

ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

September 29, 2026

Members of the Arizona State Legislature

The Honorable Katie Hobbs, Governor

Director McGuire
Water Infrastructure Finance Authority of Arizona

Transmitted herewith is the report *A Performance Audit and Sunset Review of the Water Infrastructure Finance Authority of Arizona*. This audit was conducted by the independent CPA firm Novum Advisory, PLLC under contract with the Arizona Auditor General and was in response to an October 7, 2025, 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.

As outlined in its response, the Water Infrastructure Finance Authority of Arizona (Authority) agrees with 1 of the findings and disagrees with the other finding but plans to implement or implement in a different manner all recommendations. My Office will follow up with the Authority in 6 months to assess its progress in implementing the recommendations. I express my appreciation to the Authority's board members, Director McGuire, and Authority staff for their cooperation and assistance throughout the audit.

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: Water Infrastructure Finance Authority of Arizona board members



**Performance Audit and Sunset Review of the
Water Infrastructure Finance Authority
September 24, 2026**

**Novum Advisory, PLLC
Certified Public Accountants**

2168 Main Street, Suite A
Madison, MS 39110
www.novum.cpa



September 24, 2026

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

Dear Ms. Perry:

Novum Advisory, PLLC has completed its performance audit and sunset review of the Water Infrastructure Finance Authority of Arizona (Authority). The accompanying report presents the results of our work, conducted under contract with the Arizona Auditor General as part of the sunset review process established by *Arizona Revised Statutes § 41-2951 et seq.*

The audit examined the Authority's effectiveness and efficiency in carrying out its statutory responsibilities for water infrastructure financing, water supply development, long-term water augmentation, and water conservation. We also addressed the 10 statutory sunset factors.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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. The report's "Scope and Methodology" appendix provides further information about the objectives, scope, and procedures performed.

The Authority's written response is included with the report. It sets out the Authority's position on the finding and recommendations and its stated intentions regarding implementation.

We appreciate the cooperation of the Authority's Board members and staff, as well as the other individuals who provided information during the audit. Thank you for the opportunity to conduct this review on behalf of your office.

Sincerely,

A handwritten signature in blue ink that reads 'Novum Advisory PLLC'. The signature is stylized, with the 'N' and 'A' being particularly large and prominent.

Novum Advisory, PLLC

Highlights

Water Infrastructure Finance Authority of Arizona (Authority)

Performance Audit and Sunset Review

As of June 2026, the Authority provided more than \$2.3 billion in loans and more than \$243.3 million in grants for water related projects and had appropriately administered the Clean Water Revolving Fund, Drinking Water Revolving Fund, Water Supply Development Revolving Fund, and Water Conservation Grant Fund, but had not developed a consolidated and updated comprehensive water augmentation plan, risking that stakeholders could misunderstand the Long-term Water Augmentation program's status.

Audit purpose

To determine whether the Authority met its statutory objectives and purposes to administer the Clean Water Revolving Fund, Drinking Water Revolving Fund, Water Conservation Grant Fund, Water Supply Development Revolving Fund, and Long-Term Water Augmentation Fund (Augmentation Fund), and to respond to the 10 statutory sunset factors.¹

Key findings

- ▶ As of June 2026, the Authority had provided more than \$2.3 billion in loans for wastewater, sewer, stormwater, water reuse, drinking water infrastructure, and water supply development projects, such as a project intended to expand and improve water reclamation facilities, and awarded more than \$264.3 million in grants for water supply development, water use reduction/efficiency, and water reliability projects, such as a project to develop a regional wastewater collection and treatment system.
- ▶ Our review of a sample of Authority-administered loans and grants found that it appropriately administered the Clean Water Revolving Fund, Drinking Water Revolving Fund, Water Conservation Grant Fund, and Water Supply Development Revolving Fund.
- ▶ The Augmentation Fund was established to support water-importation projects for increasing the State's water supplies and as of August 2026, the Authority had advanced 7 imported-water concepts into feasibility evaluation but had not yet selected an imported-water project for final implementation.
- ▶ The Authority has not developed a consolidated and updated comprehensive water augmentation plan and instead its publicly available information on the water augmentation program is dispersed across its website and technical documents, is inconsistent, and does not explain the full path to water delivery, risking that stakeholders could misunderstand the program's status.

Key recommendations to the Authority

- ▶ Develop and obtain Board approval of a consolidated and updated comprehensive plan for the water augmentation program and post the plan to its website.
- ▶ Use the consolidated and updated comprehensive plan to publicly report progress to different audiences including the Legislature, general public, and other relevant stakeholders.

¹ Novum Advisory, PLLC conducted this performance audit and sunset review of the Water Infrastructure Finance Authority of Arizona on behalf of the Arizona Auditor General pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee, as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.



Table of Contents

Contents:	Page
Introduction	1
Augmentation Fund – Questions and Answers	17
Finding 1	30
Sunset Factors	35
Appendix A – Fund Level Financial Information	46
Appendix B - Bonds	57
Appendix C – Augmentation Fund Timeline	59
Appendix D – Scope and Methodology	69
Appendix E – Auditor’s Comments on Authority’s Response	73
Appendix F – Authority’s Response	76
Illustrations:	
Box 1	The Authority’s revolving loan programs combine federal, State, and borrower-generated revenues to provide ongoing project financing 3
Diagram 1	Revolving loan programs recycle repayments to provide ongoing financing for future water infrastructure 4
Table 1	Clean Water Fund has provided nearly \$1 billion for water projects via loans 5
Table 2	Summary information illustrates the financial stability of the Drinking Water Fund 6
Table 3	Water Supply Fund utilized both loans and grants to assist rural communities 8
Table 4	Water Conservation Fund only issues grants and not loans 9
Table 5	The Authority continued to add to its overall fund balance from fiscal years 2023 through 2026 while funding expanded program activity 14
Box 2	Key water augmentation terms explain how additional water could be developed, conveyed, stored, recovered, or otherwise made available to Arizona water users 17
Table 6	Funding for the Augmentation Fund has not remained consistent since the initial funding in fiscal year 2022 and has included reductions and transfers. 20
Table 7	The Authority’s process for selecting and developing imported-water projects involves multiple steps 24
Diagram 2	The imported water procurement advanced from solicitation development to feasibility review, but no project has been selected for implementation as of August 2026. 26
Table 8	The feasibility phase is intended to evaluate five interrelated aspects of each potential imported water project 27
Table A.1	Clean Water State Revolving Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2023 through 2026 47
Table A.2	Drinking Water State Revolving Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2023 through 2026 49



Table of Contents

Table A.3	Water Supply Development Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2023 through 2026	51
Table A.4	Water Conservation Grant Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2024 through 2026	53
Table A.5	Long-Term Water Augmentation Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2023 through 2026	55
Table B.1	The Authority reduced revolving fund bond debt from fiscal years 2023 through 2025, then expanded bond financing in fiscal year 2026 to support augmentation activities	58



Introduction

On behalf of the Arizona Auditor General, Novum Advisory, PLLC has completed a performance audit and sunset review of the Water Infrastructure Finance Authority of Arizona (Authority) pursuant to the applicable resolution of the Joint Legislative Audit Committee. This performance audit and sunset review focuses on the Authority's (1) administration of its major financing, conservation, and augmentation programs, including the Clean Water and Drinking Water State Revolving Funds, Water Supply Development Revolving Fund, Water Conservation Grant Fund, and Long-Term Water Augmentation Fund; (2) governance and oversight practices, including the role of its Board, committees, and staff; and (3) compliance with selected statutory and administrative requirements related to public access, complaints, conflict-of-interest practices, and use of public monies. We also provide additional information about the Authority's history, statutory responsibilities, financial activity, and responses to the statutory sunset factors. This report has two recommendations for the Authority in Finding 1 and one recommendation in the Sunset Factors section.

The Water Infrastructure Finance Authority was established in 1989, and 2022 statutory changes expanded its responsibilities to include water supply development, water conservation, and long-term water augmentation.

The Wastewater Management Authority of Arizona was established in 1989 to provide financial assistance for wastewater facilities and related projects. In 1997, the Legislature restructured that financing function by creating the Authority as a broader financing entity responsible for administering the State's Clean Water and Drinking Water State Revolving Funds and financing wastewater, drinking water, and other water quality-related infrastructure. The Authority operated as a separate State agency until 2016, when the Legislature placed it under the Arizona Finance Authority within the Arizona Office of Economic Opportunity. Under that structure, the Arizona Finance Authority Board served as the Authority's governing body, and a Water Infrastructure Finance Authority Advisory Board reviewed applications for financial assistance across all Authority-administered funding programs and related matters.

The Authority's Mission is "To ensure the sustainability of Arizona's present and future water supply through financial investments in effective augmentation, conservation, reuse, and water quality action."

Source: Water Infrastructure Finance Authority of Arizona, Five-Year Strategic Framework, revised 2025



AUTHORITY PROGRAMS

Clean Water Revolving Fund – A federal-state revolving financing program administered by the Authority to help eligible Arizona communities and Tribe's finance wastewater, sewer, stormwater, water reuse, nonpoint source, and other water quality projects. The program provides loans and other financial assistance, and repayments are returned to the fund to support future projects.

Drinking Water Revolving Fund – A federal-state revolving financing program administered by the Authority to help eligible public water systems and other borrowers finance drinking water infrastructure. The program supports projects needed to protect public health, achieve or maintain Safe Drinking Water Act compliance, address emerging contaminants or lead service lines, and assist systems with affordability needs.

Water Supply Development Revolving Fund – A state-capitalized financing program administered by the Authority to help eligible water providers develop or secure additional water supplies. The fund may provide loans, grants, and other financial assistance for water supply development projects, water supply studies, debt refinancing, bond-related support, and other activities intended to improve long-term water supply.

Water Conservation Grant Fund – A state-capitalized grant program administered by the Authority to support voluntary water conservation projects rather than long-term infrastructure loans. Eligible projects include activities intended to reduce water use, improve water-use efficiency, improve water reliability, support groundwater recharge, promote reuse, or conserve and augment water supplies.

Long-Term Water Augmentation Fund – A state created fund administered by the Authority to support large-scale water supply development and augmentation efforts intended to increase Arizona's long-term water supplies. Unlike the Authority's traditional revolving loan programs, the Augmentation Fund is focused on complex augmentation projects, including potential in-state and out-of-state projects, public private partnerships, loans, credit enhancements, and related planning or procurement activities.

Summarized by Auditor based on descriptions in various Authority policies, procedures, budget requests, marketing materials and loan documents.

The Authority remained under the Arizona Finance Authority governance structure until 2022, when the Legislature substantially revised its statutory framework.² These revisions re-established the Authority as a separate State agency governed by its own board and expanded its responsibilities beyond traditional revolving fund financing. Specifically, Arizona Revised Statutes (A.R.S.) § 49-1206 established the Water Infrastructure Finance Authority Board to evaluate and approve funding requests from the Clean Water Revolving Fund, Drinking Water Revolving Fund, Water Supply Development Revolving Fund, Water Conservation Grant Fund, and Long-term Water Augmentation Fund. In addition, The Authority's powers and duties were also changed to include allowing the Authority to hire a director and staff and adopt rules and policies needed to carry out its responsibilities.³

² Laws 2022, Chapter 366.

³ A.R.S. § 49-1203 and § 49-1203.01



2022 legislation created the Long-Term Water Augmentation Fund to support large-scale efforts to increase Arizona’s long-term water supply.

One of the most significant 2022 statutory changes was the creation of the Long-Term Water Augmentation Fund, or “Augmentation Fund.” The Augmentation Fund was established as a fund to be maintained in perpetuity and statute provides that it consists of Arizona state appropriations, Authority issued bond proceeds used to capitalize and support the Augmentation Fund, federal monies, project loan repayments, and other authorized revenues.⁴ The same statute authorizes the Authority to use Augmentation Fund monies for specified water supply development purposes, including projects that import water from outside Arizona, the purchase of imported water or rights to imported water, related water facilities, credit enhancement and loan guarantees, and administrative costs. In addition, A.R.S. § 49-1203.01 and related provisions require the Authority to administer the Augmentation Fund and, in coordination with the Arizona Department of Administration, establish procurement procedures by rule for Augmentation Fund administration. See Section *Augmentation Fund Questions and Answers*, pages 17 through 29, for more information about the development of the Augmentation Fund.

Box 1 – The Authority’s revolving loan programs combine federal, State, and borrower-generated revenues to provide ongoing project financing.

A revolving fund at the Authority operates by recycling the same pool of program resources over time rather than spending those resources only once. As an example, for Clean Water, federal capitalization grants are deposited into the program, the Authority provides the required State match, and the Authority uses those monies, together with other available funds, to finance eligible projects. The program then makes financial assistance available through loans that generally may run for up to 30 years, are disbursed on a cost-reimbursement basis, and require repayment of principal to begin within 12 months of project completion or 3 years from loan closing, whichever is earlier. As borrowers repay principal and interest, those repayments return to the program and become a continuing source of financing for future projects. The Authority also collects program fees and interest income, uses some fee revenue for administration, technical assistance, and State match, and maintains each revolving fund as a separate program so that revenues generated by one fund remain within that fund. In this way, federal grants, State match, loan disbursements, borrower repayments, interest earnings, and fee revenues work together to allow the Authority to finance water infrastructure over multiple decades while maintaining the long-term financial sustainability of the program.

Source: Auditor analysis of the Authority’s “SFY 2025 Clean Water State Revolving Fund Intended Use Plan” and “the Authority’s Policy II.1, Clean Water and Drinking Water State Revolving Fund Application Process Policy”.

Historically, the Authority’s revolving loan programs are its primary tool for financing water infrastructure and water supply projects across Arizona. The Authority’s revolving loan programs provide long-term financial assistance for water infrastructure and water supply projects throughout Arizona and make up the Authority’s principal loan portfolios. The largest of these programs are the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund, which support wastewater and drinking water infrastructure projects and are capitalized through federal grants, State funding, loan repayments, interest earnings, and other program revenues. The Authority also administers the Water Supply Development Revolving Fund, which supports

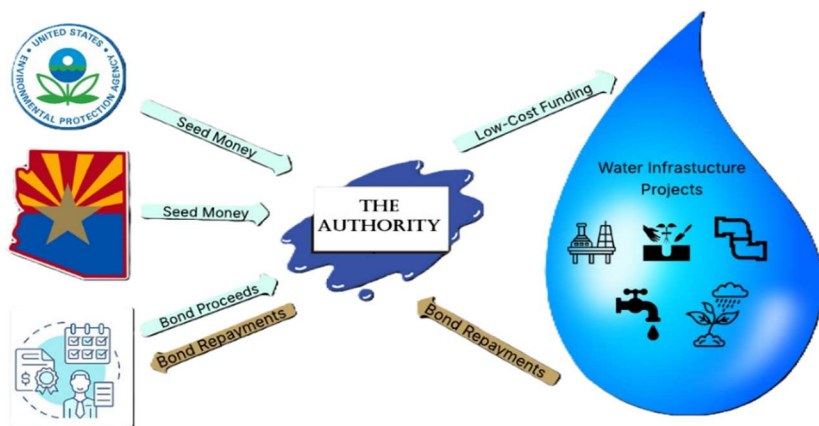
⁴ A.R.S. § 49-1302



water supply development activities and is funded through legislative appropriations, bond proceeds, federal monies, loan repayments, and donations. Together, these programs form the core of the Authority's financing structure and allow it to provide continuing assistance for water-related capital projects over time. Box 1 on page 3 provides more information about the revolving loan model, and Diagram 1 illustrates how funding is received, provided to borrowers, repaid, and made available for future financial assistance. The Clean Water State Revolving Fund and the Drinking Water State Revolving Fund are the Authority's longest-standing financing programs and represent a substantial portion of its lending activity. As of December 2025, the two programs had outstanding principal balances exceeding \$690 million in subsidized loans to support water needs in communities throughout Arizona, and the Authority reported nearly \$3 billion in total financial assistance provided since 1989 through its long-standing revolving loan activities. These programs support the Authority's traditional role as Arizona's water infrastructure financing entity by providing below-market financing and other assistance for projects tied to water quality, safe drinking water, and related public health and regulatory needs. The Authority's financial structure for these funds also reflects their revolving nature because program revenues include federal capitalization grants, borrower repayments, interest income, and related debt service and assistance fund revenues that are used to sustain ongoing lending activity. Diagram 1 illustrates how the Authority uses federal and state funding, bond proceeds, and loan repayments to finance eligible water infrastructure projects through these traditional revolving fund programs.

The Water Supply Development Revolving Fund serves a different purpose from the two

Diagram 1 – Revolving loan programs recycle repayments to provide ongoing financing for future water infrastructure projects.



Source: Auditor created graphic from analysis of federal Clean Water and Drinking Water State Revolving Fund Capitalization grant requirements, the Authority's intended use plans, program and financing documents, and staff interview.

State Revolving Fund

programs because it is directed toward water supply development rather than primarily wastewater or drinking water compliance infrastructure. The fund had a beginning balance of about \$152.2 million in fiscal year 2025, estimated total available resources of about \$162.3 million in fiscal year 2026, and projected non-appropriated disbursements of about \$23.5 million in both fiscal years 2026 and 2027. Revenues for this fund consist of State appropriations, bond issuances, federal monies, loan repayments, and donations, and fund monies

are used for loans, grants, other financial assistance to water providers, refinancing certain debt obligations, and water supply studies. Accordingly, this fund is more specialized than

the Authority's traditional revolving loan programs and is aimed at supporting longer-term water supply reliability and development needs.

Because these programs are designed to address different water infrastructure and water supply needs, each fund operates within a distinct statutory and programmatic framework. The following sections describe the Clean Water State Revolving Fund, the Drinking Water State Revolving Fund, and the Water Supply Development Revolving Fund in greater detail.

Clean Water State Revolving Fund, or Clean Water Fund

The Clean Water Fund provides financial assistance to eligible borrowers, including local governmental entities and tribal communities, for wastewater and water quality projects. Eligible projects may include planning, design, and construction of publicly owned wastewater treatment works; improvements to treatment facilities and sewer collection systems; water reclamation and reuse facilities; stormwater and drainage projects; and certain nonpoint source and decentralized wastewater projects. The program is funded through federal capitalization grants, State matching funds, and other program resources, and it operates as a revolving fund. As borrowers repay principal and interest, those repayments return to the program and become available for future lending. The Authority also collects program fees and interest income, uses some fee revenue for administration, technical assistance, and State match, and maintains the Clean Water Fund separately from its other revolving funds so that revenues generated by the fund remain within the program. As shown in Diagram 1 above, this structure allows the Authority to reuse loan repayments and other program revenues to finance water infrastructure projects over time. The program also emphasizes assistance to small and disadvantaged communities and may provide additional subsidies, including principal forgiveness, for eligible projects and borrowers.

The Clean Water Fund is one of the Authority's longest-standing financing programs and represents a substantial portion of its lending activity. As of June 2026, its portfolio includes 134 loans totaling approximately \$1.028 billion.⁵ Although the portfolio includes some larger loans, it primarily supports small to medium infrastructure projects, as reflected by a median loan size of approximately \$3.6 million and the largest loan of \$110 million. The Clean Water Fund also provides borrowers with long-term, favorable financing terms, including an average interest rate of 2.71 percent and an

Table 1 – Clean Water fund has provided nearly \$1 billion for water projects via loans (unaudited).

Clean Water State Revolving Fund	
Number of Loans	134
Median Loan	\$ 3,564,514
Largest Loan	\$ 110,000,000
Smallest Loan	\$ 50,354
Average Interest Rate	2.71%
Average Loan Term	19.80 Years
Outstanding Principal	\$ 280,396,293
Total Loaned	\$ 1,027,773,148

Source: Auditor compiled using unaudited Portfolio data provided by the Authority as of June 2026.

⁵ Loan portfolio includes loans active at any point during fiscal years 2021 through June 2026, including loans repaid in full during that period.

average loan term of approximately 19.80 years. For example, in April 2024, the Authority authorized up to \$110 million in Clean Water State Revolving Fund financing for the Apache Junction Sewer District's Water Reclamation Facility expansion and related system improvements, including \$3.5 million in principal forgiveness. The project is intended to address increasing wastewater flows associated with residential and commercial growth and is expected to more than double the facility's treatment capacity. As of June 30, 2026, the District had drawn approximately \$45 million, including the \$3.5 million forgiven amount, leaving approximately \$42 million in repayable principal outstanding.⁶ The loan requires interest-only payments during construction, with principal repayment scheduled to begin July 1, 2026.⁷

As of June 2026, the Clean Water Fund had approximately \$280.4 million in outstanding principal, indicating that a significant portion of prior lending remained active and continued to support its revolving structure.

Drinking Water State Revolving Fund or Drinking Water Fund

The Drinking Water Fund is a federal-state revolving financing program administered by the Authority to provide long-term financial assistance for drinking water infrastructure projects in Arizona. Eligible borrowers include Arizona political subdivisions, Indian Tribes, and other entities approved by the Board. The program may be used to make drinking water facility loans, purchase or refinance drinking water facility debt, assist with insurance for local drinking water facility bond obligations, fund other programs authorized under the federal Safe Drinking Water Act, and provide linked deposit guarantees through third-party lenders.⁸ The program is funded through federal capitalization grants, State matching funds, loan repayments, interest earnings, and other program revenues. Because it operates as a revolving fund, borrower repayments and related revenues are returned to the program and become available for future lending. The program prioritizes projects that address the most serious risks to human health, help systems achieve or maintain compliance with Safe Drinking Water Act requirements, and assist systems most in need under State affordability criteria. A portion of federal capitalization grant funding must also be

Table 2 – Summary information illustrates the financial stability of the Drinking Water Fund (unaudited).

Drinking Water State Revolving Fund	
Number of Loans	287
Median Loan	\$ 1,084,125
Largest Loan	\$ 108,582,332
Smallest Loan	\$ 29,798
Average Interest Rate	3.06%
Average Loan Term	19.33 Years
Outstanding Principal	\$ 474,565,756
Total Loaned	\$ 1,308,494,906

Source: Auditor compiled using unaudited Portfolio data provided by the Authority as of June 2026.

⁶ The approximately \$45 million in repayable principal outstanding for the Apache Junction Sewer District's \$110 million project reflects the amount drawn as of the date reviewed and does not represent the project's final loan principal. Because the project remains under construction, the District may continue to draw loan proceeds as eligible project costs are incurred, and its outstanding principal balance will increase accordingly.

⁷ Auditor review of the Apache Junction Sewer District's fiscal year 2025 annual comprehensive financial report; Authority Loan No. 910215-24, Exhibit A; and the related Authority loan schedule dated February 12, 2026.

⁸ Safe Drinking Water Act § 1452, 42 U.S.C. § 300j-12(a)(2), (f), (g)(2), and (k); see also A.R.S. § 49-1243(A)(1)-(6).

used to provide additional subsidy, such as grants, principal forgiveness, or negative-interest loans, for eligible projects and borrowers.

As of June 2026, the Drinking Water Fund is the larger of the Authority's two federal revolving loan programs, with 287 loans totaling approximately \$1.31 billion.⁹ Its portfolio is broader and more varied than the Clean Water Fund portfolio, with loan amounts ranging from approximately \$29,800 to \$108.6 million and a median loan size of approximately \$1.08 million. The Drinking Water Fund's average interest rate of 3.06 percent and average loan term of approximately 19.3 years indicate that it is structured to provide long-term financing on favorable terms. In addition, it had approximately \$474.6 million in outstanding principal, reflecting a large active loan portfolio that continues to support the program's revolving structure.

The largest Drinking Water Fund loan included in the Authority's June 2026 portfolio was a \$108.6 million loan to the City of Buckeye, executed in January 2020 and including approximately \$1 million in forgivable principal. The financing supported the acquisition and construction of the Jackie A. Meck Water Campus, formerly the Broadway Road Water Campus, a multiphase project that included a new well, transmission and distribution lines, storage tanks, pumps, and treatment processes intended to improve water quality and expand capacity for Buckeye's growing service area. As of June 2026, approximately \$60.6 million in principal remained outstanding, and the City had complied with all loan covenants.¹⁰

Water Supply Development Revolving Fund, or Water Supply Fund

The Water Supply Fund is a state-capitalized financing program administered by the Authority to help eligible water providers develop, secure, and improve long-term water supplies in Arizona. The program may support water supply development project costs, water supply studies, the purchase or refinancing of debt, assistance with insurance for bond obligations, linked deposit guarantees through third-party lenders, and other authorized forms of financial assistance. Unlike the Clean Water and Drinking Water Funds, which primarily support wastewater and drinking water infrastructure, the Water Supply Fund is focused more specifically on long-term water supply development and reliability.

The Water Supply Fund is smaller and newer than the Authority's Clean Water and Drinking Water Funds and has provided assistance through both loans and grants. Loans are repayable financial assistance, generally over a specified term and with interest or other financing charges, while grants do not require repayment if the recipient complies with the award's eligibility, performance, or other grant requirements. As shown in the portfolio summary, the Water Supply Fund had 10 loans totaling approximately \$12.9 million and 38

⁹ Loan portfolio includes loans active at any point during fiscal years 2021 through June 2026, including loans repaid in full during that period.

¹⁰ Auditor review of the Authority's loan portfolio as of June 30, 2026; Authority Loan No. 920299-20, Exhibit A; the related Authority loan schedule dated February 17, 2026; City of Buckeye, *Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2025*, Note 11, p. 47; and City of Buckeye reporting on the Broadway Road and Jackie A. Meck Water Campus projects.



grants totaling approximately \$54.0 million representing \$66.9 million for a total of 40 overall projects.¹¹ Projects could be awarded all grant funds, all loan funds, or a combination of the two. The loan portfolio remains relatively limited, with loan amounts ranging from \$399,000 to \$3 million, an average interest rate of 2.14 percent, and an average term of 20 years. Grants represent a larger share of the program’s overall activity, with awards ranging from \$77,000 to \$2 million. In addition, the Water Supply Fund reported approximately \$2,258,451 in outstanding principal, reflecting a comparatively small active loan portfolio.¹²

For example, the largest Water Supply Fund loan included in the Authority’s June 2026 portfolio was a \$5 million award to the Tri-City Regional Sanitary District that closed in May 2025.¹³ The loan included a \$2 million grant, leaving \$3 million intended for repayment at a combined interest and fee rate of 1.952 percent over a 23-year term. Authority and District materials describe the District’s underlying effort as the development of a regional wastewater collection and treatment system for southern Gila County communities where many properties rely on failed or substandard septic systems and cesspools. The project is intended to address related public health concerns and improve groundwater quality. As of December 8, 2025, the Authority reported approximately \$279,936 in outstanding principal with repayment not yet started.¹⁴

Table 3 – Water Supply Fund utilized both loans and grants to assist rural communities (unaudited).

Water Supply Development Fund			
Number of Loans	10	Number of Grants	38
Median Loan	\$ 1,064,029	Median Grant	\$ 1,654,796
Largest Loan	\$ 3,000,000	Largest Grant	\$ 2,000,000
Smallest Loan	\$ 398,615	Smallest Grant	\$ 77,000
Average Interest Rate	2.14%	Average Interest Rate	-
Average Loan Term	20 Years	Average Loan Term	-
Outstanding Principal	\$ 2,258,451	Outstanding Principal	-
Total Loaned	\$ 12,919,639	Total Granted	\$ 53,968,160

Source: Auditor compiled using unaudited Portfolio data provided by the Authority as of June 2026.

¹¹ Loan and grant portfolio includes loans and grants active at any point during fiscal years 2021 through June 2026, including loans repaid in full during that period.

¹² The outstanding principal reported for the Water Supply Fund reflects the amount of loan proceeds drawn by borrowers as of the date the information was provided and does not represent the final principal balance of those loans. Because funded projects remain active and borrowers may continue requesting disbursements as eligible project costs are incurred, the outstanding principal balance is expected to increase over time.

¹³ \$5,000,000 awards consist of a \$3,000,000 loan and a \$2,000,000 grant from the Water Supply Fund.

¹⁴ Auditor review of the Authority’s loan portfolio as of June 30, 2026; Authority Loan No. 941019-25 and the related repayment schedule dated May 22, 2025; Tri-City Regional Sanitary District project materials; and the Authority’s public notice for the Tri-City Regional Sanitary District Sewer System Project. The approximately \$279,936 in outstanding principal for the Tri-City Regional Sanitary District’s \$5 million award reflects the amount drawn as of December 8, 2025, and does not represent the project’s final loan principal. The award consists of a \$3 million repayable loan and a \$2 million grant. Because the project remains underway, the District may continue to draw loan proceeds as eligible project costs are incurred, and its outstanding principal balance may increase accordingly, up to the \$3 million repayable loan amount.

Water Conservation Grant Fund, or Conservation Fund

The Conservation Fund differs from the Authority's revolving loan programs because it provides grants for conservation activities rather than long-term loans for infrastructure projects. Created in 2022, the Conservation Fund supports voluntary programs and projects intended to reduce water use, improve water-use efficiency, or improve water reliability. Eligible uses include education and research, efficiency improvements, rainwater harvesting, gray water systems, groundwater recharge, watershed protection, coordinated water management, and other activities that conserve or augment water supplies.¹⁵ The program is administered through a Board and committee review process. By June 2026, the Authority reported that it had awarded approximately \$210.4 million for more than 200 projects across all 15 counties over the lifetime of the Conservation Fund.

Table 4 – Water Conservation Fund only issues grants and not loans (unaudited).

Water Conservation Grant Fund	
Number of Grants	208
Median Grant	\$ 384,900
Largest Grant	\$ 3,000,000
Smallest Grant	\$ 15,000
Total Match Required	\$ 130,771,467
Total Awarded	\$ 210,353,706

Source: Auditor compiled using unaudited Portfolio data provided by the Authority as of June 2026.

Because the Conservation Fund is a grant program, its financial activity is not supported by borrower repayments in the same way as the Authority's revolving loan funds. Instead, the Conservation Fund distributes appropriated monies to approved conservation projects. As shown in the table, the program included 208 grants totaling approximately \$210.4 million, with approximately \$130.8 million paid in matching funds. This indicates that a substantial portion of awarded monies had been disbursed, while remaining award amounts were associated with projects still underway. The number and size of awards show that the fund supported a broad range of recipients and conservation project types across the State.

For example, one Conservation Grant Fund award was a \$3 million grant to the City of Prescott, approved in June 2023 for the City's Water Meter Replacement Program. The City committed \$750,000 in matching funds, and the grant was intended to support the first 2 years of a 5-year meter replacement program. The Authority estimated that the project would conserve between 1,458 and 2,187 acre-feet of water over the lifespan of the conservation activity. As of January 7, 2026, the Authority's grant ledger showed that the full \$3 million award had been disbursed, and no grant balance remained. Because the assistance was provided as a grant, the City is not subject to scheduled principal and interest payments.¹⁶

¹⁵ Gray water is wastewater collected separately from sewage flow, such as water from clothes washing machines, bathtubs, showers, and bathroom sinks. It does not include wastewater from kitchen sinks, dishwashers, or toilets.

¹⁶ Auditor review of the Water Infrastructure Finance Authority's 2023 Annual Report, Water Conservation Grant Fund project table as of December 26, 2023; the Authority's Water Conservation Grant Fund master ledger and disbursement ledger as of January 7, 2026; Water Infrastructure Finance Authority, "WIFA Invests \$15 Million in Water Conservation," June 21, 2023; and City of Prescott, "City of Prescott Public Works Approved for \$3M Grant," July 7, 2023.

Hardship Grant Fund

A.R.S. §§ 49-1267 and 49-1268 require the Authority to administer the Hardship Grant Fund, which may provide grants and technical assistance to qualifying rural communities and Indian Tribes to plan, design, acquire, construct, improve, operate, or maintain wastewater collection and treatment facilities. Eligible rural communities generally must have populations of 3,000 or fewer and lack centralized wastewater systems or need treatment-system improvements. The Authority reported no separate Hardship Grant Fund activity during the audit period.

Long-Term Water Augmentation Fund (Augmentation Fund)

The Augmentation Fund is part of the Authority's broader financing structure but differs from the revolving loan programs because it was created to support large-scale augmentation activities intended to increase Arizona's long-term water supplies. Unlike the Authority's traditional loan programs, the Augmentation Fund is not principally designed as an ongoing revolving lending program for routine infrastructure projects. Instead, it is intended to support more complex, long-term water augmentation efforts that may involve planning, procurement, project development, and other activities associated with securing additional water supplies (see Box 2 on page 17 for a definition of water augmentation and other key terms). The Augmentation Fund therefore occupies a different role within the Authority's overall financing structure than the Clean Water, Drinking Water, and Water Supply Funds. Specifically, it reflects the Legislature's more recent expansion of the Authority's responsibilities beyond traditional infrastructure finance and into long-term water supply strategy. Because the Augmentation Fund has a different statutory purpose, financing structure, and implementation process than the Authority's traditional loan programs, this report includes a Questions and Answers Section that discusses the Augmentation Fund in more detail (see pages 17 through 29).

The Authority's organizational structure includes a governing board, statutory committees, and agency staff.

The Authority is governed by a 9-member voting Board and 9 nonvoting advisory members established in statute.¹⁷ The voting members include 4 persons from counties with populations of 400,000 or more, 4 persons from counties with populations of less than 400,000, and 1 person with expertise in finance or statewide water needs, while the advisory members include legislative designees and representatives from key State agencies.¹⁸ Statute requires the appointed voting members to have substantial knowledge of and experience with water or finance, limits how many may reside in the same county, and provides for 5-year terms. As of June 2026, the Authority's Board had its complement of

¹⁷ A.R.S. § 49-1302.

¹⁸ The 5 non-voting state agency heads include the Director of the Arizona Department of Water Resources; the Director of the Arizona Department of Environmental Quality; the Chief Executive Officer of the Arizona Commerce Authority; the Director of the Arizona Department of Administration; and the State Land Commissioner of the Arizona State Land Department. The remaining 4 non-voting advisory seats are allocated to the President of the Senate; the Speaker of the House; and the Minority Leaders of both chambers.



members, with all 9 voting seats and all 9 nonvoting seats filled.

The Board is supported by four principal committees, all of which are statutory committees created as part of the Authority's 2022 restructuring. The primary role of the committees is to review applications and other program matters within their assigned areas, and make recommendations to the Board, which retains final authority. The first 3 committees were operating by late 2022 and the Water Conservation Grant Committee was appointed and began meeting in 2023.

► Federal Water Programs Committee –

The Federal Water Programs Committee advises the Board on the Authority's federal water programs and is authorized by statute.¹⁹ The committee reviews applications for financial or other assistance from the Clean Water, Drinking Water, and Hardship Grant Fund and makes recommendations to the Board.²⁰ The Authority also assigns the committee responsibility for reviewing project finance due diligence procedures, Intended Use Plans, Project Priority Lists, technical assistance program matters, and applicable bond-related transactions. The committee consists of 7 Board-appointed members representing water system, district, municipal, and county categories, and 4 statutory agency representatives.²¹ Members are appointed annually by July 1st and serve 12-month terms. As of June 2026, the committee's 11 positions were filled.

► Water Supply Development Committee –

The Water Supply Development Committee reviews applications for financial assistance from the Water Supply Fund and makes recommendations to the Board and is authorized and organized by statute.²² The committee is comprised of 7 Board members. Four out of those 7 Board members must come from counties with populations of less than 400,000; 2 Board members from counties with populations of 400,000 or more selected by Board vote; and the remaining Board member is the Governor-appointed Board member recognized as the member who specializes in finance of State water needs. Board members are appointed annually by July 1st and serve 12-month terms. As of June 2026, the committee's 7 positions were filled.

► Long-Term Water Augmentation Committee –

The Long-Term Augmentation Committee reviews applications for financial assistance from the Augmentation Fund and makes recommendations to the Board and is authorized by statute.²³ The committee also assists the Board in developing

¹⁹ A.R.S. § 49-1207.

²⁰ The Hardship Grant Fund provides grants and technical assistance for qualifying rural wastewater projects in communities with populations of 3,000 or fewer. See A.R.S. §§ 49-1267 and 49-1268. It is not discussed separately in this report because the Authority did not report separate fund activity during the period reviewed.

²¹ The 4 statutory agency representatives include designees from the Arizona Department of Environmental Quality; Arizona Department of Water Resources, Arizona Corporation Commission, and the Arizona Commerce Authority.

²² A.R.S. § 49-1208 (A)

²³ A.R.S. § 49-1208 (B)



solicitations, reviewing and evaluating solicitation responses, and making recommendations related to those responses. The committee consists of 7 Board members, including 4 Board members from counties with populations of 400,000 or more; 2 Board members from counties with populations of less than 400,000 selected by Board vote, and the Board member appointed by the Governor who specializes in finance or statewide water needs. Board members are appointed annually by July 1st and serve 12-month terms. As of June 2026, the committee's 7 positions are filled.

► **Water Conservation Grant Committee -**

The Water Conservation Grant Committee advises the Board on Water Conservation Fund matters. The committee reviews the grant applications from the Conservation Fund and makes recommendations to the Board regarding those applications. The committee is comprised of 8 Board members, all appointed by the Board. The 8 positions must represent the statutory categories for public water systems of counties above and below 500,000 populations, a water conservation advocacy group, an Arizona university representative with significant water conservation knowledge, a natural resource conservation district, and the Arizona Department of Water Resources Director or designee.²⁴ All members are appointed by July 1st and serve 12-month terms. As of June 2026, the committee's 8 positions are filled.

As of May 2026, the Authority had 28 full-time equivalent positions (FTEs) and 1 vacancy and is organized into the following 6 divisions.²⁵

► **Finance (11 FTEs, 3 Contract Positions, 0 Vacancies)**

Responsible for financial services, accounting, loan administration, and procurement functions.

► **External Affairs (3 FTEs, 0 Vacancies)**

Responsible for government affairs and communications functions.

► **Information Technology (2 FTEs, 2 Contract Positions, 1 Vacancy)**

Responsible for information technology and systems support functions.

► **Water Projects (8 FTEs, 0 Vacancies)**

Responsible for project management, grants coordination, and water resources functions.

²⁴ A.R.S. § 49-1335

²⁵ Includes 6 contracted positions, 5 of which were filled as of May 2026.



► **Business Operations and Human Resources (2 FTEs, 0 Vacancies)**

Responsible for business operations, human resources, and program and administrative functions.

► **Executive and Legal (2 FTEs, 0 Vacancies)**

In addition to employee positions, the Authority used a limited number of contract positions for specialized technical and professional expertise in some program areas.

The Authority administers multiple funding sources to support water infrastructure, conservation, and augmentation activities.

The Authority administers multiple funds to support water infrastructure, conservation, and augmentation activities (see Appendix A, pages 46 through 56, for more information about these funds). As shown in Table 5, the Authority's financial activity varied during fiscal years 2023 through 2026 because some funds received large State appropriations in fiscal year 2023, and later years reflect continued loan, grant, administrative, debt-service, and project disbursement activity from accumulated fund balances and other program revenues. The Authority's fiscal year 2026 expenditure plan totaled approximately \$309 million across appropriated and non-appropriated funds.

The table on the next page illustrates the overall financial position of the Authority over the last three years, with estimates for 2026.



Table 5 – The Authority continued to add to its overall fund balance from fiscal years 2023 through 2026 while funding expanded program activity.

	2023 (Actual)	2024 (Actual)	2025 (Actual)	2026 (Estimate)
Beginning Fund Balance ^{1,2}	\$ 789,563,076	\$ 1,326,342,376	\$ 1,434,764,480	\$ 1,508,307,778
Revenues ⁵				
State Appropriations ^{3,7}	\$ 502,345,343	\$ 255,946,558	\$ 63,797,330	\$ 182,387,500
Program loan interest ⁴	6,784,885	7,214,138	8,279,585	5,201,300
Debt management fees	10,285,633	11,328,099	12,495,473	13,883,400
Investment earnings ⁶	17,606,995	40,807,274	37,388,144	27,270,400
Federal, State and Admin grants ⁸	33,179,772	53,515,545	47,424,924	109,870,000
Gross Revenues ^{9,10}	\$ 570,202,628	\$ 368,811,614	\$ 169,385,456	\$ 338,612,600
Expenditures				
Administrative expenses				
Personnel and benefits	\$ 2,376,803	\$ 3,877,599	\$ 4,040,049	\$ 4,420,700
Contracts	464,770	559,033	2,860,021	4,299,100
In-State Travel	13,636	44,332	31,417	26,300
Out of state travel	15,312	11,129	9,373	28,800
Other operating expenses ¹³	1,400,956	488,623	700,716	2,154,800
Equipment	70,296	126,924	173,440	175,000
Transfers to ADEQ	4,281,463	7,684,645	6,824,595	6,824,595
Total Administrative Expenses	\$ 8,623,236	\$ 12,792,285	\$ 14,639,611	\$ 17,929,295
Technical assistance	488,563	385,881	330,454	330,000
Forgivable principal expense	6,782,935	17,611,176	11,703,822	11,700,000
Aid to Organizations ¹¹	10,000,000	66,746,558	64,753,930	278,298,000
Depreciation	2,392	-	121,647	-
Interest ¹²	7,526,202	5,848,106	3,303,551	34,600
Bond Issuance Costs	-	-	989,143	-
Total Expenditures	\$ 33,423,328	\$ 103,384,006	\$ 95,842,158	\$ 308,291,895
Transfers Out	\$ -	\$ 157,005,504	\$ -	\$ -
Net change in fund balance	\$ 536,779,300	\$ 108,422,104	\$ 73,543,298	\$ 30,320,705
Ending Fund Balance	\$ 1,326,342,376	\$ 1,434,764,480	\$ 1,508,307,778	\$ 1,538,628,483

Source: Auditor analysis of Authority audited financial statements for fiscal years 2023 through 2025, audited by Baker Tilly US, LLP, and Authority-prepared estimated financial information for fiscal year 2026. The Authority's audited financial statements are available on its website under Investor and Financial Information.



Table 5 Continued

¹ Fiscal years 2023 through 2025 reflect actual amounts compiled from the Authority's audited financial statements. Fiscal year 2026 amounts are unaudited estimates compiled from the Authority's fiscal year 2026 expenditure plan in its fiscal year 2027 budget request. The budget request presents amounts in thousands; amounts shown in this table have been converted to dollars and may differ from actual fiscal year 2026 results.

² Although this table uses "fund balance" for readability, the Authority's audited financial statements report this amount as net position. Much of the Authority's net position is restricted and is not available for unrestricted spending. For example, as of June 30, 2025, the Authority reported total net position of approximately \$1.5 billion, nearly all of which was restricted for revolving loan program and debt service purposes.

³ The large fiscal year 2023 increase in revenues and ending balance was primarily caused by State appropriations related to the Authority's expanded responsibilities. Fiscal year 2023 audited financial statements reported approximately \$502.3 million in State appropriations and approximately \$536.8 million increase in net position. These appropriations included approximately \$334 million for the Long-Term Water Augmentation Fund, approximately \$157.7 million for the Water Supply Development Revolving Fund, and \$10 million for water projects assistance grants.

⁴ Program loan interest represents interest charged to financial-assistance recipients, and debt management fees are fees assessed to help offset the Authority's costs of managing and administering financial assistance. These revenues are part of the revolving fund structure and help support ongoing program administration and lending activity.

⁵ Fiscal year 2024 revenues were lower than fiscal year 2023 primarily because State appropriations decreased. Fiscal year 2024 audited financial statements reported approximately \$255.9 million in State appropriations, compared to approximately \$502.3 million in fiscal year 2023. Fiscal year 2024 also included approximately \$157 million in transfers out to State funds, which reduced the Authority's net increase in fund balance for that year.

⁶ Investment earnings are affected by the Authority's cash and investment balances and the earnings allocated through the State Treasurer's investment pools. As of June 30, 2025, the Authority reported approximately \$908.2 million in cash and investments, including approximately \$894.3 million in the State investment pool. The State Treasurer allocates interest monthly based on average daily balances.

⁷ Fiscal year 2025 revenues decreased from fiscal year 2024 primarily because State appropriations decreased to approximately \$63.8 million. Despite the lower appropriation level, the Authority's net position still increased by approximately \$73.5 million in fiscal year 2025, ending the year at approximately \$1.508 billion.

⁸ Federal, State, and administrative grants include federal capitalization grants and other grant-related monies. Federal capitalization grants are restricted for revolving loan programs, and federal grant monies generally cannot be drawn until qualifying expenditures are incurred. As a result, grant revenues can vary from year to year based on award timing, project activity, and reimbursement/disbursement timing.

⁹ Fiscal year 2024 revenues were lower than fiscal year 2023 primarily because State appropriations decreased. Fiscal year 2024 audited financial statements reported approximately \$255.9 million in State appropriations, compared to approximately \$502.3 million in fiscal year 2023. Fiscal year 2024 also included approximately \$157 million in transfers out to State funds, which reduced the Authority's net increase in fund balance for that year.

¹⁰ Fiscal year 2025 revenues decreased from fiscal year 2024 primarily because State appropriations decreased to approximately \$63.8 million. Despite the lower appropriation level, the Authority's net position still increased by approximately \$73.5 million in fiscal year 2025, ending the year at approximately \$1.508 billion.



Table 5 Continued

¹¹ Expenditures for Arizona water projects increased significantly beginning in fiscal year 2024 as the Authority began disbursing monies for newer State-funded water programs, including conservation grant activity. In fiscal year 2024, the Authority reported awarding all \$200 million of American Rescue Plan Act monies for 186 Water Conservation Grant Fund projects across all 15 counties, with approximately \$1.7 million disbursed as of June 30, 2024. By June 30, 2025, the Authority reported a total Water Conservation Grant Fund commitment of approximately \$214.6 million for more than 200 projects, with approximately \$64 million in reimbursement requests and disbursements.

¹² Fiscal year 2025 interest and debt-related activity was affected by the Authority's refunding of its Series 2014 Revenue Refunding Bonds through the issuance of Series 2024 Revenue Refunding Bonds. The audited financial statements reported a deferred gain of approximately \$9.9 million from the refunding and approximately \$2 million of amortization recorded as a reduction to interest expense in fiscal year 2025. Management also reported that the refunding saved the Authority approximately \$4.6 million in interest expenses and released approximately \$34 million in reserves for future loans.

¹³ The FY 2026 increase in contractual services and other operating expenditures is primarily related to the Augmentation fund and the planned professional services with the implementation and beginning of Phase 2 and the feasibility studies with the seven planned projects that are being pursued in the Augmentation Fund for long-term water solutions.



Augmentation Fund – Questions and Answers

The Long-Term Water Augmentation Fund (Augmentation Fund) supports two related but distinct activities: developing projects that could make water originating outside Arizona available to water users within the State and providing repayable financial assistance for eligible in-State water supply projects.

Box 2: Key water augmentation terms explain how additional water could be developed, conveyed, stored, recovered, or otherwise made available to Arizona water users.

FREQUENTLY USED TERMINOLOGY		
	Water Augmentation	Activities intended to increase or make additional water supplies available to meet current or future water needs.
	Imported Water	Water originating outside Arizona that is made available to Arizona water users through physical delivery, exchange, or another arrangement.
	Water Importation Project	A project or arrangement intended to make imported water available in Arizona, including any facilities or agreements needed to treat, transport, store, exchange, or deliver the water.
	In-State Financial Assistance	Loans or other financial support from the Augmentation Fund for eligible water supply development projects located within Arizona. This program is separate from the water importation process.
	Water Exchange	An arrangement in which water is provided or made available in one location in return for rights to, or delivery of, water in another location.
	Conveyance	The infrastructure and processes used to transport water, such as canals, aqueducts, pipelines, pumping facilities, and related structures.
	Desalination	The process of removing salts and other minerals from seawater or brackish water to produce water suitable for an intended use.
	Irrigation Modernization	Improvements to irrigation infrastructure or operations intended to reduce water losses, improve water-use efficiency, or decrease the amount of water needed for agricultural use.
	Groundwater Storage and Recovery	The storage of water in an aquifer or underground storage facility for authorized withdrawal and use at a later time.
	Water Purchaser (Offtaker)	A water provider, governmental entity, utility, business, or other party expected to contract for and pay for water made available by a project.
	NOTE: The development of water importation projects involves many steps. Timeframes vary based on project type, complexity, approvals, financing, and other factors.	

The questions and answers below explain the Augmentation Fund's statutory purpose and allowable uses, how the Authority's augmentation responsibilities differ from its traditional financing programs, the process the Authority developed to evaluate imported-water proposals, and the status of its imported-water and in-State activities.²⁶

Because this discussion uses specialized water-supply and project-development terminology, Box 2 defines terms used frequently throughout this section and illustrates ways additional water may be developed, conveyed, exchanged, stored, recovered, or otherwise made available to Arizona water users.

Source: Auditor created based on analysis of A.R.S. §§ 49-1201(8), (9), (21), and (22) and 49-1303(A) and (E), and the Authority's water importation program materials.

²⁶ A.R.S. §§49-1303(A)(1), (6), and (7), and 49-1307

Q1 What factors did the Legislature cite as reasons for establishing the Authority's water augmentation responsibilities, and do those factors still exist in 2026?

In establishing the Authority as a standalone agency, which included assigning the Authority new responsibilities related to water augmentation, the Legislature included a legislative intent statement in statute indicating that, now and into the foreseeable future, regions of Arizona lack access to the water supplies necessary to meet their current and long-term needs. The Legislature further found that protecting Arizona's current and future residents, economy, and environment requires a comprehensive strategy that conserves and reuses existing water resources and augments those resources with new renewable water supplies. Statute therefore directs the Authority to help meet the State's existing and future water needs by developing or facilitating water conservation, reuse, and augmentation projects.²⁷ These water needs were to be addressed via \$1.0 billion in State appropriations for the Augmentation Fund scheduled over fiscal years 2023 through 2025 (see Question 3, page 19, for more information on actual amounts appropriated to the Augmentation Fund).

Arizona's need for long-term water planning remains significant. In 2026, Arizona continued to experience short- and long-term drought, including exceptional long-term drought across much of the State. In addition, as of September 2026, the seven Colorado River Basin States had not reached consensus on operating guidelines to replace the existing guidelines that expire at the end of 2026. In July 2026, the Bureau of Reclamation issued a Final Environmental Impact Statement establishing a preferred adaptive framework for developing post-2026 operating guidelines while preserving the opportunity to incorporate a later consensus agreement among the Basin States. The final federal operating decisions could substantially affect Arizona's Colorado River supplies.^{28, 29}

Q2 What are the Augmentation Fund's intended purposes, and how can Fund monies be used?

State law authorizes nine uses of Augmentation Fund monies for water supply development and Fund administration. These include financing projects that import water into Arizona; purchasing imported water or related rights; acquiring or constructing in-State facilities to convey or deliver imported water; conducting investigations and environmental reviews; contracting for water-needs assessments; financing in-State water supply development projects; providing debt guarantees or credit enhancements; administering the Fund; and supporting specified Authority personnel.

At least 75 percent of the monies appropriated to the Augmentation Fund for fiscal years 2023 through 2025 were required to be reserved and separately accounted for to fund one

²⁷ A.R.S. §49-1205(A) through (C); Laws 2022, Ch. 366.

²⁸ Arizona Department of Water Resources, *Drought Status*, January through May 2026; and "Arizona, Lower Basin partners, commit to continuing efforts to find common ground on new Colorado River operations rules," February 19, 2026.

²⁹ Matt Jenkins, "The Colorado River states are deadlocked and the river is crashing. Will a 'grand bargain' finally get us day?," The Water Desk, July 8, 2026. The article was originally published by Western Water on June 25, 2026.



or more projects that import water from outside Arizona. Imported water may be physically conveyed into Arizona or made available through an exchange or another arrangement that allows Arizona water users to receive or retain water within the State.³⁰

The 75 percent reservation applies specifically to the fiscal years 2023 – 2025 State appropriations. Other Augmentation Fund monies not subject to that reservation may be used for any other authorized purpose, including providing repayable financial assistance for eligible in-State projects to acquire or develop water or water rights; convey, store, or recover water; reclaim or reuse water; replenish groundwater; or conserve existing water supplies.

Except for specified studies and investigations, loan guarantees, and credit enhancements, the Authority must obtain full repayment of Augmentation Fund assistance through loan repayments, water subcontracts, rates, fees, charges, or other appropriate repayment mechanisms. The Fund is therefore not intended to operate as a conventional grant program.

Q3 How much money has the Augmentation Fund received since inception and how much funding exists as of June 2026, including bond proceeds?

The Fund's financing history includes State appropriations, investment earnings, budget reductions and transfers, and bond proceeds. Although Laws 2022, Ch. 366, appropriated \$1 billion to be deposited in the Augmentation Fund in 3 roughly equal payments in fiscal years 2023, 2024, and 2025, subsequent budget actions reduced that planned funding, including reducing the fiscal year 2024 appropriation by approximately \$143.8 million and eliminating the planned \$333 million fiscal year 2025 appropriation. As a result, the Fund recorded approximately \$523.2 million in State appropriations through fiscal year 2024 and no additional State appropriation in fiscal year 2025. The State also transferred some monies in the Augmentation Fund after they were deposited, including an approximately \$97.3 million transfer to other State funds in fiscal year 2024 and a June 2025 budget action directing an additional approximately \$84 million transfer from the Fund.³¹

Table 6 on page 20 distinguishes these sources and actions because bond proceeds are borrowed monies rather than State appropriations or recurring program revenue.³²

³⁰ A.R.S. §49-1303(A)(1)(6) and (7) and (E)

³¹ Laws 2022, Ch. 366, §§ 31–33; Laws 2023, Ch. 133, § 111; Laws 2024, Ch. 209; Laws 2025, Ch. 233

³² Bond proceeds are borrowed monies that increase the Authority's liabilities. Therefore, the combined total of State appropriations and bond proceeds is a gross financing measure and should not be interpreted as the Fund's available cash, unrestricted balance, or net position.



The recorded State appropriations and issued bond proceeds total approximately \$873.2 million in gross financing inflows. This amount should not be interpreted as the Fund's available balance because transfers, expenditures, investment earnings, reserves, and future debt repayment also affect available resources.³³

Table 6: Funding for the Augmentation Fund has not remained consistent since the initial funding in fiscal year 2022 and has included reductions and transfers.

Funding event	Amount and effect
Original 2022 State funding plan	\$1.0 billion over fiscal years 2023 through 2025: \$334 million in fiscal year 2023 and \$333 million in each of fiscal years 2024 and 2025.
State appropriations recorded	Approximately \$334.0 million in fiscal year 2023 and \$189.2 million in fiscal year 2024, totaling \$523.2 million. No new State appropriation was recorded in fiscal year 2025.
Budget reductions and sweeps	The planned fiscal year 2024 deposit was reduced by \$143.8 million; the planned fiscal year 2025 deposit of \$333 million was eliminated; audited statements record an approximately \$97.3 million transfer to other State funds in fiscal year 2024; and a June 2025 budget action directed an additional approximately \$84 million sweep, which included \$19.3 million in earned interest.
Augmentation Fund bonds	In February 2026, the Board authorized the Authority to issue up to \$375 million in Augmentation revenue bonds. In March 2026, the Authority issued \$350 million in bonds. These bonds were financing inflows, not project disbursements; the financing documents designated \$260 million for imported-water activities and \$90 million for in-State financial assistance.
Investment earnings and reported position	Approximately \$43.3 million in investment earnings during fiscal years 2023 through 2025 and approximately \$463.4 million in net position on June 30, 2026. As of June 2026, the State Account interest income was \$15.7 million.

Source: Auditor analysis of Laws 2022, Ch. 366, §§31 through 33; Laws 2023, Ch. 133, §111; Laws 2024, Ch. 209; Laws 2025, Ch. 233; the Authority's audited financial statements for fiscal years 2023 through 2025; Board Resolution 2026-043A; and the Authority's Series 2026 Long-Term Water Augmentation Fund bond documents.

Q4 How do the Authority's Augmentation Fund responsibilities differ from its traditional financing responsibilities?

The Authority's traditional Clean Water and Drinking Water State Revolving Fund programs generally finance projects that borrowers have already identified through established application, priority-setting, underwriting, environmental review, loan-closing, and

³³ The amounts shown as resources for the Augmentation Fund include bond proceeds and therefore should not be interpreted as resources available free of repayment obligations. Bonds issued to provide funding for the LTWAF create corresponding debt obligations, and monies in the LTWAF are pledged to repay the related principal and interest. Accordingly, the reported inflows may exceed the amount of resources ultimately available for program activities after considering the associated debt service requirements.

repayment procedures.³⁴ In contrast, the imported-water component began without a State-selected water source, delivery route, project design, water purchaser, or construction-ready project.

State law directs the Authority to investigate the feasibility of agreements with public or private entities and to consider anticipated benefits and costs, technical feasibility, cost-effectiveness, long-term reliability, environmental requirements, ratepayer impacts, comments from water users and affected jurisdictions, the qualifications and financial capacity of private partners, available funding sources, and the ability of participating entities to repay their obligations.³⁵

State law also requires the Authority, in coordination with the Arizona Department of Administration, to establish procurement procedures by rule for administering the Fund. The procurement rules became effective in April 2024, and the financial assistance rules became effective in May 2024.³⁶ The Authority therefore had to establish a procurement and project-development framework, contract for staged feasibility work, and evaluate concepts that were not yet ready for final financing or construction. These activities differ from simply distributing grant monies or making a loan for a construction-ready infrastructure project.

Q5 What procurement process did the Authority develop for imported-water projects, and why did it choose that process?

In December 2022, soon after the Fund was created, the Authority received an unsolicited proposal for a Sea of Cortez desalination project from IDE Technologies (IDE).³⁷ The proposal asked the Authority to serve as purchaser of all project water and commit approximately \$750 million.³⁸ It generated public and legislative scrutiny, including concerns that the Authority might commit substantial public monies to one project without an open process for identifying and comparing alternatives. Additionally, the Governor of Sonora, Mexico, Alfonso Durazo, stated in a public online post that IDE had acted in bad faith in attempting to convert an initial conversation about desalination technology into a water negotiation, and stated that Sonora would no longer work with IDE for Arizona water importation.³⁹

The Board directed staff to obtain additional information, but, according to staff interviews, the proposer did not provide enough substantive information for the Authority to determine whether the proposal satisfied the applicable statutory criteria. The Authority did not award

³⁴ Authority Policy II.1, *Clean Water and Drinking Water State Revolving Fund Application Process Policy*; Authority Policy II.2, *Environmental Review of State Revolving Fund Projects*; and the Authority's Clean Water and Drinking Water State Revolving Fund Intended Use Plans.

³⁵ A.R.S. §§49-1203.01(A)(2) and 49-1304.

³⁶ 18 A.A.C. 15, Art. 8, R18-15-801 through -826, final expedited rulemaking published at 30 A.A.R. 806 and effective April 3, 2024; and 18 A.A.C. 15, Art. 9, R18-15-901 through -906, final expedited rulemaking published at 30 A.A.R. 1982 and effective May 7, 2024.

³⁷ <https://ide-tech.com/en/>

³⁸ IDE Technologies' unsolicited Sea of Cortez proposal and term sheet; Authority Board agenda materials and meeting minutes, December 2022 through February 2023.

³⁹ Gobierno del Estado de Sonora, "Gobierno de Sonora (@gobiernosonora)," X (formerly Twitter), accessed September 4, 2026.



funding to the proposal. The experience influenced its decision to use a more deliberate and competitive process.

The Authority selected a progressive public-private partnership (P3) procurement process in which qualified private development teams could propose different solutions and progressively develop the engineering, environmental, regulatory, community, financial, and commercial information needed to evaluate them. Arizona law authorizes the Authority to use P3s, predevelopment agreements, and other project-delivery methods, but it does not require one specific method.⁴⁰

During 2023 and 2024, the Authority adopted a 5-Year Strategic Framework, assessed potential water demand and purchasers, issued a Request for Information that received 28 unique responses, completed rulemaking, and developed the competitive solicitation.⁴¹ Appendix C, pages 59 through 69, provides a detailed chronology of these activities.

Q6 How has the Authority's procurement and project selection process for the water augmentation program changed and proceeded over time?

The Authority has revised its procurement and project-development approach outlined in its 5-year strategic framework, as follows:

- ▶ **July 2023**—The Authority's July 2023 5-Year Strategic Framework established initial milestones for the augmentation program. The framework anticipated publishing a detailed solicitation in November 2023, receiving and beginning due diligence on at least three qualified proposals in February 2024, and selecting at least one augmentation proposal in July 2024.
- ▶ **August 2024**—The August 2024 framework established updated milestones to publish the solicitation by the end of 2024, select multiple project teams by mid-2025, open the in-State financial assistance process by mid-2025, and reach agreement with potential water purchasers, known as offtakers, on an offtake-agreement structure by late 2025.
- ▶ **August 2025**— The August 2025 revision represented a material change in how the strategic framework described the program's path from solicitation to project development. The Authority's July 2023 framework anticipated selecting at least 1 augmentation proposal by July 2024, and the August 2024 revision shifted the milestone toward selecting multiple project teams. In contrast, the August 2025 revision anticipated issuing base contracts in October 2025. These contracts establish the general terms under which selected development teams may perform future work but do not select a project for implementation or authorize construction. Specific feasibility work, deliverables, costs, and schedules are established through subsequent task orders.

⁴⁰ A.R.S. §§49-1211 through 49-1213.

⁴¹ Water Infrastructure Finance Authority of Arizona, *5-Year Strategic Framework*, adopted July 29, 2023; Authority 2023 Annual Report; Authority Request for Information and response log; and Authority procurement and financial-assistance rulemaking records.



The August 2025 revision also introduced Phase II feasibility analysis, during which the selected project concepts would undergo detailed technical, environmental, regulatory, financial, governmental, community, and implementation evaluation before the Authority determined whether to enter predevelopment agreements. The revision anticipated completing Phase II and entering predevelopment agreements for the most viable water importation projects by fall 2027. The revised framework acknowledged that the Authority could not determine with precision how long Phase II would take until the base contracts and related task orders were finalized and characterized fall 2027 as an optimistic completion date. It also established milestones for convening an Offtake Advisory Group in September 2025, establishing a more formal Offtake Steering Committee by spring 2026, and approving a draft offtake agreement by fall 2027. The revised framework expressly contemplated that offtaker organization and agreement development would proceed concurrently with Phase II feasibility work so that potential water supply and customer demand could be developed together.⁴²

As shown in Table 7 on page 24, as of July 2026, the Authority has completed its initial competitive solicitation and advanced selected concepts into feasibility evaluation, but it had not selected a project for final implementation. On April 17, 2024, the Board directed staff to prepare a formal solicitation. The Authority issued Solicitation #2024-001 on November 20, 2024. The solicitation and proposed base contract exceeded 450 pages and addressed project requirements, proposer qualifications, evaluation procedures, procurement integrity, allocation of project and financial risks, contract administration, and terms for future feasibility and project-development work.⁴³

The Authority received 17 qualification submissions and selected six submissions from three private development teams to proceed. After two rounds of individual meetings, it received six offers in August 2025. One team's offer was determined to be nonresponsive, and the remaining five offers underwent technical and financial review, scoring, and Evaluation Committee consensus review.

On November 19, 2025, the Board awarded base contracts to two development teams and advanced four proposals containing seven project concepts into feasibility evaluation. The concepts involve desalination, irrigation modernization, water reuse, groundwater storage and recovery, and related exchange or conveyance arrangements. A base contract establishes the general legal and commercial terms under which the Authority may later issue project-specific task orders. It does not authorize construction, permanent project financing, or a commitment to purchase water.

As illustrated in Diagram 2 on page 26, approximately 18 months total elapsed between the Board's April 2024 direction and the November 2025 awards, including six months between the Board's directive to draft the solicitation and the solicitation's issuance and including

⁴² Auditor review of the Authority's 5-Year Strategic Framework revised in August 2025. The revised framework established October 2025 and Fall 2027 milestones and stated that offtaker organization and agreement development would proceed in parallel with Phase II feasibility work.

⁴³ Board Resolution 2024-233; Authority Solicitation No. 2024-001; qualification submissions and notices; records of April and June 2025 proposer meetings; August 2025 offers; September 2025 responsiveness determinations; October 2025 Evaluation Committee consensus records; and November 19, 2025, Board award resolutions and base contracts.



approximately 12 months between issuance of the solicitation and the awards. The selected concepts remain in feasibility evaluation and have not entered final design or construction.

Table 7: The Authority’s process for selecting and developing imported-water projects involves multiple steps.

Phase	Step	Authority-developed activity
Phase 1 Solicitation and selection	1. Assess needs	Assess Arizona water needs and identify potential water purchasers.
	2. Identify concepts	Solicit potential imported-water concepts and identify qualified private development teams.
Phase 2 Feasibility evaluation	3. Evaluate feasibility	Evaluate technical, environmental, regulatory, community, financial, and commercial feasibility.
Phase 3 Project development and implementation	4. Select project	Select one or more concepts for project development.
	5. Secure approvals and financing	Negotiate agreements, identify water purchasers, obtain governmental approvals, and arrange permanent financing.
	6. Design and construct	Complete final design and construct the required facilities.
	7. Deliver water	Begin making water available to participating Arizona water users.

Table 7 shading identifies the three phases. Phase 1 was completed with the November 2025 base-contract awards; Phase 2 feasibility evaluation was ongoing as of August 2026; Phase 3 project development and implementation has not begun.

Source: Auditor analysis of A.R.S. §§49-1211 through 49-1213 and 49-1304; Authority Solicitation No. 2024-001 and form of base contract; the Authority’s solicitation evaluation manual; qualification and responsiveness determinations; Evaluation Committee consensus records; Board Resolution 2024-233; and November 19, 2025 award resolutions and base contracts.

Q7 What is the status of the Authority’s imported-water program as of July 2026?

As of July 2026, the Authority was still working with the selected development teams to finalize the feasibility work’s scope, deliverables, costs, and schedules. Authority officials reported that the development teams had proposed schedules of as long as 36 months, while the Authority was seeking to complete the work in approximately 24 months. These time frames related only to feasibility evaluation and did not include all subsequent project-selection, agreement-negotiation, financing, permitting, final-design, construction, and water-delivery activities.⁴⁴ If these preliminary estimates and proposed schedules remain at 24 – 36 months, the Authority will not meet its estimated completion date of Fall 2027 for Phase II.

As of September 2026, the Authority had approved initial scopes of work and funding for Stage 1 technical and financial evaluation of 3 proposed water importation projects. These approvals authorized further study of the projects but did not constitute approval to implement either project; however, the Authority had not yet:

- ▶ Selected a water importation project for implementation.

⁴⁴ Auditor review of Authority procurement records, base-contract awards, draft task-order outlines, and interviews with Authority officials. The Authority’s August 2025 framework characterized Fall 2027 as an optimistic date and acknowledged that the duration could not be determined precisely until the base contracts were issued.

- ▶ Entered into a final project-development or water-purchase agreement.
- ▶ Approved permanent financing for a water importation project.
- ▶ Begun final project design, permitting, or construction.
- ▶ Established a target date or reasonable date range for beginning construction or delivering water.

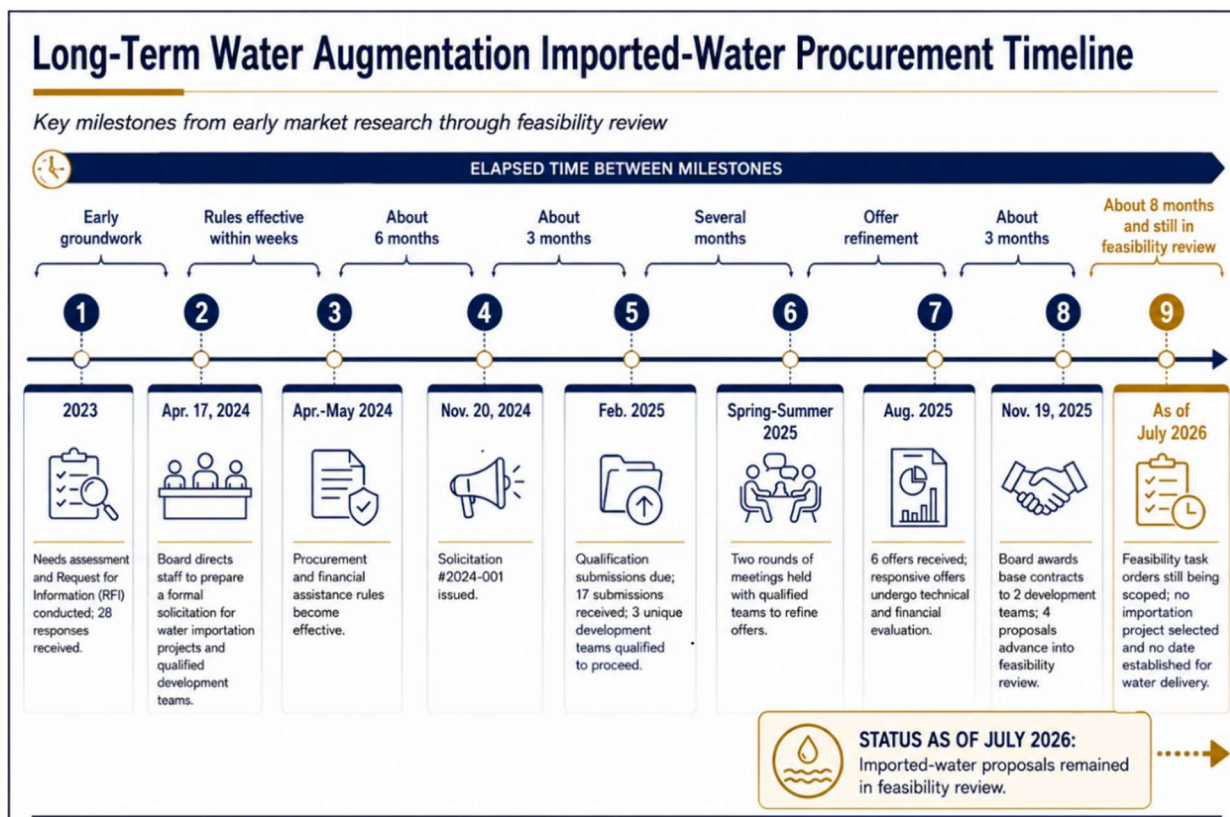
Q8 How long could the feasibility phase take, and what is it intended to accomplish?

The feasibility phase is intended to determine whether each concept can reliably provide the anticipated quantity and quality of water at an acceptable cost and whether it can be permitted, financed, constructed, operated, and maintained. As of July 2026, the Authority was working with the selected development teams to establish final scopes, deliverables, costs, and schedules. Authority officials reported that the teams had proposed as long as 36 months for feasibility work, while the Authority was seeking a period closer to 24 months. These estimates apply only to feasibility evaluation.

The Authority's April 2026 task-order for conducting the feasibility studies identifies five interrelated evaluation areas, which Table 8 describes on the following page. The task-order draft divides each area into three appraisal stages. The first stage would define the concept, identify available information and data gaps, and determine the studies needed. The second would test and refine assumptions through additional analysis, field investigations, outreach, and preliminary engineering. The third would develop more detailed cost, constructability, operating, financing, regulatory, and commercial information for comparing concepts and deciding whether any should advance.

The task-order requires interim and final submissions during each appraisal stage, monthly progress reports, project schedules, feasibility checklists, risk registers, and risk workshops. These deliverables could provide interim decision points for continuing, modifying, combining, pausing, or discontinuing concepts as additional information becomes available.

Diagram 2 – The imported water procurement advanced from solicitation development to feasibility review, but no project has been selected for implementation as of July 2026.



Source: Auditor analysis of Board Resolution 2024-233; Authority Solicitation No. 2024-001; qualification, proposer-meeting, responsiveness, evaluation, and award records; and the November 19, 2025 contracts.

Q9 When could Arizona begin receiving water through the importation program?

As Phase II concludes, the Authority anticipates comparing and narrowing the project concepts and entering predevelopment agreements for the most viable projects. The Authority would then need to complete additional project development, negotiate final project-development and water-purchase agreements, identify committed water purchasers, arrange permanent financing, obtain applicable governmental approvals, complete final design, and construct the required infrastructure.

Preliminary project information indicated that one concept could potentially make water available as early as 2028, while most concepts projected potential water availability during the 2030s. However, Authority officials reported that these estimates continued to change as additional information became available. These dates were therefore preliminary projections prepared by the development teams, not dates established in an Authority-approved implementation schedule. Thus, even under the developers' preliminary

schedules, most concepts contemplated first water no earlier than approximately eight years after the Augmentation Fund was established in 2022, and some would take longer.

Table 8: The feasibility phase is intended to evaluate five interrelated aspects of each potential imported water project.

Evaluation area	What the evaluation is intended to determine	Examples of anticipated activities
Technical and water delivery	Whether the concept can produce and reliably deliver the anticipated volume and quality of water, what facilities would be required, when water could become available, and whether the proposed infrastructure could be constructed, operated, and maintained.	Confirm the proposed water source, available volumes, and delivery schedule; evaluate treatment processes, pipelines, canals, pumping facilities, storage, energy needs, routes, sites, land, and rights-of-way; conduct topographic, geotechnical, groundwater, surface-water, and water-quality analyses; evaluate constructability and operations; and refine capital, operating, maintenance, and per-acre-foot cost estimates.
Environmental and cultural	Whether construction and operation could create environmental or cultural effects that would prevent or materially affect the project, and what studies, mitigation measures, monitoring, and approvals would be required.	Evaluate air and water quality, water quantity, soils, geology, hazardous materials, wildlife, fisheries, plants, threatened and endangered species, wetlands and other protected habitats, historic properties, archaeological and paleontological resources, Tribal resources, and socioeconomic effects; identify data gaps and seasonal fieldwork requirements; and develop impact-mitigation and monitoring approaches.
Regulatory and contractual	Whether required water rights, permits, governmental approvals, water exchanges, and other contractual arrangements could reasonably be obtained within the proposed schedule.	Identify federal, State, local, Tribal, interstate, and international requirements; prepare permit and jurisdiction maps; evaluate water-right acquisitions, transfers, leases, and exchanges; conduct preliminary agency outreach; identify agreements needed to use existing conveyance facilities; estimate government review periods; and assess regulatory, political, legislative, cost, schedule, and enforceability risks.
Society and community	How the project could affect communities and other stakeholders, whether identified concerns could be addressed, and whether sufficient governmental, Tribal, customer, and community support could be developed.	Identify affected communities, Tribes, government agencies, utilities, water users, and other stakeholders; evaluate water demand, public health, quality-of-life, economic, employment, cultural, political, right-of-way, and equity considerations; conduct community and government-to-government engagement; document comments and concerns; and identify potential mitigation and future outreach needs.
Cost, financial, and commercial	Whether the project can attract financing, whether purchasers are willing and able to buy the water, what the delivered water may cost, and how project and financial risks should be allocated.	Refine capital, operating, development, and life-cycle costs; estimate the cost of producing and delivering water; identify public and private financing sources and potential funding gaps; evaluate customer demand and purchase volumes; develop potential pricing structures and preliminary water-purchase terms; assess project-delivery options, risk allocation, and ability to attract financing; and estimate potential economic benefits to Arizona.

Source: Auditor analysis of Authority-provided April 2026 feasibility task-order outlines.

After feasibility evaluation, it would still need to compare and narrow the concepts, select one or more projects for implementation, negotiate project-development and water-purchase agreements, identify purchasers, arrange permanent financing, obtain governmental approvals and permits, complete final design, and construct the required facilities.

The Authority's 2023 strategic framework initially contemplated issuing a detailed solicitation in November 2023, beginning due diligence on at least three qualified proposals in February 2024, and selecting at least one augmentation proposal by July 2024.⁴⁵ The

⁴⁵ Water Infrastructure Finance Authority of Arizona, *5-Year Strategic Framework*, adopted July 29, 2023.

Authority did not meet those initial milestones and, as discussed in Finding 1, has not established a consolidated and updated comprehensive plan extending through final project selection, construction, and first water delivery.

Q10 What is the In-State Augmentation Program?

The in-State Augmentation Program uses the portion of Fund monies available for eligible water supply development activities within Arizona. The Authority set aside approximately \$96.2 million from appropriated funds for the in-State portion and awarded those funds to a project in Queen Creek in February 2026; therefore, as of June 30, 2026, the amount set-aside for the in-State program is \$0. The Authority plans to set additional funds aside as additional funds are appropriated or earned and will fund other projects as funds are set aside. It is intended to provide loans and other authorized financial assistance for projects that increase Arizona water supplies or make existing supplies more effective or reliable.

Eligible activities may include acquiring water or water rights; completing environmental reviews, permits, and plans; constructing water delivery, conveyance, storage, or recovery facilities; reclaiming or reusing water; replenishing groundwater; constructing stormwater recharge facilities; and reducing or improving the efficiency of existing water use. Unlike the Water Conservation Grant Fund, the in-State program provides loans and credit enhancements rather than grants. Repayments from initial assistance may therefore be used to help finance future projects.

Q11 What is the status of the In-State Augmentation Program?

In October 2025, the Board adopted a policy governing in-State financial assistance and opened the first application cycle with an initial allocation of approximately \$96.2 million. The application process consisted of two Parts – the Project Information Form (Part I) and the Project Finance Form (Part II). Three applicants submitted Part I applications in December 2025; however, only two applicants completed Part II in January 2026 for projects totaling approximately \$120 million.⁴⁶

In February 2026, the Long-Term Water Augmentation Committee, which reviews Fund applications and makes recommendations to the Board, reviewed and ranked the completed applications. The Committee also expressed support for developing the in-State component as a revolving program in which repayments from initial assistance could finance future projects.⁴⁷

⁴⁶ Authority Policy II.20; Board Resolution 2026-028; the Authority's Part I Project Information Form and Part II Project Finance Form; application instructions; application log; and applicant correspondence.

⁴⁷ Long-Term Water Augmentation Committee agenda materials, staff evaluation materials, and meeting minutes, February 18, 2026.



On April 15, 2026, the Board approved a \$90 million financial assistance loan to the Town of Queen Creek to finance its acquisition of groundwater rights from the Harquahala groundwater basin in western Arizona. Under the agreement, Queen Creek has a 30-year loan term to repay the loan, with the first two years being interest only.



Finding 1

Finding 1: Although the Authority has followed a public water augmentation project planning and procurement process, it has not developed a consolidated and updated comprehensive plan, risking that stakeholders could misunderstand the program's status.

Recommended practices indicate Government agencies should prepare comprehensive capital plans and communicate information about their activities, risks, and performance with relevant external parties.

The Government Finance Officers Association recommends that governments prepare and adopt comprehensive, fiscally sustainable, multiyear capital plans. According to this guidance, plans should identify and prioritize needs, define project scope and timing, identify anticipated funding sources, estimate costs, and project future operating and maintenance requirements.⁴⁸

Further, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book), Principle 15, further states that management should communicate relevant and quality information with appropriate external parties through established reporting lines. The Green Book explains that external communication should help an entity achieve its objectives, address related risks, and support its internal control system, and that significant matters concerning the entity's events, activities, risks, and performance information may need to be communicated externally.⁴⁹

The Authority has not developed a consolidated and updated comprehensive plan and instead its publicly available information on the water augmentation program is dispersed across its website and technical documents, is inconsistent, and does not explain the full path to water delivery.

The Authority has made substantial information about the water augmentation program publicly available. It involved the Long-Term Water Augmentation Committee throughout solicitation development and publicly posted strategic frameworks, meeting materials, procurement documents, project summaries, and other program information. However, the Authority lacks a consolidated and updated comprehensive plan and its public information remained distributed across numerous strategic, procurement, meeting, contract, and technical documents, some of which were lengthy and highly specialized. This requires the external parties to reconstruct the water augmentation program's status by reviewing multiple documents and increases the risk of misunderstandings if an external party misinterprets technical documents.

⁴⁸Government Finance Officers Association, "Multi-Year Capital Planning," updated September 2022.

⁴⁹U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (Green Book), GAO-25-107721, May 2025, Principle 15, paragraphs 15.01 through 15.03, <https://www.gao.gov/products/gao-25-107721>.



In addition, some of the information conflicts with other information, creating additional opportunities for confusion. For example, the August 2025 strategic framework identifies fall 2027 as a milestone for completing Phase II and entering predevelopment agreements; however, as of July 2026, the Authority was finalizing the Phase II scope and schedule, and the estimated duration of the feasibility evaluation ranged from approximately 24 to 36 months, which would extend beyond fall 2027. Additionally, one of the project summaries on the Authority's website states that it will provide a new water supply by 2028 but based on the Authority's July 2026 Phase II scope and schedule, feasibility studies will continue into 2028, making the likelihood that a new water supply will be developed by 2028 unlikely.

Further, although the Authority has established a strategic framework, its most recent strategic framework from August 2025 only provides information about the process through Phase II. It does not include information about what additional phases might occur after Phase II, such as project award, design, and construction, nor does the strategic framework provide an estimated date or date range for the phases after Phase II or indicate when first water delivery may occur.

The Authority has not developed a consolidated and updated comprehensive plan, risking that stakeholders misunderstand the water augmentation program's status.

The Authority's Board and committees receive detailed materials and discuss the strategic framework, procurement, feasibility work, and other water augmentation program matters during public meetings. However, without a current, comprehensive, and integrated plan, the Legislature, potential water purchasers, and the public do not have a consolidated source against which they can evaluate progress and understand how changes in feasibility work, regulatory requirements, financing, purchaser participation, or project risks may affect later decisions and potential water delivery.

Instead, they must reconstruct the water augmentation program's status by reviewing multiple strategic frameworks, meeting materials, procurement records, contracts, technical outlines, and project documents. This increases the risk that changes in milestones, preliminary developer estimates, extensive feasibility work, or external dependencies may be misunderstood or that substantial work occurring during the project-development process may be perceived as a lack of progress. For example, the Authority's July 2023 framework anticipated selecting at least 1 augmentation proposal in July 2024, its August 2024 framework revised this step to selecting multiple project teams by mid-2025, and a subsequent framework revision in August 2025 anticipated the Authority entering predevelopment agreements for the most viable water augmentation projects by fall 2027. However, the reasons for these changes are not readily apparent in the revised frameworks.

Providing the Legislature with additional information about the Authority's Augmentation Fund program, including updated timelines, current status, monies spent, planned uses of Augmentation Fund monies, and estimated milestones and other key dates, could help the Legislature better understand progress toward obtaining additional water and the planned use of Augmentation Fund monies related to water augmentation projects. Absent clear, comprehensive information about the water augmentation program and the planned uses of



the Augmentation Fund's remaining fund balance, including estimated time frames for doing so, the Legislature may be more likely to view the fund balance as available for other State budget needs rather than it being reserved for future water importation needs.

Further, providing the public with additional information about the water augmentation program could also help it better understand the Authority's and other entities' roles and responsibilities, the types of projects being considered and their potential benefits, the factors that affect project development, and the estimated time frames for obtaining additional water when those estimates can be reasonably supported.

The Authority believed its public meetings provided sufficient transparency and it cited several factors that impact its ability to communicate specific details regarding the water augmentation program, but these factors do not preclude it from improving its external communications related to future steps in its process.

Authority officials reported that they believe the Authority's public meeting process and posted materials provide substantial transparency because the strategic frameworks were developed through public Board meetings and related materials were posted before the meetings and are available through its website. However, as previously explained, the Authority's frameworks and other public information remained distributed across numerous strategic, procurement, meeting, contract, and technical documents, resulting in public users needing to reconstruct the water augmentation program's status by reviewing multiple, complex program documents.

Additionally, the Authority cited several other factors that could impact its ability to provide specific details and information about the water augmentation program, including:

- ▶ **The Authority is not yet in a position to identify which water importation project will advance to implementation or when construction and water delivery will begin.** As previously discussed, the Authority's August 2025 revised strategic framework establishes milestones through Phase II and anticipates predevelopment agreements by fall 2027, but does not explain the major stages that would follow, the decisions or conditions needed to advance between them, or when additional timing information could reasonably be established. Authority officials reported that these time frames cannot yet be reliably estimated because large-scale water importation projects involve complex technical, regulatory, financial, and intergovernmental conditions.
- ▶ **The Authority does not control all activities that will determine whether and when an imported-water project can advance.** Authority officials reported that the remaining process depends on actions by development teams, prospective water purchasers, regulatory agencies, financing parties, utilities, affected communities, and federal, State, Tribal, local, interstate, international, and binational governmental entities. The Authority's draft project-development materials also contemplate engagement with numerous government entities and require the Authority to lead or approve key government and stakeholder interactions.



- ▶ **Some information generated during project development may be proprietary or negotiation sensitive.** According to the Authority, premature disclosure of specific pricing positions, financing limits, counterparty assessments, negotiation strategies, or protected proposal information could weaken the State's negotiating position or jeopardize a potential transaction.

However, the Authority's challenges in estimating future dates, external dependencies, and confidentiality considerations do not prevent it from consolidating into an updated comprehensive plan information that is already public and communicating the water augmentation program's major phases, completed milestones, upcoming decisions, reasonable time ranges for known steps, key assumptions, significant dependencies, and reasons for material changes. Consolidating this information would not require assigning dates to activities that cannot yet be reliably estimated or disclosing sensitive information. Instead, it could identify known milestones, upcoming decisions, responsible parties, dependencies, and the conditions that must be resolved before additional timing information and future steps can be established.

Additionally, as discussed in the Question and Answers, the Board awarded base contracts to two development teams and advanced four proposals containing seven project concepts into feasibility evaluation. As each development team assesses the feasibility of their projects, the Authority is requiring each development team to identify studies, deliverables, responsible parties, due dates, review periods, assumptions, dependencies, and activities that should occur concurrently, in advance, or sequentially. Once this information is submitted by the development teams it can provide much of the underlying information the Authority would need to develop and maintain a consolidated and updated comprehensive plan.

Providing a consolidated and updated comprehensive plan for the water augmentation program would not eliminate the uncertainty inherent in large-scale water development projects. However, it would provide the Board and stakeholders with a common basis for establishing realistic expectations, evaluating progress, understanding changes, and distinguishing activities within the Authority's control from those dependent on other parties. Presenting this information on the Authority's website would also make it easier for the Legislature, stakeholders, and the public to locate information on the water augmentation program without requiring them to independently locate and interpret numerous technical documents or regularly attend the Authority's Board meetings.

Recommendations to the Authority

The Authority should:

1. **Develop and obtain Board approval of a consolidated and updated comprehensive plan for the water augmentation program and post the plan to its website.** The consolidated and updated comprehensive plan should extend through anticipated first water delivery and identify the water augmentation



program's phases, major activities, target dates or reasonable date ranges, responsible parties, dependencies, financing and procurement actions, regulatory approvals, decision points, project-selection criteria, construction milestones, and significant risks that could affect the schedule. The consolidated and updated comprehensive plan should also distinguish activities within the Authority's control from those dependent on developers, potential water purchases, regulators, financing parties, or other government entities. The Authority should post the consolidated and updated comprehensive plan to its website.

2. **Use the consolidated and updated comprehensive plan to publicly report progress to different audiences including the Legislature, general public, and other relevant stakeholders.** The Authority should periodically communicate relevant information to the Legislature, the public, and other appropriate stakeholders including completed and upcoming milestones, schedule variances, reasons for delays, corrective actions, changes in project risks, and updated estimates for project selection, construction, and water delivery and ensure the information is consistent with its other public materials.

Authority Response: As outlined in its response, the Authority disagrees with the finding but will implement or implement in a different manner the recommendations.

Sunset Factors

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

Sunset Factor 1 – The key statutory objectives and purposes in establishing the Authority.

As described in the introduction (see page 1), Arizona law establishes the Authority to serve as the State’s water infrastructure financing entity and assigns its responsibilities that now extend beyond traditional drinking water and wastewater financing. The Authority’s governing statutes indicate that its purpose is to provide financial assistance for water quality and water supply projects, administer multiple water-related funds and programs, and help address Arizona’s existing and future water needs. State law substantially broadened these purposes in 2022 by re-establishing the Authority as a separate State agency governed by its own board, expanding its powers and duties, and assigning additional responsibilities related to water supply development, conservation, reuse, and long-term augmentation.

Relevant statutes identify the Authority’s principal objectives and purposes as follows:⁵⁰

- ▶ **Administering Arizona’s major water infrastructure financing programs.**
The Authority is responsible for administering the Clean Water and Drinking Water State Revolving Fund programs and related financial assistance activities. Through these programs, it provides financing for wastewater treatment, drinking water, and other eligible water quality infrastructure projects.
- ▶ **Providing financial assistance for water supply development activities.**
In addition to its traditional revolving fund programs, the Authority is responsible for administering financial assistance for water supply development projects, including activities intended to improve water availability and long-term supply reliability.
- ▶ **Administering the Water Augmentation Fund and related augmentation efforts.**
The Legislature assigned the Authority responsibility for administering the Water Augmentation Fund and carrying out duties related to long-term augmentation

⁵⁰ A.R.S. §§ 49-1203(B)(1)–(5), 49-1222–1225, and 49-1242–1245 (administration of the Clean Water and Drinking Water State Revolving Funds and related financial assistance); 49-1271–1275 (administration of the Water Supply Development Revolving Fund and financial assistance for water supply development projects); 49-1203.01(A)–(C) and 49-1302–1304 (administration and authorized uses of the Long-Term Water Augmentation Fund and related water augmentation and water supply development activities); 49-1205(B)–(D) (Authority’s statutory purpose to help meet Arizona’s existing and future water needs by developing or facilitating water conservation, reuse, and augmentation projects); and 49-1331–1335 (administration, purposes, and award process for the Water Conservation Grant Fund).



planning, project development, and financial assistance. This responsibility reflects the Authority's expanded role in helping address Arizona's future water supply needs.

► **Supporting water conservation, reuse, and augmentation as statewide policy objectives.**

Statute directs the Authority to help meet the State's existing and future water needs by developing or facilitating water conservation, reuse, and augmentation projects. This language broadens the Authority's purpose beyond infrastructure lending alone and ties its work to longer-term statewide water planning and sustainability goals.

► **Administering the Water Conservation Grant Fund.**

The Authority is responsible for administering the Water Conservation Grant Fund, which supports voluntary conservation projects intended to reduce long-term water use, improve water use efficiency, and improve water reliability.

Sunset Factor 2 – The Authority's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

The Authority has developed processes and taken steps to fulfill its key statutory objectives and purposes. Specifically, the Authority:

► **Administered the Clean Water and Drinking Water Revolving Funds to provide Arizona's major water infrastructure financing programs.** Consistent with applicable program requirements and objectives, for the sampled Clean Water and Drinking Water Revolving Fund loans we reviewed, the Authority appropriately processed project approvals, disbursements, and closeouts, met environmental review requirements, and financed projects that supported water quality and compliance with federal clean water and safe drinking water requirements. Specifically, we reviewed the Authority's administration of the Clean Water and Drinking Water Revolving Funds, including intended use plans for state fiscal years 2024 through 2026; Authority policies II.1, governing the application process, and II.2, governing environmental review; fund financial activity; leveraging and State match funding; and management of federal capitalization grants. We performed detailed testing of selected loans from a population of 381 loans. This included the 10 largest loans, consisting of 5 Clean Water loans and 5 Drinking Water loans, and the 10 loans with the largest changes in funding value, consisting of 5 Clean Water loans and 5 Drinking Water loans. Of the remaining 361 loans, we also tested a random sample of 19 State Revolving Fund projects, consisting of 6 Clean Water projects and 13 Drinking Water projects.

► **Provided financial assistance for water supply development activities.** We reviewed the Authority's administration of the Water Supply Development Revolving Fund, including reviewing the fund's statutory purpose, financial activity, and project portfolio for fiscal years 2023 through 2026. We performed detailed testing of selected loans from a population of 33 loans. This included testing the 5 largest loans. We also reviewed a random sample of 1 of the remaining 28 Water Supply



Development Revolving Fund projects from fiscal year 2025 and determined that the Authority approved and administered the assistance in accordance with applicable program requirements, project documentation, and funding agreement terms.⁵¹ We also determined that the funded activity was consistent with the fund's purpose of supporting water supply development and long-term water supply reliability.

- ▶ **Administered the Long-Term Water Augmentation Fund and related augmentation efforts.** The Authority administered the Long-Term Water Augmentation Fund and advanced both the in-State financial assistance and imported water project development; however, as discussed in the Questions and Answers, it had not yet identified a date for selecting out-of-state water augmentation projects for final implementation. Additionally, as discussed in Finding 1, the Authority lacks a consolidated and updated comprehensive plan for the water augmentation program, risking that the Legislature, potential water purchasers, and the public misunderstand the water augmentation program's status.
- ▶ **Supported water conservation, reuse, and augmentation as statewide policy objectives.** To assess this broader responsibility, audit work reviewed the Authority's statutory framework, strategic priorities, annual reports, policy documents, and other program materials to determine how its activities aligned with the statewide objectives assigned by the Legislature. The review also mapped those statutory objectives to specific performance areas and data sources so that the Authority's work could be evaluated across its major program areas rather than only at the fund level. Audit planning documents and related materials identified the Authority's mission as supporting the sustainability of Arizona's present and future water supply through financial investments in conservation, reuse, and water quality, and budget materials similarly described the Authority's role as helping meet the State's existing and future water needs through water conservation and reuse. The documents reviewed show that the Authority's major program areas, strategic priorities, and budgeted activities were consistent with its expanded role in supporting water augmentation, conservation, reuse, water quality, and long-term water supply reliability. For example, as discussed in the Introduction, as of June 2026, the Authority reported that it had awarded approximately \$210.4 million for more than 200 projects across all 15 counties over the lifetime of the Conservation Fund, which is intended to support projects to reduce water use, improve water-use efficiency, or improve water reliability (see below for more information on our work related to the Conservation Fund grant award process). Further, as discussed in the Questions and Answers, in April 2026, the Authority's Board approved a \$90 million

⁵¹ For this testing, project timing was assessed against the Water Supply Fund's required approval and administration sequence and the dates documented in the project file, rather than a statutory requirement. The timing of the application, Water Supply Development Committee recommendation, Board approval, funding agreement execution, disbursement activity and close outs (if applicable) were analyzed to determine whether the project advanced through the financial assistance process without significant and/or unexplained delays.



financial assistance loan for an in-State water augmentation projects, and as of August 2026, had completed its initial competitive solicitation for importation projects and advanced several selected concepts into feasibility evaluation, but it had not yet selected a project for final implementation.

- ▶ **Administered the Water Conservation Grant Fund.** To assess this responsibility, audit work reviewed the grant fund's statutory objectives, Policy II.17, the grant solicitation and evaluation process, and award activity for fiscal years 2024 and 2025. Auditors also judgmentally tested 18 grant awards out of the 208 active projects as of June 2026 to determine whether grants were awarded and administered in a timely manner and whether the funded activities were consistent with the fund's purpose of supporting long-term water conservation, improved water use efficiency, and water reliability. As of fiscal year 2024, the Authority reported that it had awarded all \$200 million to 186 projects across all 15 counties and estimated lifetime savings of up to 5.5 million acre-feet of water. Draft fiscal year 2025 program performance information further indicated an estimated cost of about \$36 per acre-foot conserved. Based on the procedures performed, we did not identify any errors, exceptions or inconsistencies in the Authority's award or administration of the Water Conservation Fund awards tested. The sampled awards reviewed were supported by applicable program documentation, were consistent with the fund's statutory purpose and Authority Policy II.17 and aligned with the program's objectives of supporting long-term water conservation, improved water-use efficiency, and water reliability.
- ▶ **Reviewed and approved water-related financial assistance through its board and committees.** To assess this responsibility, audit work reviewed the Authority's governance structure and the statutory duties assigned to its board and committees, including the board's composition, committee structure, and responsibilities under A.R.S. § 49-1206 and related provisions, as well as Policy I.6. The review examined how those duties were carried out in practice through the Authority's governance and program oversight processes, including the role of the board and committees in reviewing applications, overseeing program implementation, and making or supporting decisions related to financial assistance across the Authority's major program areas. Audit work also included interviews with board members to obtain information on their understanding of the Authority's statutory responsibilities, the board's oversight role, and how the board and committees approached review and decision-making for the Authority's financing, conservation, and augmentation programs. In addition, auditors reviewed organizational materials describing the Authority's voting and nonvoting membership and the distribution of responsibilities among the board and committees to assess whether the governance framework established by statute was in place and operating in a manner consistent with the Authority's assigned duties. Based on the procedures performed, we did not identify any errors, exceptions, or inconsistencies in the Authority's governance framework or its process for reviewing and approving water-related financial assistance. The documentation reviewed showed that the Board and committee were established and operating consistent with the applicable statutory requirements and the Authority's Policy I.6, and that their roles in reviewing applications, overseeing program



implementation, and supporting financial assistance decisions were carried out in a manner consistent with the Authority's assigned duties.

- ▶ **Exercised the powers necessary to operate as a State water financing authority.**
To assess this responsibility, audit work evaluated the Authority's staffing, governance, internal control structure, and overall organizational capacity to administer the funds and programs placed under its control. This work included consideration of staffing and resource levels relative to the Authority's expanded statutory responsibilities, internal financial controls, and the systems used to manage financial, project, and administrative information. The review also considered how the Authority used those powers to support newer responsibilities associated with the Augmentation Fund, including building organizational capacity, using staff and consultants to support planning and procurement activity, and carrying out board-authorized actions related to augmentation project development and financial assistance. In addition, the review examined whether financial resources and organizational practices were reasonably aligned with the Authority's statutory objectives and whether its governance and control structure supported efficient administration across both its longstanding revolving fund programs and its newer conservation and augmentation responsibilities. Based on the procedures performed, we did not identify any errors, exceptions, or inconsistencies in the Authority's exercise of its powers to operate as a State water financing authority. The documentation reviewed showed that the Authority's staffing, governance structure, internal controls, systems, and use of staff and consultants were reasonably appropriate with its statutory responsibilities. We also found that the Authority's actions to build capacity, support augmentation planning and procurement, and carry out Board-authorized activities were consistent with its statutory objectives and supported the efficient administration of the funds and programs under the Authority's control.

Although the audit work indicated that the Authority has generally developed processes to carry out its principal statutory responsibilities, the review found that the Authority could further strengthen its processes. Specifically, while the Authority has developed specific performance measures or performance expectations for certain grants or loans, the Authority has not established and routinely reviewed a set of comprehensive performance measures that can be evaluated and compared individually and across funds, such as the time required to review and approve applications, execute agreements, disburse funds, complete projects, and resolve delays or exceptions. These measures are important management tools because they help an agency determine whether work is progressing through key stages in a timely and consistent manner and whether problems are isolated or recurring. The Committee of Sponsoring Organizations of the Treadway Commission's Internal Control—Integrated Framework emphasizes that management should obtain and

use relevant, quality information and perform ongoing monitoring to determine whether internal controls and operations are functioning as intended.⁵²

Recommendation to the Authority

3. Track and routinely review comprehensive performance measures, including application intake to award, award to first disbursement, and the reasons for delays, exceptions, or other processing variations, to strengthen internal monitoring of program effectiveness and efficiency across the Authority's financing, conservation, and augmentation activities.

Authority Response: As outlined in its response, the Authority agrees with the finding and will implement the recommendation.

Sunset Factor 3 – The extent to which the Authority's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

We did not identify any of the Authority's key statutory objectives and purposes that duplicate those of other governmental agencies or private enterprises. Although other public entities and private lenders may be involved in water planning, regulation, project development, or financing, the Authority's statutory role is distinct because it serves as the State's designated water infrastructure financing entity and is responsible for administering specific State and federal water financing and grant programs.

In assessing potential duplication, we considered several types of entities with water-related responsibilities. We reviewed the Arizona Department of Water Resources because it has a statewide role in water planning, management, and regulation, but its responsibilities are regulatory and planning-oriented rather than centered on administering the Authority's financing programs. We also considered the Arizona Department of Environmental Quality because it has responsibilities related to water quality and environmental regulation, but it does not administer the Authority's loan and grant funds and instead serves a different function within Arizona's water framework. In addition, we considered local governments, water providers, and private financial institutions because they may finance or develop water projects. However, those entities are project sponsors, service providers, or alternative funding sources, not the State entity specifically charged with administering these particular public financing and grant programs.

Sunset Factor 4 – The extent to which rules adopted by the Authority are consistent with the legislative mandate.

Our review of the Authority's statutes and rules found that the Authority has adopted rules when statutorily required to do so.⁵³ The Authority underwent a Governor's Regulatory Review Council (GRRRC) review in November 2023 which concluded that the existing rules remained generally effective, but needed updates to reflect legislation that established the

⁵² Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework: Executive Summary* (May 2013), p. 7, Principles 13 and 16.

⁵³ In conducting this assessment, we relied, in part, upon Authority-reported information.



Authority as an independent agency.⁵⁴ The report also identified the need to adopt procurement rules for administering the Augmentation Fund. To address these gaps, the Authority completed 2 expedited rulemakings in 2024, and the resulting changes are now in effect in the Arizona Administrative Code: one added procurement procedures for administering the Augmentation Fund, and the other updated the Authority's rules to reflect its status as an independent State agency.

Sunset Factor 5 – The extent to which the Authority has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Authority has provided appropriate public access to its rulemakings, including soliciting public input when making rules and provided appropriate public access to meetings and records.

Specifically:

Authority solicited public input when developing its rules—The Authority has provided public access to its rulemakings by informing the public and providing public input opportunities as part of rulemakings it finalized in April 2024 and May 2024. Specifically, the Authority published notices of proposed rulemakings in the *Arizona Administrative Register*. In addition, the Authority provided opportunities for public input by listing in the notices the name of Authority staff to contact to provide input about the proposed rulemakings, allowing the public to submit written comments on the proposed rule changes for at least 30 days after it published the Notice of Proposed Rulemaking, and holding meetings where the public could provide input. Further, the Authority's rulemaking materials included the information required to inform the public about the substance of the proposed changes and how interested people could participate. While the Authority solicited public input when developing its rules, no public or stakeholder comments were received for either rulemaking.

Authority provided timely public notice of meetings and access to meeting records — We found that the Authority complied with open meeting law requirements we reviewed for 4 Board of Directors meetings and committee meetings we reviewed between November 2025 through March of 2026.⁵⁵ For example, we found that the Authority posted notices and agendas at least 24 hours in advance of the meetings, included required agenda elements, made recordings or minutes available to the public within 3 days after the meeting, and included the required statutory elements in those recordings or minutes.

Authority has established process and has responded to public records request— The Authority established written guidance for handling public records requests and

⁵⁴ Arizona Governor's Regulatory Review Council, *Council Meeting Minutes and Action Report*, Item: Title 18, Chapter 15 Water Infrastructure Finance Authority Five-Year Review Report (Nov. 7, 2023), available at [GRRC Meeting Archives](#).

⁵⁵ We reviewed meetings held in the following months: Board Meeting held on December; Board Meeting held on January 21, 2026; Long Term Water Augmentation Committee held on February 18, 2026; and Board Meeting held on March 18, 2026. Because these meetings were selected for review and were not a random sample, the results are not generalizable to all Authority Board meetings.



maintains a centralized request log and a designated contact for public records requests on the Authority's website to support its public records process. We reviewed a judgmental sample of 5 of 8 public records requests from fiscal 2025 and found that the Authority acknowledged requests within 5 days as required by statute and responded to the requests within 7 to 8 days. In addition, records produced were responsive to the requests reviewed, and when redactions or other limitations were applied, the Authority documented the basis for those actions. Of the 5 requests reviewed, 1 resulted in records produced with redactions and 1 resulted in records produced with an explanation of limitations.

Sunset Factor 6 – The extent to which the Authority timely investigated and resolved complaints that are within its jurisdiction.

The Authority does not have a statutory responsibility to investigate and resolve complaints; therefore, we did not identify complaints within the Authority's general jurisdiction that it received, investigated, and resolved during the period reviewed. The Authority directs the public to the Arizona Ombudsman-Citizens' Aide to handle complaints rather than through a managed complaint process through the Authority.

Sunset Factor 7 – The extent to which the level of regulation exercised by the Authority is appropriate as compared to other states or best practices, or both.

This factor does not apply because the Authority is not a regulatory agency.

Sunset Factor 8 – The extent to which the Authority has established safeguards against possible conflicts of interest.

The State's conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. Specifically, statute requires employees of public agencies and public officers, including Board members, to avoid conflicts of interest that might influence or affect their official conduct.⁵⁶ These laws require employees/public officers to disclose substantial financial or decision-making interests in a public agency's official records, either through a signed document or the agency's official minutes. Statute further requires that employees/public officers who have disclosed conflicts refrain from participating in matters related to the disclosed interests. To help ensure compliance with these requirements, the Arizona Department of Administration's (ADOA) State Personnel System employee handbook and conflict-of-interest disclosure form (disclosure form) require State employees to disclose if they have any business or decision-making interests, secondary employment, and relatives employed by the State at the time of initial hire and anytime there is a change.⁵⁷ The ADOA disclosure form also requires State employees to attest that they do not have any of these potential conflicts, if applicable, also known as an "affirmative no." Finally, A.R.S. §38-509

⁵⁶ A.R.S. §38-503; Arizona Attorney General. (2018). Attorney General's Agency Handbook 8.2.1. Retrieved 02/16/2026 from <https://www.azag.gov/office/publications/agency-handbook>.

⁵⁷ Arizona Department of Administration (ADOA). (2024). State personnel system employee handbook. Retrieved 02/5/2026 from https://drive.google.com/file/d/12uumNZLSBkfp33AaL9uHym0K9e6I9_II/view.



requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest and to make this file available for public inspection.

Additionally, in response to conflict-of-interest noncompliance and violations investigated in the course of the Arizona Auditor General's work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, the Arizona Auditor General has recommended several practices and actions to various school districts, State agencies, and other public entities.⁵⁸ The Arizona Auditor General's recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the State's conflict-of-interest laws.⁵⁹ Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually. Recommended practices also indicate that the form include a field for the individual to provide an "affirmative no," if applicable.⁶⁰ These recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met. Finally, recommended practices indicate that publicly disclosing board members' interest as the reason for refraining from participating in decisions is important for fully disclosing and memorializing the disclosure of interest as they relate to those decisions.

The Authority complied with State conflict-of-interest requirements we reviewed by requiring its staff and Board to complete the ADOA disclosure form when hired, appointed, and thereafter annually and maintaining a special file as required by statute. Specifically, we verified that the Authority required annual disclosure statements for both employees and public officers, that the forms used addressed key conflict-of-interest topics such as business interests, relatives' interests, outside employment for employees, and relatives employed by the State, and that the forms included an affirmative no option when no conflict existed. We

⁵⁸ See, for example, Arizona Auditor General reports 24-211 *A Performance Audit of Concho Elementary School District*, 21-404 *Wickenburg Unified School District—Criminal indictment—Conflict of interest, fraudulent schemes, and forgery*, 19-105 *A Special Audit of the Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

⁵⁹ Recommended practices we reviewed included: The World Bank, Organization for Economic Continuation and Development (OECD), & United Nations Office on Drugs and Crime (UNODC). (2020). *Preventing and managing conflicts of interest in the public sector: Good practices guide*. Retrieved 8/5/2026 from <https://www.unodc.org/documents/corruption/Publications/2020/Preventing-and-Managing-Conflicts-of-Interest-in-the-Public-Sector-Good-Practices-Guide.pdf>; Francis, M.A. et al. (2025). *10 Tips for handling conflicts of interest: The year in governance*. American Bar Association (ABA). Retrieved 8/5/2026 from https://www.americanbar.org/groups/business_law/resources/business-law-today/2025-may/10-tips-for-handling-conflicts-of-interest-the-year-in-governance/; Dobie, K. (2023). *Conflict of interest handbook*. The Ethics Institute (TEI). Retrieved 8/5/2026 from https://www.tei.org.za/wp-content/uploads/2023/09/Conflict-of-Interest-Handbook_eBook.pdf; and New York State Authorities Budget Office (NYS ABO). (n.d.). *Conflict of interest policy for public authorities*. Retrieved 8/5/2026 from <https://abo.ny.gov/system/files/documents/2025/05/conflictinterestpolicy.pdf>; Kaplin & Walker LLP. (2022). *Conflicts of interest: Best compliance practices*. Navex. Retrieved 8/5/2026 from <https://cdn.navex.com/image/upload/v1649889769/resource%20documents/conflict-of-interest-best-compliance-practices-whitepaper-2022.pdf>.

⁶⁰ As previously discussed, the ADOA disclosure includes a field for the individual to provide an "affirmative no."



also reviewed the completed forms to determine whether they were signed, sufficiently complete, and consistent with the Authority's disclosure requirements.

The Authority also had policies and training materials that addressed how conflicts should be identified, disclosed, and remediated. Specifically, the Authority's conflict-of-interest policy requires public officers and employees to review the policy annually, complete an annual disclosure statement, and disclose any substantial interest through a Conflict-of-Interest Disclosure Memorandum. The policy further requires individuals with a disclosed conflict to withdraw from the related decision-making process, and for Board members to verbally recuse themselves and/or abstain from discussion and voting during Board meetings; the policy also requires those recusals and abstentions to be recorded in the meeting minutes and maintained for public inspection.⁶¹ In addition, the Authority's policies establish a remediation process for suspected violations, including reporting suspected violations to the Director (or designee) investigating reported violations, responding to established violations to address the individual involved and prevent similar issues from reoccurring, and imposing disciplinary action when appropriate. Based on our review of the Authority's disclosure forms, special conflict file, and Board meeting minutes, we found that disclosed Board member conflicts were documented and that the affected Board members refrained from participating in the related discussion or vote, as required by State law and Authority policy.

In addition, we verified that the Authority maintained a special file for disclosures of substantial interests, as required by statute and Authority policy, and that the file was intended to contain the documents necessary to memorialize such disclosures for public inspection. We also reviewed the Authority's conflict-of-interest disclosure memorandum and annual disclosure statement to confirm that, when a substantial interest is identified, the forms require the individual to describe the matter and the substantial interest and to document disqualification from participation. The Conflict-of-Interest Disclosure Memorandum serves a different purpose from the annual disclosure forms; a public officer or employee completes it when a substantial interest is identified in a specific matter, and the memorandum documents both the interest and the individual's disqualification from participating.

Sunset Factor 9 – The extent to which changes are necessary for the Authority to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.

This performance audit and sunset review did not identify any statutory changes that are necessary to help the Authority more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities.

Sunset Factor 10 – The extent to which the termination of the Authority would significantly affect the public health, safety, or welfare.

⁶¹ Authority Policy I.13, *Conflict of Interest*; Authority's Conflict of Interest Disclosure Form; Authority's *Conflicts of Interest and Ethics Training* materials; and Authority Policy I.17, *Ethics*.



Terminating the Authority could significantly affect public health, safety, and welfare if its responsibilities were not transferred to another entity. Reliable and affordable water is essential to public health and safety because communities depend on drinking water, wastewater, conservation, and water supply systems to maintain safe service and protect water quality. When supplies are inadequate or infrastructure fails, residents, businesses, and future growth can be adversely affected. Arizona continues to face serious and compounding water challenges, including limits on existing supplies, Colorado River uncertainty, rural groundwater declines, and the infrastructure investments needed to secure reliable water supplies over the long term. The Authority's purpose is to help meet Arizona's existing and future water needs through investments in water quality, conservation, reuse, augmentation, and system reliability. In 2025, the Authority awarded an additional \$14.1 million in conservation grants, bringing total expected water savings through that program to as much as 6.6 million acre-feet over the life of the projects; selecting 4 teams to further develop 7 water importation concepts that in total could bring more than 1 million acre-feet of renewable water to Arizona over the next 5 to 15 years; and opening an in-state augmentation loan program with an initial allocation of \$96.2 million for projects intended to increase Arizona's long-term water supply.⁶²

Termination also could significantly affect public welfare because the Authority administers Arizona's Drinking Water and Clean Water Fund programs, which are supported by ongoing federal capitalization grants that are deposited into the State's revolving funds and then used to provide long-term financing and other financial assistance for drinking water and wastewater infrastructure projects. In fiscal year 2025, the Authority reported awarding \$41 million in low-cost financing for 17 projects through these revolving fund programs, including 15 drinking water loans totaling about \$38.3 million and 2 clean water loans totaling \$2.8 million.⁶³ These programs support projects intended to address public health and water quality needs, maintain compliance, and provide an ongoing source of financing for water and wastewater infrastructure. Accordingly, if the Authority were terminated without transferring these responsibilities, Arizona could risk disruption in administering these federal revolving loan programs and in receiving or managing associated federal monies, while also losing a key State entity charged with financing projects intended to protect safe drinking water, water quality, and the State's longer-term water supply.

⁶² Water Infrastructure Finance Authority of Arizona, *Annual Report, A.R.S. § 49-1204*, Dec. 31, 2025, pp. 2, 5 to 10.

⁶³ Water Infrastructure Finance Authority of Arizona, *SRF Annual Report, State Fiscal Year 2025* (July 1, 2024, to June 30, 2025), pp. 4 to 5.



Appendix A

This appendix provides the Authority's fund-level financial activity for fiscal years 2023 through 2025, and estimated activity for fiscal year 2026. As discussed in the Introduction, the Authority administers multiple funds to support water infrastructure, water supply development, conservation, and long-term augmentation activities. The Authority's long-standing Clean Water and Drinking Water revolving funds support wastewater and drinking water infrastructure projects, while its newer funds support water supply development, conservation, and augmentation activities. The Authority's 2023 annual report stated that, following 2022 legislative changes, the Legislature placed more than \$1.4 billion under the Authority's stewardship for augmentation, conservation, and resiliency, in addition to its traditional lending activities.

Clean Water State Revolving Fund

The fund's financial position strengthened over the period shown. The ending net position increased each year, rising from about \$359.4 million in fiscal year 2023 to about \$399.5 million in fiscal year 2025, and reached about \$422.4 million in fiscal year 2026. This reflects that revenues exceeded expenditures in each year shown, even with higher expenditures in fiscal year 2024 and an interfund transfer that year. Fiscal year 2025 showed especially strong growth in net position, and fiscal year 2026 continues that trend. These figures indicate that the Clean Water Fund has maintained a strong financial base while continuing to support a large active loan portfolio, which positions it to continue providing financing capacity for future projects. The chart on the next page illustrates the summarized Statement of Revenues, Expenses and Changes in Net Position for fiscal years 2023 – 2026.



Table A.1 – Clean Water State Revolving Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2023 through 2026

	2023 (Audited)	2024 (Audited)	2025 (Audited)	2026 (Unaudited)
Beginning Net Position ¹	\$ 347,432,858	\$ 359,363,793	\$ 366,518,140	\$ 399,532,773
Revenues				
Program loan interest	\$ 3,074,314	\$ 3,196,513	\$ 4,492,787	\$ 7,553,010
Debt management fees	3,379,088	3,978,327	5,360,085	1,678,971
Administrative Grants	598,043	559,738	1,067,336	665,559
Investment earnings	4,507,153	6,533,337	5,479,010	98,199
Federal Grants ²	6,428,504	22,933,083	20,362,477	18,702,511
Total Revenues ^{3,4}	\$ 17,987,102	\$ 37,200,998	\$ 36,761,695	\$ 28,698,250
Expenditures and Transfers				
Administrative expenses	\$ 848,671	\$ 669,300	\$ 780,195	\$ 943,415
Technical assistance	303,519	107,209	87,189	4,685
Forgivable principal expense	2,349,741	10,869,960	1,767,070	4,394,878
Depreciation	2,392	-	17,030	4,558
Aid to Organizations	-	-	-	3,206
Interest Expense	2,551,844	2,437,664	631,440	-
Bond issuance costs and fair value adj.	-	-	464,138	477,782
Interfund Transfers ⁶	-	15,962,518	-	-
Total Expenditures ^{5,8}	\$ 6,056,167	\$ 30,046,651	\$ 3,747,062	\$ 5,828,524
Change in Net Position ⁷	\$ 11,930,935	\$ 7,154,347	\$ 33,014,633	\$ 22,869,725
Ending Net Position	\$ 359,363,793	\$ 366,518,140	\$ 399,532,773	\$ 422,402,498

Source: Auditor analysis of Authority audited financial statements for fiscal years 2023 through 2025, audited by Baker Tilly US, LLP, and Authority-prepared estimated financial information for fiscal year 2026. The Authority's audited financial statements are available on its website under Investor and Financial Information.

¹ Fiscal years 2023 through 2025 reflect actual results, while fiscal year 2026 reflects unaudited balances. Fiscal year 2026 amounts may not yet include audit adjustments, or financial-statement reclassifications. A dash indicates that no amount is separately presented and should not necessarily be interpreted as no activity.

² Federal grant revenue increased from approximately \$6.4 million in fiscal year 2023 to \$22.9 million in fiscal year 2024 and then declined to approximately \$20.4 million in fiscal year 2025 and an estimated \$18.7 million in fiscal year 2026. Federal grant revenue can fluctuate because of changes in capitalization grant awards, the timing of federal draws, eligible project expenditures, and the use of grant set-asides. The Authority's fiscal year 2025 audited financial statements reported approximately \$28.9 million in Clean Water federal grant awards for fiscal year 2026, which exceeds the \$18.7 million of grant revenue estimated in this chart. The difference may reflect the fact that federal awards can be drawn and recognized over multiple years as qualifying expenditures are incurred.

³ Total revenues increased by approximately \$19.2 million, or 106.8 percent, in fiscal year 2024, primarily because federal grant revenue increased by approximately \$16.5 million. Total revenues remained relatively stable in fiscal year 2025, decreasing by approximately \$439,000, or 1.2 percent. Although the reported amounts for investment earnings and program loan interest changed between fiscal years, a portion of the change reflects a classification difference rather than a significant change in total earnings. Specifically, certain program loan interest amounts are reclassified to investment earnings as part of the year-end audit process. When investment earnings and program loan interest are considered together, the combined amount did not change significantly between the years. Decreases in federal grant revenue were also largely offset by increases in debt-management fees and administrative grants.

⁴ Fiscal year 2026 total revenues are estimated at approximately \$28.7 million, a decrease of approximately \$8.1 million, or 21.9 percent, from fiscal year 2025. The largest change is approximately \$5.4 million, or 98.2 percent, decrease in investment earnings, from approximately \$5.5 million to approximately \$98,000. Debt-management fees also decrease by approximately \$3.7 million, or 68.7 percent. These decreases are partially offset by approximately \$3.1 million, or 68.1



Table A-1 Continued

percent, increase in program loan interest.

⁵ Total expenditures are estimated to increase by approximately \$2.1 million, or 55.5 percent, in fiscal year 2026. The increase is primarily attributable to an approximately \$2.6 million, or 148.7 percent, increase in forgivable-principal expense and an approximately \$163,000, or 20.9 percent, increase in administrative expenses. These increases are partially offset by an approximately \$83,000 decrease in technical-assistance expense and the absence of a separately presented interest expense. Forgivable-principal expense can vary significantly from year to year because it is generally recognized as eligible project costs are incurred and reimbursed rather than when assistance is initially awarded.

⁶ Fiscal year 2024 includes an approximate \$16.0 million transfer out to another fund. Before the transfer, fiscal year 2024 revenues exceeded expenditures by approximately \$23.1 million. After the transfer, the Clean Water Fund increased by approximately \$7.2 million. The transfer was presented separately from operating expenditures and should not be interpreted as a cost of administering the Clean Water program. No comparable transfer existed for fiscal year 2026.

⁷ Fiscal year 2026 revenues are estimated to exceed expenses by approximately \$22.9 million, increasing ending net position to approximately \$422.4 million. This increase is approximately \$10.1 million less than fiscal year 2025 because estimated revenues declined by approximately \$8.1 million while expenses increased by approximately \$2.1 million. The ending balance should not be described as unrestricted surplus because portions may be federally restricted, committed to existing assistance agreements, or needed to maintain the revolving fund and related debt obligations. The Authority is required to maintain specified federal capitalization grant and State-match amounts in the revolving funds in perpetuity.

⁸ The fiscal year 2026 functional expense classifications are unaudited and may change when the Authority completes its year-end accounting and audit. Repayable project disbursements are generally recorded as increases in program loans receivable rather than current-period expense, while nonrepayable assistance may be recorded as forgivable-principal or grant expense. Debt-related amounts also require reconciliation.

Drinking Water State Revolving Fund

The fund's financial position also strengthened over the period shown. Ending net position increased each year, rising from about \$426 million in fiscal year 2023 to about \$487.4 million in fiscal year 2025, and is estimated to reach \$516.4 million in fiscal year 2026. Revenues remained above expenditures in each year shown, which allowed net position to continue growing even as annual expenditures increased. Fiscal year 2024 included an interfund transfer into the fund, which contributed to that year's stronger growth, but the fund also posted positive annual increases in the other years shown. These figures show that the fund has continued to grow while supporting a large active loan portfolio and retaining capacity for future lending. The chart on the next page illustrates the summarized Statement of Revenues, Expenses and Changes in Net Position for fiscal years 2023 – 2026.



Table A.2 – Drinking Water State Revolving Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2023 through 2026

	2023 (Audited)	2024 (Audited)	2025 (Audited)	2026 (Unaudited)
Beginning Net Position ^{1, 3, 5, 6}	\$ 401,944,711	\$ 426,026,459	\$ 468,449,106	\$ 487,401,621
Revenues				
Program loan interest	\$ 3,710,571	\$ 4,017,625	3,786,798	\$ 3,631,731
Debt management fees	6,906,545	7,349,772	7,135,388	6,401,783
Administrative grants	6,294,757	9,491,220	10,509,296	-
Investment earnings	3,838,672	5,163,529	5,964,723	5,640,737
Federal Grants ^{5, 9}	19,858,468	20,531,504	15,485,815	39,252,640
State Appropriations	678,006	-	-	-
Total Revenues ^{2, 4, 6, 9}	\$ 41,287,019	\$ 46,553,650	\$ 42,882,020	\$ 54,926,891
Expenditures and Transfers				
Administrative expenses	\$ 7,612,675	\$ 9,663,191	9,758,067	\$ 2,397,986
Technical assistance	185,044	278,672	243,265	98,589
Forgivable principal expense	4,433,194	6,741,216	9,481,400	11,600,610
Aid to Organizations	-	-	1,211,312	9,766,171
Depreciation	-	-	47,443	12,696
Bond issuance costs and fair value adj.	-	-	525,005	2,014,603
Debt service	4,974,358	3,410,442	2,663,013	-
Interfund Transfers	-	(15,962,518)	-	-
Total Expenditures and Transfers ^{3, 4, 5, 8}	\$ 17,205,271	\$ 4,131,003	\$ 23,929,505	\$ 25,890,655
Change in Net Position	\$ 24,081,748	\$ 42,422,647	\$ 18,952,515	29,036,236
Ending Net Position ⁷	\$ 426,026,459	\$ 468,449,106	\$ 487,401,621	\$ 516,437,857

Source: Auditor analysis of Authority audited financial statements for fiscal years 2023 through 2025, audited by Baker Tilly US, LLP, and Authority-prepared estimated financial information for fiscal year 2026. The Authority's audited financial statements are available on its website under Investor and Financial Information.

¹ Fiscal years 2023 through 2025 reflect actual results, while fiscal year 2026 reflects unaudited balances. Fiscal year 2026 amounts may change because of audit entries, and reclassification from State budget object codes to the functional categories used in the audited financial statements.

² Total revenues increased by approximately \$5.3 million, or 12.8 percent, in fiscal year 2024. The increase was primarily attributable to an approximately \$3.2 million increase in administrative grants (federal Environmental Protection Agency (EPA) capitalization grant monies that WIFA uses to pay eligible costs of administering the State Revolving Fund program) and an approximately \$1.3 million increase in investment earnings. Smaller increases in federal grants, program loan interest, and debt-management fees were partially offset by the absence of the approximately \$678,000 State appropriation recognized in fiscal year 2023.

³ Total expenditures increased by approximately \$2.9 million, or 16.8 percent, in fiscal year 2024. Administrative expenses increased by approximately \$2.1 million and forgivable-principal expense increased by approximately \$2.3 million. Administrative expenses increased by approximately \$2.1 million and forgivable-principal expense increased by approximately \$2.3 million. Administrative expenses include WIFA's costs to administer the Drinking Water State Revolving Fund as well as certain federally authorized set-aside expenditures, including amounts used by the Arizona Department of Environmental Quality for drinking water program activities. Administrative grant revenue primarily consists of portions of federal Clean Water and Drinking Water State Revolving Fund capitalization grants that the Authority is permitted to use for eligible program administration costs. Federal capitalization grants generally allow the Authority to use an administrative set-aside to support costs such as personnel and other expenses associated with administering the revolving fund programs. Certain Drinking Water grants also include separate set-asides for technical assistance and other State drinking water program activities, some of which are provided to the Arizona Department of Environmental Quality. These increases were partially offset by an approximately \$1.6 million reduction in debt service. Changes in forgivable-principal expense generally reflect the timing at which eligible borrowers incur project costs and request reimbursement. The



Table A.2 – Continued

significant decrease in administrative expenses reflected in fiscal year 2026 is attributable, at least in part, to year-end audit reclassification entries that had not yet been recorded in the preliminary fiscal year 2026 amounts.

⁴ Total revenues declined by approximately \$3.7 million, or 7.9 percent, in fiscal year 2025, primarily because federal grant revenue decreased by approximately \$5.0 million, or 24.6 percent. The decline was partially offset by increases of approximately \$1.0 million in administrative grants and approximately \$801,000 in investment earnings. Total

expenditures increased by approximately \$3.8 million, or 19.1 percent, primarily because forgivable-principal expense increased by approximately \$2.7 million, Aid to Organizations of approximately \$1.2 million was recognized, and approximately \$525,000 of bond-issuance costs and fair-value adjustments were recorded.

⁵ Fiscal year 2026 total revenues are estimated at approximately \$54.9 million, an increase of approximately \$12.0 million, or 28.1 percent, over fiscal year 2025. The increase is driven by approximately \$23.8 million, or 153.5 percent, increase in federal grant revenue. This increase is partially offset by the absence of approximately \$10.5 million of separately presented administrative grants, together with decreases in debt-management fees, investment earnings, and program loan interest.

⁶ The fiscal year 2026 expenditure mix changes substantially even though total expenditures increased by only approximately \$2.0 million, or 8.2 percent. Administrative expenses decline by approximately \$7.4 million, or 75.4 percent; Aid to Organizations increases by approximately \$8.6 million, or 706.2 percent; forgivable-principal expense increases by approximately \$2.1 million, or 22.4 percent; and bond-issuance costs and fair-value adjustments increase by approximately \$1.5 million, or 283.7 percent. Debt service is no longer separately presented. These large, offsetting changes reflect differences between budgetary object classifications and the final financial-statement classifications rather than equivalent changes in the Authority's underlying activities.

⁷ Fiscal year 2024 included an approximately \$16.0 million interfund transfer into the Drinking Water Fund, which contributed to the approximately \$42.4 million increase in that year's net position. No interfund transfer is presented for fiscal year 2026. Fiscal year 2026 revenues exceed expenditures by approximately \$29.0 million, increasing the ending net position by approximately 6.0 percent to approximately \$516.4 million. The balance may include federally restricted or previously committed resources and should not be interpreted as fully available for new discretionary uses.

⁸ Aid to Organizations is a State budgetary expenditure classification for anticipated payments to external recipients. It does not determine the final accounting treatment. Repayable Drinking Water assistance is generally recorded as a program loan receivable, while principal forgiveness and pass-through assistance are recorded as expenses. For example, the fiscal year 2025 audited financial statements separately reported approximately \$12.0 million of loan payments, \$3.5 million of forgivable payments, and \$1.2 million of pass-through payments. Consequently, some or all of the approximately \$9.8 million classified as Aid to Organizations in fiscal year 2026 could be reclassified during the year-end audit.

⁹ Federal grant revenue is affected by the timing of grant awards, draw requests, eligible costs, State matching requirements, administrative and technical-assistance set-asides, and required additional subsidies. The approximately \$39.3 million fiscal year 2026 estimate therefore may not equal the total amount awarded or ultimately available. The Authority's fiscal year 2025 audited financial statements reported approximately \$76.6 million of Drinking Water grant awards for fiscal year 2026, while the chart recognizes a lower estimated amount. This difference could reflect amounts expected to be drawn in later years as projects progress. Drinking Water capitalization grants also may include base and supplemental amounts authorized under the Infrastructure Investment and Jobs Act (IIJA).



Water Supply Development Revolving Fund

The fund's financial activity reflects that it was initially built through a large State appropriation in fiscal year 2023, when it received about \$157.7 million and ended the year with a net position of about \$203.1 million. In fiscal year 2024, the net position declined by about \$50.9 million, driven largely by a \$59.7 million transfer to other funds, and then increased modestly in fiscal year 2025. Unlike the federal-state revolving funds, this fund did not report federal grants or ongoing operating revenues in the years shown and instead relied primarily on non-operating revenues after the initial appropriation. Overall, the figures show a program that was capitalized quickly, has been used more heavily for grants than loans, and has had more limited recurring revenue activity than the Authority's larger revolving funds. The chart on the next page illustrates the summarized Statement of Revenues, Expenses and Changes in Net Position for fiscal years 2023 – 2026.

Table A.3 – Water Supply Development Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2023 through 2026

	2023 (Audited)	2024 (Audited)	2025 (Audited)	2026 (Unaudited)
Beginning Net Position ^{1,2}	\$ 40,185,507	\$ 203,054,181	\$ 152,189,303	\$ 158,138,686
Revenues				
Investment earnings ³	5,263,900	9,103,327	6,596,584	6,283,435
State Appropriations ⁴	157,667,337	-	-	-
Total Revenues ⁴	\$ 162,931,237	\$ 9,103,327	\$ 6,596,584	\$ 6,283,435
Expenditures and Transfers				
Administrative expenses	\$ 62,563	\$ 268,095	184,799	\$ 313,822
Forgivable principal expense	-	-	455,352	6,661,700
Aid to Organizations ⁵	-	-	-	-
Depreciation	-	-	6,082	1,628
Interest expense	-	-	968	-
Transfers to Other Funds ⁷	-	59,700,110	-	20,001,145
Total Expenditures and Transfers ⁶	\$ 62,563	\$ 59,968,205	\$ 647,201	\$ 26,978,295
Change in Net Position ⁸	\$ 162,868,674	\$ (50,864,878)	\$ 5,949,383	\$ (20,694,860)
Ending Net Position	\$ 203,054,181	\$ 152,189,303	\$ 158,138,686	\$ 137,443,826

Source: Auditor analysis of Authority audited financial statements for fiscal years 2023 through 2025, audited by Baker Tilly US, LLP, and Authority-prepared estimated financial information for fiscal year 2026. The Authority's audited financial statements are available on its website under Investor and Financial Information.

¹ Fiscal years 2023 through 2025 reflect actual results, while fiscal year 2026 reflects unaudited balances." Fiscal year 2026 balances may change as project payments are evaluated for classification as loans, grants, forgivable principal, transfers, or other financial assistance.

² The beginning net positions roll forward from the preceding years' ending balances. The increase from an approximately \$40.2 million fiscal year 2023 beginning balance to an approximately \$203.1 million fiscal year 2024 beginning balance reflects the large fiscal year 2023 State appropriation and related investment earnings. The approximately \$158.1 million fiscal year 2026 beginning balance therefore represents resources accumulated in prior years and should not be interpreted as fiscal year 2026 revenue.

³ Investment earnings increased from approximately \$5.3 million in fiscal year 2023 to approximately \$9.1 million in fiscal year 2024 and then declined to approximately \$6.6 million in fiscal year 2025 and an estimated \$6.3 million in fiscal year 2026. The fiscal year 2026 decrease is approximately \$313,000, or 4.7 percent. Investment earnings may vary because of



Table A.3 – Continued

changes in interest rates, average invested balances, the timing of transfers and project disbursements, and the completeness of the unaudited year-end investment accrual.

⁴ Fiscal year 2023 included an approximately \$157.7 million State appropriation, which accounted for nearly all of the approximately \$162.9 million in total revenues that year. No new State appropriation is presented for fiscal years 2024 through 2026, and subsequent revenues consist almost entirely of investment earnings. Therefore, the approximately 94.4 percent decline in total revenue from fiscal year 2023 to fiscal year 2024 primarily reflects the nonrecurring nature of the initial State capitalization rather than deterioration in recurring program revenue.

⁵ No amount is separately presented as Aid to Organizations in fiscal year 2026, while approximately \$6.7 million is presented as forgivable-principal expense. The final accounting treatment depends on the assistance terms. Repayable assistance generally should be recorded as a program loan receivable, while non-repayable assistance may be recorded as forgivable-principal, grant, or another applicable expense. The fund is authorized to provide both loans and grants. These balances may change during and after the audit is complete for fiscal year 2026.

⁶ Total expenditures increase from approximately \$647,000 in fiscal year 2025 to approximately \$7.0 million in fiscal year 2026, an increase of approximately \$6.3 million, or 978.0 percent. Nearly all of the increase results from forgivable-principal expense, which rises from approximately \$455,000 to approximately \$6.7 million. Administrative expenses increased by approximately \$129,000. The large percentage increase is partly attributable to the relatively low fiscal year 2025 base and reflects projects progressing from award and planning stages to eligible cost reimbursement and disbursement. It should not be characterized as a comparable increase in routine program overhead.

⁷ Fiscal year 2024 includes an approximately \$59.7 million transfer from the Water Supply Development Revolving Fund to the State General Fund, including approximately \$8.1 million in investment earnings, and fiscal year 2026 includes an approximately \$20.0 million transfer to the State General Fund. These transfers were made pursuant to legislative budget actions and are presented separately from operating expenditures because they do not represent costs of administering the Water Supply Development program or providing financial assistance for water supply projects. In fiscal year 2026, revenues were approximately \$694,000 below expenditures before the transfer. The approximately \$20.0 million transfer therefore accounts for substantially all of the approximately \$20.7 million decrease in net position.

⁸ The Water Supply Fund decreased by approximately \$20.7 million in fiscal year 2026, compared with an increase of approximately \$5.9 million in fiscal year 2025. The ending net position declines by approximately 13.1 percent, from approximately \$158.1 million to approximately \$137.4 million. Nevertheless, the projected fiscal year 2026 ending balance remains approximately \$97.3 million above the fund's fiscal year 2023 beginning balance. The ending balance may include amounts committed to awards or reserved for financial assistance and should not be interpreted as fully uncommitted.

Water Conservation Grant Fund

The fund's financial activity reflects that its primary purpose was to move appropriated monies into grant awards and related program costs. After no reported activity in fiscal year 2023, the fund recorded about \$1.7 million in revenues and expenditures in fiscal year 2024 and then expanded sharply in fiscal year 2025, when revenues totaled about \$63.8 million and expenditures totaled about \$63.7 million. The ending net position remained very small in fiscal year 2025 at about \$103,184, which shows that most monies received were spent or committed rather than retained in the fund. For fiscal year 2026, the expenditures are above revenues and a negative ending balance, which suggests the timing of expenditures is expected to outpace new revenues and that the fund is being drawn down as previously awarded conservation projects continue to be paid.



Table A.4 – Water Conservation Grant Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2024 through 2026

	2024 (Audited)	2025 (Audited)	2026 (Unaudited)
Beginning Net Position ^{1, 2}	\$ -	\$ -	\$ 103,184
Revenues			
State Appropriations ³	\$ 1,736,558	\$ 63,797,330	\$ 109,846,399
Total Revenues ⁴	\$ 1,736,558	\$ 63,797,330	\$ 109,846,399
Expenditures and Transfers			
Administrative expenses ⁵	\$ -	\$ 151,528	\$ 435,934
Arizona water projects ⁶	1,736,558	63,542,618	109,471,881
Total Expenditures ^{7, 8}	\$ 1,736,558	\$ 63,694,146	\$ 109,907,815
Change in Net Position	\$ -	\$ 103,184	\$ (61,416)
Ending Net Position	\$ -	\$ 103,184	\$ 41,768

Source: Auditor analysis of Authority audited financial statements for fiscal years 2023 through 2025, audited by Baker Tilly US, LLP, and Authority-prepared estimated financial information for fiscal year 2026. The Authority's audited financial statements are available on its website under Investor and Financial Information.

¹ Fiscal years 2024 and 2025 reflect actual results, while fiscal year 2026 reflects unaudited balances. Fiscal year 2026 amounts may differ from final audited results because of the timing of subrecipient reimbursement requests, accounts payable, grant closeouts, unspent award balances, recoveries, and final financial-statement classifications.

² The approximately \$103,000 fiscal year 2026 beginning net position agrees to the fiscal year 2025 ending balance. The absence of a reported beginning balance in fiscal years 2024 and 2025 does not indicate that the program had no activity. Rather, fiscal year 2024 revenues and expenditures were equal, and fiscal year 2025 revenues exceeded expenditures by approximately \$103,000.

³ The chart classifies approximately \$109.8 million of fiscal year 2026 revenue as State appropriations. The audited financial statements explain that the Water Conservation Grant Fund received a one-time commitment of approximately \$214.6 million from the State's American Rescue Plan Act (ARPA) funds, and the State budget identifies federal ARPA COVID stimulus transfers in the Coronavirus State and Local Fiscal Recovery Fund. The amount may therefore be State-appropriated federal funding rather than recurring State General Fund revenue.

⁴ Total revenues increase from approximately \$63.8 million in fiscal year 2025 to approximately \$109.8 million in fiscal year 2026, an increase of approximately \$46.0 million, or 72.2 percent. Because there is no recurring interest, fee, or other operating revenue, the change reflects the timing of the one-time program funding rather than growth in recurring operating revenue.

⁵ Administrative expenses increased from approximately \$152,000 in fiscal year 2025 to approximately \$436,000 in fiscal year 2026, an increase of approximately \$284,000, or 187.7 percent. Although the percentage increase is large because of the low fiscal year 2025 base, estimated administrative expenses represent only approximately 0.4 percent of fiscal year 2026 total expenditures. The increase reflects additional staff time, grant monitoring, contract administration, project review, and closeout responsibilities as the number and dollar value of active projects increases.

⁶ Arizona water-project expense increases from approximately \$63.5 million in fiscal year 2025 to approximately \$109.5 million in fiscal year 2026, an increase of approximately \$45.9 million, or 72.3 percent. Project expense represents approximately 99.6 percent of estimated fiscal year 2026 expenditures. The increase is consistent with a reimbursement grant program in which previously awarded projects progress into implementation, incur eligible costs, and submit reimbursement requests. As of June 30, 2025, the Authority had awarded funding to more than 200 projects and reported approximately \$64 million in subrecipient reimbursements and disbursements.



Table A.4 – Continued

⁷ Total expenditures increase from approximately \$63.7 million in fiscal year 2025 to approximately \$109.9 million in fiscal year 2026, an increase of approximately \$46.2 million, or 72.6 percent. Almost all of the increase relates to Arizona water projects rather than routine administrative costs. Annual expenditures may fluctuate significantly based on construction schedules, procurement delays, recipient invoicing, reimbursement processing, project amendments, and grant closeouts.

⁸ The fiscal year 2026 estimate represents anticipated gross cash payments rather than the final amount recognized as expense under generally accepted accounting principles. Final expense recognition will depend on which eligible costs were incurred and accepted by June 30, amounts accrued but not yet paid, reimbursements received from other governmental entities, and any amounts determined to be unallowable or recoverable.

Long-Term Water Augmentation Fund

The fund's financial activity reflects its primary purpose of accumulating and deploying State-capitalized resources for long-term water augmentation planning, procurement, and financing rather than operating as a routine grant program. The fund was initially capitalized with approximately \$334.0 million in State appropriations in fiscal year 2023 and received another \$189.2 million in fiscal year 2024; together with investment earnings, total revenues were approximately \$338.0 million and \$209.2 million, respectively. After an approximately \$97.3 million transfer to other funds in fiscal year 2024, the ending net position still increased to approximately \$447.6 million. In fiscal year 2025, no new State appropriation was recorded, but approximately \$19.3 million of investment earnings exceeded approximately \$3.8 million of administrative, depreciation, and interest expenses, increasing the ending balance to approximately \$463.1 million. For fiscal year 2026, based on the schedule as presented and before any separate transfer not reflected in the chart, the fund projects approximately \$10.0 million of investment earnings and \$15.8 million of expenditures, including \$10.0 million classified for budgetary purposes as Aid to Organizations and approximately \$5.8 million of administrative expenses. This produces a modest projected drawdown of approximately \$5.8 million and an ending balance of approximately \$457.4 million. The pattern indicates that the fund remains substantially capitalized while the Authority advances the evaluation and development of augmentation projects. The Aid to Organizations classification should not be interpreted as evidence of a new grant program because Long-Term Water Augmentation Fund assistance is intended to be structured through loans, credit enhancements, water subcontracts, or other repayment mechanisms. Grant-related control procedures are documented separately and do not determine the ultimate financial-statement classification of Long-Term Water Augmentation fund transactions.



Table A.5 – Long-Term Water Augmentation Fund, Statement of Revenues, Expenses, and Changes in Net Position, Fiscal Years 2023 through 2026

	2023 (Audited)	2024 (Audited)	2025 (Audited)	2026 (Unaudited)
Beginning Net Position ¹	\$ -	\$ 337,897,943	\$ 447,607,931	\$ 463,131,514
Revenues				
Investment Earnings ²	\$ 3,997,270	\$ 20,007,081	\$ 19,347,827	\$ 18,590,291
State Appropriations ³	334,000,000	189,200,000	-	-
Total Revenues	\$ 337,997,270	\$ 209,207,081	\$ 19,347,827	\$ 18,590,291
Expenditures and Transfers				
Administrative expenses ⁴	\$ 99,327	\$ 2,191,699	\$ 3,765,022	6,824,078
Bond Issuance Costs	-	-	-	934,800
Depreciation	-	-	51,092	13,673
Interest expense	-	-	8,130	-
Transfers to Other Funds ⁷	-	97,305,394	-	84,221,900
Total Expenditures ^{6,9}	\$ 99,327	\$ 99,497,093	\$ 3,824,244	\$ 91,994,451
Change in Net Position ⁸	\$ 337,897,943	\$ 109,709,988	\$ 15,523,583	\$ (73,404,160)
Ending Net Position	\$ 337,897,943	\$ 447,607,931	\$ 463,131,514	\$ 389,727,354

Source: Auditor analysis of Authority audited financial statements for fiscal years 2023 through 2025, audited by Baker Tilly US, LLP, and Authority-prepared estimated financial information for fiscal year 2026. The Authority's audited financial statements are available on its website under Investor and Financial Information.

¹ Fiscal years 2023 through 2025 reflect actual results, while fiscal year 2026 reflects unaudited balances. The approximately \$463.1 million fiscal year 2026 beginning net position agrees to the fiscal year 2025 ending balance. The estimate may change because of audit adjustments and final financial statement classifications.

² Investment earnings increased from approximately \$4.0 million in fiscal year 2023 to approximately \$20.0 million in fiscal year 2024 because the fund held substantially larger invested balances after receiving State appropriations. Investment earnings subsequently declined by approximately 3.3 percent in fiscal year 2025 and are estimated to decline by another 3.9 percent to approximately \$18.6 million in fiscal year 2026. These changes reflect average cash and investment balances, prevailing interest rates, the timing of transfers, and the completeness of the unaudited investment-income accrual.

³ The fund received approximately \$334.0 million of State appropriations in fiscal year 2023 and approximately \$189.2 million in fiscal year 2024. No additional State appropriation existed for fiscal years 2025 or 2026. The approximately 90.8 percent decline in total revenue from fiscal year 2024 to fiscal year 2025 therefore primarily reflects the nonrecurring nature of the initial capitalization rather than a decline in recurring program revenue. After the initial appropriations, investment earnings are the fund's principal reported revenue source.

⁴ Administrative expenses increased from approximately \$3.8 million in fiscal year 2025 to approximately \$6.8 million in fiscal year 2026, an increase of approximately \$3.1 million, or 81.2 percent. The increase could reflect the funds' transition from program development to evaluation and execution, including additional staffing, engineering, financial, legal, procurement, appraisal, negotiation, and other professional services. The Authority's budget states that it is evaluating proposals from qualified development teams and engaging potential water purchasers, and it budgets substantial professional and outside-service expenditures for the augmentation program.

⁵ Fiscal year 2026 includes approximately \$935,000 of bond-issuance costs that were not presented in the preceding years. Bond-issuance costs are transaction-related and generally do not recur at the same level each year. The final amount and accounting treatment will depend on whether the related financing closes during the fiscal year, the nature of the costs incurred, and any applicable amortization or deferred accounting requirements.

⁶ Total expenditures increase from approximately \$3.8 million in fiscal year 2025 to approximately \$7.8 million in fiscal year 2026, an increase of approximately \$3.9 million, or 103.2 percent. The increase is primarily attributable to higher administrative and professional service costs and the newly presented bond-issuance costs. Although the percentage



Table A.5 – Continued

increase is large, estimated fiscal year 2026 expenditures represent approximately 1.7 percent of the fund's beginning balance.

⁷ Fiscal year 2024 includes an approximately \$97.3 million transfer to other funds, and fiscal year 2026 includes a transfer of approximately \$84.2 million. These transfers are separate from operating expenditures and should not be interpreted as costs of administering or developing augmentation projects. The Authority's budget describes the fiscal year 2026 transaction as a sweep of more than \$84 million from the fund.

⁸ Before the fiscal year 2026 transfer, estimated revenues exceed expenditures by approximately \$10.8 million. After the approximately \$84.2 million transfer, the fund is estimated to decrease by approximately \$73.4 million, or 15.8 percent, producing an ending net position of approximately \$389.7 million. Therefore, the transfer is the reason the net position declines. The underlying operating activity, excluding the transfer, increased the balance. The ending balance may be reserved or intended for future augmentation activities and should not be characterized as unrestricted or uncommitted.

⁹ Fiscal year 2026 amounts are subject to audit and final classification. In particular, augmentation-related payments should not be described as grants merely because a State budget schedule uses an Aid to Organizations object code. The audited financial statements explain that the Long-Term Water Augmentation Fund does not provide grants and that assistance is expected to be repaid through loans, water subcontracts, rates, fees, charges, or other mechanisms. Consequently, future project-related payments may be reported as loans receivable, credit enhancements, other assets, or another applicable classification rather than current-period grant expense.



Appendix B

Authority's revolving-loan bond debt generally declined before the Authority expanded bond financing for augmentation activities in fiscal year 2026

This appendix provides information on the Authority's bond activity and related debt service for fiscal years 2023 through 2025, and 2026 bond activity based on Authority-provided information. As discussed in the Introduction, the Authority has historically used bond financing to support its Clean Water and Drinking Water revolving loan programs, which provide long-term financial assistance for wastewater and drinking water infrastructure projects. The Authority's audited financial statements report that its bonds are special obligations of the Authority, payable solely from and secured by Authority assets, and are not obligations of the State of Arizona or any other political subdivision other than the Authority.

The Authority has used bonds primarily as a financing tool for its revolving loan programs, with the debt profile declining over the last several fiscal years.⁶⁴ Audited financial statements show total long-term bond debt of \$218.51 million at June 30, 2022, declining to \$174.26 million at June 30, 2023 after \$44.25 million in payments, and then further declining to \$146.35 million at June 30, 2024 after an additional \$27.91 million in payments.⁶⁵ This reflects a period in which the Authority continued to pay down its prior 2014 water quality refunding bonds while monitoring future needs.

In September 2024, the Authority refinanced that prior debt by issuing \$109.765 million of Water Quality Revenue Refunding Bonds, Series 2024.⁶⁶ The 2024 bonds were issued to refund and defease all outstanding bonds then under the indenture and, after the refunding, the Series 2024 bonds became the only bonds outstanding under that indenture. The 2025 audited financials show those bonds as the Authority's only bonds payable at June 30, 2025, with \$10.98 million allocated to the Clean Water Revolving Fund and \$98.79 million to the Drinking Water Revolving Fund.⁶⁷ The refinancing produced an economic gain of about \$4.6 million and released about \$34 million in reserves for future lending uses.

The 2024 refunding bonds remained structured as limited special obligations of the Authority rather than general obligations of the State. The payment is secured solely by pledged loan repayments and certain pledged accounts established under the master trust indenture, and that the bonds are not debts of the State of Arizona or any political subdivision other than the Authority. The Series 2024 bonds were issued without a reserve account and show projected annual debt service coverage of 2.49x in 2025, 1.78x in 2026, and 1.86x in

⁶⁴ 18 - 2022 Audited Financials.pdf, Note 6, total clean and drinking water long-term debt of \$218,510,000 at June 30, 2022.

⁶⁵ 18 - 2024 Audited Financials.pdf, Management's Discussion and Analysis, debt outstanding for fiscal year 2024 showing beginning balance of \$174,260,000, payments of \$27,910,000, ending balance of \$146,350,000

⁶⁶ The Authority POS_Official.pdf, cover and introductory sections, stating that the Authority issued \$109,765,000 of Water Quality Revenue Refunding Bonds, Series 2024

⁶⁷ 2023 The Authority Annual Report.pdf, Note 6, bonds payable at June 30, 2023



2027.⁶⁸ S&P assigned an AAA rating to the 2024 refunding bonds and affirmed the Authority’s existing bond rating, while Fitch likewise assigned a AAA rating, citing projected minimum annual debt service coverage above 1.7x, strong underwriting and monitoring practices, and no loan defaults or delinquencies.⁶⁹

More recently, the Authority began using bond financing for long-term water augmentation activities in addition to the established revolving-loan fund bond program. A February 2026 board resolution authorized issuance and sale of up to \$375 million in long-term water augmentation revenue bonds for financing projects, increasing capitalization of the Long-Term Water Augmentation Fund, maintaining reserves, and paying issuance costs.⁷⁰

On March 4, 2026, the Authority issued \$350 million through a direct placement with U.S. Bank, with \$260 million intended for importation projects and \$90 million for financial assistance loan projects; those materials also describe a 60-month option priced at 1-month SOFR plus 89 basis points and require at least 105 percent overcollateralization in the augmentation fund. Since 2023, the Authority’s bond program has served 2 related functions: financing the longstanding revolving loan funds through a pledged-loan structure and, more recently, expanding into augmentation financing through a separate revenue bond framework.

Table B.1 – The Authority reduced revolving fund bond debt from fiscal years 2023 through 2025, then expanded bond financing in fiscal year 2026 to support augmentation activities.

Fiscal year	Bond balance / issuance	Principal paid	Key activity
2023	\$174.3 million outstanding	\$44.3 million	Continued repayment of prior water quality refunding bonds.
2024	\$146.4 million outstanding	\$27.9 million	Continued repayment of prior bonds and prepared for refinancing.
2025	\$109.8 million outstanding	\$36.6 million	Issued Series 2024 refunding bonds, replaced prior debt, and reduced financing costs.
2026	\$350.0 million issued	N/A	Issued augmentation revenue bonds through a direct placement to support importation and financial assistance projects.

Source: Auditor compiled using audited financial statements for fiscal years 2023 – 2025; Bond activity for 2026 provided by the Authority

⁶⁸ WIFAPOS_Official.pdf, Annual Debt Service Requirements and Debt Service Coverage table

⁶⁹ Fitch_WIFA.pdf, assigning an AAA rating to the Series 2024 refunding bonds, stating there would be no debt service reserve account for the Series 2024 bonds, citing projected minimum annual debt service coverage above 1.7x, and describing strong underwriting and monitoring practices with no loan default history.

⁷⁰ Authorization, Issuance and Sale of Up to \$375,000,000 Long-Term Water Augmentation Revenue Bonds Resolution 2026-043A



Appendix C

The timeline below shows the Authority's progress in administering the Long-Term Water Augmentation Fund since its creation in 2022.

Date	Detailed Entry
2022	
July 6, 2022	The Governor signed Laws 2022, Chapter 366, creating the Long-Term Water Augmentation Fund (Augmentation Fund) framework for the Authority and identifying a three-year funding plan totaling \$1.0 billion. The new framework expanded the Authority beyond its long-standing State Revolving Fund role and added a statewide augmentation mandate. The Augmentation Fund's purpose included investigating the feasibility of agreements for projects to import water into Arizona and positioning the Authority to pursue augmentation projects, conservation, water supply development, and water reliability activities.
September 24, 2022	Generally effective date for the 55th Legislature, 2nd Regular Session. This effective date was the practical start of the Authority operating under the new statutory structure because appointing authorities could not fully act under the new structure until the legislation was effective. The effective date also triggered the statutory monthly distribution structure for the Augmentation Fund beginning in the following month.
October 2022	The successor Authority Board was fully seated in October 2022. Under A.R.S. § 49-1206, the Governor appoints five of the nine voting members; the Senate President and Minority Leader alternate appointments to two seats; and the House Speaker and Minority Leader alternate appointments to two seats. The restructured Board became responsible for the Authority's expanded water programs.
October 2022 to June 2023	Statutory fiscal year 2023 deposit schedule. The statute directed the State Treasurer to distribute \$334 million to the Augmentation Fund proportionately over the remaining months of fiscal year 2023, beginning the month after the general effective date. During the early part of this funding period, the Authority was receiving or preparing to receive the Augmentation Fund distributions while the new board and governance structure were still being implemented.
November 10, 2022	First meeting of the newly seated Authority Board of Directors. Early Board activity involved understanding the new responsibilities assigned by the 2022 legislation, considering governance and organizational matters, and beginning the process for appointing a director for the restructured agency.



Date	Detailed Entry
December 8 to 9, 2022	The board held noticed director interview activity as part of a nationwide search for leadership of the restructured Authority. Daniel Dialessi, who had served in Authority leadership when the Authority primarily administered the Clean Water and Drinking Water programs, continued during the transition period. The new Director search reflected that the restructured the Authority had a broader mission and required a different leadership profile than the prior organization.
December 2022	The Authority Board was presented with an unsolicited Sea of Cortez water importation proposal from IDE. ¹ The proposal presented a Sea of Cortez desalination-related project concept and asked the Authority to commit to purchasing the water and making a substantial financial commitment. The proposal generated public scrutiny and contributed to discussion about whether the Authority should proceed with a single unsolicited proposal or develop a deliberate and competitive process for evaluating water augmentation options. The Authority did not award funding to the proposal.
2023	
January 2023	Chuck Podolak became the Authority's new Director. His hiring followed board interviews in December 2022 and marked the beginning of the Authority's leadership buildout for the expanded statutory mission. The director's role now included responsibility for long-term augmentation, conservation, water supply development, and continuing administration of the Authority's existing Clean Water and Drinking Water programs.
February to March 2023	The Authority reorganized its leadership structure and hired or established four assistant director-level positions to lead new programming while maintaining administration of existing programs. The Authority's pre-reorganization staff primarily supported long-standing State Revolving Fund work, including Clean Water and Drinking Water programs that had been operating for decades. The reorganization added leadership capacity for external affairs, finance, legal, and water projects, and allowed the Authority to begin building capacity for the new Augmentation Fund responsibilities.
March to Summer 2023	The Authority worked to establish frameworks for the new programs assigned by the Legislature. This included clarifying the relationship between staff and the new Board, identifying the information the Board needed to make decisions, preparing or revising strategic materials, increasing marketing efforts to reach potential borrowers or grantees, and determining how the broad statutory authority should be used. The Authority also continued addressing unresolved issues associated with the unsolicited IDE proposal and the public concern it created. During this period, the Authority worked toward a structured approach that would allow a competitive process to identify Augmentation Fund projects.

Date	Detailed Entry
May 11, 2023	Budget action reduced the planned fiscal year 2024 Augmentation Fund deposit by \$143.8 million. As a result, the planned fiscal year 2024 deposit was reduced from \$333 million to \$189.2 million. This occurred before the Authority had issued a procurement solicitation and before final procurement rules were in place. The reduction affected the level of state funding expected for future Augmentation Fund activity and occurred while the Authority was still designing the structure for future augmentation procurement.
Summer 2023	The Authority opened the Water Conservation Grant Fund and began awarding grants. The \$200 million fund ultimately supported 211 projects, with a maximum award of \$3 million per project. Staff reviewed nearly 300 applications between May 2023 and May 2024 to make awards within deadlines established by federal American Rescue Plan Act (ARPA) requirements. This work required substantial staff time during the same period the Authority was developing the Augmentation Fund program.
July 29, 2023	The Authority Board adopted a 5-Year Strategic Framework for augmentation, conservation, and reliability. For augmentation, the framework contemplated working with potential customers to develop augmentation targets and using a competitive process to identify the best project or projects. The competitive process was intended to identify projects that best addressed technical, financial, regulatory, legal, and political issues. The framework aligned with the Authority's Augmentation Fund work with a broader strategy instead of proceeding directly with a single unsolicited proposal.
August 2023	The Authority hired HDR Engineering to help build the public-private partnership program and support development of the large procurement approach. HDR was selected using available state contract mechanisms after the Authority evaluated HDR and two other firms on State contracts. HDR's role included onboarding with the Authority, learning the Authority's process and board structure, educating staff and the board on public-private partnerships, helping the Authority understand industry practice, and assisting with risk analysis and procurement design.
Fall 2023	The Authority completed bottom-up and top-down needs assessments with potential customers to estimate statewide demand for higher-cost augmented water supplies. The work identified actual demand and potential off-takers—entities that might purchase or contract for imported water—before the Authority committed to a specific augmentation project or project type. The Authority used the results to establish an augmentation target, revise its 5-Year Strategic Framework, and assess whether to use a public-private partnership structure.
August 2023 to early 2024	HDR assisted the Authority with strategic planning and procurement development before the formal solicitation drafting period. This work included education on public-private partnership models, discussion of how large infrastructure projects allocate risk, environmental and cross-border infrastructure considerations, and how a solicitation could be structured to preserve flexibility. The Authority used this period to consider a progressive public-private partnership approach because it did not want to define a single project solution before understanding market interest and possible project types.

Date	Detailed Entry
September 20–November 15, 2023	The Authority issued a Request for Information on September 20, 2023, and accepted responses through November 15, 2023—approximately 8 weeks. It received 28 unique responses, including technical concepts and environmental concerns. The request was used for market and industry scoping and was not the procurement solicitation.
December 15, 2023	The Authority’s first formal procurement-rulemaking notice—the Notice of Proposed Expedited Rulemaking for A.A.C. Title 18, Chapter 15, Article 8—was published in the Arizona Administrative Register at 29 A.A.R. 3796. The procurement rules later became effective April 3, 2024, and the final notice was published April 26, 2024.
2024	
February 2, 2024	Board workshop on long-term water augmentation. The workshop included an overview of the Augmentation Fund program, applicable statutes, and case studies. The workshop was part of the Authority’s process of educating the board on the new augmentation program and on possible models for pursuing large water infrastructure projects.
February 21, 2024	Board workshop on public-private partnerships, the National Environmental Policy Act (NEPA), and case studies. The discussion included how a public-private partnership model could apply to large infrastructure projects and how environmental review issues could affect cross-border or large-scale water augmentation concepts. The workshop occurred before the procurement rules became effective and before the board directed staff to prepare the Augmentation Fund procurement solicitation.
April 3, 2024	Augmentation Fund procurement rules became immediately effective under expedited rulemaking. These rules established the procurement structure the Authority would use for Augmentation Fund solicitation activity. Because the solicitation needed to comply with the adopted procurement rules, the rulemaking process was a key step before finalizing the solicitation. The final expedited rulemaking for these procurement rules was later published on April 26, 2024, at <i>30 Arizona Administrative Register 806</i> .
April 17, 2024	The Authority approved Resolution 2024-233 directing staff to prepare and present the Augmentation Fund procurement solicitation. By this date, the Authority had the procurement rules in effect, HDR was assisting with the public-private partnership and procurement structure, and the Authority had received Request for Information responses that informed the solicitation. This resolution marked the formal board direction to move from preparatory work into development of the solicitation package.
April 26, 2024	Final expedited rulemaking for Augmentation Fund procurement rules was published in the Arizona Administrative Register. Publication followed the April 3, 2024 immediate effective date. The rules provided the structure that governed how the Authority could issue, evaluate, and award under the Augmentation Fund procurement process.

Date	Detailed Entry
May 7, 2024	Augmentation Fund financial assistance rules became immediately effective under expedited rulemaking. These rules addressed financial assistance connected to Augmentation Fund, including the mechanisms by which the Authority could provide assistance for eligible projects. Final expedited rulemaking for these financial assistance rules was later published on May 31, 2024, at <i>30 Arizona Administrative Register 1982</i> .
May 15, 2024	Board workshop presenting additional case studies related to long-term water augmentation. The case studies were used to help the Authority and the board consider what had worked and not worked in other large water infrastructure efforts. The workshop informed the Authority's thinking as staff and consultants prepared the solicitation and contract structure.
May 31, 2024	Final expedited rulemaking for the Augmentation Fund financial assistance rules was published in the Arizona Administrative Register. With both procurement and financial assistance rules in place, the Authority had the formal rule structure for both procuring augmentation projects and administering financial assistance associated with the Augmentation Fund.
June 18, 2024	Budget action eliminated the planned fiscal year 2025 General Fund deposit of \$333 million to the Augmentation Fund and swept an additional \$100 million from the fund. This action occurred during solicitation development and further reduced the State funding originally contemplated for the Augmentation Fund.
June 19, 2024	The Long-Term Augmentation Committee held its initial review and discussion of the Statement of Purpose and Need. The statement was part of the solicitation development process and helped frame the purpose of the procurement before final solicitation issuance.
July 10, 2024	Long-Term Augmentation Committee approved the Statement of Purpose and Need. Approval of this document was one step in developing the solicitation package and articulating the need the solicitation would address. The committee's approval occurred while staff, HDR, and legal counsel continued drafting and revising the solicitation and associated contract documents.
July 17, 2024	Board reviewed the final Statement of Purpose and Need. The board review followed committee approval and kept the board informed as the solicitation package was being developed. At this stage, the solicitation was still being drafted and refined, including committee input and legal review.
July 18, 2024	The Long-Term Augmentation Committee continued its review of the development of the Augmentation Fund solicitation package. This meeting occurred after the committee approved the Statement of Purpose and Need on July 10, 2024, and after the Board reviewed the final Statement of Purpose and Need on July 17, 2024. The solicitation drafting process was underway, and Authority staff, HDR, and legal counsel were working to translate the program purpose, procurement rules, and board direction into a formal solicitation structure.

Date	Detailed Entry
July 31, 2024	The Long-Term Augmentation Committee met again as part of the iterative solicitation development process. During this period, the Authority was developing a large and unusual procurement package for long-term water augmentation projects. The solicitation was not limited to standard procurement instructions. It also required development of substantive project requirements, evaluation structure, risk-allocation concepts, and contract terms.
August 21, 2024	The Long-Term Augmentation Committee continued reviewing components of the solicitation. The Authority’s process involved bringing sections or concepts back to the committee for discussion, feedback, and revision rather than presenting the completed solicitation only at the end. This approach allowed the committee to remain involved while staff and consultants continued drafting the solicitation package.
September 4, 2024	The Long-Term Augmentation Committee met during the continued drafting period. The Authority was balancing committee involvement and public transparency with procurement confidentiality and procurement-integrity concerns. Legal counsel advised that drafting the entire solicitation publicly could create risk, including potential bias or protest issues. As a result, the Authority used an iterative process that allowed committee input while preserving appropriate confidentiality over procurement-sensitive details.
September 18, 2024	The Long-Term Augmentation Committee continued its review and discussion of solicitation-related materials. The solicitation package totaled approximately 486 pages and included both the solicitation and a form of contract. Because the form of contract was developed up front, the drafting process included procurement procedures and the legal, financial, technical, and risk-management provisions that would govern future project development.
October 2, 2024	The Long-Term Augmentation Committee met again as the Authority continued refining the solicitation package. Staff, HDR, and legal counsel continued working through procurement structure, project requirements, evaluation process, proposer communications, contract terms, and risk-allocation issues. The repeated committee meetings reflected the size and complexity of the procurement and the committee’s desire to remain involved throughout development.
October 30, 2024	The Long-Term Augmentation Committee held another meeting shortly before the Authority issued the Augmentation Fund Solicitation #2024-001 on November 20, 2024. By this point, the Authority was nearing completion of the solicitation package after several months of drafting, committee feedback, consultant support, legal review, and procurement-integrity review. The process culminated in issuance of the solicitation approximately three weeks later.

Date	Detailed Entry
November 20, 2024	The Authority issued Augmentation Fund Solicitation #2024-001. The solicitation reflected the Authority's decision to pursue a competitive process rather than accept an unsolicited proposal. It was structured to allow the private sector to propose solutions rather than requiring the Authority to predefine a single project type, such as a specific desalination plant at a specific location. The solicitation was intended to identify feasible, financeable, and legally supportable augmentation projects through a progressive public-private partnership approach.
December 10, 2024	Pre-offer conference for the solicitation. The pre-offer conference occurred shortly after issuance and gave industry participants an opportunity to understand the solicitation requirements and ask questions. At this stage, no offers had been submitted. The conference helped establish a common understanding of the Authority's expectations and the process for submitting qualification materials and later offers.
2025	
February 6, 2025	Initial qualification submittals were due. The initial qualification step was used to determine which teams were qualified to proceed to the offer stage. The Authority considered whether teams had the capacity, years of experience, infrastructure experience, and other qualifications needed to participate in a large-scale water augmentation procurement. The Authority received 17 initial qualification submissions, some of which were duplicates, and ultimately qualified six submissions from three unique firms or teams.
March 6, 2025	The Authority notified qualified proposers. Qualification did not mean a project had been selected. It meant the proposer team met the initial threshold requirements and could proceed to the next phase of the solicitation process. Qualified proposers were then able to participate in one-on-one meetings and prepare offers responsive to the solicitation.
April 15 to 17, 2025	Round 1 one-on-one meetings with qualified proposers. These meetings allowed the Authority and qualified teams to discuss the solicitation, address questions, and clarify requirements as proposers prepared offers. Questions raised during the one-on-one process could be answered in writing and, where necessary, shared with all proposers to maintain equal treatment and reduce protest risk.
June 16 to 18, 2025	Round 2 one-on-one meetings with qualified proposers. The second round continued the question-and-answer process and allowed proposers to further refine their understanding of the Authority's requirements before submitting offers. The Authority, HDR, and legal counsel used this process to manage complex solicitation questions, maintain equal access to information, and support a defensible procurement record.
June 27, 2025	Budget action swept an additional \$84 million from the Augmentation Fund. This budget action occurred during the procurement period and further reduced the State funding originally contemplated for the Augmentation Fund.

Date	Detailed Entry
August 13, 2025	Offer due date. All qualified proposers were invited to submit offers. The Authority received offers from three private-sector teams: EPCOR, Acciona, and Zaretaw, which was associated with the IDE proposal. The offers included multiple project concepts. EPCOR submitted four project-specific offers. Acciona submitted one offer with four parallel initiatives. Zaretaw submitted one offer that was later deemed non-responsive. The offers contained substantial technical and financial information and extensive supporting materials for each project or parallel initiative.
September 25, 2025	The Authority issued pass-fail responsiveness determinations. This screening assessed whether offers complied with the solicitation's submission and responsiveness requirements and was distinct from the later evaluation against published technical, financial, legal, environmental, and other criteria that incorporated statutory eligibility and project requirements. One offer was deemed non-responsive because it did not respond in the required manner.
October 7 to 10, 2025	The Evaluation Committee held final consensus meetings. The committee included Authority leadership and technical staff and an external engineering representative. HDR and legal counsel facilitated meetings, supported documentation, and prepared materials for the Long-Term Water Augmentation Committee and Board. The evaluation included technical and financial proposal review, scoring rubrics, responsiveness determinations, and consensus documentation.
October 15, 2025	The Authority Board approved Policy II.20 governing in-state assistance through the Augmentation Fund and Resolution 2026-028 opening an in-state financial assistance funding cycle. This action addressed the separate in-State assistance component of the Augmentation Fund while the out-of-state or importation-oriented solicitation process was moving through final evaluation and award steps. It reflected the Authority's parallel work on imported water project procurement and in-state financial assistance.
November 19, 2025	Awards were made under the Augmentation Fund Solicitation #2024-001. The board served as the ultimate approver of awards. Staff, the evaluation committee, HDR, and legal counsel completed the evaluation work and presented the board with documentation and recommendations. The awards did not mean immediate construction or final project funding. The award step moved selected proposers and projects into the next phase of feasibility, task order work, appraisal, analysis, and further project development.
December 17, 2025	Part I of in-State applications was due. Three applications were submitted. This activity related to the in-State financial assistance funding cycle opened through Policy II.20 and Resolution 2026-028. The in-State process was separate from, but occurring alongside, the ongoing post-award work for the major augmentation solicitation.

Date	Detailed Entry
2026	
January 16, 2026	Part II of in-state applications was due. Two applications were complete for approximately \$120 million in projects. This continued the in-State assistance process and gave the Authority additional project-specific information to evaluate potential Augmentation Fund loan or financial assistance activity for in-State water projects.
February 18, 2026	Long-Term Augmentation Committee reviewed and ranked the first in-state applications for loans and expressed broad consensus for building a revolving in-State financial assistance program. This committee action showed movement toward using the Augmentation Fund for in-State assistance in addition to imported water or out-of-state augmentation opportunities.
March 6, 2026	The Authority closed a 5-year, \$375 million bond sale described as bridge financing for in-State and imported water projects pending long-term financing. The bond sale was intended to provide interim financing capacity while the Authority continued feasibility, project development, and longer-term financing work for Augmentation Fund -related projects.
April 15, 2026	The Authority approved a \$90 million financial assistance loan to the Town of Queen Creek through the in-State Augmentation Fund program. The loan will finance Queen Creek's purchase of groundwater rights from the Harquahala groundwater basin in Western Arizona.
By approx. July 15, 2026 (anticipated)	The Authority anticipated developing or approving an estimated 18- to 36-month outlook for the next phase of augmentation work. The discussion referenced ongoing feasibility studies, task order zero, appraisal and analysis activity, and the need to identify expected next steps for the selected proposers and projects. This anticipated timeline would describe what the Authority expected to occur over the next two years as projects moved through feasibility and further development.

¹ Sea of Cortez Proposal

The Sea of Cortez proposal was an unsolicited water augmentation proposal presented to the Authority's newly seated Board in December 2022. The proposal came from IDE, a private company. IDE presented the Board with a concept for a project located in the Sea of Cortez. The materials were more comparable to a sales brochure and term sheet than a complete procurement submission. The proposal asked the Authority to serve as the entity that would purchase all project water and commit approximately \$750 million toward the project.

The proposal became an early issue for the restructured Authority Board because it was presented before the Authority had completed foundational work for the Augmentation Fund, including the strategic framework, procurement rules, needs assessment, market scoping, and solicitation process. Its unsolicited timing also created public concern that the Authority may have been established to fund a preselected project rather than conduct an open process to identify and compare possible augmentation options. The proposal generated substantial public scrutiny, including from potential augmentation partners in



Mexico, and the Legislature's Joint Legislative Water Committee convened to discuss the matter.

The Authority did not award funding to the proposal. The Board initially directed staff to conduct additional written analysis, but the analysis was not completed because IDE did not provide enough additional, substantive information for the Authority to determine whether the proposal satisfied the Authority's statutory criteria. The Authority continued communicating with IDE and requested more information, but the information received was not sufficient to support a meaningful written analysis for the Board.

Public reaction and scrutiny over the proposal ultimately influenced the Authority's decision to proceed through a more deliberate and competitive process. Rather than moving forward with a single unsolicited project, the Board determined that the Authority should conduct market scoping and develop a competitive solicitation to identify the best available options for long-term water augmentation. The Authority later revoked the earlier direction related to the unsolicited proposal and moved forward with procurement rules and a formal solicitation process. The Authority's procurement rules were drafted to exclude unsolicited proposals and require projects to proceed through the competitive process.

Appendix D

Scope and Methodology

Novum Advisory, PLLC conducted this performance audit and sunset review of the Water Infrastructure Finance Authority of Arizona (Authority) on behalf of the Arizona Auditor General pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in *Arizona Revised Statutes (A.R.S.) §41-2951 et seq.*

We used various methods to address the objectives of this performance audit and sunset review of the Authority. These methods included reviewing applicable State statutes and rules; applicable federal laws, regulations, and guidance; Authority policies, procedures, annual reports, annual reports to the U.S. Environmental Protection Agency (EPA), Intended Use Plans, strategic planning documents, budgets, Board and committee materials, and internal control documentation; interviewing Authority Board members, management, and staff; and reviewing Authority programmatic, financial, and administrative records. In addition, we used the following specific methods to meet the audit objectives:

- ▶ To assess the Authority's key statutory objectives and purposes, we reviewed *A.R.S. §§49-1201 through 49-1261* and related statutes governing the Authority's major funds and programs, including the Clean Water Fund, Drinking Water and Augmentation Fund . We also reviewed the Authority's strategic framework, annual reports, annual reports to EPA, and selected Board-adopted policies to assess whether the Authority's programs and activities aligned with its statutory responsibilities.
- ▶ To assess the Authority's effectiveness and efficiency in fulfilling its key statutory objectives and purposes, we reviewed performance data, financial indicators, program activity, and administrative information for fiscal years 2023 through 2026. We also reviewed the Authority's governance and internal control structure, including Board and committee oversight, grant and loan administration, disbursement processing, repayment monitoring, loan forgiveness administration, financial reporting, and audit oversight.
- ▶ To develop the question-and-answer (Q&A) section describing the Authority's major programs, funding mechanisms, and commonly used terminology, we reviewed applicable State statutes, Authority policies, program guidance, Intended Use Plans, annual reports, loan and grant portfolio information, Board and committee materials, project agreements, and other Authority records. We also reviewed selected project documentation and interviewed Authority management and staff, as necessary, to clarify program structure, financing terms, project status, and the roles and responsibilities of the Authority and participating entities.



- ▶ To assess the Authority's planning and progress related to long-term water augmentation, we reviewed applicable statutory requirements; the Authority's five-year strategic frameworks and subsequent revisions; Long-Term Water Augmentation Fund procurement documents; requests for information and proposals; evaluation and selection materials; Board and Long-Term Water Augmentation Committee meeting materials; contracts and agreements; consultant deliverables; budget documents; and other project planning and implementation records. We also interviewed Authority Board members, management, staff, consultants, and other relevant parties and reviewed changes in planned milestones, procurement activities, feasibility work, offtaker development, project-development activities, and other actions taken during the audit period. We compared these activities and changes to the Authority's statutory responsibilities, publicly established plans and milestones, and prior strategic framework commitments to assess the Authority's progress toward implementing a long-term water augmentation project.
- ▶ To develop the report appendices, we compiled and analyzed information from Authority records and other source documentation relevant to the audit objectives. This included developing timelines of significant Authority and long-term water augmentation activities; summarizing program, loan, grant, and financial information; and presenting selected historical and current information to provide context for the report's findings and conclusions. We compared information across applicable statutes, Board and committee records, strategic frameworks, procurement documents, agreements, portfolio records, financial schedules, and other supporting documentation and, where appropriate, corroborated dates, amounts, and project milestones using multiple sources.
- ▶ To assess whether loan projects were administered in accordance with applicable laws, regulations, policies, and program objectives, we reviewed the Authority's loan portfolios and selected a sample of loan projects for detailed testing. Consistent with the audit sampling methodology, each loan type was treated as a separate population for testing purposes. The populations were defined as all loan projects active, amended, or closed during the audit period within the Clean Water Fund, Drinking Water Fund, and Water Supply Fund programs. To assess whether the populations were complete and appropriate for testing, individual ledger balances were compared to the overall loan portfolio and the Authority's underlying accounting records.
- ▶ To select loan projects for testing, we used a nonstatistical, risk-based sampling approach in accordance with generally accepted government auditing standards for performance audits. Loan size was treated as the primary risk factor because higher-dollar loans present greater financial, compliance, and programmatic risk. Significant differences between original and final loan amounts were treated as a secondary risk factor. After removing loans with final loan amounts under \$100,000 because they were considered lower risk, the remaining loans were stratified by program and loan amount. Higher-risk items were automatically selected based on the highest final loan

values, the largest absolute differences between original and final loan amounts, and loans with final amounts greater than original amounts, as applicable. The remaining sample items were selected using a random number approach. Using auditor judgment after considering population size, dollar magnitude, program complexity, and sampling techniques, a total sample of 45 loan items was selected for testing.

- ▶ The 45 sampled loan items included both individually important loans selected based on risk characteristics and randomly selected loans allocated across the remaining program populations on a pro rata basis. The sampling methodology established target sample sizes for the randomly selected items of 6 Clean Water Fund loans, 13 Drinking Water Fund loans, and 1 Water Supply Fund loan, with the remaining items consisting of automatically selected higher-risk loans. We reviewed sampled loan files for compliance with applicable statutory, regulatory, policy, and program requirements, including loan documentation, approval procedures, and consistency with program purpose.
- ▶ To assess the Authority's internal controls, governance, and program administration, we reviewed the internal controls narrative and related supporting documentation prepared during the audit. This work included reviewing controls over governance and oversight, segregation of duties, capitalization grant application and monitoring, project priority list and application review, due diligence, committee and Board approval, disbursement review and approval, repayment monitoring, and financial reporting systems.
- ▶ To assess the Authority's compliance with public access, conflict-of-interest, complaint-related, and other sunset factor requirements, we reviewed applicable statutes, rules, policies, procedures, forms, training materials, meeting materials, and administrative records relevant to each factor. We also reviewed public-facing information and selected supporting records and logs where applicable to the audit objectives.
- ▶ To obtain information for the Introduction and financial sections, we reviewed Authority-prepared information regarding organization, staffing, vacancies, budgets, program administration, and financial activity. In addition, we compiled and analyzed audited financial information for fiscal years 2023 through 2025; and estimated financial information for 2026 from Authority-prepared schedules, annual reports, budget documents, and other financial records made available during the audit.

Our work on internal controls included reviewing relevant policies and procedures, statutes, rules, grant requirements, and other criteria applicable to the audit objectives and, where appropriate, testing compliance with these requirements. We reported our conclusions on applicable internal controls in the relevant sunset factors and related narrative sections.

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.



When relying on Authority-provided data to support our findings and conclusions, we performed procedures to assess whether the data were sufficiently valid, reliable, and complete for audit purposes. These procedures included reconciling loan population information to portfolio schedules and accounting records, comparing selected data to supporting documentation, and reviewing sampled project files and related records. Unless otherwise noted, we determined the Authority-provided data were sufficiently valid, reliable, and complete for the purposes of this audit.

We conducted this performance audit and sunset review 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 the Authority's Board members, Director, management, and staff for their cooperation and assistance throughout the audit.



Appendix E

Auditor's Comments on Authority Response

The Joint Legislative Audit Committee requires all agencies to respond to whether they agree with the findings and plan to implement the recommendations. We appreciate the Authority's response, including its agreement to implement or implement the recommendations in a different manner. However, the Authority has included certain statements in its response that necessitate the following clarifications. Specifically:

The Authority's three-phase overview document does not address the planning deficiencies identified in Finding 1

On pages 1 and 4 of its response, the Authority states that it has a coherent, comprehensive, and thoughtful plan for the Long-Term Water Augmentation Fund. It further states that this plan is available on its website. The plan linked in its response is a two-page overview identifying three phases: soliciting qualified teams, paying for work product, and project development. Although these phases describe the Authority's general approach for identifying and selecting water augmentation projects, the overview does not identify the program's current phase, including not indicating that the Authority has completed the first phase. The document also lacks target dates or reasonable date ranges for completing each phase, responsible parties and dependencies, regulatory approvals, decision points, project-selection criteria, construction milestones, or significant risks that could affect the schedule.⁷¹ As a result, the plan linked in the Authority's response does not constitute a consolidated and updated comprehensive plan as recommended in the report.

Characterizing time frames as aspirational does not resolve inconsistencies in the Authority's published information

On page 1 of its response, the Authority states that the report incorrectly interprets its five-year strategic frameworks because they represent aspirational goals rather than specific timing. We disagree with this characterization of the finding. A time frame can be aspirational and still communicate a specific expectation about when an activity will occur. The finding does not depend on treating the Authority's targets as guaranteed completion dates. It addresses whether the Authority's published information consistently communicates its expectations and explains changes.

For example, the Authority's August 2024 strategic framework identifies the end of 2024 as the target for publishing a water augmentation project solicitation. However, the "Path Forward" discussion on the same page states that the Authority intends to publish the

⁷¹ Water Infrastructure Finance Authority of Arizona, *Long-Term Water Augmentation Fund Competitive Project Development Process*, one-page overview linked in the Authority's September 21, 2026, response, pages 1 and 4. The three-phase graphic is also reproduced on page 1 of the response.



solicitation by midyear, with project selection occurring by the end of 2024.⁷² These are differing descriptions within the same version of the framework, not simply changes between successive versions. Calling the dates aspirational does not reconcile those descriptions or tell stakeholders which time frame reflects the Authority's expectations.

The recommendations accommodate the Authority's approach of using aspirational goals rather than specific timing. Recommendation 1 allows target dates or reasonable date ranges and calls for distinguishing activities within the Authority's control from those dependent on other parties. Recommendation 2 calls for communicating schedule changes, reasons for delays, and updated estimates. Neither recommendation requires the Authority to guarantee decisions by developers, potential water purchasers, regulators, financing parties, or other governments. Where a meaningful estimate cannot yet be developed, the recommendations would allow the Authority flexibility to explain what remains unresolved and what information or decisions are needed before an estimate can be provided.

The recommendations specify the improvements needed and how they should be communicated

On page 3 of its response, the Authority states that the finding is unclear and that the report does not explain what the recommended plan should contain, how it should be communicated, or what would make its existing plan more adequate. However, Recommendations 1 and 2 directly address these questions. Recommendation 1 identifies the plan's content, specifies that it should extend through anticipated first water delivery, and calls for Board approval and website publication. Recommendation 2 identifies the audiences and information to be addressed in periodic reporting, including completed and upcoming milestones, schedule variances, reasons for delays, corrective actions, changes in risks, and updated estimates for project selection, construction, and water delivery. It also calls for consistency with the Authority's other public materials.

These recommendations are directed at the condition and cause described in Finding 1. Consolidating information and addressing omissions would improve the completeness and accessibility of the Authority's planning information. Periodically updating that information, explaining changes, and maintaining consistency across public materials would address the continuing risk that stakeholders could misunderstand the program's status. The recommendations therefore call for specific improvements, not simply more documents or additional outreach.

Finally, auditors must avoid being too prescriptive with recommendations to avoid appearing to make management decisions. Specifically, Government Auditing Standards require that auditors guard against threats to independence, including management participation threats that could lead an auditor to take a position that is not objective if the auditor takes on the role of management or otherwise performs management functions on

⁷² Water Infrastructure Finance Authority of Arizona, *Five-Year Strategic Framework, Fiscal Year 2024–2028*, revised August 2024, augmentation section, milestone list and "Path Forward" discussion.



behalf of the audited entity. Such a threat could occur if an auditor prepares management's corrective action plan to deal with the deficiencies detected in the engagement.

The cited guidance applies to planning for future infrastructure and communicating program information

On page 3 of its response, the Authority disputes the relevance of the external guidelines cited in the report, despite their broad applicability to public entities. For example:

- ▶ The Authority disputes the applicability of the Government Finance Officers Association's (GFOA) capital-planning guidance because it does not currently manage capital assets and its projects are not sufficiently defined for inclusion in a budget. GFOA's *Multi-Year Capital Planning* guidance expressly addresses identifying future infrastructure needs and planning for procurement, design, and construction, not merely managing assets already in service. It specifically recommends defining project scope and timing during the early stages of planning and identifies water services as an area for which capital planning is critical. The guidance does not establish a particular cost-estimate classification as a prerequisite for its use.⁷³ These principles are relevant to the Authority's decisions about evaluating, financing, and advancing future water infrastructure. Their relevance does not depend on the Authority already owning the assets or having selected a construction-ready project.
- ▶ The GFOA *Capital Planning Policies* guidance cited by the Authority reinforces this distinction. It supports tailoring policies to an organization's circumstances, but expressly states that planning policies do not constitute the capital plan itself. It also recommends provisions for multi-year planning, decision-making, monitoring, reporting, and changes to the plan.⁷⁴ Tailoring the Authority's approach is therefore consistent with the recommendations; it does not eliminate the need for the consolidated and updated planning information they identify.
- ▶ In addition, the Authority disputes the use of the U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, commonly called the *Green Book*, GAO Principle 15, stating that GAO principal 15 provides guidance for communication between a federal entity and external stakeholders and that the principle does not outline a specific set of objectives for a comprehensive plan. However, the *Green Book* is not limited to use by federal entities. Paragraph OV4.20 expressly states that state, local, and quasi-governmental entities may apply it as an internal control framework.⁷⁵ Principle 15 addresses communicating relevant, quality information to appropriate external parties, and paragraph 15.09 recognizes that government entities report to the public as well as legislators and regulators.⁷⁶ We agree that Principle 15

⁷³ Government Finance Officers Association, *Multi-Year Capital Planning*, updated September 2022, introductory discussion and "Identify needs" and "Determine financial impacts" sections.

⁷⁴ Government Finance Officers Association, *Capital Planning Policies*, approved September 30, 2013, introductory discussion and recommendations 5, 9, and 12.

⁷⁵ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, 2025 revision, GAO-25-107721, paragraph OV4.20, "Use by Other Entities," page 27.

⁷⁶ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, 2025 revision, Principle 15, "Communicate Externally," paragraphs 15.01 through 15.03 and 15.09, pages 87 and 89.



does not prescribe the contents of a comprehensive capital plan. Its relevance is to the communication component of the finding, while the GFOA guidance provides the capital-planning principles.

- ▶ Finally, the report uses the GFOA guidance and the *Green Book*, as recommended practices for evaluating planning and communication, not as publications the Authority is legally required to adopt. Whether guidance is mandatory is a different question from whether its principles are relevant to the activities being evaluated. The absence of a legal requirement to adopt a particular publication does not, by itself, make that publication unsuitable as audit criteria. GAO's *Government Auditing Standards*, 2024 revision, commonly called the *Yellow Book*, explains that the purpose of performance auditing is to "...provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability."⁷⁷ Moreover, paragraphs 8.17 and 8.18 explain that audit criteria may identify either a required or a desired condition and may include technically developed standards, defined business practices, and benchmarks.⁷⁸

⁷⁷ U.S. Government Accountability Office, *Government Auditing Standards*, 2024 revision, GAO-24-106786, paragraph 1.21, page 11.

⁷⁸ U.S. Government Accountability Office, *Government Auditing Standards*, 2024 revision, paragraph 1.22, page 11, and paragraphs 8.17 and 8.18, page 185.



Appendix F

Authority Response

The subsequent pages were written by the Authority to provide a response to the Finding and each of the recommendations and to indicate its intention regarding implementation of those recommendations.



SEPTEMBER 21, 2026

Novum Advisory, PLLC
Attn: Stephanie Palmertree
Via email: spalmertree@novum.cpa

RE: Performance Audit and Sunset Review of the Water Infrastructure Finance Authority

Dear Stephanie,

On behalf of the Board of Directors of the Water Infrastructure Finance Authority (WIFA), we would like to express our appreciation for the work of your firm in conducting WIFA's performance audit and sunset review. We have reviewed the revised audit report and agree to implement all recommendations, either as presented or in a different manner.

We would like to acknowledge the diligent work done by the Novum Advisory team in performing this audit and communicating the depth and complexity of WIFA's programming. We also appreciate the Auditor General's Office and their staff for their collaboration and presentation of the draft report to the WIFA board.

It is our great honor to serve on WIFA's behalf as we seek to build a thriving Arizona where water is secure.

Sincerely,



Jonathan Lines (Sep 21, 2026 11:22:45 PDT)

Jonathan Lines
Board Chairman



Ted Cooke
Chairman, LTWAF Committee

Cc: Arizona Auditor General's Office
WIFA Board of Directors
WIFA Director Chelsea McGuire

azwifa.gov | 602-364-1310
3300 N. Central Avenue, Suite 1050, Phoenix, AZ 85012

Governor: Katie Hobbs | Director: Chelsea McGuire
Chairman: Jonathan Lines | Vice-Chairman: Peter Kim | Treasurer: Tim Thomure
Stephen Q. Miller, Voting Member | Sue Montgomery, Voting Member | Donna Michaels, Voting Member
Drew John, Voting Member | Patrice Horstman, Voting Member | Ted Cooke, Voting Member

Finding 1: Although the Authority has followed a public water augmentation program planning and procurement process, it has not developed a consolidated and updated comprehensive plan, risking that stakeholders could misunderstand the program’s status.

Authority response: The finding is not agreed to.

Response explanation: The Authority has a coherent, comprehensive, and thoughtful plan for the long-term augmentation fund.

The Authority respectfully disagrees with the conclusion that it does not have a consolidated and updated comprehensive plan for its long-term water augmentation program. As the Report explains, the Authority is actively implementing a three-phase plan which has already identified a broad universe of potential water importation projects. The Authority is currently working with developers, stakeholders, and offtakers to narrow that universe to projects with the highest likelihood of success. This plan is posted prominently on the Authority’s public-facing materials, including on [the Authority’s Website](#).



The Report points to timelines discussed in the Authority’s evolving 5-year strategic frameworks to support the Finding. The Authority believes the Report incorrectly interprets the purpose of the 5-year strategic framework, which represents aspirational goals, not specific timing. The comprehensive plan for the Long-Term Augmentation Fund is incorporated in the three-phase process described above and is being continuously refined by the scopes of work for each of the seven proposed importation projects on an ongoing basis. As outlined in our responses to recommendations 1, 2, and 3, WIFA will continue to refine its external communication regarding timelines for each augmentation project, consistent with the work produced pursuant to these scopes.

While recognizing that there is always room for improvement, the Authority’s robust public outreach program has communicated relevant, timely information to invested audiences.

The Authority wholeheartedly agrees with the importance of external stakeholders having clear understanding of the Long-Term Water Augmentation program’s status. The Authority’s current process is, in many respects, the product of lessons learned from the prior unsolicited proposal

process, which led WIFA to place heavy importance on transparency, stakeholder engagement, public reporting, and Board oversight. The Authority's outreach was undertaken specifically to reduce uncertainty, improve public confidence, and avoid the perception risks flagged by the Report:

Legislative Outreach

The Legislature has direct participation in Board proceedings, appointment authority over four voting members, and a formal role in identifying a fifth, providing multiple ongoing avenues for legislative awareness of the Authority's work. See ARS § 49-1206(B)(4). Four of the Authority's nine voting Board members are appointed through legislative leadership, while the ninth voting member is appointed by the Governor from a joint list submitted by the President of the Senate and Speaker of the House. In addition, the Senate President, House Speaker, Senate Minority Leader, and House Minority Leader, or their designees, serve as nonvoting advisory members of the Board.

For members who do not serve on WIFA's Board, the Authority has presented reports on the progress of its programs to the House Natural Resources, Energy & Water Committee and Senate Committee on Natural Resources each legislative session since 2023. In-house government affairs staff also engage in regular, individualized discussions with legislators and legislative leadership.¹

This outreach has been effective. In 2025, a bipartisan, bicameral majority of the Legislature passed [HCR 2016 reinstatement; WIFA monies](#). This Concurrent Resolution, which was supported by more than 35 organizations and entities before both chambers of the legislature (see For/Against/Neutral on the State's [Request to Speak System](#)), reiterated the Legislature's commitment to the Authority's long-term water augmentation mission. It specifically recognized the Authority's stakeholder engagement and competitive solicitation process as "an effective way to facilitate" project development and praised the "significant tangible progress" the Authority had made toward its mission. Accordingly, the measure committed to "reinstating the full appropriation envisioned" as "budgetary conditions improve."

Public Outreach

In Fiscal Years 2023-2026, Authority Board members and staff participated in an average of 38 external outreach events, reaching an average of over 2,000 audience members per year. Examples of these events include project site tours for Legislative leadership and panel presentation at state- and nation-wide water conferences such as the Arizona Water Conference, the Arizona League of Cities and Towns annual meeting, the Arizona Agribusiness and Water Council annual meeting, the American Water Works Association annual conference, the Arizona Water Law and Colorado River Water CLEs, and the Colorado River Water Users Association Annual Meeting. Local and national media coverage of our programming has also been plentiful and diverse. Outlets from the Arizona Republic and Arizona Capitol Reports to the New York Times have covered the Authority's innovative approach to public-private partnership models.

Additional Stakeholder Outreach

Additional outreach engagement necessarily serves two distinct but complementary audiences. Within Arizona, the Authority works directly with prospective water purchasers, water infrastructure

¹ An example of the district-specific engagement provided to Legislators is available [here](#).

entities, local governments, tribes, and other interested entities, including through the Offtaker Advisory Group, which provides potential purchasers a structured opportunity to understand project concepts, costs, risks, and potential participation.

Outside Arizona, engagement is focused on prospective regional, interstate, and international partners whose cooperation, infrastructure, approvals, or resources may ultimately be necessary to make augmentation projects viable. These audiences have different interests and decision-making roles, requiring outreach that is tailored accordingly: helping Arizona entities determine whether and how they may participate as offtakers while building the relationships and credibility with external partners necessary to develop water supplies that Arizona cannot secure on its own.²

Because the Finding is unclear as to how the Authority should improve public understanding of its process, it risks establishing expectations that are neither defined nor well-suited to the complexity of the process underway.

While the Authority disagrees that it lacks a comprehensive plan for the Long-Term Water Augmentation Fund, the Report fails to give clear guidance as to what such a plan should entail, how it should be communicated, or what would make the Authority's current plan more adequate.

The Authority appreciates that the Report cites external guidelines to support its conclusion but disputes the relevance of these guidelines. The GFOA guidance cited by the Report applies to the "management of capital facilities and infrastructure" by general government entities or enterprise funds.³ Currently, WIFA neither manages capital assets nor provides capital-asset related services to constituents. While these standards will certainly be relevant to any augmentation project once a specific project is sufficiently defined to be included in a budget (typically at least AACE Class 3 estimates), they are not relevant to the identification of a project delivery model.⁴ The Report also cites GAO Principle 15, which provides guidance for communication between a federal entity and external stakeholders. That principle emphasizes intentional communication of information relevant to a variety of audiences to support the entity achieving its objectives, mitigate risk, and strengthen internal controls.⁵ Nevertheless, the principle does not outline a specific set of objectives for a comprehensive plan.

The Authority appreciates the Report's highlighting of the planning and process already undertaken by the Authority. The Authority agrees that clear, concise communication is essential to keeping the

² It is important to note that much of this work is necessarily relationship-based and project-specific; therefore, it cannot be fully reflected through a website or public planning document alone. Oversimplified reporting and public declarations of presumed timelines and results risks harm to critical stakeholder relationships.

³ <https://www.gfoa.org/materials/multi-year-capital-planning>

⁴ If any GFOA guidance is relevant, it is likely its GFOA is the "Capital Planning Policies" Best Practice, which says, "Governments should develop and adopt capital planning policies that take into account their unique organizational characteristics including the services they provide, how they are structured, and their external environment." <https://www.gfoa.org/materials/capital-planning-policies>

⁵ <https://guides.gaoinnovations.gov/greenbook/2025/principle-15-communicate-externally/#ref108>

public informed. Consistent with its commitment to transparency, the Authority will continue refining how it presents complex program information so that progress, key decisions, and next steps are easy to understand and accessible both to technical stakeholders and the general public. At the same time, the Authority will preserve a thorough public history of how key milestones and decisions were reached, while avoiding inferences that presume project outcomes or commitments that depend on factors Authority's control. The Authority looks forward to further communication from the Auditor General regarding improvements to the Authority's external reporting.

Recommendation 1: Develop and obtain Board approval of a consolidated and updated comprehensive plan for the water augmentation program and post the plan to its website. The consolidated and updated comprehensive plan should extend through anticipated first water delivery and identify the water augmentation program's phases, major activities, target dates or reasonable date ranges, responsible parties, dependencies, financing and procurement actions, regulatory approvals, decision points, project-selection criteria, construction milestones, and significant risks that could affect the schedule. The consolidated and updated comprehensive plan should also distinguish activities within the Authority's control from those dependent on developers, potential water purchases, regulators, financing parties, or other government entities. The Authority should post the consolidated and updated comprehensive plan to its website.

Authority response: The audit recommendation will be implemented in a different manner.

Response explanation: the Authority is actively implementing a three-phase comprehensive plan for the long-term augmentation fund. This plan is easily accessible and available on the [Authority's website](#). This plan will be further refined through the scopes of work for each of seven water importation proposals. As scopes are developed, the Authority will continue to consolidate existing planning, milestones, dependencies, and other program information into an accessible public facing format and make that information available on its website.

Recommendation 2: Use the consolidated and updated comprehensive plan to publicly report progress to different audiences including the Legislature, general public, and other relevant stakeholders. The Authority should periodically communicate relevant information to the Legislature, the public, and other appropriate stakeholders including completed and upcoming milestones, schedule variances, reasons for delays, corrective actions, changes in project risks, and updated estimates for project selection, construction, and water delivery and ensure the information is consistent with its other public materials.

Authority response: The audit recommendation will be implemented.

Response explanation: The Authority's comprehensive three-phase plan is already publicly reported to different audiences through our website, extensive community outreach, media coverage, and legislative engagement. The Authority looks forward to continuing and strengthening this robust outreach programming as the projects become more mature and our information shifts from general awareness to technical understanding.

In addition, the Authority will:

- Provide in public session all non-confidential material produced by its Development Teams pursuant to the scopes of work

- Convene the Long-Term Water Augmentation Committee on a bi-monthly basis to receive updates on Developer Team progress pursuant to their scopes of work
- Continue to convene its Community Engagement Advisory Group to communicate with and receive input from critical water stakeholders on augmentation project proposals
- Continue to convene potential water purchasers to communicate with and receive input from potential water purchasers regarding the commercial and political viability of our augmentation project proposals
- Convene its Regulatory Advisory Group to communicate with and receive input from critical environmental regulatory entities regarding our augmentation project proposals

Sunset Factor 2: The Authority's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

Although the Authority has generally developed processes to carry out its principal statutory responsibilities, the review found that the Authority could further strengthen its processes.

Authority response: The finding is agreed to.

Response explanation: The Authority acknowledges that its current ability to track the metrics across all programs, including the newer WCGF, WSDRF, and LTWAF programs, can be improved and that additional metrics and tracking would help ensure the Authority is meeting customer demands in a timely and effective manner.

Recommendation 3: Track and routinely review comprehensive performance measures, including application intake to award, award to first disbursement, and the reasons for delays, exceptions, or other processing variations, to strengthen internal monitoring of program effectiveness and efficiency across the Authority's financing, conservation, and augmentation activities.

Authority response: The audit recommendation will be implemented.

Response explanation: The Authority is actively implementing an updated loans and grants tracking system that more effectively captures these metrics and allows us to easily produce public-facing reports and dashboards for accountability. This \$1.8 million investment in our customer engagement, finance, and operations software will enable more effective metric tracking previously unavailable to the Authority.