

Water Infrastructure Finance Authority

	FY 2021 ACTUAL	FY 2022 ESTIMATE	FY 2023 APPROVED
SPECIAL LINE ITEMS			
Eastern Arizona Water Projects Assistance Grants	0	5,000,000	10,000,000 ^{1/2/3/}
Long-Term Water Augmentation Fund Deposit	0	0	0 ^{4/}
Small Drinking Water Systems Fund Deposit	0	1,000,000	0
Water Supply Development Revolving Fund Deposit	40,000,000	6,000,000	0
AGENCY TOTAL	40,000,000	12,000,000	10,000,000 ^{5/}
FUND SOURCES			
General Fund	40,000,000	12,000,000	10,000,000
SUBTOTAL - Appropriated Funds	40,000,000	12,000,000	10,000,000
Other Non-Appropriated Funds	190,894,400	107,272,900	107,248,100
Federal Funds	30,650,000	32,039,500	32,039,500
TOTAL - ALL SOURCES	261,544,400	151,312,400	149,287,600

AGENCY DESCRIPTION — The Water Infrastructure Finance Authority (WIFA) finances the construction, rehabilitation, and/or improvement of drinking water, waste water, reclamation, and other water quality facilities/projects from federal funds. The WIFA board also authorizes grants and issues bonds to support water supply development, conservation, and long-term water augmentation projects with state funds. WIFA staff support the statutory Federal Water Programs Committee, Water Supply Development Committee, Long-Term Water Augmentation Committee. Prior to FY 2023, WIFA was operationally located within the Office of Economic Opportunity.

FOOTNOTES

- 1/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. (General Appropriation Act footnote)
- 2/ Of the amount appropriated to the eastern Arizona water projects assistance grants line item, \$6,000,000 is allocated to provide financial assistance to cities and towns that provide water in Navajo and Apache counties to contract for services of outside advisors, attorneys, consultants and aides that are reasonably necessary or desirable to enable the cities and towns to adequately perform their duties. The water infrastructure finance authority of Arizona shall develop a separate grant program to distribute these monies to qualified entities on or before June 30, 2023. (General Appropriation Act footnote)
- 3/ Of the amount appropriated to the eastern Arizona water projects assistance grants line item, \$4,000,000 is allocated to provide financial assistance to irrigation districts in Cochise and Graham counties to contract for services of outside advisors, attorneys, consultants and aides that are reasonably necessary or desirable to enable the irrigation districts to adequately perform their duties. Each county shall receive a \$2,000,000 allocation. The water infrastructure finance authority of Arizona shall develop a separate grant program to distribute these monies to qualified entities on or before June 30, 2023. (General Appropriation Act footnote)
- 4/ In addition to the appropriated amounts, Laws 2022, Chapter 366 transferred \$334,000,000 from a diversion of the state's share of Transition Privileges Tax for deposit to the Long-Term Water Augmentation Fund.
- 5/ General Appropriation Act funds are appropriated by Special Line Items by Agency.

Eastern Arizona Water Projects Assistance Grants

The budget includes \$10,000,000 from the General Fund in FY 2023 for Eastern Arizona Water Projects Assistance Grants. FY 2023 adjustments are as follows:

Fund One-Time Water Projects Assistance Grants

The budget includes an increase of \$10,000,000 from the General Fund in FY 2023 for one-time funding for Eastern

Arizona water project assistance grants. These monies are to be allocated as follows: 1) \$6,000,000 to cities and towns in Navajo and Apache Counties; 2) \$4,000,000 to irrigation districts in Cochise and Graham Counties with \$2,000,000 allocated for each county.

Remove One-Time Water Projects Assistance Grants

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2023 to remove funding for one-time grants to support water projects included in the FY 2022

budget. These monies were to be allocated as follows: 1) \$3,000,000 to cities and towns in Navajo and Apache Counties; 2) \$2,000,000 to irrigation districts in Cochise and Graham Counties with \$1,000,000 allocated for each county.

Monies in this line item are for grants to be used to contract for services of outside advisors, attorneys, consultants and aides that are reasonably necessary or desirable to enable the relevant entity to adequately perform their duties. For the FY 2022 budget, this line item was named Water Projects Assistance Grants.

Long-Term Water Augmentation Fund Deposit

Laws 2022, Chapter 366 includes \$334,000,000 from a diversion from the state's General Fund portion of the Transaction Privilege Tax (TPT) revenue in FY 2023 for a one-time deposit in the newly-created non-appropriated Long-Term Water Augmentation Fund (LTWAF).

The \$334,000,000 TPT diversion in FY 2023 is the first year of a 3-year commitment for total deposits of \$1,000,000,000 to the LTWAF for the purposes of augmenting Arizona's long-term water supply. Laws 2022, Chapter 366 includes advance appropriations directly from the General Fund of \$333,000,000 in FY 2024 and \$333,000,000 in FY 2025 for deposit into the fund. For these monies deposited in FY 2023, FY 2024, and FY 2025, 75% is reserved for 1 or more projects that import water from outside of Arizona.

The monies in this fund are to be used for funding water supply development projects that import water from outside of Arizona, purchasing imported water or rights to imported water, acquiring or constructing facilities to convey and deliver imported water, financial assistance to eligible entities to finance or refinance water supply development projects within Arizona and other expenses related to these endeavors including water studies, assessments, and environmental reviews. An eligible entity under statute for this fund is a water provider or any city, town, county, district, commission, authority or other public entity organized under the state's statutes or under a voter-approved charter or initiative. The fund may be used for administrative costs, but expenditures are limited to funding no more than 10 FTE Positions for the Authority. The Water Infrastructure Finance Authority Board will approve funding requests from this fund and will receive recommendations regarding funding applications from a newly created WIFA subcommittee, the Long-Term Water Augmentation Committee. Awards of more than \$50,000,000 from the fund are required to be reviewed by the Joint Legislative Water Committee.

Small Drinking Water Systems Fund Deposit

The budget includes no funding from the General Fund in FY 2023 for the Small Drinking Water Systems Fund Deposit line item. FY 2023 adjustments are as follows:

Remove One-Time Deposit

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2023 to remove funding for the one-time deposit to the Small Drinking Water Systems Fund. The fund provides grants to small drinking water systems to repair, replace, or upgrade water infrastructure. Eligible infrastructure projects must be used to deliver drinking water to 10,000 or fewer people. An FY 2022 General Appropriation Act footnote requires WIFA to report the previous fiscal year's Small Drinking Water Systems Fund expenditures to JLBC by December 31 of 2021, 2022, and 2023.

Water Supply Development Revolving Fund Deposit

The budget includes no funding from the General Fund in FY 2023 for the Water Supply Development Revolving Fund Deposit line item. FY 2023 adjustments are as follows:

Remove One-Time Deposit

The budget includes a decrease of \$(6,000,000) from the General Fund in FY 2023 to remove funding for the one-time deposit to the Water Supply Development Revolving Fund.

The fund is used for providing financial assistance to eligible entities in Arizona, particularly in rural areas, lacking enough water supplies to meet their long-term water demands. Monies are to be used for loans and grants for water supply development projects as well as conducting water supply studies, refinancing of debt of water providers at or below market rate and providing financial assistance to water providers with bonding authority. Laws 2022, Chapter 366 changed the fund's eligible applicants for grants and loans from "water providers" to "eligible entities". As defined for the Water Supply Development Fund statutes, an eligible entity includes a water provider that distributes or sells water outside of the AMAs in Maricopa, Pima and Pinal Counties, or any city, town, county, district, commission, authority or other public entity organized under the state's statutes or under a voter-approved charter or initiative outside of the AMAs in Maricopa, Pima and Pinal Counties. The Water Infrastructure Finance Authority Board will approve funding requests from this fund and will receive recommendations from a newly created WIFA subcommittee, the Water Supply Development Committee.

The FY 2022 budget included a General Fund deposit of \$40,000,000 to the Water Supply Development Revolving Fund as a FY 2021 supplemental. Prior to the FY 2021 and FY 2022 deposits, the fund has received appropriations, but those funding allocations were ultimately rescinded, and no monies were expended from the fund. An FY 2022 General Appropriation Act footnote for the FY 2021 deposit requires the monies to be used for projects that are allocated throughout all regions of this state and outside of Active Management Areas, and limits the amount allocated to each project at \$1,000,000. Laws 2022, Chapter 366 repealed these budget footnote requirements regarding expenditures from the \$40,000,000 and made these funds subject to the fund's regular statutory requirements. Laws 2022, Chapter 63 established the maximum single grant under the fund's statutory requirements at \$250,000. Laws 2022, Chapter 366 increases the maximum for a single grant from \$250,000 to \$2,000,000, and also adds a provision that a loan for a project shall not exceed \$3,000,000.

Other Issues

Laws 2022, Chapter 366

Prior to the 2022 session, WIFA was operationally located within the Office of Economic Opportunity (OEO). Laws 2016, Chapter 372 established the Office of Economic Opportunity and the Arizona Finance Authority (AFA). The AFA board served as the WIFA board for the state's water infrastructure programs (Arizona's federal Safe Drinking Water State Revolving Fund Program and Clean Water State Revolving Fund Program). The AFA board was supported by an appointed WIFA advisory board. *(For additional information on the history of WIFA and associated funds, please see the Water Infrastructure Finance Authority narrative in the FY 2022 Appropriations Report and the Office of Economic Opportunity narrative in the FY 2017 Appropriations Report.)*

Laws 2022, Chapter 366 transfers the powers and duties for the state's water infrastructure programs from the AFA board to a new WIFA Board of Directors. The board will be comprised of 9 appointed voting members and an additional 9 non-voting members that are legislative leaders and agency heads designated in statute. The legislation establishes 2 new WIFA subcommittees, named the Long-Term Water Augmentation Committee and the Water Supply Development Revolving Fund Committee, to make recommendations to the full WIFA Board of Directors on applications for financial assistance from the associated funds. Chapter 366 also creates 2 Advisory Committees: the Water Conservation Grant Fund Committee will provide recommendations regarding a

new fund of the same name and the Federal Waters Programs Committee will advise the WIFA Board regarding applications related to the Safe Drinking Water Revolving Fund Program, the Clean Water State Revolving Fund Program and the Hardship Grant Fund Program.

Beyond the governance changes, Laws 2022, Chapter 366 made additional changes to the board's funds and authorities. These changes include:

- Establishes 2 new funds: the Long-Term Water Augmentation Fund and the Water Conservation Grant Fund.
- Includes \$1,000,000,000 in deposits to the Long-Term Water Augmentation Fund over 3-years as discussed in the Long-Term Water Augmentation line item.
- Establishes a 9-member Joint Legislative Water Committee to review awards of \$50,000,000 or more from the Long-Term Water Augmentation Fund.
- Expands the board's authorities to include developing strategies to conserve water, improve the efficiency and reuse of current water resources, and augment existing water resources with renewable supplies and taking a security interest in, planning, constructing, and acquiring water-related facilities.
- Makes additional statutory changes relating to the processes for evaluating applications for financial assistance and loans from WIFA's existing and newly created funds, and the terms of bonds or public-private agreements.

Laws 2022, Chapter 366 made additional changes to the state's water funding allocations:

- Repeals the Drought Mitigation Board and Drought Mitigation Fund. The FY 2022 Environment BRB created the Drought Mitigation Board and Drought Mitigation Fund. The Board did not meet in FY 2022.
- Transfers the remaining funds from the Drought Mitigation Fund as follows: 1) \$10,000,000 to the DWR Arizona System Conservation Fund; and 2) any remaining monies from the Drought Mitigation Fund to the Water Supply Development Revolving Fund. The FY 2022 General Appropriation Act included a FY 2021 supplemental of \$160,000,000 from the General Fund that was deposited to the Drought Mitigation Fund to support water projects. Given that the Drought Mitigation Board did not award grants or loans, we expect a substantial portion of this \$160,000,000 deposit will be transferred to the Water Supply Development Revolving Fund.
- Appropriates \$3,500,000 of ongoing funding to the Department of Water Resources for an annual water supply and demand assessment of at least 6 groundwater basins each year.