

**FY2019
ANNUAL REPORT**



WATER INFRASTRUCTURE
FINANCE AUTHORITY OF ARIZONA

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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 a significant resource 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.










Arizona Finance Authority Board

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

Arizona Finance Authority Board				
				
Victor Riches, Chairman	Michael Godbehre	Jim Keeley	Lea Marquez Peterson	Doug Yonko

WIFA Advisory Board

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

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

WIFA Administration

WIFA is led by Executive Director, Daniel Dialessi; Controller, Jane Thompson; Financial Services Director, Angie Valenzuela, and a dedicated team of 13 current staff. WIFA's friendly and helpful staff has broad business and finance experience in both the public and private sectors. WIFA's staff is committed to providing exceptional service to Arizona's communities.



Daniel A. Dialessi, CFA
Executive Director

Administration and Operations

The division of Administration and Operations performs WIFA's human resources management, payroll services, strategic planning, board and agency administration, secretarial and reception services, scheduling, records management, and information technology functions.

Sara Konrad
Sr. Program Administrator

Yolanda Mendoza
Business Manager

Garrett Corral
Communications Director

Willie Ware
Network Administrator

Financial Services

The division of Financial Services directs WIFA's financial goals, objectives and policies. This includes overseeing WIFA's debt and loan program. Financial Services also directs WIFA's Financial Assistance and Technical Assistance programs.

Angie Valenzuela
Financial Services Director

Lindsey Jones
Environmental Program Specialist

Andrew Salazar
Loan Officer

Samantha Lemke
Environmental Program Specialist

Fiscal/Loan Servicing

The division of Fiscal Services transacts daily financial operations including WIFA loan disbursements, repayments, budgeting and procurement. Fiscal Services also manages WIFA debt service, investments, federal grants and state match appropriation.

Jane Thompson
Controller

Dianna Claassen
Fiscal Services Manager

Julie Flores
Administrative Service Officer III

Angelica Romero
Administrative Service Officer II

Rebecca Gomez
Administrative Service Officer I

Operating Highlights

Approved 12 new loans and provided \$28 million in financial assistance to cities, towns, special districts, tribal entities and private water companies



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

Average rates for 20-year loans: 2.10% for governmental entities and 3.87% for non-governmental entities. The average discount from the base interest rate was 19.17%.



9 WIFA-funded projects were completed in FY 2019 (8 drinking water projects and 1 clean water project)

Assisted **disadvantaged communities** by providing \$12.7 million in financing for ten projects and \$3.6 million in forgivable principal



Averaged six business days to process a disbursement request

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



Awarded \$181,237 in technical assistance for seven drinking water projects and three wastewater/stormwater projects



Updated Arizona’s water rate dashboard through contract with UNC’s Environmental Finance Center

PROGRAMS SUMMARY

WIFA's flexible lending options give its borrowers peace of mind of knowing that their communities are receiving the best financing package available. Borrowers may be eligible for various incentives 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, and CIP financing.

Low-Interest Loan Program

WIFA operates as a "bond bank" and can 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 is awarded to eligible wastewater and drinking water systems for the planning or design phase of projects. The purpose of the program is to help prepare water and wastewater facilities for the construction of a capital improvement project. Awards are 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 consultants to complete these activities. Awards are capped at \$50,000 per project.

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

WIFA continues to maintain the highest level of ratings due to its demonstrated commitment to responsible fiscal fund management. These high ratings reduce WIFA's cost of borrowing when WIFA issues bonds. This allows WIFA to establish its loan rates as low as possible, thereby passing on the savings to its borrowers.

The dollars invested are primarily used to originate loans to WIFA borrowers and provide additional security to WIFA's bond portfolio. Additionally, the interest generated from the invested funds helps to subsidize WIFA borrowers' interest rates.

During SFY 2019, WIFA continued to maintain a diverse portfolio of borrowers by balancing the needs of low-credit borrowers who have high-priority projects with high-credit borrowers who have lower-priority projects. The presence of strong borrowers within the portfolio benefits all program participants.

WIFA's net position increased by approximately \$19.7 million in SFY 2019 to a total of \$659,360,844. The Clean Water portion is \$308,271,090 and the Drinking Water portion is \$351,089,754. (See WIFA's 2019 Audited Financial Statements, provided under separate cover for more detail.)

Investments

At the close of the fiscal year, WIFA had \$362.4 million invested. 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.

Another indicator of WIFA's responsible fiscal fund management is the annual audit performed by Henry & Horne, LLP. WIFA's 2019 Audited Financial Statements are attached and available on WIFA's website - www.azwifa.gov/publications. WIFA continues to keep administrative expenses as low as possible while still performing its mission.

Loan Details

The following water and wastewater service providers obtained financing through WIFA in FY 2019:

Borrower	Project Title	Loan Amount	Forgivable Principal
Drinking Water Loans			
Wellton, Town of	Public Water System Improvements	\$887,499.20	\$443,749.60
White Mountain Apache Housing Authority	Emergency Shelters Project (CBQ & McNary)	\$105,000.00	\$94,500.00
Payson Water Company, Inc	Mesa Del Caballo - Cragin Pipeline Connection (Phase 2)	\$875,000.00	\$437,500.00
Marana, Town of	Picture Rocks Water Treatment Campus and Airline/Lambert Water Treatment Campus	\$15,000,000.00	
Truxton Canyon Water Company	Hualapai 1 Well Conversion	\$98,179.00	
Monte Vista Water Company	Water System Improvements	\$159,991.00	\$119,993.00
Williams, City of	Dogtown Transmission Lines Replacement Design	\$2,500,000.00	
Lazy C Water Service	Well Transmission and Water Storage Upgrade	\$229,712.00	
Clean Water Loans			
White Mountain Apache Housing Authority	Emergency Shelters Project (CBQ and McNary)	\$125,000.00	\$112,500.00
Douglas, City of	Automated Meter Infrastructure (AMI)	\$1,500,000.00	\$750,000.00
Winslow, City of	Winslow Wastewater Treatment Upgrades FY19	\$5,100,000.00	\$917,000.00
Marana, Town of	Adonis Sewer connection to Town of Marana	\$1,481,990.00	\$740,995.00
Drinking Water Total		\$19,855,381.20	\$1,095,742.60
Clean Water Total		\$8,206,990.00	\$2,520,495.00
TOTAL		\$28,062,371.20	\$3,616,237.60

EPA PISCES RECOGNITION

The Clean Water State Revolving Fund's Performance and Innovation in the SRF Creating Environmental Success (PISCES) program allows assistance recipients to gain national recognition for exceptional projects funded by the CWSRF.

The U.S. Environmental Protection Agency (EPA) recognized 30 clean water and 25 drinking water infrastructure projects for excellence within the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs. Among those recognized is the innovative water reuse project in the Town of Marana in Southern Arizona. These exemplary projects showcase water quality improvements and public health protections that can be achieved when the federal government, states, municipalities, and local utilities work together.



“The State Revolving Fund programs play a critical role in helping communities modernize aging infrastructure, create jobs, and protect public health and the environment,” **said Dave Ross, Assistant Administrator for EPA’s Office of Water.** “These projects are making vital water quality improvements in communities across the country.”

“Improvements to ensure clean water and drinking water are a priority in Arizona and the rest of the Pacific Southwest region,” **said EPA Pacific Southwest Regional Administrator Mike Stoker.** “EPA recognizes the creative and community-driven work these projects represent.”

Utilizing the SRF funds, the Town of Marana is designing and constructing a new lift station and force main to convey sewage from the Adonis neighborhood to the existing Town of Marana municipal system. Currently, the sewage flows into two over-capacity lagoons, running the risk of overflowing in wet weather and potentially causing an environmental and health hazard. Once the project is completed, the sewage from the neighborhood will be treated at the recently completed Marana Water Reclamation Facility, allowing Marana to reuse the water in various ways.

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 2019, RWIC held regular quarterly meetings. The first half of the meeting provides a platform for small communities to present 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 2019:

September 2018	During the first half of the meeting, three rural water systems presented to the group.
December 2018	During the first half of the meeting, two rural systems presented to the group.
March 2019	During the first half of the meeting, two rural systems presented to the group.
June 2019	No projects were presented, Executive Committee only.

MEDIA HIGHLIGHTS

WIFA presented at 14 conferences and outreach events throughout the year. Highlights include:

- a presentation at the Construction Management Association of America, Arizona Chapter (July 2018)
- five workshop sessions across the state (September 2018)
- three presentations at the Water Loss Control workshops at various locations in Arizona (February 2019)
- a presentation to the Western States Water Council (March 2019)

Following the online survey of SRF borrowers, consultants, and communities, WIFA, through an EPA Contractor, held a focus group in May 2019. Findings from the focus group related to marketing included:

- The cost of funding and flexibility remains the primary factor considered when selecting a funding source.
- Borrowers would like to see a refresh of training materials and digital content.
- Respondents identified some uses of the SRF programs that they were previously unaware of were eligible.
- Davis-Bacon and American Iron and Steel are the primary challenge areas.
- The online application process should be tweaked to provide a cleaner user experience, and WIFA should create “how-to” manuals.
- WIFA staff have a positive reputation among participants, notably positive in areas of customer service and hands-on assistance through the project process.
- Respondents expressed that stormwater, green infrastructure, and water conservation/reuse were of the highest interest.
- WIFA’s website and marketing collateral should be updated to be attractive, succinct, and informative.
- Respondents expressed interest in receiving periodic contact about new developments and key submission/milestone dates.

WIFA will use the feedback from the focus group to refine its marketing strategy and identify areas for staff development. Beginning in SFY20, WIFA is using contractors to assist with some of the challenging aspects of Davis-Bacon compliance.