

2006 WIFA Annual Report

Arizona's water and wastewater funding source



WIFA

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August 10, 2006 WIFA Chairman Steve Owens and WIFA Interim Executive Director Judy Navarrete present a WIFA Project of the Year Award to the Town of Patagonia Mayor Gary Gay. Pictured, from left to right, are Robert Welch with Stantec Consulting, Judy Navarrete, Chairman Steve Owens, Mayor Gary Gay, City Manager Randy Heiss and Richard Bigelow with Stantec Consulting.



October 2, 2006 Governor Janet Napolitano, WIFA Chairman Steve Owens and WIFA Interim Executive Director Judy Navarrete presented a \$577,578 WIFA check to the Pineview Water Company.

About Mission & Vision

WIFA is an independent agency of the state of Arizona and is authorized to finance the construction, rehabilitation and/or improvement of drinking water, wastewater, wastewater reclamation, and other water quality facilities/projects. Generally, WIFA offers borrowers below market interest on loans for one hundred percent of eligible project costs.

As a "bond bank," WIFA is able to issue water quality bonds on behalf of communities for basic water infrastructure. Through active portfolio and financial management, WIFA provides significant savings due to lower interest rates and shared or reduced closing costs. WIFA is able to lower a borrower's interest costs to between seventy and one hundred percent of WIFA's tax-exempt cost of borrowing.

WIFA's principal tools for providing low interest financial assistance include the Clean Water Revolving Fund for publicly held wastewater treatment projects and the Drinking Water Revolving Fund for both publicly and privately held drinking water systems. Both funds are capitalized by contributions from the state and the U.S. Congress.

WIFA also manages a Technical Assistance (TA) program. The TA program offers pre-design and design grants to all eligible wastewater and drinking water systems. The purpose of the TA program is to enhance project readiness to proceed with a WIFA project construction loan. Also, both pre-design and design loans are available.

WIFA's mission is to maintain and improve water quality in Arizona by providing financial assistance and technical assistance for basic water infrastructure.



On August 10, 2006, Town of Bisbee Mayor Ron Ortele, Former Mayor Dan Beauchamp and Former Mayor Lyle Reddy participate in a ribbon cutting ceremony to mark the grand opening of the Town's San Jose Wastewater Treatment Plant. Bisbee utilized a \$11.2 million low-interest WIFA loan in conjunction with five technical assistance grants totaling \$95,200. WIFA also partnered with several other funding entities to assist the town in bringing its project to fruition.

Our vision at WIFA is to guide our resources to communities with the greatest need to maintain and enhance Arizona's quality of life.



STATE OF ARIZONA
OFFICE OF THE GOVERNOR
1700 WEST WASHINGTON STREET, PHOENIX, AZ 85007

JANET NAPOLITANO
GOVERNOR

MAIN PHONE: 602-542-4331
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December 2006

Dear Members of the Legislature and Citizens of Arizona:

Protecting the state's precious water resources and building the new Arizona economy are two of my top priorities as Governor.

The Water Infrastructure Finance Authority of Arizona protects Arizona's water and helps communities develop the water infrastructure needed to grow and prosper. WIFA accomplishes its mission through its financial and technical assistance programs that maintain and improve water quality in Arizona.

WIFA is raising the bar in its contribution to Arizona's economy. As a premier financial institution both in Arizona and nationally, the agency originates over \$100 million annually in community wastewater and drinking water investments. Infrastructure projects are an economic investment in Arizona because they bring jobs to local communities, help create the infrastructure for sustainable growth, and provide long-term solutions to clean water and drinking water challenges.

The funds WIFA provides to Arizona's communities have grown because of smart utilization of WIFA's federal allocations and sound management practices. This year, Arizona received an increase in the Drinking Water State Revolving Fund capitalization grant from the U.S. Congress but faced a major cut in its Clean Water State Revolving Fund allocation. I continue to fight for a needs-based formula that accurately reflects our state's clean water needs.

I offer my sincere appreciation to the WIFA Board Chairman Steve Owens, the WIFA Board of Directors and the WIFA staff for their outstanding record of achievement and dedication to serving Arizona's communities. With appreciation of the key financial and environmental role it plays, WIFA will continue to benefit our citizens by helping maintain and enhance Arizona's natural resources, public health and quality of life.

Yours very truly,


Janet Napolitano,
Governor



Chairman's Message

As Director of the Arizona Department of Environmental Quality (ADEQ), I have the pleasure to serve as chairman of the WIFA Board of Directors. The close partnership between ADEQ and WIFA has enabled WIFA to effectively meet ongoing challenges faced by Arizona's communities in addressing their drinking water and wastewater needs including the federally mandated arsenic standards, sustainable growth and infrastructure funding.

Providing Communities With Efficient Access to Financing

Governor Janet Napolitano signed into law House Bill 2159, making it easier for communities to access low-interest financing for critical infrastructure. HB2159 allows cities, towns, domestic water and domestic wastewater improvement districts with less than 50,000 people to enter into a loan with the Authority without holding a bond election. This legislation allows critical infrastructure to be developed more efficiently in communities throughout the state.

Helping Communities Meet Federal Arsenic Standard

In an effort to help communities meet the January 23, 2006 federal arsenic standard, WIFA and ADEQ teamed up and continue to present workshops around the state and work with local water providers. WIFA continues to make funding arsenic related projects a top priority. Those projects are put at the top of the funding list and are moved through the funding process quickly and efficiently.

Meeting the Funding Challenges

Although Arizona has made significant strides in water quality, our continued ability to help communities meet future water quality requirements is highly dependent on changing the state revolving fund formula which is based on outdated 1970s population figures and infrastructure needs.

In the past few years, SRF federal funding has been cut in half hitting growing states like Arizona particularly hard. Since the inception of the SRF program, WIFA's capitalization grant has been reduced by 50%. The cuts have a negative impact on Arizona's ability to meet the demand for new infrastructure and improvements to existing systems. Arizona continues to receive less than our fair share of federal dollars when it comes to clean water funding per capita. A consistent and more accurate funding mechanism needs to be tied to the clean water SRF to ensure that states with the greatest need are given the resources to meet that need .

In contrast to the issue with clean water funding, WIFA received a drinking water capitalization grant award of \$23 million, a \$14 million increase over last year due to a major increase in identified drinking water infrastructure needs in Arizona. This allows WIFA to continue to make arsenic related projects a priority and guide them through the funding process more quickly so that water systems can meet the new federal standard, as well as help communities deal with other pressing drinking water infrastructure needs.

By providing communities with funding for critical drinking water and wastewater infrastructure, WIFA plays an invaluable role in protecting Arizona's precious water supplies, ensuring safe drinking water and providing a foundation for sound growth across the state. WIFA's accomplishments this past year point to continued progress for WIFA and our state in the future.



Stephen A. Owens, Chairman

A handwritten signature in black ink, appearing to read 'S. Owens', written over a light-colored background.

WIFA Board of Directors

Goals & Performance Measures

Goal 1: Award WIFA's financial resources in accordance with the water quality needs of Arizona's citizens.

As shown in Table 1, during Funding Cycle 2006, WIFA continued to provide financial assistance to a diverse number of communities with varying levels of water quality and infrastructure needs. By balancing communities' relative environmental health and financial needs, WIFA was able to prioritize and expedite project funding in an efficient and timely manner.

Table 1

Projects Funded by Priority List Ranking				
Priority List Rank	Clean Water Revolving Fund		Drinking Water Revolving Fund	
	FY05	FY06*	FY05	FY06**
Projects in Top 10				
# of projects	3	7	3	1
\$ of projects	\$12,795,000	\$110,577,085	\$1,199,593	\$1,926,100
Projects in Top 25 (Cumulative)				
Cumulative # of projects	5	14	8	13
Cumulative \$ of projects	\$40,269,950	\$211,327,221	\$6,645,870	\$29,045,131
Projects in Top 50 (Cumulative)				
Cumulative # of projects	9	14	11	14
Cumulative \$ of projects	\$80,219,062	\$211,327,221	\$25,199,034	\$61,885,771
Remainder of List				
Cumulative # of projects	9	14	13	14
Cumulative \$ of projects	\$80,219,062	\$211,327,221	\$30,776,612	\$61,885,771

* Clean Water program funded 14 of 38 priority list applicants.

** Drinking Water program funded 14 of 52 priority list applicants.

During Funding Cycle 2006, WIFA dedicated its resources to improving the water and wastewater infrastructure of cities, towns, and tribes of all sizes throughout Arizona. Table 2 illustrates how WIFA dollars were disbursed to loan recipients by population.

Table 2

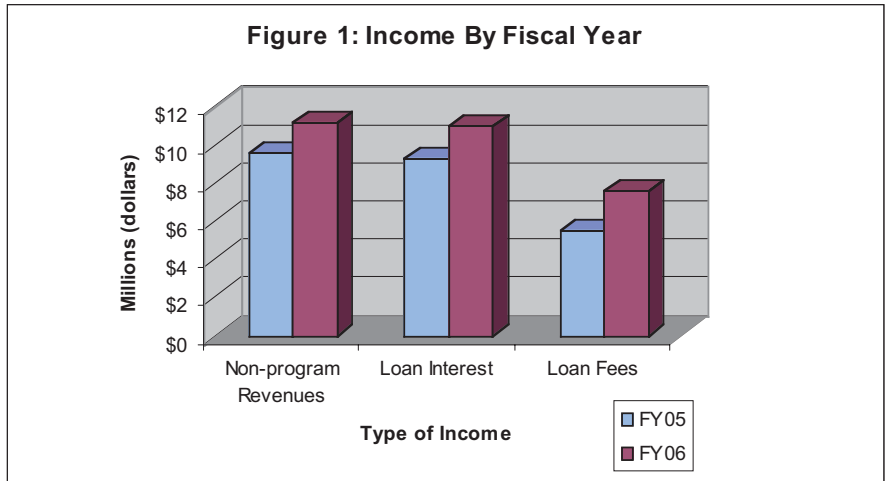
Projects Funded by Population Category				
Priority List Rank	Clean Water Revolving Fund		Drinking Water Revolving Fund	
	FY05	FY06	FY05	FY06
Less than 2,500				
# of projects	0	0	5	4
\$ of projects	\$0	\$0	\$1,068,947	\$525,841
Between 2,501 & 5,000				
# of projects	3	3	3	3
\$ of projects	\$39,874,950	\$16,830,000	\$3,658,604	\$5,106,546
Between 5,001 & 10,000				
# of projects	0	1	3	0
\$ of projects	\$0	\$4,500,000	\$9,702,461	\$0
Above 10,001				
# of projects	6	10	2	7
\$ of projects	\$40,344,122	\$189,997,221	\$16,346,600	\$56,253,384

A vital measure of the benefit WIFA loans provide to communities throughout Arizona is the savings to tax/rate payers when compared to traditional market financing. In Funding Cycle 2006, WIFA's below-market interest rates and reduced closing costs will save Arizona communities an estimated \$30.5 million over the term of the loans. Since the inception of the Authority, WIFA conservatively estimates a total savings of \$238.5 million to tax/rate payers.

Goals & Performance Measures

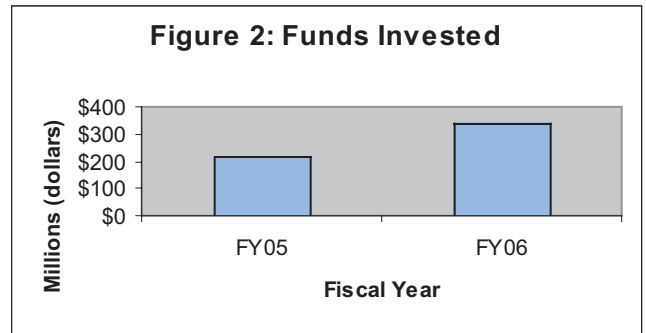
Goal 2: Manage WIFA's loan and bond portfolio and maintain WIFA's fiscal integrity to meet the water quality funding needs of Arizona's future generations.

In addition to maintaining fiscal integrity, WIFA invests its monies to ensure the fund's growth keeps pace with inflation. Total non-program earnings increased by approximately \$1.65 million, or 17.28% during Fiscal Year 2006 as shown in Figure 1. WIFA loan interest revenues increased by 18.8% from the previous year. Loan fees increased by 39.48%.



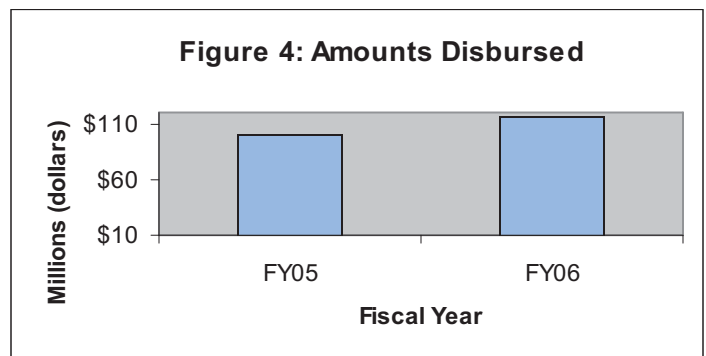
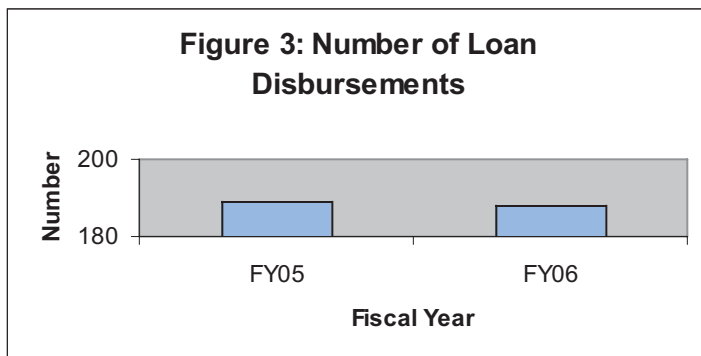
Further evidence of WIFA's commitment to preserve and grow the funds is shown in WIFA's Statement of Financial Position (pages 11-13).

Figure 2 reflects an increase in WIFA's investment portfolio, which provides funds for a myriad of uses by the Authority. The dollars invested are primarily used to originate loans to WIFA borrowers as well as provide additional security to our bond portfolio. Additionally, interest generated from the invested funds helps subsidize WIFA borrower interest rates.



Goal 3: Deliver technical and financial assistance to Arizona communities in an efficient and accessible manner.

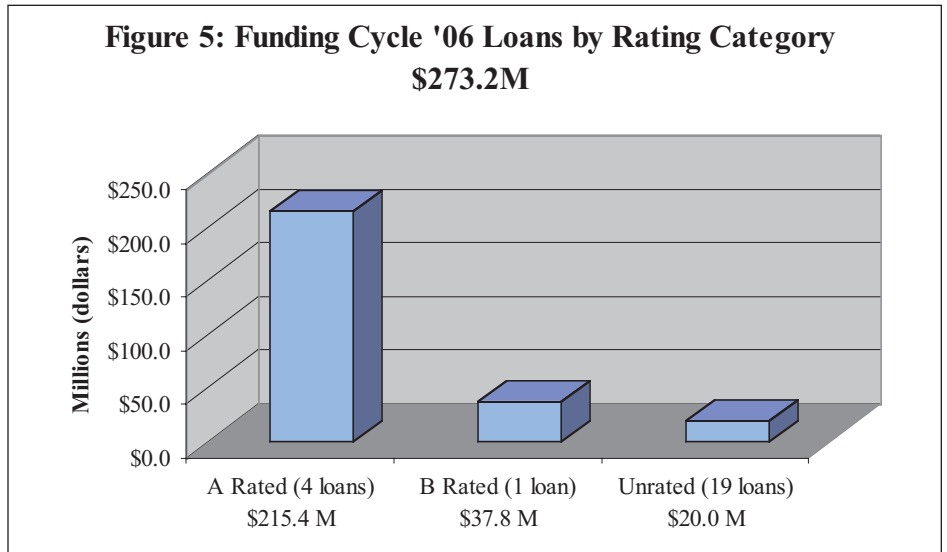
The number of loan disbursements and the amount of loan disbursements by WIFA are shown in Figure 3 and Figure 4. The dollar amount disbursed increased from the previous fiscal year. In 2006, WIFA disbursed \$117,171,642, roughly a \$16.7 million dollar increase as compared to 2005.



Goals & Performance Measures

During Funding Cycle 2006, WIFA provided financial assistance to a diverse portfolio of borrowers. The presence of strong borrowers within the portfolio benefits all program participants.

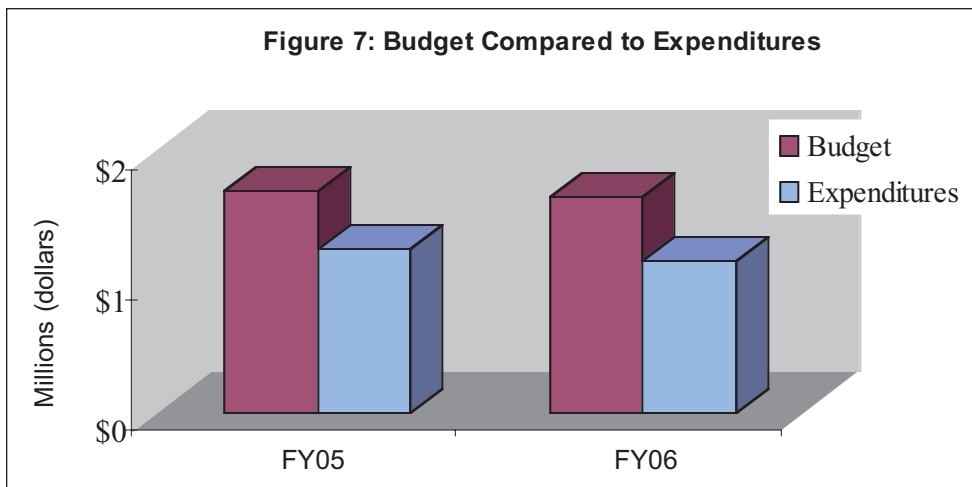
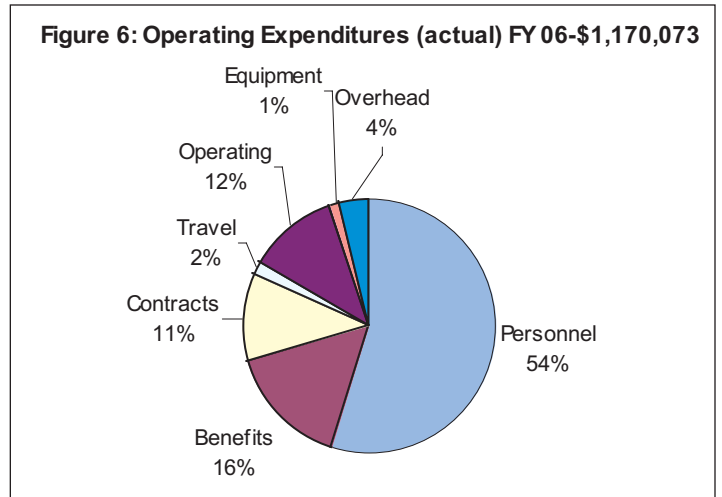
As shown in Figure 5, WIFA provided fewer loans in Funding Cycle 2006 to borrowers with strong credit ratings as compared to those who had no credit rating at all.



Goal 4: Work cooperatively with other agencies, commissions, authorities, associations, and non-profits to address water quality needs throughout the State of Arizona.

WIFA seeks to reduce operating expenses and secure services from those qualified to provide that service at the least cost. Figure 6 shows the allocation of operating expenditures.

For Fiscal Year 2006 (July 2006 – June 2007), the WIFA Board adopted an operating budget of \$1,662,019. This is an approximately 3% reduction from the approved Fiscal Year 2005 budget of \$1,712,685. WIFA continues to operate at levels substantially below its budget authority as indicated in Figure 7.



2006 Clean Water Revolving Loan Fund Loan & Grant Awards

Funding Cycle 2006 Activity

Financial Assistance Projects

2006 Awards January 2006 – December 2006

Bullhead City	\$ 37,813,174
Camp Verde Sanitary District	4,500,000
Cave Creek, Town of	7,000,000
Chino Valley, Town of	1,580,000
El Mirage, City of	1,108,911
Lake Havasu City	61,575,000
Peoria, City of	78,500,136
Pima County (5 Projects)	8,500,000
Tucson, City of	2,500,000
Williams, City of	8,250,000
Total 2006 Financial Assistance Projects	\$ 211,327,221

Technical Assistance Projects

2005 Awards July 2005 – June 2006

Bisbee, City of	\$ 7,500
Buckskin Sanitary District	30,000
Clarkdale, Town of	35,000
El Mirage, City of	30,000
Fawn Brook Domestic Wastewater Improvement District	35,000
Miami, Town of	12,500
Mogollon Domestic Wastewater Improvement District	20,000
Quartzsite, Town of	25,000
Virgin River Domestic Wastewater Improvement District	35,000
Total 2005 Technical Assistance Projects	\$ 230,000

2005 Clean Water Revolving Loan Fund Loan & Grant Awards

Funding Cycle 2005 Activity

Financial Assistance Projects

2005 Awards January 2005 – December 2005

Country Roads Improvement District	\$ 4,374,950
Flagstaff, City of	23,100,000
Florence, Town of	1,000,000
Lake Havasu City	6,220,000
Pima County	1,952,112
Queen Creek, Town of	34,000,000
Taylor, Town of	1,500,000
Total 2005 Financial Assistance Projects	\$ 72,147,062

Technical Assistance Projects

2006 Awards July 2006 – June 2007

Ash Fork Sanitary District	\$ 15,000
Bullhead City, City of	35,000
Camp Verde, Town of	35,000
Chino Valley, Town of	35,000
Ehrenberg Improvement Association	12,500
Fort Mojave Tribal Utility Authority	17,500
Holbrook, City of	9,356
Kingman, City of	30,900
Mayer Domestic Water Improvement District	35,000
Oro Valley, Town of	35,000
Queen Valley Sanitary District	35,000
San Luis, City of	35,000
Winkelman, Town of	22,500
Total 2006 Technical Assistance Projects	\$ 352,756

2006 Drinking Water Revolving Loan Fund Loan & Grant Awards

Funding Cycle 2006 Activity

Financial Assistance Projects

2006 Awards January 2006 – December 2006

Abra Water Company	\$ 250,000
Clear Springs Utilities	40,640
El Mirage, City of	16,553,384
Flagstaff, City of	15,000,000
Las Quintas Serenas Water Company	1,580,446
Oak Creek Utility Corporation	40,000
Peoria, City of	16,200,000
Tacna Water Company	195,201
Tucson, City of (4 Projects)	8,500,000
Valley Utilities Company	1,926,100
Williams, City of	1,600,000
Total 2006 Financial Assistance Projects	\$ 61,885,771

Technical Assistance Projects

2006 Awards July 2006 – June 2007

Antelope Peak Domestic Water Improvement District	\$ 31,500
Diamond Valley Water Users Corporation	35,000
Duncan, Town of	22,383
East Slope Water Company	35,000
Flowing Wells Irrigation District	16,250
Gila County	26,250
Grand Canyon Caverns and Inn, LLC	35,000
Green Valley Domestic Water Improvement District	18,700
Havasu Heights Domestic Water Improvement District	22,500
Highland Pines Domestic Water Improvement District	12,500
Mammoth, Town of	21,875
Park Water Company	15,000
Picacho Water Improvement Corporation	35,000
Ponderosa Park Domestic Water Improvement District	9,750
Valle Escondido Domestic Water Improvement District	35,000
Total 2006 Technical Assistance Projects	\$ 371,708

2005 Drinking Water Revolving Loan Fund Loan & Grant Awards

Funding Cycle 2005 Activity

Financial Assistance Projects

2005 Awards January 2005 – December 2005

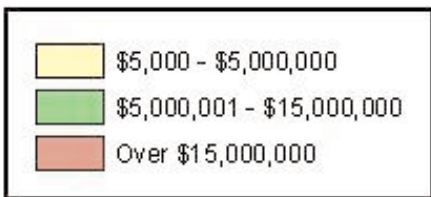
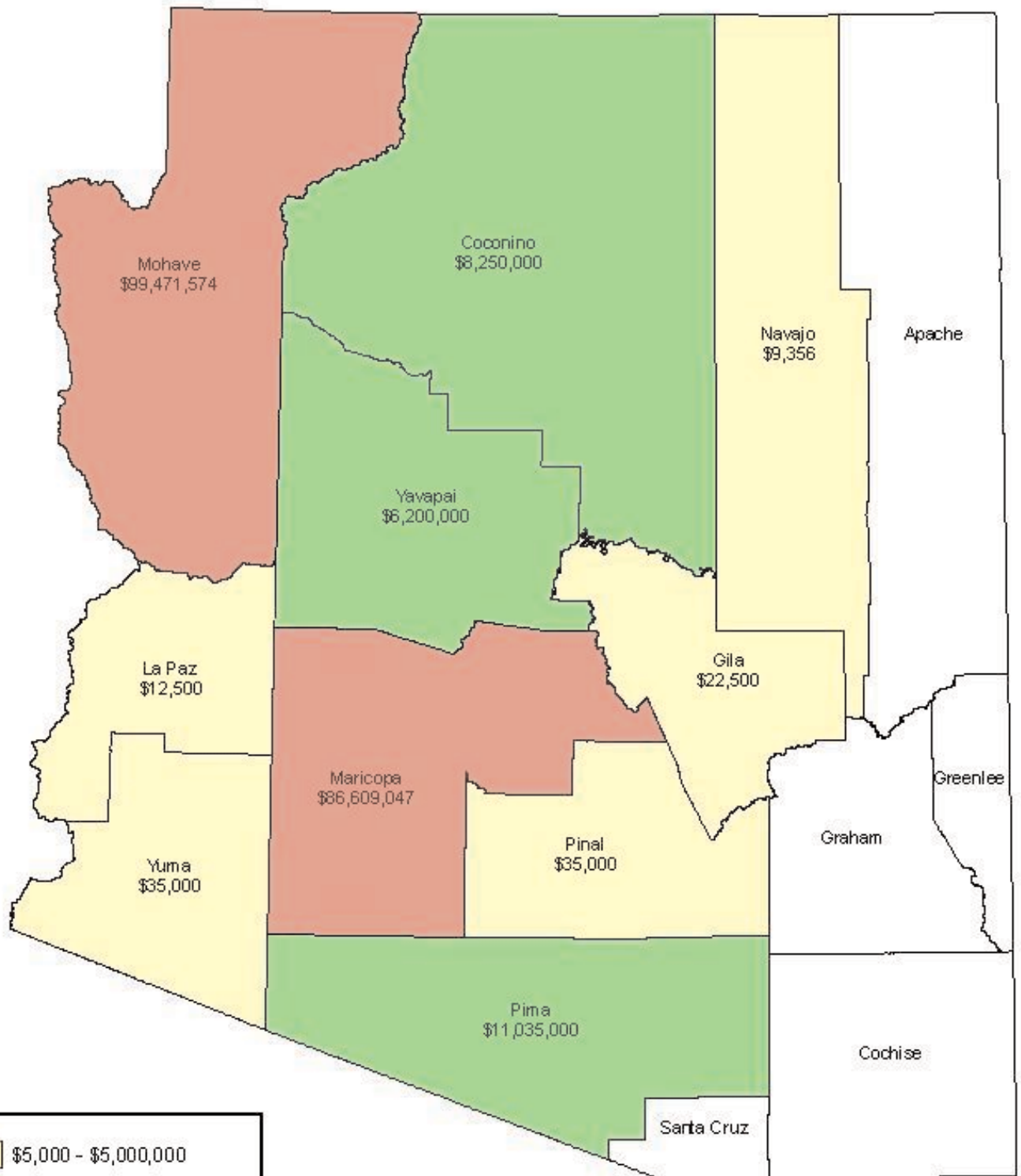
Beaver Dam Water Company	\$ 170,703
Flowing Wells Irrigation District	966,600
Globe, City of	5,000,000
Green Valley Domestic Water Improvement District	1,700,000
Metropolitan Domestic Water Improvement District	15,380,000
Mountain Glen Water Service	182,993
North Mohave Valley Corporation	250,000
Pineview Water Company	577,578
Valencia Water Company	2,831,026
Water Utilities Community Facilities District	3,002,461
Water Utility of Greater Buckeye	165,251
Water Utility of Greater Tonopah	500,000
Woodruff Domestic Water Improvement District	50,000
Total 2005 Financial Assistance Projects	\$ 30,776,612

Technical Assistance Projects

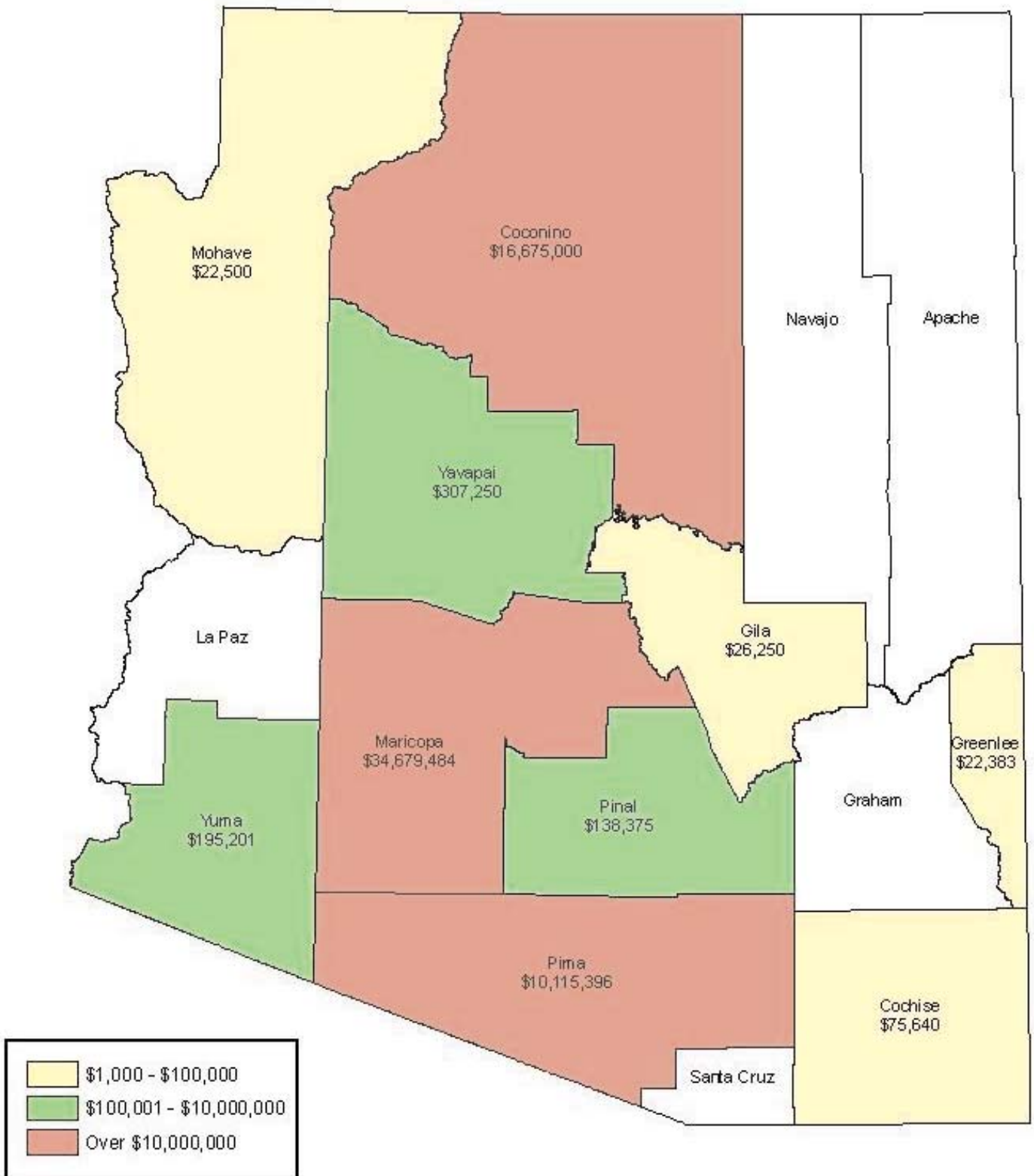
2005 Awards July 2005 – June 2006

Camp Verde Water System	\$ 26,250
Cosanti Foundation	22,500
Double G Mobile Park	7,500
Groom Creek Water Users Association	7,500
Jerome, Town of	30,000
Marana Domestic Water Improvement District	1,617
Maricopa Mountain Water Company	20,000
Naco Water Company	35,000
Patagonia, Town of	35,000
Rainbow Acres	26,250
Somerton, City of	35,000
St. Johns, City of	35,000
Thunderbird Farms Domestic Water Improvement District	21,000
Village of Moencopi (Lower)	10,000
Water Utility of Greater Buckeye	3,750
Water Utility of Greater Tonopah	11,250
Williams, City of	35,000
Total 2005 Technical Assistance Projects	\$ 362,617

Clean Water Fund Activity



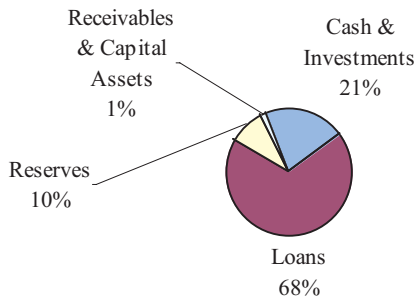
Drinking Water Fund Activity



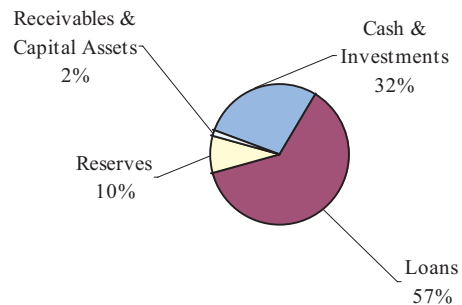
Statement of Financial Position

Assets
 During Fiscal Year 2006, WIFA's assets increased by \$217.7 million over Fiscal Year 2005. This is attributed to a \$205 million bond issue and an increase in the amount of loans awarded.

**WIFA's Assets -- \$ 714.8M
 FY 05**

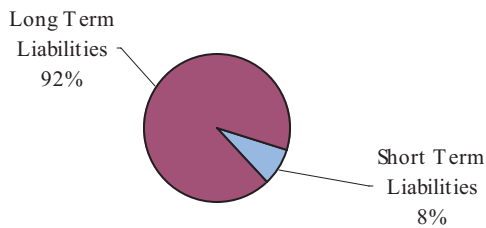


**WIFA's Assets -- \$ 932.4M
 FY 06**

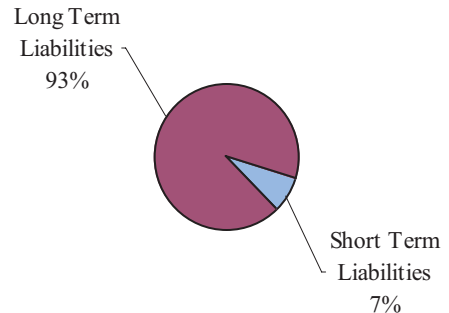


Liabilities
 WIFA's liabilities increased from the previous year by \$187.3 million. This was primarily due to a \$205 million bond issue that increased WIFA's of long-term debt obligations.

**WIFA's Liabilities -- \$432.4 M
 FY 05**

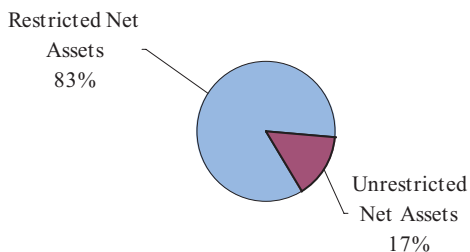


**WIFA's Liabilities -- \$ 619.6M
 FY 06**

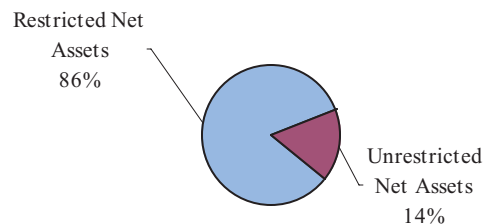


Net Assets
 WIFA's net assets continue to grow rapidly. In 2004, net assets were \$271.7 million. By fiscal year 2005, net assets reached \$282.4 million. This year, net assets grew to \$312.8 million.

**WIFA's Net Assets -- \$ 282.4M
 FY 05**



**WIFA's Net Assets -- \$ 312.8M
 FY 06**



Statement of Financial Position

ASSETS	FY05	FY06
Cash	\$147,746,319	\$262,210,416
Investments	68,081,810	80,895,835
Accrued Interest Receivable	5,339,462	7,671,073
Capital Assets (net of depreciation)	11,728	7,818
Debt Management Fees Receivable	2,109,805	3,103,038
Loans	489,071,853	574,935,091
Deferred Bond Issue Costs	2,406,168	3,539,975
TOTAL ASSETS	\$714,767,145	\$932,363,246
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accrued Payroll	15,662	35,156
Compensated Absences	26,014	58,600
Interest Payable	5,027,882	5,112,384
Bonds Payable	405,675,000	582,560,000
Unamortized Bond Premiums	28,206,089	37,479,997
Deferred Amount on Retired Bonds	(8,608,526)	(8,034,436)
Loan Reserve	2,022,108	2,354,733
TOTAL LIABILITIES	\$432,364,229	\$619,566,434
NET ASSETS		
Net assets invested in capital assets	11,728	7,818
Restricted for capitalization grants	240,079,736	261,156,467
Unrestricted	42,311,457	51,632,527
TOTAL NET ASSETS	\$282,402,921	\$312,796,812
TOTAL LIABILITIES AND NET ASSETS	\$714,767,150	\$932,363,246

Statement of Financial Position

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

	FY05	FY06
PROGRAM REVENUES		
Interest Income	\$9,287,547	\$11,033,742
Debt Management Fees	5,474,743	7,636,139
TOTAL PROGRAM REVENUE	\$14,762,290	\$18,669,881
PROGRAM EXPENSES		
Interest Expense	\$17,884,713	\$17,397,886
Depreciation	3,910	3,910
Administration & Set Asides	2,448,673	2,611,751
Hardship Grant Expense	0	0
Financial Assistance	180,374	121,161
Technical Assistance	519,062	420,071
TOTAL EXPENSES	\$21,036,732	\$20,554,779
NET INCOME	(\$6,274,442)	(\$1,884,898)
NONPROGRAM REVENUES		
Administrative Grants	\$971,462	\$1,181,262
Investments Earnings	8,579,906	10,020,796
Total Nonprogram Revenues	\$9,551,368	\$11,202,058
INCOME BEFORE CONTRIBUTIONS	\$3,276,926	\$9,317,160
CONTRIBUTED CAPITAL - FEDERAL	\$5,031,684	\$18,631,631
CONTRIBUTED CAPITAL - STATE	2,445,100	2,445,100
CHANGE IN NET ASSETS	\$10,753,710	\$30,393,891
TOTAL NET ASSETS - Beginning of Year	\$271,649,211	\$282,402,921
TOTAL NET ASSETS - End of year	\$282,402,921	\$312,796,812

The financial statements for WIFA for the year ending June 30, 2006 have been audited by an independent certified public accounting firm, Henry & Horne, P.C. Copies of the complete audited financial statements are available at the WIFA website, www.azwifa.gov.

WIFA Board & Staff

WIFA Board of Directors

Stephen A. Owens
Chairman

Gerald (Jerry) Flannery
Cities > 50,000 and Counties > 500,000

Paul T. Gardner
Water Systems >500 Customers

William Garfield
Water Systems < 500 Customers

Mayor Stanley Gibson
Cities < 50,000 People

Appointment in Process
Sanitary Districts from Counties < 500,000

Seth Mones, Deputy Director
Arizona Dept of Commerce

Steve Olea
Arizona Corporation Commission

Cynthia Seelhammer
Counties > 500,000 Population

Karen Smith
Arizona Dept of Water Resources

Alberta Tippeconnic
Tribal Representative

E. Blaine Vance
Treasurer's Office

WIFA Staff

Judy Navarrete
Interim Executive Director

Jon Bernreuter
Environmental Program Specialist

Brian Davis
Loan Officer

Julie Flores
Financial Analyst

Ruby Hernandez
Administrative Secretary

Angelica Martinez
Processing Loan Specialist

Yolanda Mendoza
Administrative Assistant

Mark A. Ramirez, Sr.
Systems Analyst

Dennis Schiefen
Network Administrator

Don States
Controller

Tiffany N. Troidl
Communications Director

Laurie Tsosie
Environmental Coordinator

Angie Valenzuela
Senior Loan Officer

Lily Vega
Business Manager



Yolanda Mendoza, Assistant to the Executive Director, organized last year's SECC campaign at WIFA. Thanks for involving WIFA staff in this valuable community project!