exceeds aquifer recharge) at various times over the planning horizon. As a result, selected options were evaluated as to their

The availability of water for new permits is also an important consideration when evaluating the future impacts of increased demands. OCWP analyses indicated that limited availability of unpermitted surface water will prevent some basins from meeting forecasted demands. Conversely, groundwater available for permitting is not a concern in any

Recommended and Alternate Aquifer Recharge Sites



OCWP evaluated future drinking water and wastewater infrastructure costs as well as the financial investments and programmatic changes necessary to address the state's associated future need.

The OCWP also analyzed a number of other variables that might impact the ability of state water supplies to meet future demands. A changing climate could affect both supply and demand, significantly altering the way in which Oklahoma will use its water resources. The future timing, magnitude and location of precipitation events could shift, directly affecting water availability, while temperature variations could impact demand patterns.

As a part of the water supply options analysis, the OCWP assessed opportunities to decrease demands through water conservation practices. Two scenarios were modeled to predict water savings associated with specific conservation measures in the state's largest water use sectors: municipal/industrial and crop irrigation. This analysis revealed promise in alleviating water shortages in most basins throughout the state. Furthermore, these measures make more water available for both consumptive and non-consumptive uses, save energy, delay the need for new infrastructure, and decrease costs to citizens. While conservation practices typically decrease demand or lead to more

efficient use, a number of options exist to augment water supplies, where feasible, through largely unconventional measures. The OCWP evaluated two such options: artificial aquifer recharge and marginal quality water use. The OCWP identified five sites across the state where recharge demonstration projects could be most feasible. Concerning marginal sources, the OCWP concluded that treated effluent, in particular, showed great promise for a number of uses and could provide supplemental sources of supply to alleviate future shortages.

COMPREHENSIVE WATER PLAN

Recognizing the social and economic value of water used specifically for environmental and recreational purposes, the OCWP investigated a potential instream flow program for Oklahoma, which received considerable interest from the public throughout OCWP development. While questions remain about its feasibility in all areas of the state, instream flow generally describes the amount of water required and/or set aside in a stream or river to ensure that downstream environmental, social, and economic benefits are satisfied.

To provide additional input and recommendations on particularly important water matters and related economic development concerns, the OCWP commissioned stakeholder groups specifically representing agricultural, climatological, and water quality interests to assess and prioritize future water research, monitoring, and policy requirements. Additionally, those groups provided unique and invaluable expertise in identifying future state program and funding initiatives and priorities.

Technical Results and Findings for Water and Wastewater Infrastructure

Coupled with policy recommendations, the results of OCWP technical evaluations provide the foundation for detailed local and statewide implementation of water strategies and initiatives. With regard to water and wastewater infrastructure, Oklahoma faces

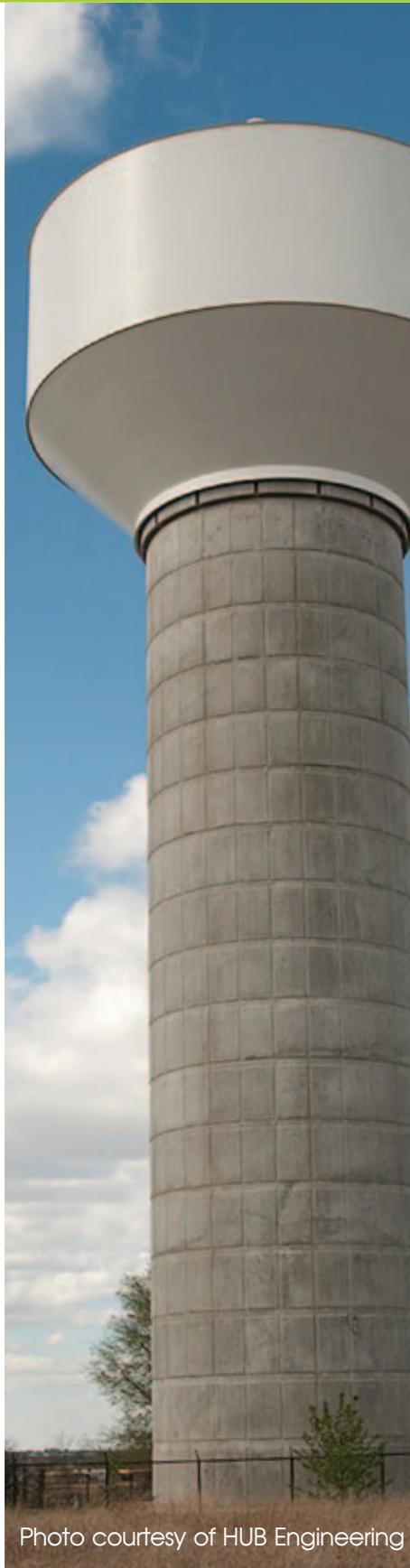


Photo courtesy of HUB Engineering

“Fixing infrastructure is like going to the dentist. You want preventative care, you don’t want it to break.”

– Mark Bruegel,

Manager at Michelin (Ardmore)

severe challenges related to financing infrastructure improvements. Almost \$38 billion (in 2007 dollars) is required for drinking water and over \$44 billion (in 2010 dollars) for wastewater projects within the next 50 years. The Central Region will have the greatest water infrastructure need. This problem is particularly acute with smaller systems—those serving less than 3,300 people—which account for 46% of the future drinking water infrastructure need and 24% of the future wastewater need. Current state financing programs were determined to be inadequate to address the projected infrastructure crisis.



Executive Summary

The Clean Water State Revolving Fund (CWSRF) loan program was established by the 1987 Clean Water Act amendments to provide a renewable financing source for statewide wastewater infrastructure and polluted runoff control needs while protecting the State's surface and ground waters.

Launched by \$14.5 million in State appropriated seed monies and, \$257 million in subsequent state match notes and revenue bonds, the program has capitalized over \$ 284 million in federal grant funds to commit over \$1 billion in low-interest construction and refinancing loans since 1990.

The CWSRF owes its success largely to 1) its "revolving" aspect, as loan repayments and investment earnings are continually recycled to fund new projects; 2) ongoing commitments of federal funds; 3) financing strategy, which provides loans at 40% below market interest rate; and 4) ease of today's loan application and approval process.

During Fiscal Year (FY) 2013, the OWRB will continue offering financing at approximately 40% below market rate. Standard 20-year maximum term loans will be available, as well as, the 30-year option for disadvantaged communities.

In addition to providing substantial savings to communities across the state, the loans committed through the CWSRF contribute greatly to protecting human health, water quality, and economic viability of

Oklahoma's communities; since these projects are designed to reduce or eliminate polluted wastewater discharges, rehabilitate decaying collection systems, consolidate on-site systems into new collection systems, or recycle treated wastewater.

To further maintain the health of the State's waters, the program may also fund eligible projects to reduce polluted runoff from urban and agricultural land, including, but not limited to, urban stormwater control, agricultural best practices implementation, forest and stream bank erosion control, wetland construction and maintenance, water and wastewater efficiency, green infrastructure, innovative green projects and abandoned industrial site assessment and clean-up.

To date, we have received requests for 12 projects totaling \$122.7 million. Funding requests for the 5-year period (through year 2017) total \$267.1 million. See Appendix A - FY 2013-2017 Clean Water State Revolving Fund Project Priority List - for a complete listing of projects.

As a condition of a federal agreement with the EPA the OWRB, as administrator of the CWSRF, must submit an annual plan for the use of federal funds awarded and a strategy for managing the program, in accordance with the Clean Water Act (CWA) Section 606(c). The following document is the State of Oklahoma's CWSRF Intended Use Plan (IUP) for funds to be made available during State FY 2013.



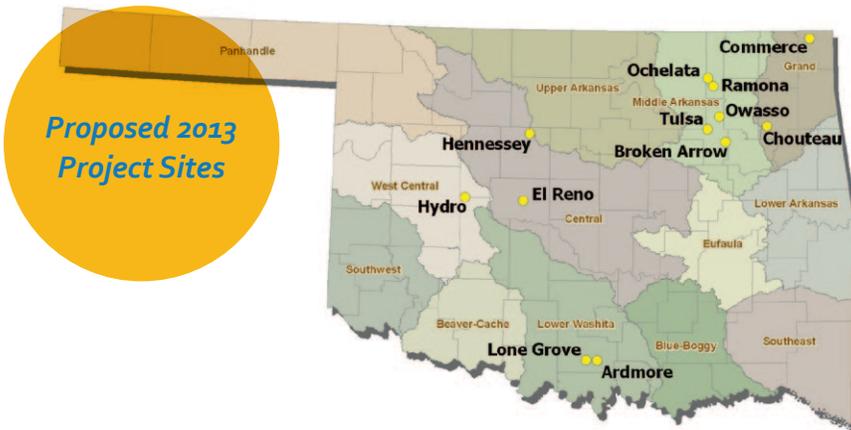
(Clean Water Act Section 212 Wastewater Systems and 319 Non-point Source Pollution Control Activities)

The OWRB has received FY 2013 requests for 10 wastewater construction and/or non-point source pollution

benefits of proposed projects based on project type, water quality restoration, and water quality protection factors. Appendix B, Chart 3, entitled "Select Binding Commitments with Respect to Federal Payments," identifies projects that meet the requirements of the

capitalization grant, including federal crosscutting laws and authorities. These projects may receive loan funds from capitalization grant monies, state matching funds, CWSRF bonds, interest and investment earnings, and monies repaid to the fund by previous borrowers, called "2nd round monies." Proposed loans not listed on Appendix B Chart 3, generally do not receive capitalization grant monies, but instead receive 2nd round funds or leveraged funds.

In the event that projects identified for funding in the IUP are unable to proceed during the current funding year, delayed projects may be bypassed so that other projects, which are ready to proceed, may be funded based on the priority ranking system.



runoff control projects totaling over \$118.9 million. Appendix A provides a listing of these fundable and planning/contingency projects, along with effluent discharge requirements, EPA "needs category," target approval dates, and construction start and end dates; pursuant to CWA Section 606(c)(3). This plan may be amended if the financing strategy changes or additional projects are identified.

Projects shall conform to a State-approved 208 Water Quality Management Plan or 319 Non-point Source (NPS) Management Plan to be considered for funding. Based on initial environmental reviews no proposed projects are anticipated to require a formal Environmental Impact Statement study. Appendix B Chart 2 provides projected environmental



Integrated Priority Ranking System for Wastewater & Nonpoint Source Projects

The OWRB continues to utilize Oklahoma's approved CWSRF Integrated Ranking System which is set forth in Oklahoma Administrative Code Title 785 Chapter 50. The System ranks projects for funding based on human health protection, the Federal Clean Water Act's "fishable/swimmable" goals, Oklahoma's Water Quality Standards (OWQS) and Antidegradation Policy, and Oklahoma's NPS Management Program.

Proposed water quality projects receive points in five areas: 1) "project type factor" (up to 70 pts.), 2) "water quality restoration factor" (up to 20 pts.), 3) "water quality protection factor" (up to 10 pts.), 4) "programmatic priority factor" (up to 100 pts.), and 5) "ready to proceed factor" (up to 400 pts.). These five areas incorporate additional points if a project is located in a "Top Ten" priority watershed or in a watershed designated as "high quality water," for example. The maximum points available to a system is 700.

The "programmatic priority factor" provides a maximum of one hundred (100) priority bonus points to projects that address specific programmatic priorities set forth by the Environmental Protection Agency or OWRB and detailed in the Annual Intended Use Plan.

The "ready to proceed factor" varies as projects are ready to proceed to construction. Projects that have

completed engineering, environmental and financial application can receive up to an additional 400 points through the ranking process. If a project encounters delays it may be bypassed using Oklahoma's CWSRF bypass procedures.

Per OWRB Chapter 50 Rules, a tie breaking procedure shall be utilized when two or more projects have equal points under the Project Priority System and are in competition for funds. If warranted, amendments to the rules governing the integrated priority Ranking System may be considered during the autumn 2013 – spring 2013 rulemaking period.

Sustainability Requirements

EPA's Sustainability Policy was integrated into the FY 2010 Appropriations Law and then finalized on February 12, 2011. The primary direction of the policy is "...encouraging communities to develop sustainable systems that employ effective utility management practices to build and maintain the level of technical, financial and managerial capacity necessary to ensure long-term sustainability." This statement summarizes measures currently utilized in Oklahoma to encourage system sustainability and green infrastructure as well as provide technical assistance to small and disadvantaged communities. It is these measures which make the CWSRF program successful.

OWRB's Review of System Capacity

OWRB has current procedures in place to determine an entity's financial and managerial capability.

Loan Application Phase

OWRB financial staff performs a financial analysis of each entity's loan application to ensure adequate financial and accounting data, legal documents, contracts, proposals, and other applicable records and documents have been submitted to facilitate the required financial credit analysis.

A borrower must meet our minimum debt coverage requirement of 1.25 times. If an Entity does not meet this requirement, we notify them and request that they raise rates, pledge additional revenues, and/or decrease expenses to meet the 1.25 times debt coverage. In order to ensure the perpetuity of the SRF fund, a loan will not be recommended for SRF approval until the Entity meets OWRB's debt coverage requirement.

All projects considered for funding are also technically reviewed by taking into account all alternatives considered, including advantages and disadvantages and cost effective analysis of each, as well as the water and energy efficiency of the proposed project. Additionally, the project design is reviewed to ensure that it considers the entire system or area, and selects the best practice to meet the objectives or goals of the project.

Programmatic Requirements

If an entity is unable to meet OWRB's SRF requirements through the traditional avenues such as raising rates, staff works with them to determine the foundation of the problem and the most appropriate way to assist them in meeting their infrastructure needs. Questions assessed include: Is the selected alternative appropriate to address the problem? Can the cost of the proposed project be reduced through value engineering? Are there other funding sources that may be available to the entity in conjunction with or as an alternative to SRF funding? The entity may also be invited to attend a Funding Agency Coordinating Team meeting with all of the potential governmental infrastructure funding groups in Oklahoma.

As part of the Oklahoma Comprehensive Water Plan, OWRB is finalizing the Wastewater Infrastructure Planning Guide. This easy to use document is designed to assist Entities in developing detailed strategies to meet their long term water and wastewater infrastructure needs and therefore become more sustainable. The Planning Guide should be available by November 2012 at which time OWRB staff will be holding meetings to promoting the Planning Guide.

Loan Monitoring Phase

After loan approval and closing, OWRB collects and reviews a variety of monthly and annual documents from the entity to ensure that they are meeting debt coverage and are compliance with all loan covenants.

Additionally, property, liability, workers compensation, and fidelity bond insurance verifications are received to ensure an Entity is being properly managed and insured. The Entity's water and/or sewer operator's license is submitted to OWRB to ensure that the system is being operated and maintained by a licensed operator. OWRB stays in constant contact with the all borrowers and offers assistance where possible to ensure that our entities are able to meet all loan covenants. If an Entity does not meet all loan covenants, OWRB sends a letter notifying them of the deficiency and give them 30 days to make the necessary changes to meet the requirement.

Green Project Reserve (GPR)

The Appropriations Act states: "Provided, that for fiscal year 2012, to the extent there are sufficient eligible project applications, not less than 10 percent of the funds made available under this title to each State for Clean Water State Revolving Fund capitalization grants shall be used by the State for projects to address green infrastructure, water or energy efficiency improvements or other environmentally innovative activities." Oklahoma is committed to the implementation of sustainable or green infrastructure. Projects that incorporate green infrastructure, water or energy efficiency improvements or other environmentally innovative

practices, water reuse and sustainability will receive bonus points under the CWSRF Integrated Priority Ranking System. OWRB conducts an active solicitation of GPR projects including notification of interest groups and program stakeholders, publication on related websites, and conference/ seminar presentations.

As part of the IUP/PPL placement process, entities submitted a supplemental questionnaire which assisted staff review and determine eligibility. The projects that were determined eligible are shown on the Priority List (Appendix A.) Staff engineers will further consult with each community's project engineer during the planning process to refine and determine the actual expenditures toward green infrastructure elements included on the CWSRF Project Priority List. Additionally, OWRB has developed a checklist which is included as Appendix D which will serve in part as the "business case" for inclusion of project or component of a project in the GPR. Final business cases and a description of categorically eligible projects will be available for public viewing at:

www.owrb.ok.gov/greenreserve

within the quarter in which the loan is made.

Additional Subsidization

The Appropriations Act states "...That not less than 20 percent but not more than 30 percent of the funds made available under this title to each State for Clean Water State Revolving Fund capitalization grants.....shall be used by the State to provide additional subsidy to eligible recipients in the form of forgiveness of principal, negative interest loans, or grants (or any combination of these),... except that for the Clean Water State Revolving Fund capitalization grant appropriation this section shall only apply to the portion that exceed \$1,000,000,000."

Subsidy in the form of Principal Forgiveness will be targeted first to projects eligible under the GPR that are in disadvantaged communities and second to disadvantaged communities as defined through the CWSRF 30 year financing strategy.

As subsidization funds are available, 15% of a project's loan costs may be forgiven up to \$500,000. The remaining project funds will be available in the form of a below market interest rate CWSRF loan. Projects which meet the Additional Subsidization criteria are listed in Appendix A. Please note, however, that the list of projects receiving additional subsidization may change during the funding cycle based on when the project is ready to be taken to the OWRB Board meeting for approval and ultimately construction. The final list of projects which received additional subsidization will be available in the CWSRF Annual Report.

Davis-Bacon Requirements

The Appropriations Act states: "For fiscal year 2012 and each fiscal year thereafter, the requirements of section

513 of the Federal Water Pollution Control Act (33 U.S.C. 1372) shall apply to the construction treatment works carried out in whole or in part with assistance made by a State water pollution control revolving fund...) Davis Bacon compliance procedures are found in the EPA memorandum of November 30, 2009 and further defined via EPA's memoranda of May 20, 2011.

Reporting Requirements

The OWRB will report as required by the capitalization grant on the utilization of funds under the FY 2013 Intended Use Plan. The major reporting vehicle will be the CWSRF Benefits Reporting Database. Reporting will include how the additional subsidies are utilized, use of funds under the GPR, basic data elements and environmental benefits. This information will also be included in the Annual Report for FY 2013.



As subsidization funds are available, 15% of a project's loan costs may be forgiven up to \$500,000.

... Program Goals

Long-term Goals

The CWSRF continues to maintain long-term goals to ensure it assists the State in meeting Clean Water Act and State water quality goals by implementing the 2012 Oklahoma Comprehensive Water Plan and to ensure the long-range integrity of the fund.

- Assist borrowers in complying with the enforceable requirements of the Clean Water Act to reach the goal of eliminating discharge of pollutants into the State's waters.
- Assist in the maintenance, restoration and protection of beneficial uses identified in Oklahoma's Water Quality Standards to provide for the propagation of fish and wildlife and the protection of water and recreational resources in and on waters of the State.
- Assist the State in meeting water quality goals identified in the Continuing Planning Process and Nonpoint Source Management Program to reduce or eliminate water quality threats in Oklahoma's priority watersheds.
- Maintain the fiscal integrity of the fund to ensure it remains viable and self-perpetuating to meet the long-range water quality needs of the State.
- Maintain the perpetuity of the CWSRF through maintaining net assets equal to federal capitalization grants and state matching funds
- Encourage communities to develop sustainable systems that employ effective utility management practices to build and maintain the level of technical, financial and managerial capacity necessary to ensure long-term sustainability.

Short-term Goals

The State will pursue short-term goals in an effort to continually improve the CWSRF program.

- Provide financing to communities listed in this plan that are under NPDES enforcement orders to meet deadlines for municipal compliance in accordance with CWA Section 301(l)(1).
- Provide financing to assist communities in eliminating water pollution problems, improve water quality in the State's waters, and build sewage facilities needed to maintain surface water and groundwater quality standards.
- Work with State/local agencies to identify current gaps in the State's NPS, storm water, green infrastructure and Brownfields funding, identify potential CWSRF-eligible projects, and develop appropriate financing strategies, as necessary.
- Encourage the creative use of technologies as well as restoration activities by providing financing and support for these activities.
- Provide 25% of all CWSRF loans to communities of less than 10,000 population for assistance in building more affordable sewage treatment works or implementing NPS pollution control activities.
- Obtain maximum capitalization of the fund for the State in the shortest time possible.
- Gain approval of FY 2013 CWSRF capitalization grant appropriations and have grant funds awarded within the 2nd quarter of FFY 2013.
- Generate sufficient investment and loan interest earnings to retire revenue bonds.
- Gain EPA approval to reserve transfer authority of an amount equal to 33% of the Drinking Water (DW) SRF capitalization grant between the DWSRF and the CWSRF.
- Complete a revenue bond issue of up to \$100 million to meet funding shortfalls and to provide matching funds for federal capitalization grants.

Clean Water SRF Activities to Be Supported

Allocation of Funds to Eligible Entities

The OWRB utilizes a six-step process to prescribe how available funds will be allocated between eligible wastewater construction or pollution control and refinancing projects, as follows:

1. Identify borrowers that are ready to proceed with projects during FY 2013;
2. Set-aside 25% of all funds for small communities (<10,000 population) that are ready to proceed;
3. Determine the amount of financing needed by borrowers that are ready to proceed;
4. Identify the sources of funds available to provide the requested assistance;
5. Determine if financing requested is consistent with amount of funds available; and
6. Identify those projects from the 5-year Project Priority List, in priority order, for which OWRB will commit available unrestricted funds.

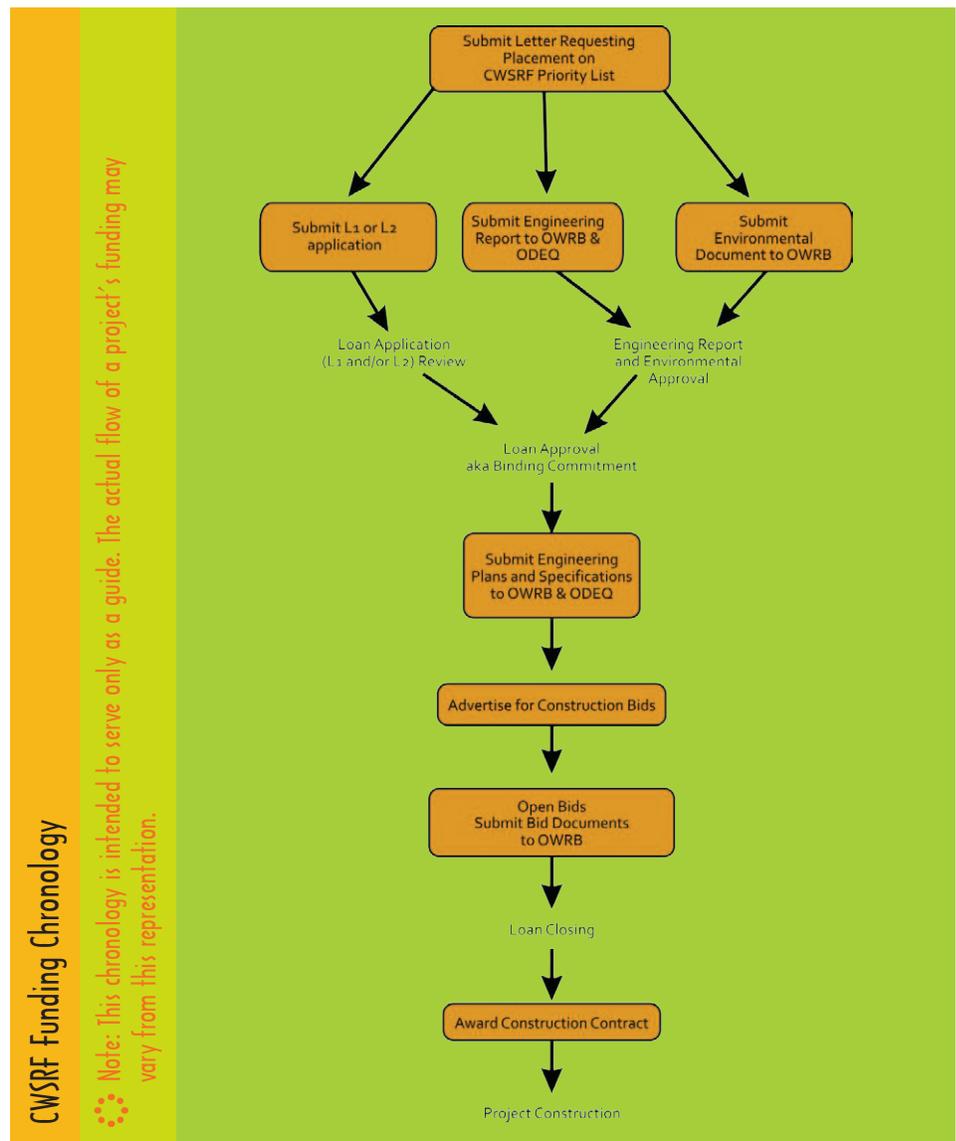
CWSRF Financing Plan, Loan Types, and Terms

The CWSRF may finance up to 100% of project costs for items eligible under program requirements, defined in OWRB rules (OAS 785-50-9), including, but not limited to, engineering planning and design, financial advisors, loan closing, construction, land acquisition (if the land is an "integral" part of the wastewater treatment process), and pollution run off controls through "best management practices".

The CWSRF financing plan provides three major elements: 1) a pool of funds to meet the funding demand, which is well above that anticipated, to be available directly from capitalization grants; 2) below market rate financing and program incentives to help communities meet applicable federal/state pollution control laws; and 3) flexibility and perpetuity of the CWSRF to meet future wastewater needs.

CWSRF Loan — How It Works

The CWSRF loan is used for the construction of wastewater infrastructure improvements, storm water and Brownfield activities, structural or nonstructural NPS projects, green projects and refinancing of eligible existing debt.



Interest Rates and Terms

The interest rate on each loan funded with cash funds reflects the current rate of 60% of Municipal Market Daily (mmd) AAA scale spot rates through maturity plus 70 basis points. The current loan interest rate is calculated approximately 10 days prior to loan closing; however, terms may change for future bond proceeds. A 0.5% administrative fee is charged on the unpaid loan balances. Traditional CWSRF loans have an amortization period of 20 years after construction has been completed, the OWRB has extended 30-year financing for disadvantaged communities.

Availability of funds for Disadvantaged Communities

The OWRB has implemented a policy to provide low-interest loans to small communities and disadvantaged communities with a population of less than 10,000. These loans may be from Capitalization Grants, bond proceeds, or CWSRF 2nd round funds. A "disadvantaged community" under the CWSRF Program is defined as those communities with a median household income that is 85% of the national median household income according to the United States Census Bureau. The extended financing will assist communities that have difficulty making higher debt service payments as long as the financing does not exceed the design life of the project. The CWSRF program continually evaluates the program's capacity to ensure that it does not decrease by more than 10% due to the offering of extended term financing.

Changes in Environmental Review Requirements

OWRB did not propose changes to the Environmental Review Requirements during the FY 2012 Rule change period. Additional revisions may be made during FY 2013 in order to further streamline the process for CWSRF loan recipients.

Administrative Cost of the Clean Water SRF

To administer the program, the OWRB utilizes funds from the banked 4% set-aside from the federal capitalization grant, as authorized by the Clean Water Act Amendments of 1987, along with an annual loan administration fee equal to 0.5% on unpaid loan balances. The annual loan administration fee and the initial application fee, are deposited into the Administrative Fund, held outside the CWSRF, and are used solely for the purpose of administering the CWSRF, including long-term loan servicing and other authorized purposes. The FY 2013 program administrative budget is expected to be \$1.9 million, with an estimated \$800,000 from the 4% set-aside fund from awarded capitalization grants and \$1.1 million from the Administrative Fund.

The OWRB reserves the authority to bank 4% set-asides from the FY 2012 and future capitalization grants.



Capitalization Grants, Assurances and Specific Proposals

The CWSRF Operating Agreement, between the State of Oklahoma and EPA, incorporates required assurances, certifications, and specific requirements of the following Clean Water Act sections:

602(a) Environmental Reviews - The State of Oklahoma will conduct an environmental review, execute, and distribute a determination using the State Environmental Review Process, as specified in Attachment 3 of the Operating Agreement, 40 CFR 35.3140 and program rules.

602(b)(3) Binding Commitments - The State of Oklahoma will enter into binding commitments for 120% of each quarterly federal payment within one year of receipt of that payment.

602(b)(4) Expeditious and Timely Expenditures - The State of Oklahoma will expend all funds in the CWSRF in a timely and expeditious manner.

602(b)(5) First Use for Enforceable Requirements - The State of Oklahoma will fund all National Municipal Policy projects that were not in compliance or were on enforceable schedules. Prior to the award of the first capitalization grant in 1989, the State certified that all projects listed as National Municipal Policy Projects (under enforcement actions) had been previously funded. This requirement was, therefore, considered to be met.

602(b)(6) Compliance with Title II Requirements - The State of Oklahoma met the specific statutory requirements for publicly owned wastewater treatment projects

constructed before October 1, 1994 with funds directly made available by federal capitalization grants.

EPA Order No. 5700.7, Environmental Results under EPA Assistance Agreements - The State of Oklahoma agrees to complete the one-page Environmental Benefits Assessment worksheet, effective January 1, 2005, for all binding commitments (final loan agreements) and include copies of the completed worksheet or a summary of the table of the worksheet in the state's Annual Report.

To implement provisions of the federal capitalization grants the OWRB has promulgated technical review regulations and procedures in accordance with state law. Any future rule changes will be promulgated as a part of the normal rule-making process or emergency rulemaking, as needed.

Loan Application Amount Fee

| | |
|----------------------|-----------|
| \$ 249,999 or less | \$ 100.00 |
| \$ 250,000 - 999,999 | \$ 250.00 |
| \$1,000,000 or more | \$ 500.00 |



Criteria and Method of Distribution of Funds

The following process is used to develop the distribution of funds: (1) analyze the type of community served and financial assistance needed; (2) identify funding sources and spending limits; (3) allocate funds among projects; (4) create a capitalization grant payment schedule used for making timely commitment of funds to projects selected to receive assistance; and (5) establish a disbursement schedule to distribute funds to loan recipients for project costs as they are incurred.

Type of Borrowers Served and Financial Assistance Needed

Under State law eligible borrowers include any duly constituted and existing political subdivision of the State including counties, cities, towns, municipalities, sewer districts, public trusts or authorities, and state agencies. Federal regulators also allow the program to provide third party loans to other borrowers through link deposit investments and pass-through loans with EPA approval. Other states are using this lending option to provide low interest financing to farmers and homeowners who implement recognized best management practices to control non-point pollution threatening "Waters of the State."

Sources and Commitments of Funds

Appendix B-5 identifies sources and commitments of all CWSRF funds. It is anticipated that approximately \$150.4 million will be available during FY 2013.

Approximately \$311.2 million in fund commitments have been identified, leaving approximately \$160.8 million wastewater infrastructure funding needs.

The OWRB anticipates that all new loans will be funded from Revolving Fund, Series 2012 bond proceeds, capitalization grants, loan repayments, interest earnings, or release of reserve funds. Under the OWRB's financing strategy, new loans that are funded from cash reserves may be reimbursed with proceeds from the Series 2012 or future bond issues. In January 2011, OWRB passed a Reimbursement Resolution detailing the loans which would be available to be refunded back to the OWRB from the proceeds of the Series 2012 or future bond issues.

Allocation of Funds Among Projects

Appendix B-1 details the allocation of funds among the various types of projects, along with EPA's project types or "needs categories," treated effluent discharge permit requirements, binding commitment, construction start and initiation of operations dates. Projects scheduled for funding have been or will be reviewed for consistency with Clean Water Act Sections 205(j), 208, 212, 303(e), 319 and 320, as amended. Prior to receiving a loan commitment, documented evidence of this review is placed on file.

Federal Capitalization Grant Payment Schedule

The proposed federal capitalization grant payment schedule (Appendix B-3) is based on the state's projection of binding commitments for selected projects that may be funded with federal funds, and therefore meet the requirements of the federal capitalization grant, including all federal crosscutting laws and authorities. This chart is based on the assumption that the FY 2012 capitalization grant funds will be awarded by EPA during the 1st quarter SFY 2013. The cumulative EPA/ACH System draws of federal payments will not exceed 83.33 percent for selected projects that utilize federal capitalization grant and state matching funds. State match will be dispersed prior to federal funds. Appendix B-5 presents sources and timing of all capital into the CWSRF.

Fund Disbursement Schedule

Fund disbursement schedules are based on projected binding commitment date (OWRB Board approval), construction start/loan closing date (beginning of disbursements), and construction completion (initiation of operation) date included in Appendix B-1. Construction invoices are generally submitted by the borrower for payment beginning approximately one to three months after entering into a binding commitment.

Transfer Authority Between Clean Water and Drinking Water SRFs

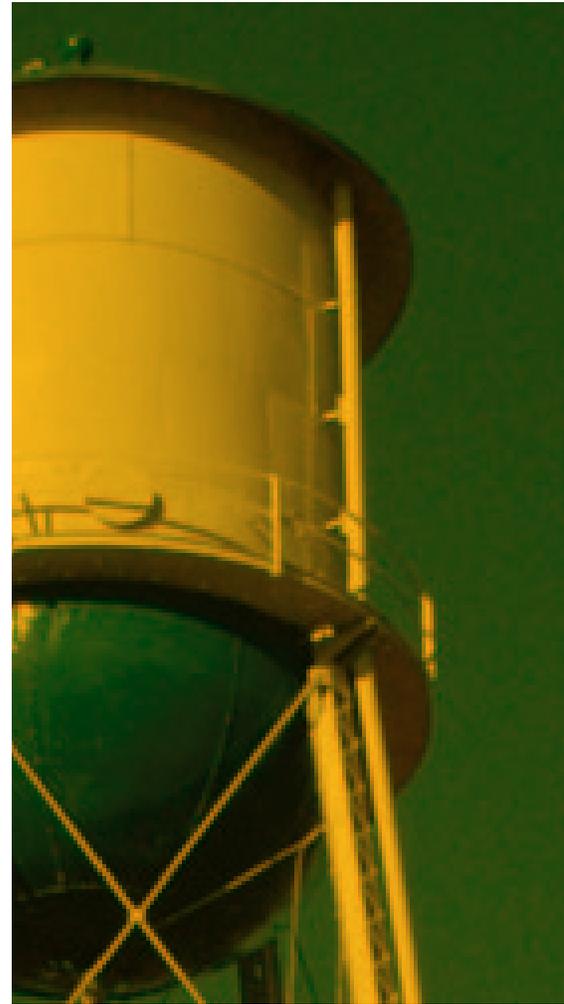
In accordance with the Safe Drinking Water Act (SDWA) SRF funds transfer provisions (Section 302), the state hereby reserves the authority to transfer an amount up to 33 percent of the Drinking Water SRF program capitalization grant[s] to the CWSRF program or an equivalent amount from the CWSRF program to the Drinking Water SRF program.

During FY 2013, Oklahoma may determine it is necessary to transfer funds between the two programs in order to assure adequate capacity to meet funding demands. If the entire unused reserved amount of transfer authority is transferred from the CWSRF to the DWSRF during FY 2013, the following impacts on the CWSRF are expected:

1. The transfer of funds is not anticipated to impair the OWRB's ability to fund all projects on the FY 2013 CWSRF Project Priority List. The transfer of funds will have no impact on set-aside funds;

2. The long-term impact on the CWSRF may result in a reduction of leveraging capacity, meaning at some future date the OWRB may not have adequate program funds to meet the total demand for CWSRF funding, unless funds are transferred back from the DWSRF.

With this IUP, OWRB requests the ability to transfer funds as necessary between the CWSRF and DWSRF program during FY 2013. The approval of the IUP will constitute the approval of the transfer request. OWRB understands that funds transferred between programs during FY 2013 or in future years may not be available for return to the SRF fund of origin if a permanent extension of transfer authority is not granted.



With this IUP, OWRB requests the ability to transfer funds as necessary between the CWSRF and DWSRF program during the FY 2013.

Cross-Collateralization of the CWSRF and DWSRF Revenue Bond Structure

The Master Trust Agreement dated as of October 1, 2003, provides a bond structure that allows for cross-collateralization of the CWSRF and the DWSRF in order to provide additional bond security and ratings enhancement for both programs. With cross-collateralization, excess CWSRF revenues (revenues pledged to repayment of CWSRF bonds over and above what is needed to make actual debt service payments) would be available to cure any DWSRF bond payment default or reserve fund deficiency (Appendix C). Likewise, excess DWSRF revenues would be available to cure any CWSRF bond payment default or reserve fund deficiency. Pursuant to federal regulations, cross-collateralization support cannot extend to debt specifically issued for the purpose of providing state matching funds.

The Master Trust Agreement provides adequate safeguards to ensure that future CWSRF or DWSRF bond issue will comply with this limitation. Revenues pledged to the repayment of CWSRF bonds include: principal and interest payments received on local loans made from proceeds of the bond issue and from other CWSRF program loans; and investment earnings on funds and accounts within the bond indenture, including a reserve fund comprised of CWSRF program assets (cash). The Master Trust Agreement and each series bond indenture require that revenues be pledged sufficient to cover the debt service requirement for each payment date at least 1.1 times. Accordingly, a cash flow surplus is anticipated for each

period absent a borrower default on a local loan. This surplus flows through a Deficiency Fund in the Master Trust Agreement that makes the surplus available to other series of CWSRF and DWSRF bonds.

The order of priority for surplus CWSRF pledged revenues is:

1. Other CWSRF bond issue debt service payment deficiencies;
2. Any DWSRF bond issue debt service payment deficiencies (but not DWSRF state match bonds);
3. Other CWSRF bond issue reserve fund deficiencies;
4. Any DWSRF bond issue reserve fund deficiencies (but not DWSRF unrestricted reserve funds that secure DWSRF state match bonds);

5. To replenish and repay the DWSRF for any surplus DWSRF pledged revenues that were previously utilized to cure a CWSRF bond issue debt service or reserve fund deficiency;
6. All remaining funds are released back to the CWSRF Loan Account.

The order of priority for surplus DWSRF pledged revenues is similarly structured, as such any surplus CWSRF pledged revenues that are utilized to cure a DWSRF bond issue debt service or reserve fund deficiency will ultimately be repaid to the CWSRF through operation of the Master Trust Agreement.



Investment Authority Between Clean Water and Drinking Water SRF

Special permission was received from the EPA, in accordance with the Federal Water Quality Act of 1987, to invest in the DWSRF a portion of the CWSRF.

The possible investment would include funds from second round principal repayments and investment earnings that are currently being held by the Oklahoma State Treasurer. The funds would be replenished with proceeds from a DWSRF bond issue as soon as enough DWSRF loans have originated that in the aggregate total a desired bond issue size. During FY 2013, Oklahoma may request an investment of funds in order to assure adequate capacity to meet funding demands for the DWSRF program.

The funds are restricted by several EPA provisions including:

- The indebtedness may be in the form of a loan or bond purchase and will not exceed three years in duration.
- The amount will not exceed a \$12 million balance at any time.
- The interest rate will be equivalent to the interest that would have been earned had OWRB invested in traditional institutions.
- OWRB will provide results of their DWSRF investment in the Annual Reports.
- EPA will be informed of the total outstanding balance and informed of the terms each time an indebtedness instrument is signed.

OWRB deems it to be in the best interest of Oklahoma to fully meet funding demands of the DWSRF. The traditional method of funding DWSRF loans with undedicated pool long-term bonds is no longer a viable option because of the requirements of the Tax Increase Prevention and Reconciliation Act of 2005.

Therefore, staff requested and was granted special permission from the EPA for this investment in order to provide an efficient and economical interim financing alternative to serve our borrowers.



Public Review and Future IUP Amendments

The OWRB has met the requirements under Section 1452(b)(1) of the SDWA through the public review and comments process. A public meeting to review the FY 2013 CWSRF Draft Intended Use Plan and Project Priority List was held on May 31, 2012 following public notice through a press release issued on April 29, 2012 to print media statewide via The Oklahoman (see Appendix E). The Draft FY 2013 IUP and Project Priority List was uploaded to OWRB's website at www.owrb.ok.gov/cwsrf prior to the public notice. Additionally, notice was distributed to public wastewater authorities currently listed on the IUP, state and federal agencies, and other stakeholders on April 29, 2012 via mail and electronic mail. The public comment period was held open through June 8, 2012. No comments were received.

Future changes in the IUP may be required and shall be made in accordance with procedures provided in 40 CFR Part 35, Subpart K, and the OWRB CWSRF Regulations. Minor revisions to this plan, required for administrative purposes for example, shall be made by the OWRB without public notice and will be reported to EPA in the Annual Report.

Future of Oklahoma's CWSRF Financing

Over the next 50 years the need for wastewater infrastructure (including nonpoint source pollution control projects) in Oklahoma will be significant, projected to be almost \$44 billion (based on 2010 dollars.) With most wastewater projects designed to last approximately 30 years, it is entirely possible that all such infrastructure across the state will have to be replaced at least once within the Oklahoma comprehensive Water Plan's 50-year planning horizon, let alone the needs for upgrades and improvements to meet increasingly stringent federal standards and demands of a growing populations. Existing Oklahoma financing programs including the CWSRF will only be able to meet between 4 and 9% of the demand.

To begin the process of addressing the burgeoning need, OWRB coordinated a team of infrastructure financing professionals to investigate the development of a more robust state funding program to meet the state's projected infrastructure need between now and 2060. The financing professionals recommended that a new "credit enhancement reserve fund" modeled after the existing Credit Enhancement Reserve Program Administered by the Oklahoma Development Finance Authority be created. By utilizing this mechanism, the OWRB will have the

ability to leverage funding to address much of the increased infrastructure financing demand with most likely no additional cost to the State. This measure is currently being considered by the Oklahoma Legislature.

The OWRB continues to be committed to provide Oklahoma communities assistance by offering low interest loans to upgrade wastewater systems. Furthermore, OWRB is committed to public outreach to Oklahoma communities in order to help them make better technical, financial and managerial decisions. We look forward to another outstanding year as we play an integral role in helping meet Oklahoma's growing infrastructure need.



2



Fiscal Year 2013 OCWSRF Program Project Priority List

013

Fundable List

| Name | Project No. | Target B.C. Date | Priority List Amount (\$) | Project Description |
|------------------|----------------|------------------|---------------------------|---|
| Hennessey UA | ORF-13-0009-CW | 09/18/12 | \$1,800,000 | Convert 4 cell flow-through lagoon treatment system to total retention lagoon system with land application (Cat. I) |
| Hydro DA | ORF-12-0001-CW | 08/21/12 | \$2,530,000 | New mechanical WWTP with land application system (Cat. I) |
| Lone Grove W&STA | ORF-04-0011-CW | 08/21/12 | \$12,000,000 | New extended air WWTP, and collection system rehabilitation and replacement (Cat. II, IIIB, IVB) |
| Chouteau PWA | ORF-13-0001-CW | 07/17/12 | \$4,100,000 | Refinance of new SBR WWTP (Cat. I) |
| Ramona PWA | ORF-13-0007-CW | 02/19/13 | \$1,225,000 | New land application system to correct for discharge violations (Cat. I & IIIB) |
| El Reno MA | ORF-13-0003-CW | 06/18/13 | \$16,000,000 | New 2 MGD mechanical WWTP with solar or wind for partial energy for operation of plant. Project will correct for total retention and land application unpermitted discharges and address ODEQ CO# 07-380(A) (B) (Cat. II) |
| Commerce DA | ORF-13-0002-CW | 12/18/12 | \$900,000 | Secondary Lagoon Expansion with New Land Application System to Meet Discharge Requirements as outlined in ODEQ CO#08-299 (Cat. II) |
| Tulsa MUA | ORF-13-0006-CW | 09/18/12 | \$58,115,000 | Sanitary sewer and WWTP rehabilitation and improvements and new interceptor (Cat. I, IIIA, IIIB, IVA, & IVB) |
| Ardmore PWA | ORF-13-0004-CW | 10/16/12 | \$16,000,000 | Sanitary sewer rehabilitation and replacement in multiple subbasins based on SSES findings to address ODEQ CO# 09-202A (Cat. IIIA & IIIB) |
| Owasso PWA | ORF-13-0005-CW | 01/15/13 | \$5,000,000 | Ranch creek interceptor relief line replacement to accommodate for inflow and infiltration (Cat. IIIA & IIIB) |
| Ochelata UA | ORF-13-0008-CW | 02/19/13 | \$1,100,000 | New extended aeration WWTP to address ODEQ CO# 05-024 for deficiencies at the existing partial-mix aeration lagoon treatment facility due to more stringent permit limits(Cat. II) |
| Broken Arrow MA | ORF-12-0012-CW | 09/18/12 | \$4,000,000 | Replacement of existing 27" sanitary sewer interceptor with 36" inch PVC including manholes and appurtenances (Cat. IIIA & IIIB) |
| TOTAL | | | \$122,770,000 | |

AMERICAN RECOVERY AND REINVESTMENT ACT



STATUS

The American Recovery and Reinvestment Act provided a substantial increase in funding for Oklahoma's CWSRF program. The OWRB submitted the initial application and revised FY 2009 IUP for ARRA funding to EPA on February 24, 2009. The OWRB received the ARRA award on April 22, 2009 with the funds obligated to the first ARRA projects in April 2009 with the first loan closing on May 15, 2009. Between April 2009 and January 2010, 34 projects went to bid, closed and were under contract. Oklahoma was one of the first three states in the Nation to meet the ARRA congressional deadlines. In

total, over \$31 million in ARRA funds were leveraged with over \$70 million in loan funds for a total assistance amount of over \$107 million. The ARRA principal forgiveness combined with the subsidized loan funds is expected to save the borrowers over \$74.5 million. As of April 30, 2012, \$28.4 of Oklahoma's \$31 million in CWSRF ARRA funds have been expended with construction contracts complete for 21 of the 34 projects. Projects continuing to draw ARRA funds include Green Infrastructure project which based on their nature take longer to construct and monitor successful implementation.

OVERVIEW

| | |
|---|---------------------|
| Total ARRA Award | \$31,662,100 |
| Available for Infrastructure Improvements | \$30,395,616 |
| Number Infrastructure Projects with Funds Obligated | 34 for \$30,395,616 |
| Number of Entities with Infrastructure Projects under Contract | 34 for \$30,395,616 |
| Leveraged Funds (SRF Funds) Associated with Obligated ARRA Funds | \$76,712,589 |
| Total Funds Obligated to ARRA Projects (ARRA and SRF): | \$107,108,205 |
| Savings to Oklahoma Communities Based on ARRA Funds | \$51,502,332 |
| Total Savings to Oklahoma Communities based on Leveraged funds (ARRA and SRF) | \$74,516,108 |
| ARRA Funds Expended as of April 30, 2012 | \$28,415,055 |
| Number of Projects Addressing Issues in "Disadvantaged" Communities | 27 |

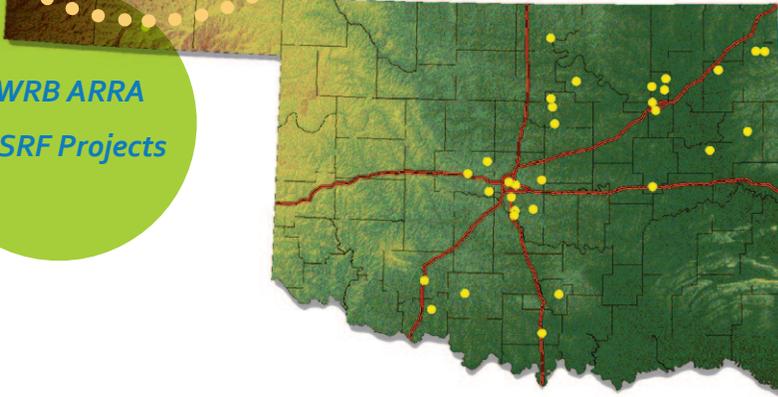


Ponca Before

Ponca After

2012

OWRB ARRA
CWSRF Projects



OWRB ARRA Project Types:

- New wastewater treatment plants
- Wastewater treatment plant upgrades and rehabilitation
- Sewer line replacement
- New collection lines
- Stormwater detention basins
- Riparian restoration to improve water quality (Green project)
- "Green" roofs for energy savings and water quality improvement (Green project)

Adair Before
Adair After



Walters Before

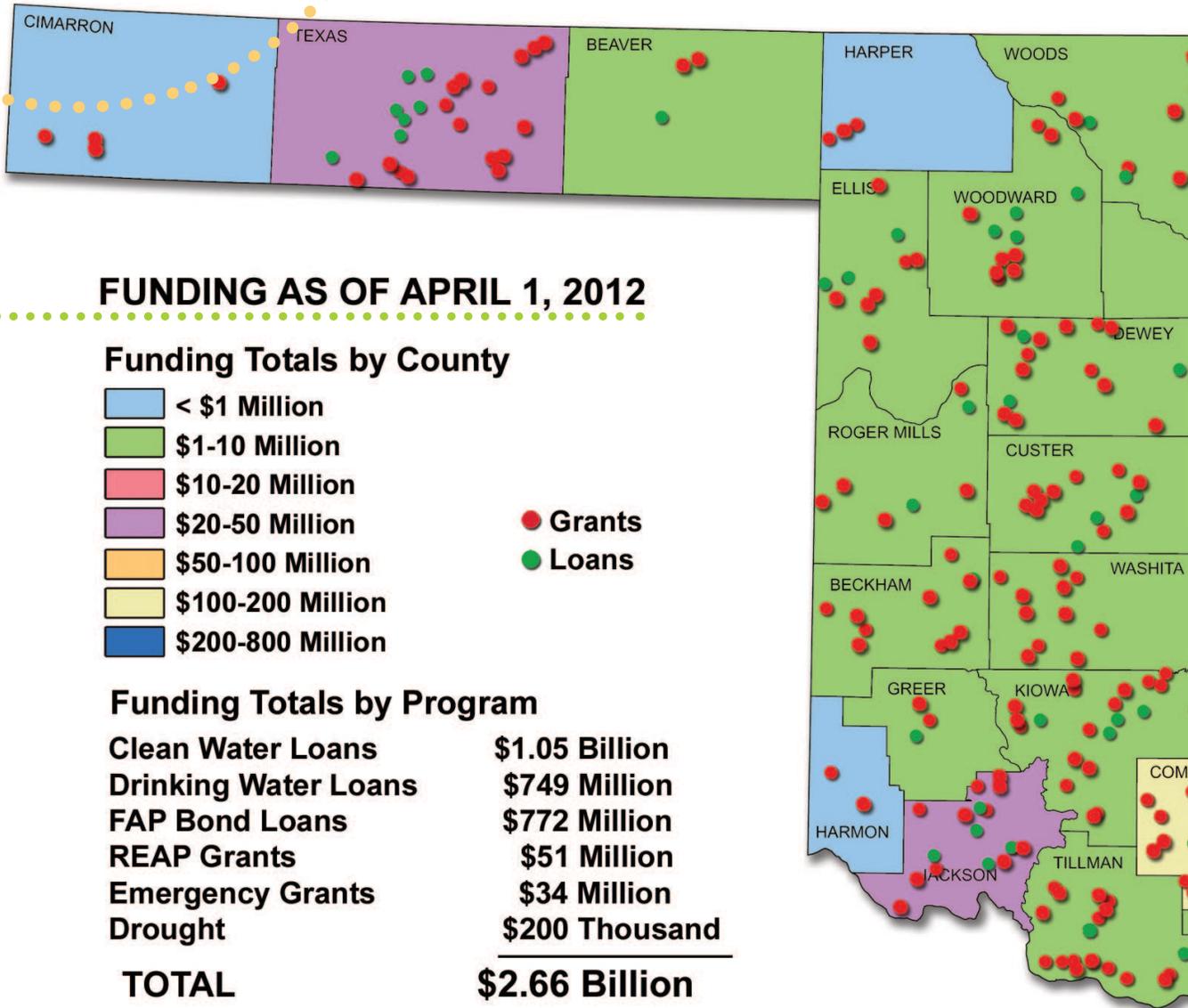
Walters After



2012

Financial Assistance Loan and Grant

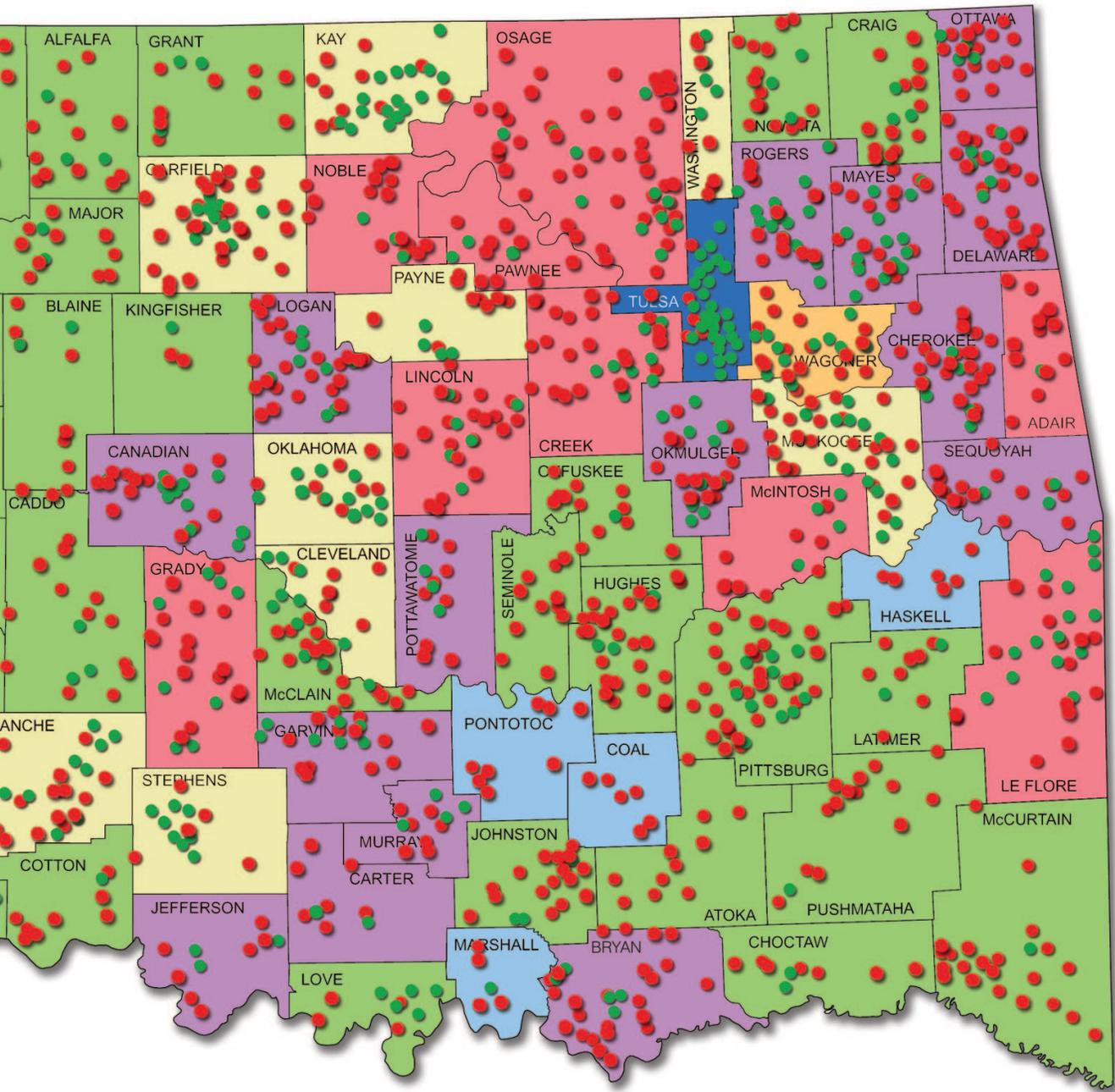
Loans and Grants approved



Assistance Program

Recipient Status

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