

THE BOND BUYER

Arizona agency, with \$1 billion to spend, revs up water hunt

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Arizona's Water Infrastructure Financing Authority will begin a solicitation process next year for projects to boost the parched state's water supply using information gleaned from a query it sent out this fall.

The agency, which oversees \$1 billion the state legislature in 2022 appropriated over three years for water augmentation, received 28 responses [to its September request](#) for information, with a few citing the potential for bond issuance.

"These are going to help shape and inform the solicitation we plan to publish in the spring of 2024," Chelsea McGuire, a WIFA assistant director, told the authority's board at its meeting Wednesday. "This was a very, very important first step."



A dry irrigation canal due to water shortages on a Casa Grande, Arizona, farm. About 57% of Arizona was experiencing some form of drought in the latest week, according to the National Integrated Drought Information System. *Bloomberg News*

In a presentation to the board, Jason Fort, WIFA's consultant from HDR Engineering, said the broad-based responses involved international and domestic desalination, long-range conveyance of water, as well as initiatives to enhance water storage, efficiency, and conservation.

He added the responses are continuing to be reviewed and follow up discussions are being held.

"We want to send a signal to the marketplace both in Arizona and broadly elsewhere as well of WIFA's intent to move forward with augmentation projects in the near term," Fort said.

About 57% of the state is experiencing some form of drought, according to this week's data from the [National Integrated Drought Information System](#).

Groundwater is the state's biggest supply source, followed by the Colorado River, in-state rivers, and reclaimed water.

Chuck Podolak, WIFA's director, [has said bonds](#) "are on the table" in conjunction with the \$ 1 billion long-term water augmentation fund and potential future public-private partnerships for water importation projects, which will be allocated at least 75% of the money.

Wells Fargo's response to WIFA's request for information covered various funding and financing options, including the issuance of long-term water augmentation bonds secured by loan repayments under water supply agreements or leveraging the \$1 billion fund similar to the Texas Water Development Board's [State Water Implementation Revenue Fund](#), which was initially capitalized with \$2 billion. Another option involved private activity bonds.

"One complication that will need to be investigated by tax counsel is whether PABs may be issued for any portion of the facilities located outside of the United States (such as the proposed desalination plant in Mexico)," Wells Fargo's response said. "These facilities may qualify for tax-exempt financing as output facilities providing water to Arizona."

Israel-based IDE Technologies, which proposed a desalination project to WIFA late last year, also submitted a response. The project involves WIFA placing a total of \$750 million over three years in an escrow account for buying desalinated water produced by a yet-to-be-built plant on the Gulf of California in Puerto Penasco, Mexico, and [delivered to Arizona](#) via an approximately 200-mile pipeline.

IDE officials said the account would serve as a credit enhancement for the company's private financing of the \$5 billion project as purchase commitments are sought from water users in the state.

OneWater P3 Gurus outlined the possibility of seawater desalination or increasing efforts to recycle industrial and municipal water. It suggested a P3 for a large desalination project "backed by the state to ensure that there is an offset to the Colorado River allocation and revenue being supported by a combination of United States and Mexico border agencies."

"Multiple large scale private equity firms would want to participate in this P3 deploying their capital for 20% of the investment in return for long-term investments while the remaining 80% can be supported by the municipal bonds," OneWater's submission said.

Western Water Project envisioned a \$125 billion coastal pipeline from the Pacific Northwest that could be extended inland to Arizona with some costs financed

with tax-exempt industrial development bonds amortized over an extended period of years.

A pay-as-you-go plan from Water Train Inc. would ship as much as 30,000 acre feet of non-potable spring water annually to Arizona via rail under a seven-year contract.