



**CENTRAL ARIZONA WATER CONSERVATION DISTRICT  
Finance, Audit, and Power Committee  
April 18, 2019**

Chair Terry Goddard called to order a meeting of the Finance, Audit and Power Committee ("Committee") of the Central Arizona Water Conservation District ("CAWCD" or "CAP") Board of Directors on Thursday, April 18, 2019 at 10:02 a.m. The meeting was held at Central Arizona Project Headquarters, located at 23636 North Seventh Street, Phoenix, Arizona, in the Board Room.

Board Members present were Terry Goddard, Maricopa County; Alexandra Arboleda, Maricopa County; Jennifer Brown, Maricopa County (via teleconference); Karen Cesare, Pima County; Pat Jacobs, Pima County; Jennifer Martin, Maricopa County; and Mark Taylor, Pima County.

Staff members present were Ted Cooke, General Manager; Jay Johnson, General Counsel; Bridget Schwartz-Manock, Director, Public Affairs; Robert Moody, Assistant GM Operations and Maintenance; Bonnie Stone, Director, Employee Services; Brian Buzard, Director Centralized Maintenance and Reliability; Chris Hall, Director, Finance & Administration; Ramon Ramirez, Internal Auditor; Darrin Francom, Director, Operations and Engineering; Doug Dunlap, Manager, Finance and Accounting; Brian Young, Manager Power Programs; Tanya Luther, Senior Accountant, Megan Casey, Public Affairs Management Analyst; Jennifer Miller, Board Support Specialist and Samantha Simpson, Executive Assistant. There were approximately 15 members of the public in attendance.

**1. CONSIDERATION OF ACTION TO APPROVE THE MINUTES OF THE MARCH 21, 2019 FINANCE, AUDIT AND POWER COMMITTEE - GODDARD**

**On a motion (Board Member Jacobs) and a second (Board Member Taylor), the Committee approved the minutes of the March 21, 2019 Finance Audit and Power Committee. Motion Passed.**

*Voting yes: Terry Goddard, Alexandra Arboleda, Jennifer Brown, Karen Cesare, Pat Jacobs, Jennifer Martin*

**2. REPORT ON 2018 EXTERNAL INDEPENDENT AUDIT AND DISCUSSION AND CONSIDERATION OF ACTION TO AUTHORIZE PUBLICATION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (FINANCE: MAINTAINING CAP'S FINANCIAL HEALTH^\*) - LUTHER/JEAN DIETRICH, CLIFTONLARSONALLEN**

Tanya Luther, Senior Accountant, introduced Jean Dietrich from CliftonLarsonAllen to provide the report on the 2018 External Independent Audit. Ms. Dietrich reported that the scope of services was to perform an audit of the Financial Statements of the Central Arizona Water Conservation District (CAWCD) as of and for the year ended December 31, 2018. They also performed an audit of a separate Financial Statement of the CAWCD insurance company for the same period and that audit was approved on April 16, 2019 and will be issued and included in the Comprehensive Annual Financial Report (CAFR) of CAWCD. The audits were conducted in accordance with generally accepted auditing standards and was happy to report that on both

reports they issued clean and unmodified opinions. Ms. Dietrich noted the significant audit areas which were cash and investments; permanent service rate and the repayment obligation; and the bonds payable along with revenue and unearned revenue on a substantive basis. For the insurance they focused on the loss and benefits reserve and obtained an actuary analysis and confirmed the independence of that actuary and did not find any bias in that estimate. For the year ended December 31, 2018, CAP did implement Governmental Accounting Standards (GASB) No. 89, No. 85, and No. 75. Ms. Dietrich finished the presentation by restating the required communications.

**On a motion (Board Member Jacobs) and a second (Board Member Cesare), the Finance, Audit and Power Committee authorized publication of the audited 2018 Comprehensive Annual Financial Report. Motion Passed.**

*Voting yes: Terry Goddard, Alexandra Arboleda, Jennifer Brown, Karen Cesare, Pat Jacobs, Jennifer Martin, Mark Taylor*

**3. REPORT ON 2018 FINAL BUDGET PERFORMANCE AND STATUS OF RESERVES, AND CONSIDERATION OF ACTION TO RECOMMEND THAT THE BOARD APPROVE ADDITIONAL SPENDING AUTHORITY FOR THE CAPTIVE FUND FOR 2018 (FINANCE: MAINTAINING CAP'S FINANCIAL HEALTH^) - DUNLAP**

Doug Dunlap provided a summary review of the 2018 4th Quarter Financial Review and specifically highlighted water deliveries, revenues, expenses and capital expenditures and discussed the variances between the 2018 budget and actual expenditures. He also addressed the strategic reserves and reviewed the rate reconciliation. There were questions about the Strategic Reserves that were answered and explained by both Mr. Dunlap and Ted Cooke, General Manager. Mr. Dunlap indicated that once the refund payment is made for 2018, CAP will be on target.

**On a motion (Board Member Taylor) and a second (Board Member Jacobs), the Finance, Audit and Power Committee recommended that the Board of Directors approve \$2.38 million of additional spending authority for the Captive Insurance Company for 2018. Motion Passed.**

*Voting yes: Terry Goddard, Alexandra Arboleda, Jennifer Brown, Karen Cesare, Pat Jacobs, Jennifer Martin, Mark Taylor*

**4. DISCUSSION AND CONSIDERATION OF ACTION TO RECOMMEND THAT THE BOARD ADOPT 2020-2024 PRELIMINARY WATER RATE SCHEDULE (FINANCE: MAINTAINING CAP'S FINANCIAL HEALTH^) - DUNLAP**

Doug Dunlap, Manager Finance and Accounting reviewed the general fund sources and use of revenue. Due to potential shortage and the Arizona Implementation Plan for the Drought Contingency Plan, it is necessary to revise the 2020 Provisional rates as well as the advisory rates. Mr. Dunlap covered the key assumptions and provided a base case and alternative case and indicated that water rates are set to recover costs and that tax decisions can impact rates. The recommended preliminary rates assume that the tax rates for the general ad valorem

tax and the water storage tax will remain at 10 cents per \$100 of assessed valuation and 4 cents per \$100 of assessed valuation, respectively.

**Board Member Taylor made a motion that the Finance, Audit and Power Committee recommend that the Board approve the Base Case and Alternative Case Preliminary 2020-2024 Water Rate Schedules, as revised for allowing 2.5 cents of ad valorem taxes to be applied to the capital charges for the next three years. The Base Case Rate Schedule will be in effect until such notice that a shortage has been declared for 2020. In the event of such notice, the Alternative Case Rate Schedule will go into effect.** There was no second, and the motion was withdrawn.

These items were discussed at length and the vote was tabled until after the tax presentation. Following the tax presentation the Committee voted.

Several individuals submitted public testimony:

Warren Tenney, Executive Director, Arizona Municipal Water Users Association (AMWUA) stated the need to have a holistic look at taxes and rates and the implications they have for the future expenditures. He expressed appreciation for the roundtable and stakeholder workshop and encouraged that Federal Repayment be the priority for the taxes and make certain some portion is going towards repayment.

Leslie DeReche, City of Scottsdale, advocated for the use of property taxes for the Federal Debt Repayment. The city relies heavily on CAP water as a majority of their water source and if the taxes are not used to offset the cost of the Federal Repayment it would mean a significant increase to their users. She feels that the property taxes used for repayment fairly allocates the burden across all of the counties instead of exclusively on the water users who already pay through usage rates.

Cynthia Campbell, City of Phoenix, said she appreciates the 3.5 cents of Ad Valorem tax that is proposed to be used to assist in repaying the Federal Debt obligation because it is one of the primary purposes of the Ad Valorem tax. A portion of the Ad Valorem tax should always be included in the repayment obligation and repayment is not a cost of water delivery. She also said she is encouraged by the use of the Ad Valorem tax.

Cape Powers, Planning and Operations Manager, City of Peoria thanked the Committee for listening to the concerns and for the recent Roundtable. He supports that the Federal Repayment should be a priority component of the 10 cent Ad Valorem tax.

Kathy Rall, Water Advisor, City of Scottsdale, said that, as the third largest M&I in the state, the impact of raising the capital charges for using them for repayment in place of the loss of the NGS contribution is about a \$1.5M increase over the next three years to the City. She said they are willing to pay fair share for water delivery, but when taxes are available to make up the difference for loss from the NGS taxes should be used. She was pleased with the fact that CAP Staff and Board are willing to work with the M&I holders.

On a motion (Board Member Taylor) and a second (Board Member Cesare), the Finance, Audit and Power Committee recommended that the Board approve the Base Case and Alternative Case Preliminary 2020-2024 Water Rate Schedules. The Base Case Rate Schedule will be in effect until such notice that a shortage has been declared for 2020. In the event of such notice, the Alternative Case Rate Schedule will go into effect. Motion passed.

Voting yes: Terry Goddard, Alexandra Arboleda, Jennifer Brown, Karen Cesare, Pa Jacobs, Jennifer Martin, Mark Taylor

5. **DISCUSSION AND CONSIDERATION OF ACTION TO RECOMMEND THAT THE BOARD TAKE ACTION REGARDING PRELIMINARY CAWCD AD VALOREM TAXES FOR THE 2019/2020 TAX YEAR (FINANCE: MAINTAINING CAP'S FINANCIAL HEALTH^) - HALL**

Chris Hall, Director of Finance and Administration, indicated that this agenda item includes three components: Fix the General Ad Valorem (10-cent) Tax Rate for the 2019-2020 tax year; Fix the Water Storage Tax (4-cent) Tax Rate for the 2019-2020 tax year; and Recommend the language for the Water Storage Tax Resolution to the Board. Mr. Hall reviewed the General Ad Valorem Tax and the Water Storage Tax and the new methodology for paying for Arizona Water Banking Authority (AWBA) purchases of long-term storage credits (LTSCs) under the new IGA between AWBA and CAWCD. Under the new IGA, planned AWBA purchases in 2020 will be written into the Water Storage resolution, essentially pre-authorizing staff to transfer funds to complete the transaction without further Board action. He also described the General Ad Valorem Tax Proposal and explained the details of how the ten (10) cents would be allocated. The 2.5 cents reduced the capital charge obligation towards repayment from a 12% increase to a 2% increase in 2020. He addressed the Water Storage Tax Proposal and that it be levied at the four (4) cents. Tax revenues are held in reserves until time of payment.

Ted Cooke, General Manager provided additional clarification and reminded everyone that the discussion about a future projection of the use of tax in a future year was a large part of the discussion that the previous FAP had in 2017 and 2018 that led to the current Board policy that is being followed by the staff right now -- which is to not project the use of tax that has not been levied yet because under the statute it is levied annually. He advised being conservative in the planning assumptions.

Warren Tenney, Executive Director, AMWUA appreciated the conversation and felt it was important to clarify that they are very appreciative that in the proposed taxes there is a designation of 3.5 cents towards repayment.

5.a. **FIX THE GENERAL AD VALOREM TAX RATE PURSUANT TO ARS48-3715, SUBSECTION A**

On a motion (Board Member Taylor) and a second (Board Member Brown), the Finance, Audit and Power Committee recommended that the Board of Directors fix the CAWCD General Ad Valorem Tax Rate at ten cents (\$0.10) per one hundred dollars (\$100) of assessed valuation for the 2019/2020 tax year. Motion passed.

*Voting yes: Terry Goddard, Alexandra Arboleda, Jennifer Brown, Karen Cesare, Pat Jacobs, Mark Taylor*

*Voting no: Jennifer Martin*

**5.b./ FIX THE WATER STORAGE TAX RATE PURSUANT TO ARS 48-3715.02, SUBSECTION B**  
**5.c. ADOPT A RESOLUTION REGARDING THE USE OF WATER STORAGE TAX, PURSUANT TO ARS 48-3715.02, SUBSECTION B AND C**

**On a motion (Board Member Arboleda) and a second (Board Member Taylor), the Finance, Audit and Power Committee recommended that the Board of Directors fix the CAWCD Water Storage Tax Rate at four cents (\$0.04) per one hundred dollars (\$100) of assessed valuation for the 2019/2020 tax year.**

**Further recommended that the Board of Directors adopt a resolution determining that all of the tax levied for Water Storage in tax year 2019/2020 is required for CAP repayment or annual operations, maintenance and replacement costs, including CAWCD costs for AWBA M&I firming. Motion Passed.**

*Voting yes: Terry Goddard, Alexandra Arboleda, Jennifer Brown, Karen Cesare, Pat Jacobs, Jennifer Martin, Mark Taylor*

**6. DISCUSSION AND CONSIDERATION OF ACTION TO RECOMMEND THAT THE BOARD TAKE ACTION ON SOLAR PHASE II POWER PURCHASE AGREEMENT (POWER: GENERATION RESOURCES^\*) - YOUNG**

Brian Young, Power Programs Manager reviewed the PPA for Solar Phase II and went through some of the basic terms of the agreement and stated that it is a 20-year agreement commencing the last quarter of 2023. He provided the fixed full price and indicated that a portion of the energy will be received at a discount price and the blended rates will average \$32.50-\$33 per MWh. Mr. Young provided clarification to the questions asked regarding the agreement.

**On a motion (Board Member Taylor) and a second (Board Member Arboleda), the Finance, Audit and Power Committee recommended that the Board of Directors approve the Purchase Power Agreement Between AZ Solar Storage 2, LLC and Central Arizona Water Conservation District and authorize the General Manager, or his Designee, to execute the agreement. Motion Passed.**

*Voting yes: Terry Goddard, Alexandra Arboleda, Jennifer Brown, Karen Cesare, Pat Jacobs, Jennifer Martin, Mark Taylor*

**7. DISCUSSION ON RESULTS FROM AUCTION FOR CAP'S 2020 ENERGY NEEDS (POWER: GENERATION RESOURCES^\*) - YOUNG**

This agenda item was postponed until the May 2019 meeting.

**8. DISCUSSION ON FINANCING OPTIONS FOR WATER ACQUISITION APPROVED BY THE BOARD BETWEEN CAWCD, GILA RIVER INDIAN COMMUNITY AND GILA RIVER WATER STORAGE LLC - DUNLAP**

This agenda item was postponed until the May 2019 meeting.

9. **FUTURE AGENDA ITEMS**

None.

10. **PUBLIC COMMENT**

No additional public comment.

11. **ADJOURN**

There being no further business to come before the Committee, the meeting adjourned at 12:43  
PM.



A handwritten signature in blue ink, appearing to read "Terry Goddard", is written over a horizontal line. The signature is stylized and includes a large flourish at the end.

Terry Goddard  
Chair