

Senate Engrossed House Bill

forgivable financial assistance; cesspool remediation

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

HOUSE BILL 2096

AN ACT

AMENDING SECTIONS 11-671, 49-1201, 49-1203, 49-1204, 49-1223 AND 49-1243,
ARIZONA REVISED STATUTES; RELATING TO THE WATER INFRASTRUCTURE FINANCE
AUTHORITY OF ARIZONA.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 11-671, Arizona Revised Statutes, is amended to
3 read:

4 11-671. Financing wastewater treatment facilities and
5 nonpoint source projects; financial assistance loan
6 repayment agreements; financial assistance;
7 definitions

8 A. Notwithstanding any other law, a county **THAT IS** authorized to
9 operate a sewage system pursuant to section 11-264 **OR THAT IDENTIFIES AND**
10 **REMIEDIATES A CESSPOOL PURSUANT TO SUBSECTION G OF THIS SECTION** may
11 construct or improve a wastewater treatment facility or nonpoint source
12 project with monies borrowed from or financial assistance provided by the
13 water infrastructure finance authority of Arizona.

14 B. To repay financial assistance from the water infrastructure
15 finance authority of Arizona, a county may enter into a financial
16 assistance loan repayment agreement with the authority. A financial
17 assistance loan repayment agreement is payable from any revenues otherwise
18 authorized by law to be used to pay long-term obligations. If revenue
19 from a property tax assessment is the designated source of repayment under
20 the agreement, the property tax assessed and levied is a secondary
21 property tax levy for **THE** purposes of article IX, Constitution of Arizona.

22 C. The county board of supervisors shall submit the question of
23 entering and performing a financial assistance loan repayment agreement to
24 the qualified electors voting at a regular or special general election in
25 the county, except that if revenue from a secondary property tax levy is
26 the designated source of repayment or if the project is constructed with
27 an improvement district, the question shall be submitted to the qualified
28 electors at an election held on the first Tuesday following the first
29 Monday in November. Otherwise, an election is not required if voter
30 approval has previously been obtained for substantially the same project
31 with another funding source. If a majority of the qualified electors
32 voting on the question:

33 1. Approves, the board of supervisors may execute, deliver and
34 perform the financial assistance loan repayment agreement.

35 2. Disapproves, the board of supervisors shall not execute a
36 financial assistance loan repayment agreement.

37 D. Payments made pursuant to a financial assistance loan repayment
38 agreement are not subject to section 42-17106.

39 E. A financial assistance loan repayment agreement entered into
40 pursuant to this section shall contain the covenants and conditions
41 pertaining to the construction of a wastewater treatment facility or
42 nonpoint source project and repayment of the loan as the water
43 infrastructure finance authority of Arizona deems proper. Financial
44 assistance loan repayment agreements may provide for the payment of
45 interest on the unpaid principal balance of such agreement at the rates

1 established in the agreement. The agreement may also provide for payment
 2 of the county's proportionate share of the expenses of administering the
 3 clean water revolving fund established by section 49-1221 and may provide
 4 that the county pay financing and loan administration fees approved by the
 5 water infrastructure finance authority OF ARIZONA. These costs may be
 6 included in the levy or assessment amounts pledged to repay the financial
 7 assistance. Counties are bound by and shall fully perform the FINANCIAL
 8 ASSISTANCE loan repayment agreements, and the agreements are incontestable
 9 after the loan is funded by the water infrastructure finance authority of
 10 Arizona. The county shall also agree to pay the authority's costs in
 11 issuing bonds or otherwise borrowing to fund a loan.

12 F. A financial assistance loan repayment agreement under this
 13 section does not create a debt of the county, and the authority shall not
 14 require that payment of a financial assistance loan agreement be made from
 15 other than those sources ~~permitted~~ ALLOWED in subsection B of this
 16 section.

17 G. A COUNTY MAY APPLY FOR AND RECEIVE FINANCIAL ASSISTANCE,
 18 INCLUDING FORGIVABLE PRINCIPAL, FROM THE WATER INFRASTRUCTURE FINANCE
 19 AUTHORITY OF ARIZONA FOR THE REMEDIATION, CLOSURE OR REPLACEMENT OF
 20 CESSPOOLS THAT PRESENT A DEMONSTRATED RISK TO SURFACE WATER, GROUNDWATER
 21 OR PUBLIC HEALTH. THE WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
 22 MAY AWARD FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL, USING
 23 MONIES FROM THE CLEAN WATER REVOLVING FUND ESTABLISHED BY SECTION 49-1221
 24 OR THE DRINKING WATER REVOLVING FUND ESTABLISHED BY SECTION 49-1241.
 25 FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL, RECEIVED PURSUANT TO
 26 THIS SUBSECTION MAY BE USED ONLY FOR PROJECTS THAT ELIMINATE EXISTING
 27 CESSPOOLS AND REPLACE THE EXISTING CESSPOOL WITH AN ON-SITE WASTEWATER
 28 SYSTEM THAT IS APPROVED BY THE DEPARTMENT OF ENVIRONMENTAL QUALITY OR THAT
 29 HAS A CONNECTION TO A WASTEWATER TREATMENT FACILITY. A COUNTY THAT
 30 RECEIVES FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL, PURSUANT TO
 31 THIS SUBSECTION SHALL PRIORITIZE THE REMEDIATION, CLOSURE OR REPLACEMENT
 32 OF CESSPOOLS THAT ARE LOCATED WITHIN AREAS OF KNOWN GROUNDWATER
 33 VULNERABILITY, THAT ARE NEAR SURFACE WATERS OR THAT ARE IN COMMUNITIES
 34 WITH LOW-TO-MODERATE INCOME HOUSEHOLDS. A COUNTY MAY ESTABLISH
 35 INCOME-BASED ELIGIBILITY CRITERIA FOR OWNER-OCCUPIED PROPERTIES BUT MAY
 36 NOT APPLY MEANS TESTING TO THE REMEDIATION OF ABANDONED OR UNINHABITABLE
 37 PROPERTIES. A COUNTY SHALL COORDINATE WITH THE DEPARTMENT OF
 38 ENVIRONMENTAL QUALITY TO ENSURE THAT EACH PROJECT THAT HAS RECEIVED
 39 FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL, PURSUANT TO THIS
 40 SUBSECTION IS CONSISTENT WITH THE COUNTY'S WATER QUALITY MANAGEMENT PLAN
 41 OR THE DEPARTMENT OF ENVIRONMENT QUALITY'S NONPOINT SOURCE MANAGEMENT PLAN
 42 DEVELOPED PURSUANT TO SECTION 319 OF THE CLEAN WATER ACT. A COUNTY THAT
 43 RECEIVES FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL, PURSUANT TO
 44 THIS SUBSECTION IS NOT REQUIRED TO OBTAIN VOTER APPROVAL TO ACCEPT THE
 45 FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL.

1 ~~G.~~ H. A county may employ attorneys, accountants, financial
2 consultants and ~~such~~ other experts in their field as deemed necessary to
3 perform services with respect to the financial assistance loan repayment
4 agreement.

5 ~~H.~~ I. This section is supplemental and alternative to any other
6 law under which a county may borrow ~~money~~ MONIES or issue bonds. This
7 section ~~shall~~ IS not ~~be construed as~~ the exclusive authorization to enter
8 into loan agreements with the authority.

9 ~~I.~~ J. A county may borrow additional monies or enter into
10 additional financial assistance loan repayment agreements with the water
11 infrastructure finance authority OF ARIZONA in an amount up to the amount
12 approved by the voters pursuant to subsection C of this section less the
13 amount that the county is already obligated to repay to the water
14 infrastructure finance authority OF ARIZONA pursuant to a financial
15 assistance loan repayment agreement.

16 ~~J.~~ K. For THE purposes of this section: ~~—~~

17 1. "CLEAN WATER ACT" HAS THE SAME MEANING PRESCRIBED IN SECTION
18 49-1201.

19 2. "Nonpoint source project" has the same meaning ~~as~~ prescribed in
20 section 49-1201.

21 Sec. 2. Section 49-1201, Arizona Revised Statutes, is amended to
22 read:

23 49-1201. Definitions

24 In this chapter, unless the context otherwise requires:

25 1. "Authority" means the water infrastructure finance authority of
26 Arizona.

27 2. "Board" means the water infrastructure finance authority board
28 established by section 49-1206.

29 3. "Bonds of a political subdivision" means bonds issued by a
30 political subdivision as authorized by law.

31 4. "Clean water act" means the federal water pollution control act
32 amendments of 1972 (P.L. 92-500; 86 Stat. 816), as amended by the water
33 quality act of 1987 (P.L. 100-4; 101 Stat. 7).

34 5. "Concession agreement" means any lease, ground lease, franchise,
35 easement, permit or other binding agreement transferring rights for the
36 use or control, in whole or in part, of water-related facilities by the
37 authority to a private partner in accordance with this chapter.

38 6. "Drinking water facility":

39 (a) Means a community water system or a nonprofit noncommunity
40 water system as defined in the safe drinking water act of 1974
41 (P.L. 93-523; 88 Stat. 1660; P.L. 95-190; 91 Stat. 1393; P.L. 104-182; 110
42 Stat. 1613) that is located in this state.

43 (b) Does not include water systems owned by federal agencies.

44 7. "Financial assistance loan repayment agreement" means an
45 agreement to repay a loan provided to design, construct, acquire,

1 rehabilitate or improve water or wastewater infrastructure, related
2 property and appurtenances or a loan provided to finance a water supply
3 development project.

4 8. "Imported water" means any water that originates outside of this
5 state and that is made available to water users within this state by
6 conveyance or exchange or otherwise through projects that are funded or
7 financed in whole or in part with monies from the long-term water
8 augmentation fund.

9 9. "Import water" means to make water originating outside of this
10 state available to water users within this state by conveyance or exchange
11 or otherwise through projects that are funded or financed in whole or in
12 part with monies from the long-term water augmentation fund.

13 10. "Indian tribe" means any Indian tribe, band, group or community
14 that is recognized by the United States secretary of the interior and that
15 exercises governmental authority within the limits of any Indian
16 reservation under the jurisdiction of the United States government,
17 notwithstanding the issuance of any patent and including rights-of-way
18 running through the reservation.

19 11. "Long-term water augmentation bonds" means bonds that are
20 issued by the authority in accordance with article 4 of this chapter.

21 12. "Long-term water augmentation fund" means the fund established
22 by section 49-1302.

23 13. "Nonpoint source project" means a project designed to implement
24 a certified water quality management plan OR THIS STATE'S NONPOINT SOURCE
25 MANAGEMENT PLAN THAT IS DEVELOPED PURSUANT TO SECTION 319 OF THE CLEAN
26 WATER ACT AND APPROVED BY THE UNITED STATES ENVIRONMENTAL PROTECTION
27 AGENCY.

28 14. "Political subdivision" means a county, city, town or special
29 taxing district authorized by law to construct wastewater treatment
30 facilities, drinking water facilities or nonpoint source projects.

31 15. "Private partner" means a person, entity or organization that
32 is not the federal government, this state or a political subdivision of
33 this state.

34 16. "Public-private partnership project" means any water supply
35 development project that is the subject of a public-private partnership
36 agreement in accordance with this chapter.

37 17. "Safe drinking water act" means the federal safe drinking water
38 act of 1974 (P.L. 93-523; 88 Stat. 1660; P.L. 95-190; 91 Stat. 1393;
39 P.L. 104-182; 110 Stat. 1613), as amended in 1996.

40 18. "Technical assistance loan repayment agreement" means either of
41 the following:

42 (a) An agreement to repay a loan provided to develop, plan and
43 design water or wastewater infrastructure, related property and
44 appurtenances. The agreement shall be for a term of not more than three

1 years and the maximum amount that may be borrowed is limited to not more
2 than \$500,000.

3 (b) An agreement to repay a loan provided to develop, plan or
4 design a water supply development project.

5 19. "Wastewater treatment facility" means a treatment works, as
6 defined in section 212 of the clean water act, that is located in this
7 state and that is designed to hold, cleanse or purify or to prevent the
8 discharge of untreated or inadequately treated sewage or other polluted
9 waters for purposes of complying with the clean water act.

10 20. "Water provider" means any of the following:

11 (a) A municipal water delivery system as defined in section
12 42-5301.

13 (b) A county water augmentation authority established under
14 title 45, chapter 11.

15 (c) A county water authority established under title 45,
16 chapter 13.

17 (d) An Indian tribe.

18 (e) A community facilities district as established by title 48,
19 chapter 4.

20 (f) A public water system as prescribed in section 49-352.

21 (g) A county with a population of less than three hundred thousand
22 persons.

23 (h) A natural resource conservation district.

24 (i) For purposes of funding from the water supply development
25 revolving fund pursuant to article 3 of this chapter only, a county that
26 enters into an intergovernmental agreement or other formal written
27 agreement with a city, town or other water provider regarding a water
28 supply development project.

29 21. "Water-related facilities" means any facility related to the
30 production, delivery, conservation or storage of water, including any
31 canals, pipelines, desalination plants, pumping stations, storage
32 projects, recovery wells, delivery and retention projects, water and
33 wastewater treatment plants, and other equipment and facilities installed
34 for water conservation purposes, together with any land, buildings or
35 other improvements and equipment or personal property related thereto.

36 22. "Water supply development" means any of the following:

37 (a) Acquiring water or rights to or contracts for water to augment
38 the water supply of a water provider, including any environmental or other
39 reviews, permits or plans reasonably necessary for that acquisition.

40 (b) Planning, designing, building or developing water-related
41 facilities, including any environmental or other reviews, permits or plans
42 reasonably necessary for those facilities, for any of the following
43 purposes:

44 (i) Conveyance or delivery of water.

45 (ii) Storage or recovery of water under title 45, chapter 3.1.

1 (iii) Reclamation, remediation and reuse of water, including by a
2 reclamation or remediation project that is approved by the United States
3 environmental protection agency and that increases the availability of
4 water.

5 (iv) Replenishment of groundwater.

6 (v) Active or passive stormwater recharge structures that increase
7 water supplies.

8 (c) Conservation through reducing existing water use or more
9 efficient uses of existing water supplies.

10 Sec. 3. Section 49-1203, Arizona Revised Statutes, is amended to
11 read:

12 49-1203. Powers and duties of authority; definition

13 A. The authority is a corporate and politic body and shall have an
14 official seal that shall be judicially noticed. The authority may sue and
15 be sued, contract and acquire, hold, operate and dispose of property.
16 Notwithstanding any other law and unless expressly waived by the
17 authority, the authority is not subject to any statutory requirement to
18 pay another party's attorney fees or costs in any administrative or
19 judicial proceeding. The authority is not a public service corporation
20 subject to regulation by the corporation commission.

21 B. The authority, through its board, may:

22 1. Issue negotiable water quality bonds pursuant to section 49-1261
23 for the following purposes:

24 (a) To generate the state match required by the clean water act for
25 the clean water revolving fund and to generate the match required by the
26 safe drinking water act for the drinking water revolving fund.

27 (b) To provide financial assistance to political subdivisions,
28 Indian tribes and eligible drinking water facilities for constructing,
29 acquiring or improving wastewater treatment facilities, drinking water
30 facilities, nonpoint source projects and other related water quality
31 facilities and projects.

32 2. Issue water supply development bonds for the purpose of
33 providing financial assistance to eligible entities for water supply
34 development purposes pursuant to sections 49-1274 and 49-1275.

35 3. Provide financial assistance to political subdivisions and
36 Indian tribes from monies in the clean water revolving fund to finance
37 wastewater treatment projects.

38 4. Provide financial assistance to drinking water facilities from
39 monies in the drinking water revolving fund to finance these facilities.

40 5. Provide financial assistance from monies in the water supply
41 development revolving fund to finance water supply development as
42 prescribed by this article.

43 6. Guarantee debt obligations of, and provide linked deposit
44 guarantees through third-party lenders to:

1 (a) Political subdivisions that are issued to finance wastewater
2 treatment projects.

3 (b) Drinking water facilities that are issued to finance these
4 facilities.

5 7. Provide linked deposit guarantees through third-party lenders to
6 political subdivisions and drinking water facilities.

7 8. Apply for, accept and administer grants and other financial
8 assistance from the United States government and from other public and
9 private sources.

10 9. Enter into capitalization grant agreements with the United
11 States environmental protection agency.

12 10. Adopt rules pursuant to title 41, chapter 6 governing the
13 application for and awarding of wastewater treatment facility, drinking
14 water facility and nonpoint source project financial assistance under this
15 chapter, administering the clean water revolving fund and the drinking
16 water revolving fund and issuing water quality bonds.

17 11. Hire a director who serves at the pleasure of the board and who
18 shall hire staff for the authority. The board may prescribe the terms and
19 conditions of the director's and staff's employment as necessary to carry
20 out the purposes of the authority. The board shall adopt written
21 policies, procedures and guidelines, similar to those adopted by the
22 department of administration, regarding officer and employee compensation,
23 observed holidays, leave and reimbursement of travel expenses. The
24 officers and employees of the authority may participate in the ARIZONA
25 state retirement system ~~prescribed~~ ESTABLISHED by title 38, chapter 5,
26 article 2, and the board, consistent with section 38-656, subsection A,
27 may provide that the authority's officers and employees participate in the
28 state employee health, ~~disability~~ and accident insurance prescribed by
29 title 38, chapter 4, article 4. The officers and employees of the
30 authority are exempt from any laws regulating state employment, including
31 the following:

32 (a) Title 41, chapter 4, article 4, relating to the state personnel
33 system.

34 (b) Title 41, chapter 4, articles 5 and 6, relating to state
35 service.

36 12. Contract for or employ the services of outside advisors,
37 attorneys, engineers, financial and other consultants and aides reasonably
38 necessary or desirable to allow the authority to adequately perform its
39 duties.

40 13. Contract and incur obligations as reasonably necessary or
41 desirable within the general scope of authority activities and operations
42 to allow the authority to adequately perform its duties.

43 14. Assess financial assistance origination fees and annual fees to
44 cover the reasonable costs of administering the authority and the monies
45 administered by the authority. Any fees collected pursuant to this

1 paragraph constitute governmental revenue and may be used for any purpose
2 consistent with the mission and objectives of the authority.

3 15. Perform any function of a fund manager under the CERCLA
4 Brownfields cleanup revolving loan fund program as requested by the
5 department. The board shall perform any action authorized under this
6 article on behalf of the Brownfields cleanup revolving loan fund program
7 established pursuant to chapter 2, article 1.1 of this title at the
8 request of the department. In order to perform these functions, the board
9 shall enter into a written agreement with the department.

10 16. Provide grants, staff assistance or technical assistance in the
11 form of loan repayment agreements and other professional assistance to
12 political subdivisions, any county with a population of less than five
13 hundred thousand persons, Indian tribes and community water systems in
14 connection with developing or financing wastewater, drinking water, water
15 reclamation or related water infrastructure. Assistance provided under a
16 technical assistance loan repayment agreement shall be in a form and under
17 terms determined by the authority and shall be repaid not more than three
18 years after the date that the monies are advanced to the applicant.
19 Technical assistance provided by the authority does not create any
20 liability for the authority or this state regarding designing,
21 constructing or operating any infrastructure project.

22 17. Provide grants, staff assistance or technical assistance in the
23 form of loan repayment agreements and other professional assistance in
24 accordance with section 49-1273. Assistance provided under a technical
25 assistance loan repayment agreement shall be repaid not more than three
26 years after the date that the monies are advanced to the applicant.
27 Technical assistance provided by the authority does not create any
28 liability for the authority or this state regarding designing,
29 constructing or operating any water supply development project.

30 18. AWARD FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL, FOR
31 THE REMEDIATION, CLOSURE OR REPLACEMENT OF CESSPOOLS PURSUANT TO SECTION
32 11-671, SUBSECTION G.

33 C. The authority may adopt rules pursuant to title 41, chapter 6
34 governing the application for and awarding of assistance under this
35 chapter and the administration of the funds established by this chapter.

36 D. The board shall deposit, pursuant to sections 35-146 and 35-147,
37 any monies received pursuant to subsection B, paragraph 8 of this section
38 in the appropriate fund as prescribed by the grant or other financial
39 assistance agreement.

40 E. The authority is not subject to title 41, chapter 23. In
41 coordination with the department of administration, the authority shall
42 establish procurement procedures by rule to administer the long-term water
43 augmentation fund.

1 F. For the purposes of the safe drinking water act and the clean
2 water act, the department is the state agency with primary responsibility
3 for administering this state's public water system supervision program and
4 water pollution control program and, in consultation with other
5 appropriate state agencies as appropriate, is the lead agency in
6 establishing assistance priorities as prescribed by section 49-1224,
7 subsection B, paragraph 3, section 49-1243, subsection A, paragraph 6 and
8 section 49-1244, subsection B, paragraph 3.

9 G. For the purposes of this section, "CERCLA" has the same meaning
10 prescribed in section 49-201.

11 Sec. 4. Section 49-1204, Arizona Revised Statutes, is amended to
12 read:

13 49-1204. Annual audit and report

14 A. The board shall cause an audit to be made of the funds
15 administered by the authority. The audit shall be conducted by a
16 certified public accountant within one hundred twenty days after the end
17 of the fiscal year. The board shall immediately file a certified copy of
18 the audit with the auditor general.

19 B. The auditor general may make any further audits and examinations
20 as deemed necessary and may take appropriate action relating to the audit
21 or examination pursuant to title 41, chapter 7, article 10.1. If the
22 auditor general takes no official action within twenty days after the
23 audit is filed, the audit is deemed sufficient.

24 C. The board shall pay any fees and costs of the certified public
25 accountant and auditor general under this section from the funds
26 administered by the board.

27 D. Not later than January 1 of each year the board shall make an
28 annual report of its activities, including a copy of the annual audit, to
29 the governor, the president of the senate and the speaker of the house of
30 representatives.

31 E. IN ADDITION TO THE REPORTING REQUIREMENTS OF SUBSECTION D OF
32 THIS SECTION, NOT LATER THAN JANUARY 1 OF EACH YEAR, THE BOARD SHALL MAKE
33 AN ANNUAL REPORT THAT SUMMARIZES FINANCIAL ASSISTANCE, INCLUDING
34 FORGIVABLE PRINCIPAL, AWARDED BY THE BOARD PURSUANT TO SECTION 11-671,
35 SUBSECTION G. THE REPORT SHALL INCLUDE ALL OF THE FOLLOWING:

36 1. THE NUMBER AND LOCATION OF CESSPOOLS THAT HAVE BEEN REMEDIATED
37 OR REPLACED USING FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL.

38 2. THE TOTAL AMOUNT OF FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE
39 PRINCIPAL, THAT WAS AWARDED AND FORGIVEN.

40 3. RECOMMENDATIONS FOR IMPROVING THE ADMINISTRATION OF FINANCIAL
41 ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL, THAT IS AWARDED FOR THE
42 REMEDIATION, CLOSURE OR REPLACEMENT OF CESSPOOLS PURSUANT TO SECTION
43 11-671, SUBSECTION G.

1 Sec. 5. Section 49-1223, Arizona Revised Statutes, is amended to
2 read:

3 49-1223. Clean water revolving fund; purposes; capitalization
4 grants

5 A. Monies in the clean water revolving fund may be used for the
6 following purposes:

7 1. Making wastewater treatment facility and nonpoint source project
8 loans to political subdivisions and Indian tribes under section 49-1225.

9 2. Purchasing or refinancing debt obligations of political
10 subdivisions or refinancing debt obligations of Indian tribes at or below
11 market rates, provided that the debt obligation was issued after March 7,
12 1985 for the purpose of constructing, acquiring or improving wastewater
13 treatment facilities or nonpoint source projects.

14 3. Providing financial assistance to political subdivisions to
15 purchase insurance for local wastewater treatment facility or nonpoint
16 source project bond obligations.

17 4. Paying the costs to administer the fund, but no more than four
18 per cent of the aggregate of federal capitalization grants may be used to
19 pay these costs. Monies from other sources may be used without limit to
20 pay these costs.

21 5. Funding other programs that are authorized for federal monies
22 deposited in the fund including programs relating to nonpoint source
23 discharges.

24 6. Providing linked deposit guarantees through third party lenders
25 by depositing monies with the lender on the condition that the lender make
26 a loan on terms approved by the board, at a rate of return on the deposit
27 approved by the board and the state treasurer and by giving the lender
28 recourse against the deposit of loan repayments that are not made when
29 due.

30 7. FUNDING OF FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL,
31 THAT IS AWARDED PURSUANT TO SECTION 11-671, SUBSECTION G.

32 B. If the monies pledged to secure water quality bonds become
33 insufficient to pay the principal and interest on the water quality bonds
34 that are guaranteed by the clean water revolving fund, the board shall
35 direct the state treasurer to liquidate securities in the fund as may be
36 necessary and apply those proceeds to make current all payments then due
37 on the bonds. The state treasurer shall immediately notify the attorney
38 general and auditor general of the insufficiency. The auditor general
39 shall audit the circumstances surrounding the depletion of the fund and
40 report the findings to the attorney general. The attorney general shall
41 conduct an investigation and report those findings to the governor and the
42 legislature.

43 C. All proceeds of capitalization grants received from the United
44 States pursuant to the clean water act shall be deposited in the
45 capitalization grant transfer account and shall be used solely to provide

1 financial assistance to political subdivisions and Indian tribes to
2 construct, acquire, restore or rebuild wastewater treatment facilities, to
3 purchase bond insurance or for any other purpose permitted by the clean
4 water act including nonpoint source projects. All principal received on
5 loan repayments made by borrowers pursuant to this section shall be
6 deposited in the clean water revolving fund and shall be invested and used
7 to provide additional financial assistance or shall be used to support the
8 administration of the fund subject to the limits prescribed by the clean
9 water act.

10 Sec. 6. Section 49-1243, Arizona Revised Statutes, is amended to
11 read:

12 49-1243. Drinking water revolving fund; purposes;
13 capitalization grants

14 A. Monies in the drinking water revolving fund may be used for the
15 following purposes:

16 1. Making drinking water facility loans, including forgivable
17 principal, to political subdivisions of this state, Indian tribes under
18 section 49-1245 and other eligible entities as determined by the board
19 pursuant to the safe drinking water act.

20 2. Making drinking water facility loans under section 49-1244.

21 3. Purchasing or refinancing debt obligations of drinking water
22 facilities at or below market rate if the debt obligation was issued after
23 July 1, 1993 for the purpose of constructing, acquiring or improving
24 drinking water facilities.

25 4. Providing financial assistance to drinking water facilities to
26 purchase insurance for local drinking water facility bond obligations.

27 5. Paying the costs to administer the fund but not more than four
28 per cent of the aggregate of federal capitalization grants may be used to
29 pay these costs. Monies from other sources may be used without limit to
30 pay these costs.

31 6. Funding other programs that are authorized pursuant to the safe
32 drinking water act.

33 7. Providing linked deposit guarantees through third party lenders
34 by depositing monies with the lender on the condition that the lender make
35 a loan on terms approved by the board, at a rate of return on the deposit
36 approved by the board and the state treasurer and by giving the lender
37 recourse against the deposit of loan repayments that are not made when
38 due.

39 8. FUNDING OF FINANCIAL ASSISTANCE, INCLUDING FORGIVABLE PRINCIPAL,
40 THAT IS AWARDED PURSUANT TO SECTION 11-671, SUBSECTION G.

41 B. If the monies pledged to secure water quality bonds become
42 insufficient to pay the principal and interest on the water quality bonds
43 guaranteed by the drinking water revolving fund, the board shall direct
44 the state treasurer to liquidate securities in the fund as may be
45 necessary and shall apply those proceeds to make current all payments then

1 due on the bonds. The state treasurer shall immediately notify the
2 attorney general and auditor general of the insufficiency. The auditor
3 general shall audit the circumstances surrounding the depletion of the
4 fund and report the findings to the attorney general. The attorney
5 general shall conduct an investigation and report those findings to the
6 governor and the legislature.

7 C. All proceeds of capitalization grants received from the United
8 States pursuant to the safe drinking water act shall be deposited in the
9 capitalization grant transfer account and shall be used solely to make
10 loans to drinking water facilities to construct, acquire, restore or
11 rebuild these facilities, to purchase bond insurance or for any other
12 purpose permitted by the safe drinking water act. All principal received
13 on loan repayments made by borrowers under this section shall be deposited
14 in the drinking water revolving fund and shall be invested, used to
15 provide financial assistance or used to support the administration of the
16 fund subject to the limits defined in the safe drinking water act.

17 Sec. 7. Legislative findings and intent

18 A. The legislature finds and declares that:

19 1. Cesspools have been prohibited for installation in Arizona since
20 1976.

21 2. Thousands of legacy cesspools remain in operation in certain
22 counties and pose a direct and continuing threat to the public health and
23 safety and groundwater quality.

24 3. Remediation of cesspools represents a pressing public health
25 need that is distinct from voluntary septic upgrades or private
26 convenience improvements.

27 4. Current Arizona law limits county eligibility for financial
28 assistance to those counties that operate sewer systems.

29 B. It is therefore the intent of the legislature to do both of the
30 following:

31 1. Authorize all counties to access financial assistance, including
32 forgivable principal, that is administered by the water infrastructure
33 finance authority of Arizona for the sole purpose of remediating or
34 replacing cesspools that pose a verified public health or environmental
35 risk.

36 2. Ensure that this act shall have no financial impact on the state
37 general fund. Financial assistance, including forgivable principal, shall
38 be issued solely from the federally capitalized monies from the clean
39 water revolving fund established by section 49-1221, Arizona Revised
40 Statutes, and the drinking water revolving fund established by section
41 49-1241, Arizona Revised Statutes, that are administered by the water
42 infrastructure finance authority of Arizona.