

# FY2018 ANNUAL REPORT

Water Infrastructure Finance Authority of Arizona

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# TABLE OF CONTENTS

<b>ORGANIZATION OVERVIEW .....</b>	<b>3</b>
<b>Background.....</b>	<b>3</b>
<b>Organizational Makeup .....</b>	<b>3</b>
AFA Board.....	3
WIFA Advisory Board .....	4
WIFA Administration.....	4
<b>Operating Highlights.....</b>	<b>5</b>
<b>PROGRAMS SUMMARY .....</b>	<b>6</b>
<b>Low-Interest Loan Program.....</b>	<b>6</b>
<b>Technical Assistance Program .....</b>	<b>7</b>
Technical Assistance Awards.....	7
<b>WIFA'S FINANCIAL SUMMARY.....</b>	<b>8</b>
<b>Credit Profile.....</b>	<b>8</b>
<b>Investments .....</b>	<b>8</b>
<b>Loan Agreements Executed This Year .....</b>	<b>9</b>
<b>Loan Details.....</b>	<b>10</b>
<b>PROJECTS OF THE YEAR.....</b>	<b>11</b>
<b>RURAL WATER INFRASTRUCTURE COMMITTEE (RWIC).....</b>	<b>12</b>
<b>MEDIA HIGHLIGHTS .....</b>	<b>14</b>

# ORGANIZATION OVERVIEW

## Background

The Arizona Legislature established the Water Infrastructure Finance Authority of Arizona (WIFA) in 1989. WIFA works to maintain and improve water quality in the state by financing the construction, rehabilitation and improvement of drinking water and wastewater facilities and nonpoint source pollution projects.

Maintaining water quality in Arizona requires communities to make large investments in drinking water and wastewater infrastructure. State revolving funds are the primary resources for helping communities meet their continuing and significant water infrastructure needs. WIFA maintains Arizona's revolving loan fund programs, capitalized by the Environmental Protection Agency (EPA), to provide low cost financing for water infrastructure projects.

## Organizational Makeup

As of August 6, 2016, WIFA became part of the Arizona Finance Authority (AFA), a one-stop shop for financing that supports expanding and relocating businesses, communities' infrastructure needs and first-time homebuyers.

## AFA Board

The Arizona Finance Authority is governed by a five-member board appointed by the Governor. Board members include:

Arizona Finance Authority Board				
<b>Victor Riches, Chairman</b>	<b>Michael Godbehere</b>	<b>Jim Keeley</b>	<b>Lea Marquez Peterson</b>	<b>Doug Yonko</b>

## WIFA Advisory Board

WIFA's Advisory Board provides expertise and leadership on WIFA's policies, loan approvals and various other actions. The Advisory Board makes recommendations to the AFA Board of Directors. The AFA Board of Directors meets approximately one week after the WIFA Advisory Board to take action on its recommendations.

WIFA Advisory Board					
<b>Misael Cabrera,</b> <b>Chairman</b> Arizona Department of Environmental Quality	<b>Stanley Gibson,</b> <b>Vice Chairman</b> Municipalities with population less than 50,000	<b>Alan Baker</b> Municipalities of 50,000 or more residents	<b>Paul Gardner</b> Water systems which serve 500 or more customers	<b>William Garfield</b> Water systems which serve less than 500 customers	<b>Ray Montoya</b> Counties with population more than 500,000
<b>Lynne Smith</b> Arizona Department of Water Resources	<b>Del Smith</b> Arizona Corporation Commission	<b>Keith Watkins</b> Arizona Commerce Authority	<b>Mark Heberer</b> Sanitary Districts from counties with population less than 500,000	<b>Vacant</b> Sanitary District from counties with a population of 500,000 or more	

## WIFA Administration

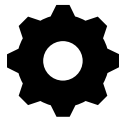
WIFA is administered by Executive Director, Trish Incognito; Controller, Jane Thompson; and Chief Financial Officer, Dan Dialessi, and a strong team of 12 current staff. WIFA's friendly and helpful staff has broad state and local government experience as well as private sector business and finance experience. WIFA's staff is committed to providing exceptional service to Arizona's communities.

## Operating Highlights

Approved **14 new loans** and provided **\$39 million** in financial assistance to cities, towns, special districts and private water companies



Averaged **six business days** to process a disbursement request



Maintained **“AAA” credit ratings** due to demonstrated commitment to responsible fiscal fund management



Average rates for 20-year loans: **2.15% for governmental entities** and **4.21% for non-governmental entities**. These signify average discounts from base interest rates of 21.92%.



**17 WIFA-funded projects** were completed in **FY 2018** for Arizona's communities (12 drinking water projects and 5 wastewater projects totaling over \$65 million in infrastructure projects)

Co-financed **four projects** with contributions from other agencies and local entities



Assisted **disadvantaged communities** by providing \$16 million in financing for ten projects and \$2.4 million in forgivable principal

Processed loan documents, on average, in less than one week - from Board action (loan resolution approval) to distribution of loan documents



Awarded **\$313,008 in technical assistance** for seven drinking water projects and three wastewater/stormwater projects



Provided six drinking water systems with training to complete a Water Loss Audit



# PROGRAMS SUMMARY

WIFA's flexible lending options give its borrowers the peace of mind of knowing that their communities are receiving the best financing package available to them. Borrowers may be eligible for a unique set of options based on the community's population, disadvantaged designation, green project components or project type. Funding options include a low-interest construction loan program, 1% interest rate design loans, Technical Assistance Program and CIP Financing.

## Low-Interest Loan Program

WIFA operates as a "bond bank" and is able to issue water quality bonds on behalf of communities for water and wastewater infrastructure. Through an active portfolio and sound financial management, WIFA provides significant savings to borrowers by offering loans with below market interest rates.

WIFA's means for providing low interest financial assistance are the Clean Water Revolving Fund (for publicly-owned wastewater treatment facilities) and the Drinking Water Revolving Fund (for both publicly and privately-owned drinking water systems). Eligible entities include cities, towns, special districts, tribal communities and Arizona Corporation Commission-regulated private water companies. Both programs were established by the EPA and are funded by federal capitalization grants, state matching funds, loan repayments and WIFA bond proceeds.

WIFA is making a difference in Arizona. Since its inception in 1989, WIFA has invested over \$2 billion in the state, and WIFA has funded more than 400 projects across the state. Each project results in the creation of construction and engineering jobs.



## Technical Assistance Program

In addition to loans, WIFA also offers technical assistance funding. Funding awards are made to eligible wastewater and drinking water systems for the planning or design phase of a project. The purpose of the program is to help prepare water and wastewater facilities for the construction of a capital improvement project. Awards were targeted toward communities with limited resources that need assistance in completing the planning and/or design phase of an infrastructure project. Funding is provided to employ the services of an engineer or other consultant to complete these activities. Awards are capped at \$35,000 per project.

## Technical Assistance Awards

The following planning and design technical assistance awards were made in FY 2018:

Awardee	Project Title	Amount
<b>Drinking Water Technical Assistance</b>		
Pine Strawberry Water Improvement District	PSWID CIP Program FY18 thru FY22	\$35,000
Highland Pines DWID	Replacement of Existing 6" Transite Water Supply Line	\$34,998
Chaparral Water Properties, Inc.	Chaparral Water Properties System Improvements	\$34,800
Cibola Mutual Water Company	DBP - TTHM Reduction Study	\$22,170
Lake Havasu City	Water Softening and Charcoal Filtration Water Treatment Additions Feasibility Study	\$35,000
Avra Water Co-op, Inc.	Water Main Line Looping Project	\$11,040
Graham County Utilities, Inc.	Ft Thomas Water System PER/ER	\$35,000
<b>Wastewater/Stormwater Technical Assistance</b>		
City of Scottsdale	Alternative Stormwater Management Guidance Handbook for Low-Impact Development (LID) and Green Infrastructure	\$35,000
City of Avondale	Low Impact Development Planning	\$35,000
City of Tombstone	WWTP City of Tombstone Loop Project	\$35,000
<b>Drinking Water Total</b>		<b>\$208,008</b>
<b>Wastewater Total</b>		<b>\$105,000</b>
<b>TOTAL</b>		<b>\$313,008</b>



# WIFA'S FINANCIAL SUMMARY

## Credit Profile

WIFA maintained “AAA” credit ratings (the highest level of ratings) from Moody’s, Standard and Poor’s, and Fitch. The ratings are based on:

- Program structure that provides significant over-collateralization to the bonds
- Strong credit quality of the local borrowers
- Loan portfolio and investments with the ability to withstand substantial losses to revenue
- Large size and diversity of loan portfolio
- Strong management practices and policies

These ratings support WIFA’s low cost of borrowing from investors when WIFA issues bonds. In turn, this allows WIFA to pass on the benefit to its borrowers and the citizens of Arizona in the form of low interest loans. The rates for the loans closed with a 20-year loan term in SFY 2018 averaged 2.15% for governmental entities and 4.21% for non-governmental entities, representing average discounts from the base interest rates of 21.92%.

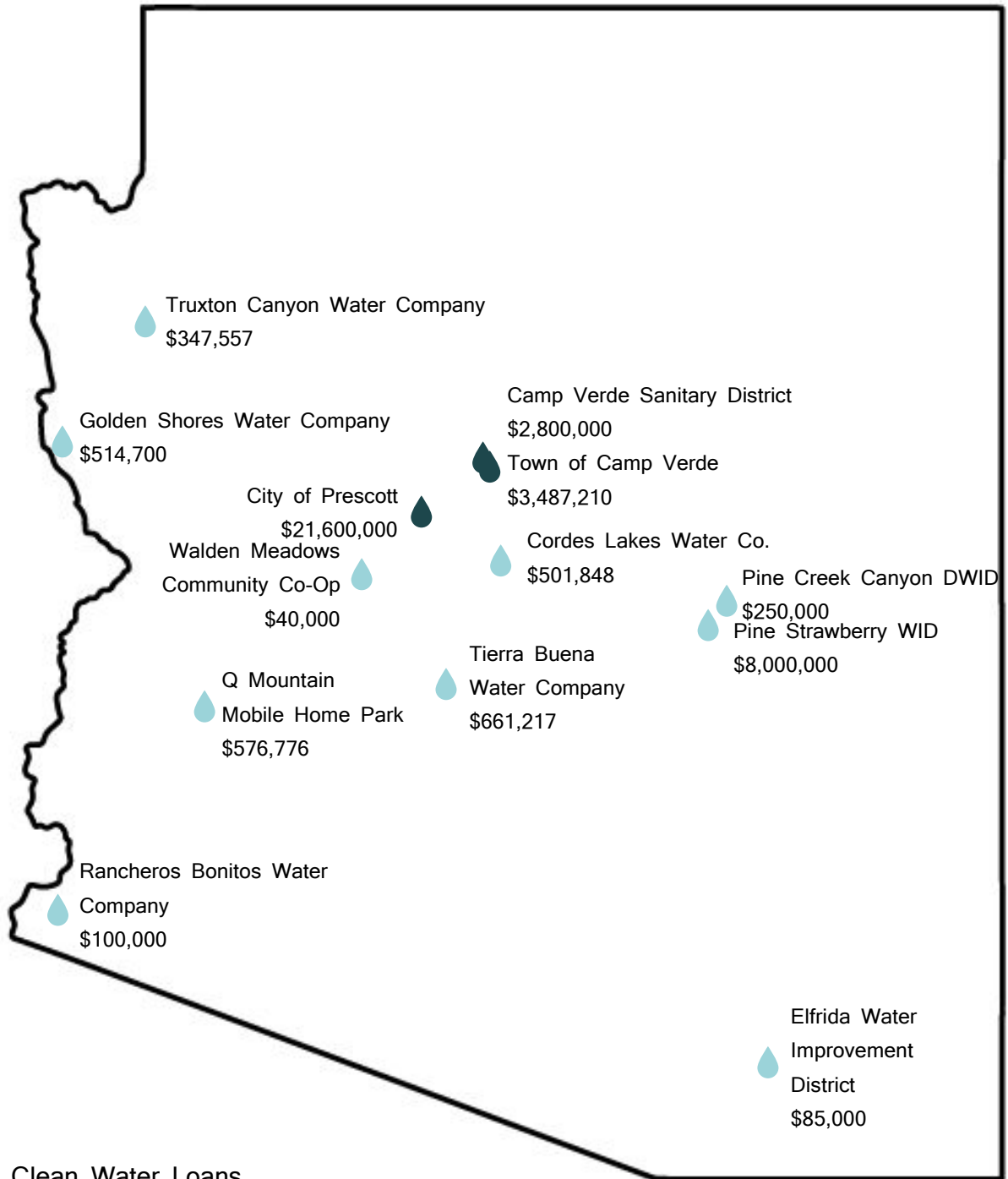
## Investments



At the close of the fiscal year, WIFA had \$338.2 million invested.. The decrease over FY 2017 is primarily due to the defeasance of \$127.7 million of our Water Quality Revenue Bonds. Dollars invested are primarily used to originate loans to WIFA borrowers and provide security for WIFA’s bond portfolio. Interest generated from the invested funds helps subsidize WIFA borrower rates.

WIFA is able to maintain a diverse portfolio of borrowers by balancing the needs of low-credit borrowers with high-credit borrowers. The presence of strongly rated borrowers within the portfolio benefits all program participants.

Another indicator of WIFA’s responsible fiscal fund management is the annual audit performed by Henry & Horne, LLP. WIFA’s 2018 Audited Financial Statements are attached and available on WIFA’s website - [www.azwifa.gov/publications](http://www.azwifa.gov/publications). In FY 2018, WIFA’s net position increased by \$16.8 million, primarily due to the reduction in outstanding bonds. WIFA continues to keep administrative expenses as low as possible while still performing its mission.

## Loan Agreements Executed in FY 2018



-  Clean Water Loans
-  Drinking Water Loans

## Loan Details

The following water and wastewater service providers obtained financing through WIFA in FY 2018:

Borrower	Project Title	Loan Amount	Forgivable Principal
<b>Drinking Water Loans</b>			
Rancheros Bonitos Water Company	Water Tank Replacement and Generator	\$100,000	\$50,000
Q Mountain Mobile Home Park	Pipeline Replacement and Upgrade	\$576,776	\$288,388
Cordes Lakes Water Co.	Water Supply and System Reliability Improvements	\$402,423	\$250,924
Pine Strawberry Water Improvement District	CIP Program FY18 through FY22	\$8,000,000	\$500,000
Elfrida Water Improvement District	Critical Well Repair	\$85,000	\$42,500
Walden Meadows Community Co-Op	Pump Replacement	\$40,000	\$20,000
Cordes Lakes Water Co.	Water Supply and System Reliability Improvements	\$99,425	
Pine Creek Canyon Domestic Water Improvement District	PRV and Isolation Valve Upgrade Project	\$250,000	
Tierra Buena Water Company Inc.	Arsenic Remediation Project 3	\$661,217	
Golden Shores Water Company	Meter and Valve Replacement and Backup Generator	\$514,700	\$257,350
Truxton Canyon Water Company	Hualapai 1 Well Conversion	\$347,557	
<b>Wastewater Loans</b>			
Camp Verde Sanitary District	Refinance RD Debt	\$2,800,000	
Camp Verde, Town of	Wastewater Treatment Plant Improvements	\$3,487,210	\$1,000,000
Prescott, City of	Wastewater System Centralization Project Phase 1	\$21,600,000	
<b>Drinking Water Total</b>		<b>\$11,077,098</b>	<b>\$1,409,162</b>
<b>Wastewater Total</b>		<b>\$27,887,210</b>	<b>\$1,000,000</b>
<b>TOTAL</b>		<b>\$38,964,308</b>	<b>\$2,409,162</b>

# PROJECTS OF THE YEAR

Awards are presented in recognition of exemplary project management and commitment to public health protection through the improvement of drinking water and wastewater infrastructure.

City of Williams | Water Supply / Water Sustainability & Storage | \$4.4 Million

The City of Williams obtained a WIFA loan to solve a critical water supply problem which included water efficiency components to best conserve the limited water supply. Several years of greatly diminished snow pack had left the City's reservoirs at low levels, and by July 2014, the capacity of the reservoir system was at 27%. One of the City's two wells failed on May 19, 2014. City officials acted quickly to repair Dogtown 1 Well and equip Rodeo Well, conserve water by replacing 1,500 meters, and install a water reuse station at the wastewater treatment plant.



Town of Chino Valley | Center Street Sewer from Highway 89 to Molly Rae and Rd 1 West | \$5.2 Million



The Mollie Rae Subdivision project involved the construction of more than one mile of sewer line from an existing trunk line to the Mollie Rae subdivision, allowing the tie in from the subdivision and residential properties along West Center St. This project prevents the installation of 101 new septic systems.

The South Road 1 West project consisted of the construction of 2,500 linear feet of sewer line down South Road 1 West to serve two multifamily residential properties.



# RURAL WATER INFRASTRUCTURE COMMITTEE



WIFA has continued its leadership of the Rural Water Infrastructure Committee (RWIC), an informal partnership of various federal and state agencies that provides loans, grants and technical assistance to Arizona's rural communities. RWIC serves as a "One-Stop Shop" for rural communities with a population of less than 10,000.

RWIC Executive Committee members include:

- WIFA
- AZ Corporation Commission (ACC)
- AZ Department of Environmental Quality (ADEQ)
- AZ Department of Water Resources (ADWR)
- US Environmental Protection Agency (EPA)
- USDA Rural Development (USDA-RD)
- North American Development Bank (NADBank)
- Rural Water Association of Arizona (RWAA)
- Rural Community Assistance Corporation (RCAC)
- Bureau of Reclamation (BOR)
- Department of Housing and Urban Development (HUD)
- Arizona Department of Housing (ADOH)

In FY 2018, RWIC held regular quarterly meetings. The first half of the meeting provides a platform for small communities to present about their project needs. After each presentation, the Executive Committee members then discuss available assistance options their agency could provide. The second half of the meeting is for Executive Committee members only to discuss projects, improvements to project coordination and provide partner updates on upcoming training and funding opportunities. The following RWIC meetings were held in FY 2018:

September 2017	During the first half of the meeting, three rural water systems presented to the group.
December 2017	During the first half of the meeting, two rural systems presented to the group.
March 2018	Meeting of the Executive Committee members.
June 2018	During the first half of the meeting, three rural systems presented to the group.





# MEDIA HIGHLIGHTS

WIFA presented at nine conferences and outreach events throughout the fiscal year.

Highlights include:

- a presentation at the Arizona Municipal Water Users Association Workshop - Finance Group (August 2017)
- a presentation at the League of Cities and Towns Annual Conference (August 2017)
- a presentation at the Rural Policy Forum (August 2017)
- a presentation to ADEQ's Water Quality Value Stream staff (February 2018)
- a presentation to the Arizona Society of Civil Engineers - Council of Engineering Companies subgroup (February 2018)
- a presentation at the Arizona Waterworks Association Conference (May 2018)
- a presentation at the Environmental Finance Center's Water Loss Control Workshop (June 2018)

WIFA, through an EPA Contractor, conducted an online survey of current SRF borrowers, consultants, and communities that had never borrowed from WIFA. The survey was open from March 6 to 22, 2018. The survey statistics were as follows:

	Emails Sent	Bounced/Filtered	Started*	Completed*
<b>Borrowers</b>	399	30	107 (29%)	82 (22%)
<b>Nonborrowers</b>	356	4	54 (15%)	43 (12%)
<b>Consultants</b>	203	16	22 (12%)	16 (9%)

\* For example, 107 borrowers started the survey, 82 completed it, and 25 dropped out after partial completion. All data was evaluated, including from uncompleted surveys.

Findings from the survey included:

- The cost of funding is the primary factor considered when selecting a funding source.
- The most effective marketing messages highlight the low cost and availability of funding.
- Davis-Bacon and American Iron and Steel (federal requirements of WIFA's funding) are the primary challenge areas.
- WIFA has a good reputation among respondents.
- The greatest needs remain in traditional projects, particularly drinking water infrastructure projects.
- The WIFA website, direct staff contacts, and workshops/conferences are the most effective ways to stay in touch with all constituencies.