

## White Paper on Water Infrastructure Funding Mechanisms

With the looming shortage on the Colorado River and continuing efforts to protect groundwater reserves and other surface water supplies, meeting the growing demand for water supplies requires consideration of new ways to expand supplies and innovative financing options. The finance subcommittee of the Long Term Water Augmentation Committee was tasked with identifying potential mechanisms to finance the acquisition of water supplies and the infrastructure necessary to treat and deliver these supplies. This paper provides an overview of revenue sources that were previously identified by the Water Resources Development Commission as well as examples of the approaches, funding mechanisms and revenue sources prevalent in other states and countries. This paper also provides a list of available funding available from the federal government for development of water infrastructure specifically to mitigate the risks associated with climate change, and to implement projects that will build long term resiliency to drought and other weather extremes.

Successful approaches employed by other states and countries to fund water infrastructure include:

- Integrated statewide water plan and dedicated funding for implementation of the plan
- Water as a commercial industry capable of growth, with research, technology and private sector playing a key role
- Dedicated funds for water infrastructure and dedicated revenue sources. Dedicated revenue sources utilized by other states and countries include:
  - Budget Appropriations
  - Revenue Bonds
  - Water tariffs, impact fees, and special assessments
  - Taxpayer voluntary contributions

The FY2022 Arizona State Budget currently has proposed \$160 m for Drought Mitigation Revolving Fund (DMRF) and \$40 m for the Water Supply Development Revolving Fund (WSDRF). Monies in the DMRF are proposed to be used as grant monies by the Arizona Department of Water Resources (ADWR) to facilitate the forbearance or water deliveries that would avoid reductions in Arizona's Colorado River supplies and by the Arizona State Land Department (ASLD) to support the ability to make the best use of water resources associated with state trust land. Low cost, long-term loans will provide for planning, design, construction or financing water supply development projects to import water supplies from outside Arizona with priority given to those loan applications that demonstrate the largest statewide benefit.

The WSDRF was created by the AZ legislature in 2007 to provide low interest loans to water providers for the acquisition of water supplies and development of water infrastructure. It took 14 years for the WSDRF to be recommended for funding since its creation in 2007. Revolving funds such as the WSDRF take at least 8-10 years to be established. **The subcommittee recommends that the Long Term Water Augmentation Committee support a recommendation to the GWAICC that supports and builds on the current budget proposal by providing a consistent and dedicated annual funding source in subsequent State budgets that ensure that Arizona can sufficiently meet its needs into the future.**

Several funding mechanisms and revenue source ideas are discussed in additional detail in Appendix A below.