

2014

CENTRAL ARIZONA GROUNDWATER
REPLENISHMENT DISTRICT

ANNUAL OPERATIONS REPORT



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LIST OF ABBREVIATIONS

| <i>ABBREVIATION</i> | <i>DESCRIPTION</i> |
|----------------------------|--|
| ADWR | Arizona Department of Water Resources |
| AF | acre-feet |
| AF/Yr | acre-feet per year |
| AMA | Active Management Area |
| A.R.S. | Arizona Revised Statutes |
| AWS | Assured Water Supply |
| CAP | Central Arizona Project |
| CAGRD | Central Arizona Groundwater Replenishment District |
| CAWCD | Central Arizona Water Conservation District |
| CDAR | Conservation District Annual Report |
| GSF | Groundwater Savings Facility |
| LPSCO | Litchfield Park Service Company |
| LTSC | Long-term Storage Credit |
| M&I | Municipal and Industrial |
| MDWID | Metropolitan Domestic Water Improvement District |
| ML | Member Land |
| MSA | Member Service Area |
| NIA | Non-Indian Agricultural |
| USF | Underground Storage Facility |

BRIEF INTRODUCTION TO CAGRD

The Central Arizona Groundwater Replenishment District (“CAGRD”) was established in 1993 to provide a method for landowners and water providers to demonstrate a 100-year Assured Water Supply (“AWS”) under Arizona law. CAGRD recharges Central Arizona Project (“CAP”) water or other renewable water supplies to replenish groundwater use by its members that is in excess of the limits established by the Arizona Department of Water Resources (“ADWR”) AWS Rules.

The AWS Rules limit the quantity of mined groundwater that an applicant may use to demonstrate an AWS. This groundwater use limitation prevents new development from relying solely on mined groundwater to serve its water demands. If a landowner or water provider has no direct access to CAP water or other renewable supplies, but has access to sufficient groundwater to demonstrate an AWS, it may do so, provided it becomes a member of CAGRD. As a member of CAGRD, the landowner or water provider must pay CAGRD to replenish any groundwater pumped by the member which exceeds the pumping limitations (referred to as “Excess Groundwater”) imposed by the AWS Rules.

CAGRD is operated by the Central Arizona Water Conservation District (“CAWCD”) throughout that portion of CAWCD’s three-county service area that is within an Active Management Area (“AMA”). It is governed by the CAWCD Board of Directors (“Board”) yet CAGRD’s finances are segregated from the rest of CAWCD’s finances and all costs incurred by CAGRD must be paid by CAGRD members.

Membership

Membership in CAGRD is voluntary. Any city, town, private water company, subdivision or homeowner’s association located in the Phoenix, Pinal or Tucson AMA may join CAGRD so long as it meets the State’s requirements. CAGRD is comprised of two types of members: Member Service Areas (“MSAs”) and Member Lands (“MLs”).

- MSA - The service area of a city, town, district or private water company, including any extensions of the service area. The municipal provider is required to submit reports to CAGRD annually identifying the volume of Excess Groundwater pumped within the service area and must also pay CAGRD replenishment taxes on that volume. When applying to enroll a service area in CAGRD, the applicant provides a projection of future population, water demands and renewable supplies available to meet those demands. This projection serves as a basis for estimating CAGRD’s long-term replenishment obligation for the service area.
- ML – An individual subdivision with a defined legal description. The water provider agrees to submit annually to CAGRD the water delivery information necessary to calculate the replenishment assessment for each parcel of land.

Replenishment Obligation

CAGRD must replenish (or recharge) in each AMA the amount of Excess Groundwater¹ that has been pumped by or delivered to its members in that AMA. The replenishment may be accomplished through the operation of underground storage facilities, where water is stored underground in existing aquifers or through groundwater savings facilities, where water is used directly by irrigation districts in lieu of pumping groundwater. Water used for replenishment may be CAP water or water from any other lawfully available source, except groundwater withdrawn from within an AMA.

Revenue Sources

All operations of CAGRD must be funded completely by its members. These costs are covered by a combination of up-front fees, annual membership dues, and replenishment taxes and assessments. Each type of revenue source is dedicated to specific purposes and helps cover costs associated with replenishment activities, such as development of infrastructure, recharge facility construction, water acquisition, operation and maintenance, replenishment reserve and administration. CAGRD also has the authority to issue revenue bonds to develop infrastructure and acquire water rights necessary to perform its replenishment obligation.

Planning

One objective of the CAWCD 2010 Strategic Plan, specific to the management and oversight of CAGRD, involves review of CAGRD status as compared to projections in the Plan of Operation often enough to provide comfort to the Board, staff, stakeholders and legislators. Two action items were identified as part of this review:

1. Perform and document a formal review of CAGRD at least every five years.
2. Prepare an annual report showing membership and corresponding projections of obligations and include it as part of the annual report filed with ADWR.

Plan of Operation - Every ten years, CAGRD is required to submit a Plan of Operation to the Director of ADWR. The primary purpose for the Plan is to document the actions of CAGRD over the past ten years and to describe the activities that CAGRD proposes to undertake in each AMA during the ten-year and 100-year periods following Plan submission. CAGRD's 2015 Plan

¹Excess Groundwater is defined in A.R.S. § 48-3701.7 as the amount of groundwater delivered to a member in a calendar year in excess of the amount of groundwater that may be used by the member in that calendar year consistent with the applicable Assured Water Supply rules adopted by ADWR for the AMA where the member is located.

of Operation ("2015 Plan") was approved by the Director of ADWR on August 5, 2015 and covers the ten-year period from 2015-2024.

Mid-Plan Review - The Mid-Plan Review (Item #1 above) is a comprehensive assessment of the mid-term trends in CAGRD operations under the Plan of Operation. The Mid-Plan Review provides indications of where these trends may lead CAGRD over the remaining five years of the Plan and any adjustments to the Plan that may need to be considered. A Mid-Plan Review was completed in 2011 during the 2005 Plan of Operation period.

Annual Reporting - The Conservation District Annual Report ("CDAR") is submitted to ADWR by August 31 of each year for the previous calendar year (A.R.S. § 48-3775.A-H). The CDAR details numerical information in a series of tables showing water storage amount, credit transfers, account balances, groundwater replenishment obligations, contract replenishment obligations and contract replenishment credit accounting.

The Board has directed staff to develop an enhanced annual report (Item #2 above), hereafter referred to as the CAGRD Annual Operations Report, that serves to supplement the CDAR with additional information on the status of CAGRD operations. More specifically, the Annual Operations Report provides further details in a narrative format on new enrollment, changes in replenishment obligation, water supply and replenishment reserve activities and any new legislation. This first CAGRD Annual Operations Report was completed in late 2015 for calendar year 2014, which was the final year covered under the previous 2005 Plan of Operation. This report was submitted to ADWR and posted on the CAGRD website at www.cagrd.com. Completion of the Annual Operations Report will always follow submittal of the CDAR to ADWR.

1. Enrollment and Activation – 2014

Enrollment

All of the new Member Land (ML) enrollment in 2014 occurred in the Phoenix AMA comprising 4,306 lots with a projected demand of 2,789 AF/yr (see **Table 1.1**). The West Valley encompassed 23% of new membership (982 lots) with a projected demand of 20% (545 AF/yr) of new enrollment annual obligation. The East Valley encompassed 77% of this new membership (3,324 lots) with a projected demand of 80% (2,244 AF/yr) of new enrollment annual obligation.

TABLE 1.1

NEW MEMBER LAND (ML) ENROLLMENT IN 2014

| AMA | MLs* | Projected Demand AF/yr |
|---------------------|-------|------------------------|
| Phoenix | 4,306 | 2,789 |
| <i>West Phoenix</i> | 982 | 545 |
| <i>East Phoenix</i> | 3,324 | 2,244 |
| Pinal | -- | -- |
| Tucson | -- | -- |

TABLE NOTES:

*The term Member Lands (MLs) refers to subdivisions enrolled in CAGRD; numbers reflect the number of lots or homes within the subdivisions.

One new Member Service Area (MSA) enrolled in 2014 in the Tucson AMA: Metropolitan Domestic Water Improvement District (MDWID), Southwest, Diablo Village (Metro Diablo). Metro Diablo is located in southwest Tucson, south of Ajo Highway near Ryan airfield. Excess annual groundwater use is limited to 4,144 AF/yr.

Activation

The Arizona Department of Real Estate issues a public report allowing the sale of parcels within subdivisions. Prior to this report being issued for subdivisions within CAGRD MLs and MSAs, an Activation Fee must be paid to CAGRD per residential unit offered for sale. In 2014, the number of lots activated totaled 9,841 (ML lots = 5,602; MSA lots = 4,239). **Table 1.2** provides a breakdown by AMA of previously enrolled lots that were activated in 2014.

TABLE 1.2

NUMBER OF LOTS ACTIVATED IN 2014

| AMA | MLs | MSAs |
|---------------------|--------------|--------------|
| Phoenix | 4,895 | 2,781 |
| <i>West Phoenix</i> | <i>2,412</i> | <i>638</i> |
| <i>East Phoenix</i> | <i>2,483</i> | <i>2,143</i> |
| Pinal | 405 | 275 |
| Tucson | 302 | 1,183 |
| TOTAL | 5,602 | 4,239 |

2. Replenishment Obligation Incurred and Replenishment Obligation Completed – 2014

The municipal water provider is required by statute to file an annual report with CAGRD for each ML subdivision that it serves; this report must indicate the volume of groundwater and the volume of Excess Groundwater delivered to each parcel in the subdivision. MSA's are also required by statute to file an annual report with CAGRD indicating the volume of groundwater and the volume of Excess Groundwater pumped within their service areas. These reports must be submitted to CAGRD by March 31st of each year, and the volumes reported represent deliveries from the previous year ("the Report Year"). Thus, CAGRD incurs Replenishment Obligation in the calendar year following that in which the Excess Groundwater is actually delivered. CAGRD must complete its Replenishment Obligation within three calendar years after it is incurred. For that reason, at any given point there may be one year's worth of obligation unfulfilled.

The replenishment obligation reflects the volume of Excess Groundwater delivered by municipal water providers serving CAGRD ML subdivisions and withdrawn by MSA providers within their service areas. In 2014, CAGRD incurred a replenishment obligation of 33,905 AF. **Table 2.1** shows the distribution of obligation between MLs and MSAs by AMA. Overall, the total obligation was 76% within MLs and 24% within MSAs. In 2014, CAGRD also completed 42,113 AF of obligation as shown in **Tables 2.2 through 2.5** (refer to 2014 rows).

Table 2.1

EXCESS GROUNDWATER DELIVERIES FOR MLs AND MSAs in 2014 (AF) By AMA

| AMA | MLs | MSAs | TOTAL |
|--------------|---------------|--------------|---------------|
| Phoenix | 23,501 | 6,896 | 30,397 |
| Pinal | 92 | 459 | 551 |
| Tucson | 2,151 | 806 | 2,957 |
| TOTAL | 25,744 | 8,161 | 33,905 |

Tables 2.2, 2.3, 2.4, and 2.5 list the volumes of Excess Groundwater delivered/withdrawn from 2011 through 2014 and identify the extent to which the replenishment obligation resulting from those deliveries has been completed. The tables show recent activity, specifically for the past four years, reflecting that CAGRD has met its obligation within the statutory time frame.

The following explanation is offered to assist in interpreting these tables. Please refer to **Table 2.2** showing a comparison of the Excess Groundwater deliveries to completion of replenishment obligation for the West Phoenix AMA.

The top row shows the year in which deliveries or withdrawals of Excess Groundwater occurred. For example, the 2011 column illustrates that a total of 14,450 AF of Excess Groundwater was delivered to MLs and withdrawn by MSAs in 2011. Fulfillment of this obligation occurred over a one-year period: 14,450 AF in 2013. The two rows toward the bottom of the table showing the volume “completed to date” and “unmet to date” reflect ongoing replenishment activities to fulfill or complete the obligation associated with Excess Groundwater deliveries. For example, the 2013 column illustrates a total of 14,062 AF of Excess Groundwater was delivered or withdrawn in 2013; in 2014, 9,167 AF had been replenished leaving 4,895 AF of remaining obligation.

Table 2.2

**EXCESS GROUNDWATER DELIVERIES AND
COMPLETION OF REPLENISHMENT OBLIGATION**
For West Phoenix AMA

| WEST PHOENIX AMA | | EXCESS GROUNDWATER OBLIGATION BY REPORT YEAR* (AF) | | | |
|---------------------------------|------|---|--------|--------|--------|
| | | 2011 | 2012 | 2013 | 2014 |
| | | 14,450 | 14,620 | 14,062 | 13,959 |
| YEAR OBLIGATION COMPLETED | 2011 | | | | |
| | 2012 | | | | |
| | 2013 | 14,450 | 3,679 | | |
| | 2014 | | 10,941 | 9,167 | |
| | | | | | |
| Amount Completed to Date | | 14,450 | 14,620 | 9,167 | 0 |
| Amount Unmet to Date | | 0 | 0 | 4,895 | 13,959 |

TABLE NOTES:

*Report Year refers to year in which Excess Groundwater was delivered to each ML or withdrawn from each MSA; volumes reported in hundredths have been rounded to whole numbers for this report, resulting in minor discrepancies of 1 AF in some totals.

Table 2.3

**EXCESS GROUNDWATER DELIVERIES AND
COMPLETION OF REPLENISHMENT OBLIGATION**
For East Phoenix AMA

| EAST PHOENIX AMA | | EXCESS GROUNDWATER OBLIGATION BY REPORT YEAR* (AF) | | | |
|---------------------------------|------|---|--------|--------|--------|
| | | 2011 | 2012 | 2013 | 2014 |
| | | 15,957 | 15,429 | 16,909 | 16,438 |
| YEAR OBLIGATION COMPLETED | 2011 | | | | |
| | 2012 | | | | |
| | 2013 | 15,957 | 3,254 | | |
| | 2014 | | 12,175 | 6,300 | |
| | | | | | |
| Amount Completed to Date | | 15,957 | 15,429 | 6,300 | 0 |
| Amount Unmet to Date | | 0 | 0 | 10,609 | 16,438 |

TABLE NOTES:

*Report Year refers to year in which Excess Groundwater was delivered to each ML or withdrawn from each MSA; volumes reported in hundredths have been rounded to whole numbers for this report, resulting in minor discrepancies of 1 AF in some totals.

Table 2.4

**EXCESS GROUNDWATER DELIVERIES AND
COMPLETION OF REPLENISHMENT OBLIGATION**
For Pinal AMA

| PINAL AMA | | EXCESS GROUNDWATER OBLIGATION BY REPORT YEAR* (AF) | | | |
|---------------------------------|------|---|------|------|------|
| | | 2011 | 2012 | 2013 | 2014 |
| | | 246 | 318 | 215 | 551 |
| YEAR OBLIGATION COMPLETED | 2011 | | | | |
| | 2012 | 22 | | | |
| | 2013 | 224 | 1 | | |
| | 2014 | | 316 | 61 | |
| | | | | | |
| Amount Completed to Date | | 246 | 317 | 61 | 0 |
| Amount Unmet to Date | | 0 | 0 | 153 | 551 |

TABLE NOTES:

*Report Year refers to year in which Excess Groundwater was delivered to each ML or withdrawn from each MSA; volumes reported in hundredths have been rounded to whole numbers for this report, resulting in minor discrepancies of 1 AF in some totals.

Table 2.5

**EXCESS GROUNDWATER DELIVERIES AND
COMPLETION OF REPLENISHMENT OBLIGATION**
For Tucson AMA

| TUCSON AMA | | EXCESS GROUNDWATER OBLIGATION BY REPORT YEAR* (AF) | | | |
|---------------------------------|------|---|-------|-------|-------|
| | | 2011 | 2012 | 2013 | 2014 |
| | | 3,515 | 3,021 | 2,914 | 2,957 |
| YEAR OBLIGATION COMPLETED | 2011 | | | | |
| | 2012 | 936 | | | |
| | 2013 | 2,578 | 734 | | |
| | 2014 | | 2,286 | 867 | |
| | | | | | |
| Amount Completed to Date | | 3,515 | 3,021 | 867 | 0 |
| Amount Unmet to Date | | 0 | 0 | 2,048 | 2,957 |

TABLE NOTES:

*Report Year refers to year in which Excess Groundwater was delivered to each ML or withdrawn from each MSA; volumes reported in hundredths have been rounded to whole numbers for this report, resulting in minor discrepancies of 1 AF in some totals.

3. Water Supply Program - 2014

This description of CAGRD's water supply program for 2014 is described under two headings: Section A - **Water Supply Activity** and Section B - **Summary of Water Supplies**. Section A describes both new activity in the program for 2014 [Reallocation of CAP NIA water and one newly executed agreement] and on-going activity carried over into 2014. Discussion of new activity in 2014 will identify whether new physical supplies became available during the reporting year or will become available at some future date as specified in the associated contract or agreement. Section B serves to show an overall picture of CAGRD's water supplies [CAP Entitlement and Long-Term Storage Credits ("LTSCs")] for 2014, summarizing the volume of water supplies CAGRD had available going into the year, water accrued or acquired during the year, and total volume available at the end of the year.

A. Water Supply Activity

CAGRD CAP Entitlements

Reallocation of CAP Non-Indian Agricultural Priority Water

On January 16, 2014, the State of Arizona, through ADWR, issued its "Recommendation for Reallocation of Non-Indian Agricultural Priority Central Arizona Project Water" pursuant to Section 104(a)(2)(C)(i)(III) of the Arizona Water Settlements Act of 2004. The recommendation included a recommended volume for CAGRD of 18,185 AF/yr of CAP Non-Indian Agricultural (NIA) Priority water. Due to predicted shortage reductions, CAP NIA Priority water has an estimated annual reliability factor of 67% over the next 100 years. For years in which a shortage declaration is effective, the Replenishment Reserve Sub-account (discussed in the following section) helps ensure that CAGRD fulfills its replenishment obligations and enhances rate stability². CAP NIA Priority water is anticipated to be available starting in 2017.

New Agreement Executed in 2014

Liberty Utilities Effluent Lease Agreement

CAWCD and Liberty Utilities ("Liberty") executed a lease agreement on February 6, 2014 under which Liberty agreed to lease to CAWCD, for CAGRD purposes, 2,400 AF/yr of effluent. The agreement also provided for the development of an effluent recharge project to store such effluent. The term of the lease begins on the date the effluent recharge project is substantially

² Beginning on January 1, 2030 or earlier, CAGRD, on approval of the ADWR Director, may transfer credits from a Replenishment Reserve Sub-Account to a Conservation District Account as provided in A.R.S. § 45-859.01 to satisfy groundwater replenishment obligations.

complete and ends 100 years thereafter. The leased effluent includes treated wastewater produced from Liberty's Palm Valley Wastewater Reclamation Facility and effluent produced at any other wastewater treatment plant that may be owned or controlled by Liberty. The agreement also grants CAGRD a 100-year right to purchase LTSCs generated by Liberty through storage at the recharge project. The Liberty effluent recharge project is projected to be complete by the fourth quarter of 2016, at which time CAGRD will begin recharging its effluent entitlement there.

Purchase of Long-term Storage Credits (LTSCs)

Multi-Year LTSC Purchase Agreements

In 2014, a total of 27,677 AF of LTSCs were purchased through multi-year purchase agreements. **Table 3.1** lists the LTSC purchases by AMA and the volumes associated with each transaction.

A brief description of these LTSC purchase agreements executed prior to 2014 are provided in the sidebar.

TABLE 3.1
LTSCS PURCHASED IN 2014
THROUGH MULTI-YEAR LTSC
PURCHASE AGREEMENTS (AF)

Phoenix AMA

| | |
|-------------------|--------|
| ▪ LPSCO | 4,322 |
| ▪ Mojave Ventures | 14,311 |

Phoenix AMA Subtotal

18,633

Tucson AMA

| | |
|-------------------|-------|
| ▪ City of Tucson | 5,000 |
| ▪ Mojave Ventures | 4,044 |

Tucson AMA Subtotal

9,044

TOTAL

27,677

LPSCO Credit Purchase Agreement: In 2013, CAWCD and Litchfield Park Service Company (LPSCO) entered into an agreement where LPSCO agreed to sell CAGRD all storage credits accrued by delivering effluent to Roosevelt Irrigation District from 2013 to 2017. This agreement is expected to add approximately 11,500 AF of LTSCs to the CAGRD portfolio when concluded.

Mojave Ventures Credit Purchase Agreement: In 2013, CAWCD and Mojave Ventures entered into an agreement where Mojave Ventures agreed to sell and transfer to CAWCD (for CAGRD purposes) a total of approximately 18,355 AF of LTSCs (14,311 AF from Phoenix AMA and 4,044 AF from Tucson AMA) each year from 2014 through 2020. The total volume of LTSCs to be acquired under this contract is 128,485 AF.

City of Tucson Credit Purchase Agreement: In 2013, CAWCD and the City of Tucson ("Tucson") entered into an agreement where Tucson agreed to sell and transfer 100,000 AF of Tucson AMA LTSCs to CAGRD. CAGRD has committed to purchasing 4,000 AF of credits each year for 25 years and retains an option to purchase up to an additional 1,000 AF of LTSCs in any given year.

B. Summary of Water Supplies

CAGRD CAP Entitlement

CAGRD holds an annual entitlement to 7,996 AF of CAP M&I (“Municipal & Industrial”) Priority water pursuant to the “Supplemental Contract between the U.S. and CAWCD for Delivery of CAP Water, Contract No. 14-06W-245, Amendment No. 1, Supplement No. 1, as amended,” (“Supplemental Contract”). The Supplemental Contract is for permanent water service.

CAGRD Long-Term Storage Sub-Account

In 2014, CAGRD began the year with a balance of 62,922 AF in the Long-Term Storage Sub-Account. As discussed previously in the section on **Multi-Year LTSC Purchase Agreements**, an additional 27,677 AF of LTSCs were purchased bringing the total number of LTSCs in the CAGRD Long-Term Sub-Account to 90,599 AF by year’s end. **Table 3.2** provides a summary of the LTSC balances by AMA.

TABLE 3.2

CAGRD LONG-TERM STORAGE SUB-ACCOUNT IN 2014 (AF)

| AMA | Balance of CAGRD LTSCs at end of 2013 | LTSCs Transferred to CAGRD in 2014 | Balance of CAGRD LTSCs at end of 2014 |
|----------------|---------------------------------------|------------------------------------|---------------------------------------|
| <i>Phoenix</i> | 46,873 | 18,633 | 65,506 |
| <i>Pinal</i> | 0 | 0 | 0 |
| <i>Tucson</i> | 16,049 | 9,044 | 25,093 |
| TOTAL | 62,922 | 27,677 | 90,599 |

TABLE NOTES:

The LTSC balances in this table do not include LTSC reserves associated with the City of Scottsdale's Water Availability Status membership in the CAGRD.

4. Replenishment Reserve – 2014

The Replenishment Reserve consists of LTSCs that CAGRD accrues in a Replenishment Reserve Sub-Account established for each AMA within which CAGRD operates. The purpose of the Replenishment Reserve is to help ensure that CAGRD will be able to meet its replenishment obligation and to enhance rate stability. During periods of water supply shortage or infrastructure failure, CAGRD will use LTSCs from the Replenishment Reserve to offset its replenishment obligation, rather than purchasing spot-market water which may be more costly during shortage or outage conditions.

CAWCD LTSCs Dedicated for CAGRD Replenishment Reserve

The Board has dedicated LTSCs held by CAWCD for exclusive use by CAGRD to meet its legal requirements to establish and maintain the CAGRD Replenishment Reserve Sub-Accounts for each AMA. In 2014, CAGRD reimbursed CAWCD for a total of 9,706 AF of LTSCs that were transferred to specific AMA Replenishment Reserve accounts as follows: Phoenix AMA - 9,092 AF, Pinal AMA - 304 AF, and Tucson AMA - 310 AF.

CAGRD Replenishment Reserve Sub-Account

CAGRD accrues LTSCs through a combination of storage in constructed Underground Storage Facilities (“USFs”), storage at Groundwater Savings Facilities (“GSFs”), purchase of pre-existing LTSCs and LTSC transfers from MSAs to off-set the replenishment reserve component of their Replenishment Tax. **Table 4** provides the Replenishment Reserve balance at the end of 2013, the number of credits accrued during 2014 and the resulting balance of LTSCs in the Replenishment Reserve at year’s end. Also shown is the percent of the Reserve Target goal achieved through the end of 2014. The volume of LTSCs to be accrued in the Replenishment Reserve is known as the “Reserve Target”. A Reserve Target must be identified for each AMA based on that AMA’s projected obligation and the water supplies planned to be used to meet that obligation as described in the Plan of Operation (refer to the 2015 CAGRD Plan of Operation for additional explanation and calculation of the Reserve Target; www.cagrd.com).

In 2014, CAGRD began the year with a balance of 163,646 AF in the Replenishment Reserve Sub-Account (2013 Conservation District Annual Report - CDAR). During the year, 4,006 AF of Excess CAP water was stored for the purpose of the Replenishment Reserve (Phoenix AMA – 2,541 AF; Tucson AMA – 1,465 AF). As stated above, 9,706 AF of LTSCs were purchased from CAWCD; an additional 34 AF were transferred from two MSAs³ (Phoenix AMA – 26 AF; Tucson AMA – 8 AF), bringing the total number of LTSCs in the Replenishment Reserve Sub-Account to 177,392 AF by the end of 2014. This total represents 23% of the overall Reserve Target.

³ MSAs can choose to transfer LTSCs to CAGRD for the Replenishment Reserve component of their tax assessment.

TABLE 4

Replenishment Reserve Sub-Account Balance and Target Achieved for 2014 (AF)

| AMA | Replenishment Reserve Balance 12/31/13 | Replenishment Reserve Accruals During 2014 | Replenishment Reserve Balance 12/31/14 | Reserve Target | % of Reserve Target Achieved |
|----------------|---|---|---|-------------------|------------------------------------|
| <i>Phoenix</i> | 130,914 | 11,659 | 142,573 | 603,866 | 24% |
| <i>Pinal</i> | 3,243 | 304 | 3,547 | 48,036 | 7% |
| <i>Tucson</i> | 29,489 | 1,783 | 31,272 | 112,600 | 28% |
| TOTAL | 163,646 | 13,746 | 177,392 | 764,502 | 23% |

5. Legislation – 2014

In April 2014, Senate Bill 1487 was passed by the Arizona Legislature and signed into law allowing homebuilders to pay 50% of the Activation Fee at the time of the public report and 50% one year later. Prior to 2014, the Activation Fee was paid in full for subdivisions within CAGRD MLs and MSAs before the Arizona Department of Real Estate would issue a public report allowing the sale of parcels within the subdivision.

Previously, the CAWCD Board approved an Infrastructure and Water Rights Funding Proposal on November 7, 2013. The proposal increased the amount of the Activation Fee in order to collect a more significant portion of the funding for infrastructure and water rights prior to homes being built and replenishment obligation being incurred.