ARIZONA STATE HOUSE OF REPRESENTATIVES
RESEARCH STAFF

TO: JOINT LEGISLATIVE AUDIT COMMITTEE

DATE: January 26, 2022

SUBJECT: Sunset Review of the Water Infrastructure Finance Authority

Attached is the final report of the sunset review of the Water Infrastructure Finance Authority which was conducted by a joint meeting of the House Committee on Natural Resources, Energy & Water and Senate Committee on Natural Resources, Energy & Water.

This report has been distributed to the following individuals and agencies:

Governor of the State of Arizona
The Honorable Douglas A. Ducey

President of the Senate
Senator Karen Fann

Speaker of the House of Representatives
Representative Russell Bowers

Representative Gail Griffin, Chair
Representative Judy Burges, Vice-Chair
Representative Morgan Abraham
Representative Andrés Cano
Representative Frank Carroll
Representative Andrea Dalessandro
Representative Tim Dunn
Representative Mark Finchem
Representative Teresa Martinez
Representative Christopher Mathis
Representative Jacqueline Parker
Representative Marcelino Quiñonez

Senate Members
Senator Sine Kerr, Chair
Senator T.J. Shope, Vice-Chair
Senator David Gowan
Senator Rick Gray
Senator Juan Mendez
Senator Lisa Otondo
Senator Wendy Rogers
Senator Stephanie Stahl Hamilton
Senator Victoria Steele

Water Infrastructure Finance Authority
Arizona State Library, Archives & Public Records
House Republican Staff
House Democratic Staff
House Research Staff

Senate Resource Center
Senate Republican Staff
Senate Democratic Staff
Senate Research Staff
Office of the Auditor General
House of Representatives
Natural Resources, Energy & Water Committee of Reference

Senate Natural Resources, Energy & Water Committee of Reference

Sunset Review of the
Water Infrastructure Finance Authority

Final Report
January 2022

House Members
Representative Gail Griffin, Chair
Representative Judy Burges, Vice-Chair
Representative Morgan Abraham
Representative Andrés Cano
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Senator Wendy Rogers
Senator Stephanie Stahl Hamilton
Senator Victoria Steele
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   a. Minutes and reference materials from January 5, 2022, House Natural Resources, Energy & Water and Senate Natural Resources, Energy & Water Committee of Reference
Background
Pursuant to A.R.S. § 41-2953, the Joint Legislative Audit Committee assigned the sunset review of the Water Infrastructure Finance Authority (WIFA) to the House Natural Resources, Energy & Water and Senate Natural Resources, Energy & Water Committees of Reference for review.

WIFA provides financial assistances to political subdivisions, tribal communities, and other eligible entities for basic water infrastructure through several mechanisms.

- The Clean Water and Safe Drinking Water State Revolving Funds provide financial assistance for the construction, rehabilitation, and improvement of drinking water, wastewater, wastewater reclamation, nonpoint source projects, and other water quality facility projects. This assistance can take the form of below-market rate loans, forgivable principal, and technical assistance (A.R.S. § 49-1221 et seq.).
- WIFA issues water quality revenue bonds for water infrastructure project financial assistance and state matching monies as required by federal clean water and drinking water capitalization grants (A.R.S. § 49-1261 et seq.).
- WIFA uses federal capitalization grants to provide financial assistance through the Clean Water and Safe Drinking Water State Revolving Funds (A.R.S. §§ 49-1223 and 49-1243).
- WIFA administers the Water Supply Development Revolving Fund, which provides financial assistance to water providers for water supply development projects (A.R.S. § 49-1271 et seq.).

WIFA is within the Office of Economic Opportunity and is overseen by the Arizona Finance Authority (AFA) Board. This board consists of five members who are appointed by the Governor (A.R.S. §§ 41-5352, 41-5353, and 49-1202). Additionally, the WIFA Advisory Board provides advice to the AFA on its review, evaluation, and recommendation for proposed financial approval. This advisory board consists of several state agency representations and seven members who represent Arizona public water systems, sanitary districts, or communities (A.R.S. § 41-5356(A)(5)).
WIFA will terminate on July 1, 2022, unless legislation is enacted for its continuation (A.R.S. § 41-3022.19).

**Summary of Committee Activity**
The House Natural Resources, Energy & Water and Senate Natural Resources, Energy & Water Committees of Reference jointly met on January 5, 2022, to review the performance audit and sunset review conducted by the Auditor General, evaluate the WIFA's response to the sunset factors and receive public testimony.

**Committee Recommendation**
The House Natural Resources, Energy & Water and Senate Natural Resources, Energy & Water Committees of Reference jointly recommended that WIFA be continued for eight years until July 1, 2030.
Appendix A:

August 17, 2021

Representative Gail Griffin
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Subject: WIFA Sunset Audit Response

Dear Representative Griffin,

The Water Infrastructure Finance Authority of Arizona (WIFA) has received the Committee on Natural Resources, Energy, & Water’s request for a written response to the required factors dated June 17, 2021 and is pleased to submit the following for review by the committee.

1. An identification of the problem or the needs that the agency is intended to address.

The Legislature established the Water Infrastructure Finance Authority of Arizona in 1997 as a separate legal entity of the state, authorized to manage and administer the Clean Water and Drinking Water State Revolving Funds (CWSRF/DWSRF). The revolving funds provide financial assistance related to the construction, rehabilitation, and improvement of drinking water, wastewater, wastewater reclamation, and other water quality facility projects. In 2016, Arizona House Bill 2666 incorporated WIFA into the newly created Arizona Finance Authority (AFA).

WIFA’s mission is “to maintain and improve water quality in Arizona by providing financial assistance and technical assistance for basic water infrastructure.” In support of its mission, WIFA provides financial assistance in the form of below-market-rate loans, forgivable principal, and technical assistance to Arizona’s communities through three main programs. WIFA provides this financial and technical assistance by applying for and accepting federal grant monies, issuing revenue bonds, and reinvesting principal, interest, and fee revenue generated by project loan repayments.

2. A statement, to the extent practicable, in quantitative and qualitative terms, of the objectives of such agency and its anticipated accomplishments.

WIFA has effectively met its overall objective and purpose. Since its creation, WIFA has received approximately $743 million in federal grants and has, through prudent leverage and re-investment, been able to fund over 514 projects for roughly $2.6 billion of water infrastructure for the citizens of Arizona. WIFA can, and has, provided financial assistance to Arizona’s largest and smallest communities. The following are some of the highlights of what WIFA has been able to offer:

- Largest single loan - $108,582,332
- Largest multi-loan project - $378,007,042
- Smallest loan - $2,968
3. An identification of any other agencies having similar, conflicting or duplicate objectives, and an explanation of the manner in which the agency avoids duplication or conflict with other such agencies.

In Arizona, as in other states, private banks and other financial service providers offer loans and access to the capital markets to provide funding for water and wastewater infrastructure projects. The funding provided by private enterprise is offered at market rates and is not subsidized (discounted). Further, not all of WIFA's borrowers would be considered favorably for credit by private enterprise, namely small and disadvantaged communities. Several Federal agencies have the authority to provide loans and grants for wastewater and drinking water infrastructure improvements, but it is not their core mission (North American Development Bank (NADBank), Border Environment Cooperation Commission (BECC), and USDA-Rural Development).

WIFA avoids duplication by the simple fact that the federal SRF grant programs require that each state have an administrator and provide a match for the funding. WIFA accomplishes both objectives and has not required a general fund appropriation for the SRF programs in many years. While there may be other financial options available to borrowers, none are as affordable or accessible to small, rural, and disadvantaged communities. Further, just this year the legislature appropriated funds to capitalize the Water Supply Development Fund, which WIFA also administers for the state. WIFA provides the state with a valuable set of organizational capabilities; loan origination, servicing, and portfolio management that other agencies do not have.

4. An assessment of the consequences of eliminating the agency or of consolidating it with another agency.

Terminating WIFA could harm the public's health, safety, and welfare since WIFA provides valuable, low-cost financial assistance to Arizona's communities for drinking water and wastewater infrastructure improvement projects. Without the financial and technical assistance available through WIFA, many wastewater and drinking water systems would otherwise find it difficult, if not impossible, to obtain funding to achieve compliance or correct problems associated with water quality standards. If WIFA were terminated and its functions not transferred to another entity, this low-cost financial assistance would not be available to Arizona's communities and water systems, which could result in the public paying more for drinking water and wastewater infrastructure improvement projects. Additionally, some communities may be unable to finance projects on their own, and the people could suffer from the potential decline in water quality. Customers of the wastewater facility, drinking water facility or water provider receive the ultimate benefit from improved water quality and having an adequate water supply.

If the state were to terminate WIFA, it would have to address certain statutory provisions. Specifically, federal laws require each state to designate an administrator for the Clean Water and Drinking Water
State Revolving Funds but do not specify a particular type of agency or entity. Therefore, the Legislature could designate another state entity to assume WIFA’s responsibilities if WIFA were terminated. However, provisions outlined in A.R.S. §41-3022.19 specify that the Legislature cannot end WIFA if it has a contractual obligation with any federal agency or outstanding debts. WIFA currently has a written agreement with the EPA for the administration of the DWSRF and CWSRF programs. Additionally, WIFA has approximately $261,615,000 in outstanding bond debt as of June 30, 2021.

If the Legislature terminated WIFA, provisions would have to be made to transfer the operating agreement with the EPA to another state entity, pay or retire WIFA's bond debt, and identify another entity to service 280+ active loans for over $850 million of which 60+ are active construction projects currently totaling over $192 million in remaining commitments.

5. **The extent to which the agency potentially creates unexpected negative consequences that might require additional review by the committee of reference, including increasing the price of goods, affecting the availability of services, limiting the abilities of individuals and businesses to operate efficiently and increasing the cost of government.**

   Leadership does not believe the agency’s statutory authority, or the fulfilment of its purpose have the potential to create unexpected negative consequences that might require additional review by the committee of reference.

6. **The ability of the agency to timely investigate and resolve complaints within its jurisdiction.**

   WIFA does not have regulatory authority or jurisdiction over any activities or professions and as such does not receive, investigate, or resolve complaints regarding authority within any jurisdiction.

Thank you for your time and thoughtful review of WIFA’s programs and accomplishments. If you have any further questions, please contact me at (602) 364-1314 and I will be happy to discuss any aspect of our work. It is our great honor to serve the people of Arizona and we look forward to meeting with the Committee.

Sincerely,

Daniel A. Dialessi
Executive Director
Members Present:
Senator, Kerr, Co-Chair
Senator Gowan
Senator Gray
Senator Mendez*
Senator Otondo*
Senator Rogers*
Senator Shope
Senator Stahl Hamilton*
Senator Steele*
Representative Griffin, Co-Chair
Representative Burges, Vice Chair
Representative Abraham
Representative Cano
Representative Carroll
Representative Dalessandro*
Representative Dunn
Representative Martinez
Representative Mathis
Representative Parker
Representative Quinonez

*Participated remotely via a teleconference platform.

Members Excused:
Representative Finchem

Staff:
Rachel Caldwell, Senate Research Analyst
Paul Bergelin, House Research Analyst
Ahjahna Graham, House Research Analyst

Co-Chair Griffin called the meeting to order at 1:05 p.m. and attendance was noted.

INTRODUCTION

Representative Griffin asked for the members to introduce themselves.

SUNSET REVIEW OF THE ARIZONA GAME AND FISH DEPARTMENT

Presentation by the Arizona Game and Fish Department

Kurt Davis, Commission Chairman, Arizona Game and Fish Commission, made opening comments and introduced Director Ty Gray.
Ty Gray, Director, Arizona Game and Fish Department, distributed and explained a PowerPoint presentation entitled "Arizona Game and Fish Department" (Attachment A).

Mr. Gray answered questions posed by the Committee.

**Public Testimony**

No public testimony took place.

**Discussion and Recommendation**

Representative Griffin requested a motion on the recommendation.

Senator Kerr moved that the House Natural Resources, Energy & Water Committee of Reference and the Senate Natural Resources, Energy & Water Committee of Reference recommend that the Arizona Game and Fish Department, Arizona Game and Fish Commission, and Director of the Arizona Game and Fish Department be continued for eight years.

The motion CARRIED by a voice vote.

**SUNSET REVIEW OF THE ARIZONA WATER INFRASTRUCTURE FINANCE AUTHORITY**

**Presentation by the Arizona Office of the Auditor General**

Adam Tillard, Audit Manager, Office of the Auditor General, distributed and explained a PowerPoint presentation entitled "Water Infrastructure Finance Authority of Arizona" (Attachment B).

**Presentation by the Arizona Water Infrastructure Finance Authority**

Daniel Dialessi, CFA and Executive Director, Water Infrastructure Finance Authority (WIFA) distributed and explained a PowerPoint presentation entitled "Water Infrastructure Finance Authority of Arizona" (Attachment C).

Mr. Dialessi answered questions posed by the Committee.

**Public Testimony**

John Mendibles, Executive Director, League of Veterans, spoke about renewable energy and Arizona water resources.

**Discussion and Recommendation**

Representative Griffin requested a motion on the recommendation.
Senator Kerr moved that the House Natural Resources, Energy & Water Committee of Reference and the Senate Natural Resources, Energy & Water Committee of Reference recommend that the Water Infrastructure Finance Authority be continued for eight years.

The motion CARRIED by a voice vote.

SUNSET REVIEW OF THE WATER QUALITY APPEALS BOARD

Presentation by the Water Quality Appeals Board

Fred Brinkler, Board Member, Water Quality Appeals Board, participated remotely via a teleconference platform, explained the Water Quality Appeals Board, the duties and the appeals process.

Public Testimony

No public testimony took place.

Discussion and Recommendation

Representative Griffin requested a motion on the recommendation.

Senator Kerr moved that the House Natural Resources, Energy & Water Committee of Reference and the Senate Natural Resources, Energy & Water Committee of Reference recommend that the Water Quality Appeals Board be continued for eight years.

The motion CARRIED by a voice vote.

SUNSET REVIEW OF THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

Presentation by the Arizona Office of the Auditor General

Marc Owen, Performance Audit Manager, Office of the Auditor General, distributed and explained a PowerPoint presentation entitled "Arizona Department of Environmental Quality" (Attachment D).

Mr. Owen answered questions posed by the Committee.

Presentation by the Arizona Department of Environmental Quality

Misael Cabrera, Director, Arizona Department of Environmental Quality, responded and explained information presented in the Auditor General's report and the advancements in the department.
Mr. Cabrera answered questions posed by the Committee.

**Public Testimony**

*Sandy Bahr, Director, Sierra Club, Grand Canyon Chapter,* expressed concerns about the Department of Environmental Quality and the findings of the Auditor General's report.

**Discussion and Recommendation**

Representative Griffin requested a motion on the recommendation.

*Senator Kerr moved that the House Natural Resources, Energy & Water Committee of Reference and the Senate Natural Resources, Energy & Water Committee of Reference recommend that the Arizona Department of Environmental Quality be continued for eight years.*

*Senator Mendez offered a substitute motion that the Arizona Department of Environmental Quality be continued for two years. The motion FAILED by show of hands.*

*Senator Kerr's original motion CARRIED by a voice vote.*

Representative Griffin offered closing comments.

Attached are forms noting the individuals who submitted a Speaker slip on the agenda items (Attachment E).

There being no further business, the meeting was adjourned at 3:52 p.m.

Respectfully submitted,

Tracey Gardner
Committee Secretary

*(Audio recordings and attachments are on file in the Secretary of the Senate's Office/Resource Center, Room 115. Audio archives are available at [http://www.azleg.gov](http://www.azleg.gov]*)
Arizona House & Senate
Natural Resources, Energy, & Water
Committee of Reference

January 5th, 2022

Presented by:
Daniel A. Dialessi, CFA | WIFA Executive Director
WIFA’s Programs

→ Clean Water SRF
   Loans and Technical Assistance to Political Subdivisions

→ Drinking Water SRF
   Loans and Technical Assistance to Public Water Systems

→ Water Supply Development Fund
   Loans and Technical Assistance to Water Providers
Types of Assistance

Financial Assistance - Loans

- Discounted Interest Rates
- Flexible terms up to 30 years
- Forgivable Principal

Technical Assistance

- Planning and Design
- Compliance with Federal Requirements
- Services delivered by - WIFA Staff and/or Contract Professionals
- Combined with Financial Assistance
WIFA’s Numbers

→ $2,680,345,600
   Financial Assistance since 1989

→ 292
   Active loans/projects across Arizona

→ $106 Million +
   In forgivable principal since 2009

→ 212 Borrowers
   Throughout all of Arizona’s Counties

→ AAA Credit Rating
   Moody’s and Fitch
WIFA Projects

White Mountain Apache Housing Authority – $500,000 Apache Pine Phase I Project

City of Flagstaff – $6M Flagstaff Watershed Protection Project

Town of Queen Creek – $8.3M One-time Back Charges Associated with NIA Allocation

City of Buckeye – $108M Broadway Road Water Campus

Town of Marana – $16M Picture Rocks Water Treatment Campus

San Simon DWID - $250,000 Fluoride Treatment System

City of Safford – $3.2M for a Reclaimed Water Pipeline

City of Coolidge – $500,000 WWTP Solar Upgrades
Key recommendation

The Legislature should:

- Consider aligning WIFA’s and the OEO’s sunset dates.
Thank You

Questions?

www.azwifa.gov
Facebook.com/WIFAAZ
Twitter.com/WIFAfunding
New Programs / SFY 2022 Appropriations

- Water Project Assistance Grants – All applications received and under review for award in February
- Water Supply Development Fund – Startup is Complete and Open for Applications

**Sec. 97. WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA 2021-22**

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water supply development revolving fund deposit</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Small drinking water systems fund deposit</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Water projects assistance grants</td>
<td>$5,000,000*</td>
</tr>
<tr>
<td><strong>Total appropriation – water infrastructure finance authority of Arizona</strong></td>
<td><strong>$12,000,000</strong></td>
</tr>
</tbody>
</table>

**Sec. 115. Supplemental appropriation: water supply development revolving fund; fiscal year 2020-2021**

- The sum of $40,000,000 appropriated from the state general fund in fiscal year 2020-2021 to the water supply development revolving fund established by section 49-1271, Arizona Revised Statutes. These monies shall be allocated for projects:
  1. That are located throughout all regions of this state and outside of active management areas.
  2. In amounts of not more than $1,000,000 per project.
Bipartisan Infrastructure Law

- Reauthorized the SRF Programs
- $140 million first year (including $109 million of additional)
- $755 million overall for next five years ($601 million is additional)
- Expect to apply 1st quarter SFY 2023 with award 2nd quarter SFY 2023
Madam Chair, Members of the Committee:

My name is Adam Tillard, and I am with the Arizona Auditor General. Today I will be presenting key information from our sunset review of the Water Infrastructure Finance Authority of Arizona (WIFA).

We issued our report in September 2021. Although I am not going to cover all the information in the report today, I am available at the end of my presentation to answer any questions you have about information in the report.
WIFA responsibilities

- Provide low-cost financial assistance for basic water infrastructure
- Administer Clean Water and Drinking Water State Revolving Funds (Revolving Funds)

WIFA’s primary responsibility is to provide low-cost financial assistance to communities across Arizona for basic clean water and drinking water infrastructure.

It does this through administration of the Clean Water and Drinking Water State Revolving Funds.
Monies for Revolving Funds

• Federal grants from the U.S. Environmental Protection Agency

• Bond proceeds

Monies for the Revolving Funds come from 2 primary sources:
1. Federal grants through the U.S. Environmental Protection Agency
2. Bond proceeds

WIFA does not receive State appropriations for the Revolving Funds.
Since 1989 and as of December 31, 2020, WIFA has provided $2.6 billion in financial assistance for water infrastructure projects across the State, including $1.5 billion for clean water projects and $1.1 billion for drinking water projects.

We found that WIFA had policies and procedures in place and met its objective of providing low-cost financial assistance.
WIFA has issued bonds totaling $2 billion

Outstanding bond debt: $261.1 million, as of December 31, 2020

WIFA is statutorily authorized to issue Water Quality Bonds, and since 1989, has issued $2 billion in bonds.

As of December 31, 2020, WIFA’s outstanding bond debt was $261.1 million.
We did identify one area where the Legislature should consider making a statutory change, specifically to consider aligning the sunset dates of WIFA and the Office of Economic Opportunity (OEO).

This graphic presents the organizational structure as it pertains to WIFA. WIFA is governed by the Arizona Finance Authority Board, which is statutorily part of the OEO. WIFA and the OEO have separate sunset dates: WIFA’s sunset date is July 1, 2022, and the OEO’s sunset date is July 1, 2023. We are currently conducting OEO’s sunset review.
• Legislature should consider aligning WIFA’s and the OEO’s sunset dates

Because the sunset dates are not aligned, WIFA’s sunset review does not include a review of the Arizona Finance Authority Board’s powers and duties, which includes the final approval of WIFA activities. Therefore, we recommended that the Legislature consider aligning WIFA’s and the OEO’s sunset dates.
Madam Chair, Members of the Committee, that concludes my presentation. I am available to answer any questions you have about our report.