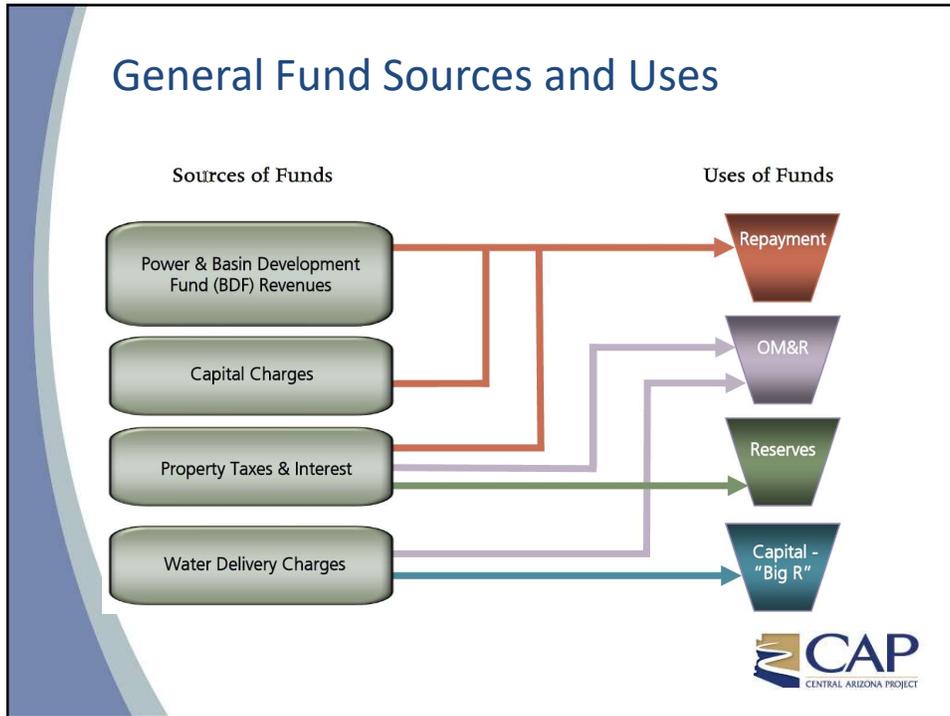




Agenda

- Welcome
- Capital Charges and Tax Use
 - Current Tax Commitments
 - Capital Charge and NGS Impacts
 - Potential Future Needs
 - Upcoming Board Decision Dates
- Capital Charge Scenarios & Discussion
- Rate Stabilization General Discussion
- Questions





Property Taxes

Arizona Revised Statutes § 48-3715 and § 48-3715.02 authorize CAWCD to levy two distinct taxes in Maricopa, Pinal, and Pima Counties.

- **General *Ad Valorem* Tax**
 - Up to \$0.10 per \$100 of assessed valuation in the District
- **Water Storage Tax**
 - Up to \$0.04 per \$100 of assessed valuation (thru 2024)
 - Up to \$0.03 per \$100 of assessed valuation (2025 thru 2030)

Tax revenues may be used for repayment.



2019 Uses of General Ad Valorem Tax

- Agriculture Fixed OM&R (~5.5 cents)
- Extraordinary Cost Reserve (~2.5 cents)
 - Will reach goal to cover NGS decommissioning costs in September 2019 (\$79 million)
 - NGS decommissioning will draw down the bulk of these funds in the next 2-3 years
 - NGS decommissioning costs may be higher than current estimates.
- Strategic Reserve Balance (~2.0 cents)
 - \$179 million target has been met



2020 Uses of General Ad Valorem Tax

- Agriculture Fixed OM&R (~5.5 cents)
 - Rates must be set before shortage conditions will be known for 2020.
- DCP Ag Recovery Infrastructure (~1.0 cent)
 - Board authorized \$5 million for Pinal Agriculture groundwater recovery
- TBD (~3.5 cents)
 - Approximately \$18.9 million



Potential Uses of Tax Revenues

- Repayment Through Reduced Capital Charges
- Covering Operations and Maintenance Expenses for Identified Needs, such as Recovery, etc.

...or Reduce Tax Rate



Impact of NGS Closure on Rates

	2019	2020	2021	2022
NGS Open Beyond 2019				
Capital Charges	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Energy Rate	\$ 82.00	\$ 101.00	\$ 115.00	\$ 114.00
Total	\$ 107.00	\$ 126.00	\$ 140.00	\$ 139.00
YoY % Change		18%	11%	-1%
NGS Decommissioned After 2019				
Capital Charges	\$ 41.00	\$ 68.00	\$ 74.00	\$ 71.00
Energy Rate	\$ 62.00	\$ 54.00	\$ 54.00	\$ 54.00
Total	\$ 103.00	\$ 122.00	\$ 128.00	\$ 125.00
YoY % Change		18%	5%	-2%

6/9/16 Rate Advisory Sheet projected 18% net increase in 2020, regardless of whether NGS remained open or closed.



Potential Future Needs

- Recovery
- Shortage Mitigation/Supply Reliability
- Salinity Control
- Other



Recovery of AWBA Credits

- The scope and magnitude of CAWCD's recovery needs are being evaluated as part of the Recovery Planning Advisory Group (RPAG) process
- Many M&I subcontractors have expressed a preference for performing recovery on their own, or with their own partners
- CAWCD's role may be more narrowly targeted to direct recovery into the CAP system, and infrastructure investments in the Pinal AMA
- The AZDCP USF-to-GSF arrangements will increase the need for Pinal AMA recovery



Recovery Investment Concepts

- Direct Recovery
 - Series of well sites along aqueduct in Phoenix & Pinal AMAs
 - Assumptions
 - 10 wells @ 3,300 AFY/well*
 - Cost ~\$1.5 million/well*
 - Sited to limit treatment requirements
 - Spend ~\$15 million/5 years
- Partnership Investments
 - New infrastructure to make CAP water available through exchange
 - Spend ~\$15 million/5 years
 - Includes \$5 million for AZDCP Ag GW infrastructure
- Capacity Reservations
 - Up-front payment for dedicated capacity for using partner's existing infrastructure
 - Spend ~\$5 million/5 years



*Based on estimated well drilling costs from 2015 Pinal Study and TDRP Study

Shortage Mitigation

- CAWCD has invested in programs/projects to improve the reliability of the CAP supply for CAP water users since 2007
- Staff are continuing to develop additional approaches to improve the reliability of the CAP supply and mitigate drought impacts
- Shortage mitigation and supply reliability projects may be necessary as CAWCD plans for a drier future
- A Mitigation/Reliability Reserve will support those efforts in the near-term and long-term



Colorado River Basin Salinity Control Program (Title II)

- The Salinity Control Program was authorized by the 1974 Salinity Control Act (P.L. 93-320) and is focused on improving the water quality of the Colorado River
- Program is administered by Reclamation but funded through appropriations from Reclamation, NRCS, BLM and the Basin States
- The Act requires that the Basin States cost share 30/70 with Federal program appropriations.
- The Basins States Cost share obligation is divided 15% from the Upper Basin and 85% from the Lower Basin
- State(s) funding in the Lower Basin comes from surcharges on power revenues at Hoover, Parker and Davis dams.
- Currently revenues from California and Nevada fund the Lower Basin States cost share entirely - Arizona power revenues go toward CAP repayment.
- California and Nevada revenues are insufficient to meet the cost share requirements of the program, consequently the program has accrued a deficit of \$13.35 million and that deficit is growing by approximately \$3 million annually.
- As Arizona is not currently contributing, the other Basin States are looking to Arizona to begin to provide funding.



Reduce Tax Rate

A tax rate reduction of 1 cent will reduce CAP revenues by \$5.4 million

1 cent of tax is \$2.00 per year on a \$200,000 house



Upcoming Board Decision Dates

- Preliminary Rates
 - April FAP (4/18)
 - May Board Meeting (5/2)
- Final Rates
 - June Board Meeting (6/6)
- Tax Rates
 - June Board Meeting (6/6)



Capital Charges Scenarios and Discussion

Scenario 1	Tax usage (cents)
Ag Consideration	5.5
DCP Ag recovery	1.0
Repayment	0.0
Funding Identified Needs	2.5
Reducing Tax Rate	1.0

- Results in capital charges being set at rate to collect full cash make-up payment
- 2020 capital charge is current set at \$68/AF
- 2.5 cents to be put into a special reserve (like Extraordinary cost reserve) for Recovery, Shortage Mitigation, Salinity Control Funding or other identified needs
- 1 cent reduction in tax rate



Capital Charges Scenarios and Discussion

Scenario 2	Tax usage (cents)
Ag Consideration	5.5
DCP Ag recovery	1.0
Repayment	2.0
Funding Identified Needs	1.5
Reducing Tax Rate	0

- Results in capital charges being set at rate less than the cash make-up payment
- Would result in lowering capital charges \$16/AF resulting in a 2020 capital charge of \$52/AF
- Repayment contribution would be approximately \$11.3 million
- 1.5 cents to be put into a special reserve for Recovery, Shortage Mitigation, Salinity Control Funding, or other identified needs



Capital Charges Scenarios and Discussion

Scenario 3	Tax usage (cents)
Ag Consideration	5.5
DCP Ag recovery	1.0
Repayment	3.5
Funding Identified Needs or Reducing Tax Rate	0.0

- Results in capital charges being set at rate less than the cash make-up payment
- Would result in lowering capital charges \$24/AF resulting in a 2020 capital charge of \$44/AF
- Repayment contribution would be approximately \$19.8 million
- No funds put into a special reserve nor could taxes be lowered



Rate Stabilization Discussion

- Voluntary Rate Stabilization ~\$7 million
 - ~\$10 per AF discount
- Rate Stabilization Fund ~\$30 million
 - ~\$25 per AF discount
- Tier 1 Shortage increases rates by \$26 per AF
 - Apply in 1st year?
 - Spread over longer/shorter period?
 - Utilize both or withhold voluntary account?

A wide-angle photograph of a long, straight concrete-lined canal filled with clear blue water. The canal stretches into the distance, flanked by dry, sandy banks with sparse desert vegetation. In the background, there are rugged, brown mountains under a sky with scattered white clouds. The water in the canal reflects the sky and the surrounding landscape.

**KNOW
YOUR
WATER**

Questions?

CentralArizonaProject.com ~ CAGR.com

The logo for the Central Arizona Project (CAP) features a stylized 'Z' shape in blue and gold, followed by the letters 'CAP' in a bold, blue, sans-serif font. Below 'CAP' is the text 'CENTRAL ARIZONA PROJECT' in a smaller, blue, sans-serif font.

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