

Water Infrastructure Finance Authority of Arizona

WIFA has established processes and provides financial assistance for basic water infrastructure in Arizona

Performance Audit and
Sunset Review

September 2021
Report 21-115

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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September 27, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Dan Dialessi, Executive Director
Water Infrastructure Finance Authority of Arizona

Transmitted herewith is the Auditor General's report, *A Performance Audit and Sunset Review of the Water Infrastructure Finance Authority of Arizona*. This report is in response to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

The Water Infrastructure Finance Authority of Arizona has provided a brief response to the report.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Arizona Finance Authority Board members
Water Infrastructure Finance Authority Advisory Board members

Water Infrastructure Finance Authority of Arizona

WIFA has established processes and provides financial assistance for basic water infrastructure in Arizona

Audit purpose

To address WIFA's processes for providing financial assistance for basic water infrastructure in Arizona and to provide responses to its statutory sunset factors.

Key findings

- WIFA was established in 1997 as a separate legal entity of the State authorized to provide financial assistance to political subdivisions, tribal communities, and other eligible entities for basic water infrastructure. Since its inception, WIFA has used federal capitalization grants, bond issuances, and loan repayments to fund nearly \$2.6 billion of water infrastructure projects for communities throughout the State.
- In support of its mission, WIFA administers the Clean Water and Drinking Water State Revolving Funds. These revolving funds provide financial assistance related to the construction, rehabilitation, and improvement of drinking water, wastewater, wastewater reclamation, and other water quality facility projects by providing below-market rate loans, forgivable principal, and technical assistance to Arizona's communities through 2 main programs—the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund.
- WIFA has established processes for and prioritizes projects based on greatest need.
- The WIFA Advisory Board evaluates WIFA staff recommendations and decides if a project should be recommended to the Arizona Finance Authority Board of Directors (AFA Board), which provides final approval.
- The AFA Board is within the Office of Economic Opportunity (OEO).

Key recommendation

The Legislature should:

- Consider aligning WIFA's and the OEO's sunset dates.



TABLE OF CONTENTS

Introduction	1
Sunset factors	6
Summary of recommendations: Auditor General makes 1 recommendation to the Legislature	13
Appendix A: Scope and methodology	a-1
Agency response	
Figure	
1 Revolving Fund activity	1
2 Organizational structure of the Office of Economic Opportunity, which includes WIFA As of January 1, 2021	3
3 Prioritization factors for project financial assistance	8
4 Number of clean water and drinking water projects and dollars awarded to public and private entities in each county From inception through December 31, 2020	10
Table	
1 Uncommitted cash available for financial assistance December 31, 2020	2
2 Revolving Funds revenues, expenditures, and changes in fund balance Fiscal years 2019 through 2021 (Unaudited)	5
Photo	
1 Water clarifier, Douglas, AZ	6
2 Drinking water treatment facility, Marana, AZ	7



The Arizona Auditor General has completed a performance audit and sunset review of the Water Infrastructure Finance Authority of Arizona (WIFA). This report addresses WIFA’s processes for providing financial assistance for basic water infrastructure in Arizona and provides responses to the statutory sunset factors.

Mission and responsibilities

WIFA was established in 1997 as a separate legal entity of the State authorized to provide financial assistance to political subdivisions, tribal communities, and other eligible entities for basic water infrastructure (see textbox for WIFA’s mission).¹ WIFA’s primary responsibilities are to:

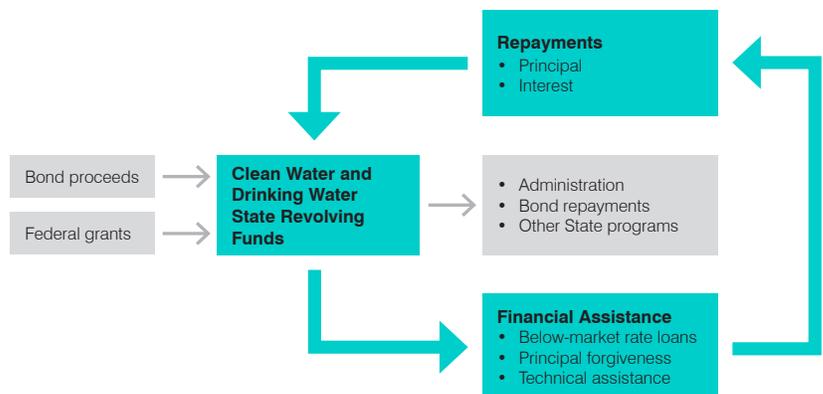
WIFA’s mission

To maintain and improve water quality in Arizona by providing financial and technical assistance for basic water infrastructure across our State.

- **Provide low-cost financial assistance**—WIFA, through its Clean Water and Drinking Water State Revolving Funds (Revolving Funds), provides financial assistance for the construction, rehabilitation, and improvement of drinking water, wastewater, wastewater reclamation, nonpoint source projects, and other water quality facility projects.² The Revolving Funds function like water infrastructure banks, providing financial assistance to eligible recipients for clean water and drinking water projects in the form of:
 - Below-market rate loans.
 - Forgivable principal.
 - Technical assistance.

As shown in Figure 1, the Revolving Funds are primarily funded by federal grants and bond proceeds. Loan repayments are deposited into the Revolving Funds to be used for future water projects, bond payments, and other administrative needs. The Revolving Funds, less administrative and other allowances, such as the monies reserved for other State programs, are required to be restricted for water-related projects in perpetuity.³

Figure 1
Revolving Fund activity



¹ Political subdivision means a county, city, town, or special taxing district authorized by law to construct wastewater treatment facilities, drinking water facilities, or nonpoint source projects.

² According to the U.S. Environmental Protection Agency’s (EPA) website, nonpoint source pollution is caused when rainfall or snowmelt, moving over and through the ground, picks up and carries natural and human-made pollutants, depositing them into lakes, rivers, wetlands, coastal waters, and ground waters.

³ Arizona Revised Statutes (A.R.S.) §§49-1221 and 49-1241.

WIFA staff are responsible for reviewing financial assistance applications; determining project eligibility; verifying the community has debt authorization and the technical, managerial, and fiscal capacity to complete the project; performing an environmental review; and recommending whether the project should be approved for financial assistance. The WIFA Advisory Board evaluates WIFA staff recommendations and decides if a project should be recommended to the Arizona Finance Authority Board of Directors (AFA Board) (see Organization and staffing, page 3, for more information on WIFA’s governance). The AFA Board provides final approval for Revolving Funds financial assistance projects.

- **Issue water quality revenue bonds**—WIFA issues water quality revenue bonds to provide additional funds for water infrastructure project financial assistance and State matching monies required by the federal capitalization grants.⁴ WIFA has issued bonds totaling \$2.0 billion since inception of the Revolving Funds programs, most recently in fiscal year 2015, and has outstanding bond debt of \$261.6 million as of December 31, 2020. All bonds issued by WIFA are solely its obligation and are not a legal debt of, or enforceable against, the State.⁵

Although the available cash balances in the Revolving Funds were sufficient to fund current projects and debt service obligations (see Table 1), in fiscal year 2021, WIFA obtained approval from the AFA Board to issue an additional \$100 million in bonds to take advantage of low bond rates. WIFA is working with its contracted bond counsel and financial advisors to determine when it should issue the bonds. According to WIFA, the bond proceeds will be used to fund future projects, reduce long-term bond costs, and help WIFA continue to offer low-cost financial assistance.

Table 1
Uncommitted cash available for financial assistance
December 31, 2020



Total cash on hand¹	\$275,045,302
Less payments to bondholders ²	55,875,750
Cash available for financial assistance	219,169,552
Less remaining commitment to borrowers ³	197,591,303
Total uncommitted cash available for financial assistance	\$ 21,578,249

¹ Amounts include borrower repayments of financial assistance loans, monies accumulated in the financial assistance fund, monies available from the annual federal capitalization grants, and monies from program and nonprogram fees such as fees for financial assistance and interest earned on investments of cash balances.

² Amounts represent bondholder payments of principal and interest through fiscal year 2021.

³ Amounts represent current commitment of financial assistance to communities. Since projects may take several years to plan, design, and build, these are monies that have been promised to communities but not yet distributed.

Source: Arizona Auditor General staff review of the WIFA-prepared cash and loan report and discussions with WIFA staff.

⁴ States are required to contribute an additional 20 percent to match the federal clean water and drinking water capitalization grants.

⁵ A.R.S. §49-1263.

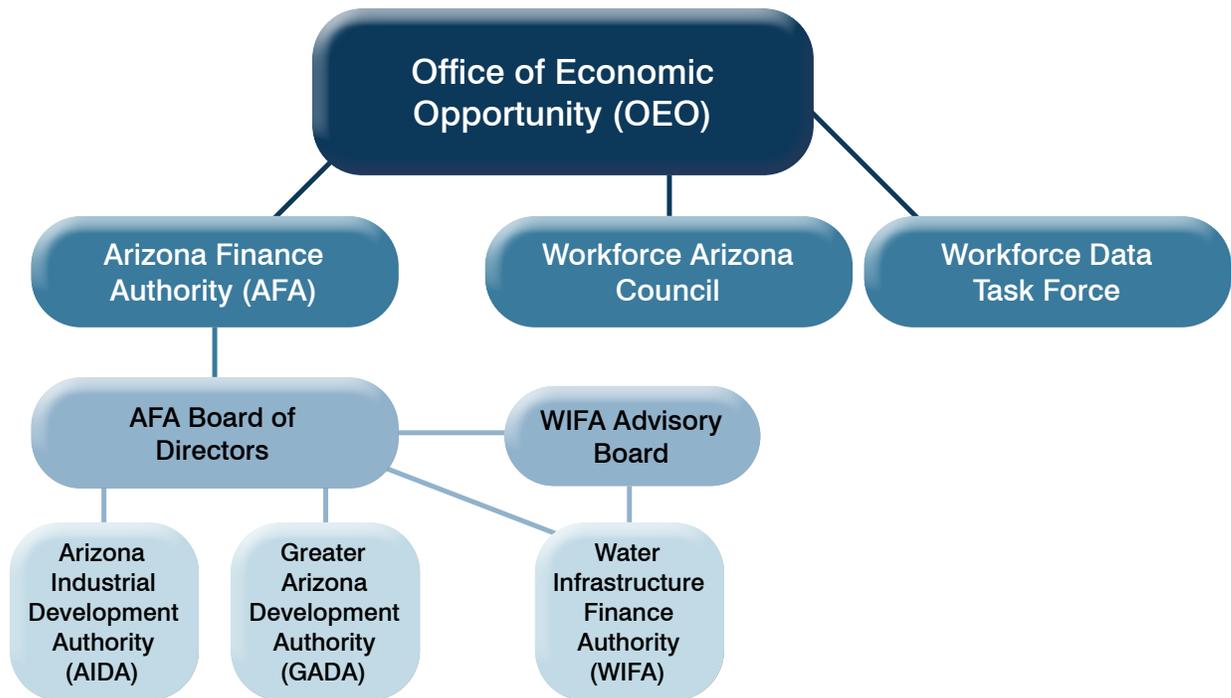
- **Administer the federal clean water and drinking water capitalization grants**—WIFA receives federal capitalization grants from the EPA. These monies are used to provide financial assistance through the Revolving Funds. In addition, 4 percent of the grant monies are used for the administration of the Revolving Funds, and up to 27 percent of the drinking water grant monies can be used for other State programs, like the Source Water Protection program, which protects underground sources of drinking water.
- **Administer the Water Supply Development Revolving Fund**—For fiscal year 2022, WIFA was appropriated \$46 million to provide financial assistance to water providers to finance water supply development, such as the acquisition of water to augment a water provider’s water supply or the development of facilities for the conveyance, storage, or recovery of water.^{6,7} WIFA did not receive appropriations for the Water Supply Development Revolving Fund prior to fiscal year 2022.

Organization and staffing

WIFA was a separate State agency with a governing board until Laws 2016, Ch. 372, §65, established the Office of Economic Opportunity (OEO) and the Arizona Finance Authority (AFA) within the OEO, and moved WIFA under AFA. These laws also established the AFA Board as governance for WIFA and established the WIFA Advisory Board to provide advice to the AFA Board regarding its review, evaluation, and recommendation of proposed financing approval (see Figure 2). The Governor appoints the 5 AFA Board members. The WIFA Advisory Board is statutorily required to consist of relevant State agency representatives and 7 members who represent public water systems, sanitary districts, or communities around the State. The WIFA Advisory Board members often have expertise in water-related fields.

Figure 2

**Organizational structure of the Office of Economic Opportunity, which includes WIFA
As of January 1, 2021**



Source: A.R.S. Title 41, Ch. 53.

⁶ A.R.S. §§49-1201(14) and 49-1203(B)(5).

⁷ Laws 2021, Chapter 408, Sections 97 and 115.

This performance audit and sunset review is statutorily limited to WIFA. It does not extend to the OEO or AFA, including the AFA Board or WIFA Advisory Board, because the OEO has a separate sunset date—July 1, 2023. That sunset review will include AFA and its boards.

AFA assigned 18.7 full-time equivalent positions to work on WIFA programs. The staff working on WIFA projects include an executive director whom the AFA executive director has delegated to operate all aspects of WIFA.⁸

Budget

WIFA does not receive State General Fund appropriations for the Revolving Funds or for the cost of administering funds. The federal capitalization grants, bond issuances, fees and interest on financial assistance, and other investment income fund the Revolving Funds, including WIFA's operations.

In fiscal year 2020, Revolving Funds revenues increased more than \$20 million, primarily because WIFA received increased federal grant monies. At the same time, Revolving Funds expenditures decreased more than \$2 million, primarily because of decreases in bond interest and forgivable principal (see Table 3, page 5, for additional information).

Estimated fiscal year 2021 investment earnings decreased more than \$6 million from fiscal year 2020 primarily due to lower interest rates.

⁸ The WIFA executive director was delegated operational duties except for approving WIFA Advisory Board resolutions and actions, which require a majority vote of the AFA Board.

Table 2
Revolving Funds revenues, expenditures, and changes in fund balance
Fiscal years 2019 through 2021
(Unaudited)

	2019 (Actual)	2020 (Actual)	2021 (Estimate)
Revenues			
Program loan interest revenue ¹	\$ 11,213,241	\$ 9,685,937	\$ 9,246,993
Debt management fees ²	10,523,659	9,483,048	9,883,965
Investment earnings	9,119,805	8,308,552	2,268,798
Federal and administrative grants ³	15,080,660	39,240,731	45,975,427
Total revenues	45,937,365	66,718,268	67,375,183
Expenditures			
Administrative expenses—			
Personnel services and related benefits	1,070,625	1,149,841	1,506,257
Professional and outside services	560,359	421,910	445,005
Travel	17,681	16,650	1,968
Equipment	4,452	98,069	31,948
Other operating expenses	234,454	371,235	173,681
Transfers to ADEQ ⁴	2,699,597	3,134,447	3,208,289
Total administrative expenses	4,587,168	5,192,152	5,367,148
Technical assistance ⁵	818,855	189,487	152,455
Bond interest expense ⁶	16,023,987	15,191,423	13,443,083
Forgivable principal expense ⁷	4,836,917	3,280,531	3,818,072
Depreciation	2,599	2,603	2,600
Total expenditures	26,269,526	23,856,196	22,783,358
Net change in fund balance	19,667,839	42,862,072	44,591,825
Fund balance, beginning of year	639,693,005	659,360,844	702,222,916
Fund balance, end of year	\$659,360,844	\$702,222,916	\$746,814,741

¹ Amounts are interest charged to financial assistance recipients. Interest rates are set by WIFA, and recipients are given a subsidized rate to reduce the cost of borrowing below the current market rate.

² Amounts are fees assessed by WIFA to offset its management and administrative costs associated with providing and servicing financial assistance. Most loans have a 1.5 to 3.0 percent fee.

³ The EPA awards WIFA a clean water and drinking water capitalization grant each year. These grants provide money for financial assistance and administration costs of the programs.

⁴ Amounts are monies passed through to the Arizona Department of Environmental Quality (ADEQ) for its role in administering 3 drinking water programs—the Source Water Protection, Public Water System Supervision, and Capacity Development programs.

⁵ Amounts are for technical assistance awarded to eligible financial assistance applicants for project design, support for federal requirements such as environmental assessments, and other types of assistance such as procurement assistance.

⁶ Amounts include interest paid to WIFA bondholders.

⁷ Amounts represent an additional subsidy in the form of forgivable principal extended to financial assistance recipients. WIFA may allocate specified portions of its annual capitalization grants as forgivable principle in accordance with the federal capitalization grant conditions.

Source: Auditor General staff analysis of the WIFA audited financial statements for fiscal years 2019 and 2020, and WIFA-provided information for fiscal year 2021.



Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of WIFA.

Sunset factor 1: The objective and purpose in establishing WIFA and the extent to which the objective and purpose are met by private enterprises in other states.

WIFA was established in 1997 as a separate legal entity of the State. Its mission is to maintain and improve water quality in Arizona by providing financial and technical assistance for basic water infrastructure. In support of its mission, WIFA administers the Clean Water and Drinking Water State Revolving Funds. These revolving funds provide financial assistance related to the construction, rehabilitation, and improvement of drinking water, wastewater, wastewater reclamation, and other water quality facility projects by providing below-market rate loans, forgivable principal, and technical assistance to Arizona's communities through 2 main programs—the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund.

- **Clean Water State Revolving Fund**—This program is a federal-state partnership that provides financial assistance to political subdivisions and tribal communities for the planning, design, and construction of new wastewater facilities; improvements and upgrades to existing wastewater treatment facilities, sewer collection systems, water reclamation and reuse facilities; stormwater infrastructure; and nonpoint source projects. For example, in fiscal year 2019, WIFA funded a project in Douglas, AZ, to build a new water clarifier (see Photo 1). The program places an emphasis on small and disadvantaged communities and on projects that promote sustainability through water and energy efficiency, green stormwater infrastructure, or other environmentally innovative activities.⁹ A portion of the program monies are available for technical assistance to help communities with planning and design costs and federal requirements such as environmental studies or procurement regulations. From July 1, 2018 through December 31, 2020, WIFA provided \$39.9 million of financial assistance to 12 communities. Since inception, WIFA has provided nearly \$1.5 billion of financial assistance from this program to communities throughout Arizona. See Figure 4 on page 10 for the number and amount of clean water projects funded in each county.

Photo 1
Water clarifier, Douglas, AZ



Source: Photo courtesy of WIFA.

⁹ To be classified as disadvantaged, communities must either be designated as “colonia” by the federal government or meet specific scoring criteria established by WIFA. 42 U.S. Code §1479(f)(8) defines a colonia as a community that (A) is in the State of Arizona, California, New Mexico, or Texas; (B) is in the area of the United States within 150 miles of the border between the United States and Mexico, except that the term does not include any standard metropolitan statistical area that has a population exceeding 1,000,000; (C) is determined to be a colonia on the basis of objective criteria, including lack of potable water supply, lack of adequate sewage systems, and lack of decent, safe, and sanitary housing; and (D) was in existence as a colonia before November 28, 1990.

- Drinking Water State Revolving Fund**—This program provides financial assistance to public and privately owned community water systems and nonprofit, noncommunity-owned water systems to finance the treatment, transmission, distribution, source, storage, consolidation, and creation of new drinking water systems to help ensure safe drinking water.¹⁰ For example, in fiscal year 2019, WIFA funded a new drinking water treatment facility in Marana, AZ (see Photo 2). The program places an emphasis on small and disadvantaged communities and on projects that address compliance and health advisories, as well as prevention and sustainability as tools for ensuring safe drinking water. A portion of the program monies are available for technical assistance to help communities with planning and design costs and federal requirements such as environmental studies or procurement regulations. Some program monies are transferred to ADEQ for source water protection and public water system supervision, and to assist small drinking water systems to improve day-to-day operations. From July 1, 2018 through December 31, 2020, WIFA provided \$259.4 million of financial assistance to 22 communities. Since inception, WIFA has provided nearly \$1.1 billion in financial assistance from this program. See Figure 4 on page 10 for the number and amount of drinking water projects funded in each county.

Photo 2
Drinking water treatment facility, Marana, AZ



Source: Photo courtesy of WIFA.

- Small Drinking Water Systems Fund**—This program provides financial assistance to small drinking water system owners to repair, replace, or upgrade drinking water infrastructure to correct or avoid an interruption in water service or as required for compliance with statute.¹¹

We surveyed 4 western states (California, Colorado, Nevada, and New Mexico) and did not identify any states that met WIFA’s objective and purpose through private enterprises.

Sunset factor 2: The extent to which the agency has met its statutory objective and purpose and the efficiency with which it has operated.

WIFA has met its statutory objective and purpose by providing financial assistance to communities for water infrastructure projects. Since inception, WIFA has used federal capitalization grants, bond issuances, and loan repayments to fund nearly \$2.6 billion of water infrastructure projects for communities throughout the State. Specifically, WIFA:

- Prioritizes water infrastructure projects based on greatest need**—WIFA’s standardized application process complies with federal requirements for prioritizing and funding clean water and drinking water projects. Specifically, applications for financial assistance are scored on various factors—such as the water system’s current conditions, the degree to which the project addresses water or energy efficiency, and the local fiscal capacity—and ranked on a Project Priority List (PPL) (see Figure 3 on page 8 for list of prioritization factors).¹² According to WIFA, it has always had sufficient funds to provide financial assistance to all eligible

¹⁰ According to the *Drinking Water State Revolving Fund Eligibility Handbook* on the EPA website, a nonprofit, noncommunity water system is a public water system that is not a community water system and is owned and operated as a nonprofit entity such as a school. The nonprofit entity could be government owned.

¹¹ A.R.S. §49-355 defines a small drinking water system as a public water system that serves 10,000 or fewer persons. The Legislature appropriated one-time funding for the Small Drinking Water Systems Fund of \$500,000 for fiscal year 2020.

¹² Local fiscal capacity is measured by the following: median household income of the community to be served by the project compared to the State’s median household income; proposed user fees compared to the median household income of the community to be served by the project; and debt per connection, which is number of connections served by the project compared to the outstanding and proposed debt compared to the community’s median household income.

applicants. It also has the option of issuing bonds to provide additional funds for financial assistance (see Introduction, page 2, for more information on issuing bonds); however, if funding were limited, applicants with the highest priority would receive financial assistance first.

Figure 3
Prioritization factors for project financial assistance¹

Prioritization for financial assistance is based on the evaluation of:	
	Consolidation and regionalization —The degree to which the project promotes consolidation, extension of service, or regionalization of the management, operations, or new facilities of the system.
	Current conditions —The current conditions of the system and whether the project will resolve violations such as surface and ground water pollution or compliance with federal laws, rules, and regulations regarding safe drinking water.
	Local fiscal capacity —The local fiscal capacity, which involves calculations of the median household income index, user fees index, and indebtedness index.
	Prior funding —Whether the project previously received assistance from WIFA such as planning or design.
	Water and energy efficiency index —The degree to which the project addresses water or energy efficiency or environmentally innovative approaches.
	Water quality or system improvement —The degree to which the project will improve or protect the water quality or water system.

¹ Projects are scored based on the prioritization factors. Current conditions, local fiscal capacity, water and energy efficiency index, and water quality or system improvement are worth up to 100 points each toward the total score. Consolidation and regionalization and prior funding are worth up to 50 points toward the total score.

Source: Arizona Auditor General staff analysis of WIFA’s rules and policies and procedures.

- **Offers discounted interest rates; forgivable principal and other incentives; and technical assistance for water projects**—WIFA, through the Revolving Funds, offers discounted interest rate loans for water infrastructure projects, between 70 percent and 95 percent of WIFA’s tax exempt cost of borrowing. The discounted interest rate is based on the same factors used to prioritize projects with an emphasis on local fiscal capacity.

WIFA also offers forgivable principal to disadvantaged communities and/or projects that address a public health threat, such as a water supply interruption. The amount of forgivable principal is based on the prioritization factors discussed above. From July 1, 2018 through December 31, 2020, WIFA provided over \$16.6 million in forgivable principal for projects in 28 communities. Further, WIFA offers incentives for projects that integrate energy or water efficiency, water conservation, or green stormwater infrastructure components. These incentives may include a further-discounted interest and/or forgivable principal. From July 1, 2018 through December 31, 2020, WIFA funded 5 projects totaling nearly \$7.3 million that met these requirements.

Finally, WIFA offers technical assistance to small and/or disadvantaged communities by providing additional monies to help with design, engineering, and compliance with federal or environmental requirements. Our review of 8 projects WIFA funded during fiscal years 2018 through 2020 found that WIFA met the federal requirements to prioritize projects and it offered discounted interest-rate loans, forgivable principal and other incentives, and technical assistance to borrowers.

- **Maintains a AAA bond rating**—National credit rating agencies have rated WIFA revenue bonds as AAA, the highest possible rating, which reduces WIFA’s cost of borrowing and subsequently allows WIFA to provide lower-cost financial assistance to communities. WIFA last issued bonds during fiscal year 2015 (see Introduction, page 2, for more information on bond issuances).

Sunset factor 3: The extent to which WIFA serves the entire State rather than specific interests.

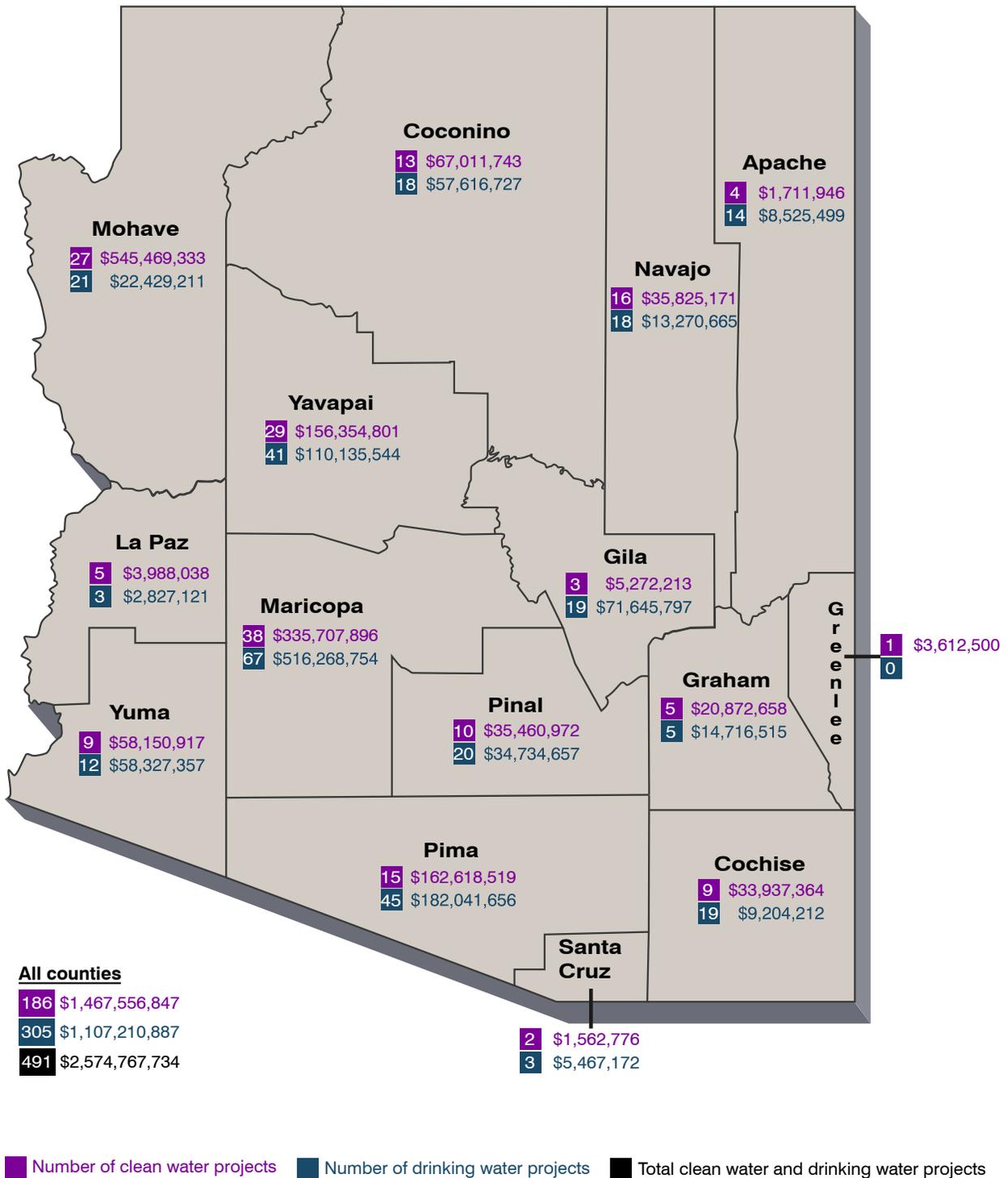
WIFA provides low-cost financial assistance to local communities, private water systems, and tribal communities throughout Arizona (see Figure 4 on page 10). WIFA serves entities through its online application and prioritization process and informs them about the Revolving Fund programs through community outreach and partnership with other State agencies and organizations. Specifically:

- **Online application and prioritization**—WIFA’s online application process allows communities throughout the State to apply for financial assistance for water-related projects. Projects are prioritized so that those projects that resolve public health or environmental issues, remedy operation and maintenance violations, and serve small communities are given the highest priority for financial assistance. As stated earlier, WIFA has always had funding available for all eligible projects, so all communities receive financial assistance for their water infrastructure projects regardless of funding priority.
- **Community outreach**—When able to, WIFA staff attend professional conferences, hold workshops and training sessions, and maintain a network of professional relationships. For example, WIFA provides administrative support and leadership for the Rural Water Infrastructure Committee (RWIC), which is an informal partnership of several federal and State agencies authorized to provide borrowers with funding and technical assistance. According to WIFA, RWIC’s approach helps Arizona’s water systems identify the most appropriate and affordable combination of funding sources for its projects.
- **Partnership with organizations and other State agencies**—WIFA works with various organizations and State agencies to promote its financial assistance programs and assist in identifying communities that may need water infrastructure funding or assistance to comply with federal regulations. For example, WIFA contracts with Arizona’s Councils of Governments to provide technical assistance to small private water systems or disadvantaged communities so those communities meet the federal financial assistance requirements.¹³ According to WIFA, it also works with ADEQ and the Arizona Corporation Commission to identify communities that may be eligible for financial assistance because they have water system infrastructure deficiencies that need to be corrected to avoid interruption of service or to comply with water quality requirements.

¹³ The State’s Councils of Governments are regional governing bodies serving local governments and residents in the region. It includes Central Arizona Governments, Maricopa Association of Governments, Northern Arizona Council of Governments, Pima Association of Governments, Southeastern Arizona Governments Association, and Western Arizona Council of Governments.

Figure 4

Number of clean water and drinking water projects and dollars awarded to public and private entities in each county
 From inception through December 31, 2020¹



¹ WIFA was established in 1997. The Clean Water State Revolving Fund received federal monies in fiscal year 1991, and the first financial assistance was issued in fiscal year 1992. This program was previously administered by the Wastewater Management Authority.

Source: Arizona Auditor General staff analysis of WIFA's financial assistance portfolio and federal program information.

Sunset factor 4: The extent to which rules adopted by WIFA are consistent with the legislative mandate.

WIFA has adopted rules when statutorily required to do so. According to A.R.S. §49-1203(B)(10), WIFA has the statutory authority through the AFA Board to adopt rules governing the application for and awarding of wastewater treatment facility, drinking water facility, and nonpoint source project financial assistance; the administration of the Revolving Funds; and the issuance of water quality bonds. WIFA most recently revised its rules in 2018 to support and complement statutory changes that moved WIFA under the AFA, changed the governance of WIFA to the AFA Board, and established the WIFA Advisory Board. WIFA updated the rules to reflect the new governance of and other changes to the Revolving Fund programs.

Sunset factor 5: The extent to which WIFA has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

WIFA provided opportunities for public input as part of the rulemaking it finalized in 2018. Specifically, WIFA published notices of proposed rulemaking in the Arizona Administrative Register that listed the name of WIFA staff who could be contacted to provide input about the proposed rulemaking, allowed the public to submit written comments on proposed rule changes, and conducted an oral proceeding where the public could provide input at least 30 days after WIFA published the notices.

WIFA also provides information to the public through its website. For example, WIFA provides an overview of its financial assistance programs available and the loan application process; annual performance and financial reports; and statutes, administrative rules, and policies and procedures. Further, for projects we reviewed, WIFA issued public notices and environmental reviews, and held public meetings to keep the public informed about its activities and allow the public to comment.

Sunset factor 6: The extent to which WIFA has been able to investigate and resolve complaints that are within its jurisdiction.

WIFA has no statutory authority or responsibility to investigate and resolve complaints.

Sunset factor 7: The extent to which the Attorney General or any other applicable agency of State government have the authority to prosecute actions under the enabling legislation.

WIFA's enabling statutes, A.R.S. §§49-1226, 49-1246, and 49-1276, provide the Attorney General's Office with the authority to help WIFA enforce financial assistance agreement provisions and collect delinquent loan payments as necessary.

Sunset factor 8: The extent to which WIFA has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

According to WIFA, there are no deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

Sunset factor 9: The extent to which changes are necessary in the laws of WIFA to adequately comply with the factors listed in the sunset law.

We identified one area where the Legislature should consider making a statutory change. The Legislature should consider aligning WIFA and the OEO's sunset dates. As noted in the Introduction (see page 3), WIFA was moved under the AFA and is governed by the AFA Board, and WIFA's powers and duties are carried out through the AFA Board.¹⁴ However, AFA is statutorily part of the OEO, which has a separate sunset date than WIFA.¹⁵ Specifically, WIFA's sunset date is July 1, 2022, and the OEO's sunset date is July 1, 2023.¹⁶ The sunset date is established to ensure that State agencies' purposes and functions are reviewed and to determine whether changes are

¹⁴ Laws 2016, Ch. 372, §65.

¹⁵ A.R.S. Title 41, Chapter 53.

¹⁶ See A.R.S. §41-3022.19 for the WIFA sunset date and A.R.S. §41-3023.15 for the OEO sunset date.

warranted. Because WIFA's and the OEO's sunset dates are not aligned, WIFA's sunset review does not include a review of the AFA Board's powers and duties, which include the final approval of WIFA activities. By aligning WIFA's and the OEO's sunset dates, the Legislature could evaluate WIFA's and the AFA Board's purposes and functions more effectively.

Sunset factor 10: The extent to which the termination of WIFA would significantly affect the public health, safety, or welfare.

Terminating WIFA could harm the public's health, safety, and welfare if its functions were not transferred to another entity since WIFA provides low-cost financial assistance to the State's communities for drinking water and clean water infrastructure projects to help ensure safe, clean water for the public. WIFA has been awarded a AAA credit rating by national credit rating agencies, which in turn reduces WIFA's cost of borrowing, allowing WIFA to offer low-cost financial assistance to eligible applicants. Without transferring its functions to another agency, that assistance may not be readily available for those Arizona communities and water systems seeking financial assistance that may not otherwise be able to afford the projects.

Federal regulations require that the State designate an administrator for the Revolving Funds.¹⁷ Currently, WIFA, under the AFA Board's governance, has been designated as the administrator of these federal programs. However, stipulations in A.R.S. §41-3022.19 specify that the Legislature cannot terminate WIFA if it has a contractual obligation to the United States or any United States agency or any outstanding debts, obligations, or guarantees. WIFA has approximately \$261.6 million in outstanding bond debt as of December 31, 2020. If the Legislature terminated WIFA, provisions would have to be made to transfer the operating agreement with the EPA to another State agency and pay or retire WIFA's bond debt.

Sunset factor 11: The extent to which the level of regulation exercised by WIFA compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.

WIFA is not a regulatory agency; therefore, this sunset factor does not apply.

Sunset factor 12: The extent to which WIFA has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.

WIFA uses contractors in the performance of its duties, and its use of contractors is comparable to other states' use of contractors. Specifically, WIFA uses contractors for bond and financial services, information technology services, and technical assistance services such as engineers, consultants, or federal compliance monitoring. We contacted 4 states—California, Colorado, Nevada, and New Mexico—to determine the extent to which other states use private contractors. All 4 states reported that they contracted for financial and/or bond services. In addition, 2 states reported they used information technology contractors, and 2 states reported they used contractors for technical assistance services. We did not identify any additional areas where WIFA should consider using private contractors.

¹⁷ 40 Code of Federal Regulations (CFR) §35.3110(c)&(d) and 40 CFR §35.3510(b).



SUMMARY OF RECOMMENDATIONS

Auditor General makes 1 recommendation to the Legislature

The Legislature should:

1. Consider aligning WIFA's and the OEO's sunset dates.



Scope and methodology

The Arizona Auditor General has conducted this performance audit of WIFA pursuant to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing applicable State and federal laws, regulations, and guidelines, federal grant agreements, and WIFA's rules and policies; interviewing WIFA staff; and reviewing information from WIFA's website. We also attended and reviewed minutes from 4 WIFA Advisory Board and 3 AFA Board meetings. In addition, we used the following specific methods to obtain information for the Introduction and Sunset factors:

- Reviewed the financial assistance application process; the availability of incentives and loans; and financial, programmatic, and environmental review reports.
- Performed walk-throughs of the process for issuing financial assistance and the information technology software used to record, prioritize, and track financial assistance.
- Judgmentally selected and interviewed staff in 4 other states—California, Colorado, Nevada, and New Mexico—to determine the extent to which other states use private enterprises and/or contractors to perform the same functions as WIFA.
- Judgmentally selected and reviewed 8 of the 17 financial assistance projects that were approved between July 1, 2019 through December 31, 2020, to assess compliance with State and federal laws and regulations, grant agreements, and WIFA's policies and procedures.
- Compiled and analyzed data from WIFA's audited financial statements for fiscal years 2019 and 2020 and WIFA-provided estimated data for fiscal year 2021.

Our work on internal controls included reviewing WIFA's policies and procedures and, where applicable, testing compliance with these policies and procedures. Our work included reviewing the following components and associated principles of internal controls:

- Control activities, including the design and effectiveness of controls that help ensure financial assistance is provided in accordance with State and federal laws and regulations and WIFA's rules and policies.
- Monitoring, including performing monitoring activities such as annual loan reviews.

We reported our conclusions on applicable internal controls in the Sunset Factors. We did not identify any significant deficiencies in internal control.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit of WIFA in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to WIFA's Executive Director and staff for their cooperation and assistance throughout the audit.

AGENCY RESPONSE



September 15, 2021

Lindsey A Perry, CPA, CFE
Auditor General
Arizona Auditor General
2910 North 44th Street Suite 410
Phoenix, Arizona 85018

Subject: Water Infrastructure Finance Authority – Performance Audit and Sunset Review

Dear Auditor General Perry:

The Water Infrastructure Finance Authority of Arizona (WIFA) would like to express our appreciation for the work of your office in performing the audit and review, and in preparing the report. We have reviewed the revised preliminary report draft of the performance audit and agree with the content of the report as presented.

While there were no recommendations for WIFA to address directly, we support the Auditor General's recommendation that the Legislature should align the sunset dates of WIFA and its parent organization(s), the Arizona Finance Authority (AFA), which is itself established within the Office of Economic Opportunity (OEO).

It is our great honor to serve the citizens of the State of Arizona and we look forward to building upon the success of WIFA's programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel A. Dialessi".

Daniel A. Dialessi, CFA
Executive Director

