



**CENTRAL ARIZONA WATER CONSERVATION DISTRICT  
Finance, Audit, and Power Committee  
May 16, 2019**

A meeting of the Central Arizona Project Finance, Audit and Power Committee ("Committee") of the Central Arizona Water Conservation District's ("CAP" or "CAWCD") Board of Directors was called to order by Acting Chair Taylor on 5/16/2019 at 9:02 a.m. The meeting was held at the Central Arizona Project, 23636 North Seventh Street, Phoenix, Arizona, in the Board Room.

Committee Members present were: Acting Chair Mark Taylor, Pima County; Alexandra Arboleda, Maricopa County; Jennifer Brown, Maricopa County; Karen Cesare, Pima County; Pat Jacobs, Pima County; and Jennifer Martin, Maricopa County (*via teleconference*).

Committee Members not present were: Chair Terry Goddard, Maricopa County.

Staff members present were: Ted Cooke, General Manager; Jay Johnson, General Counsel; Chris Hall, Director of Finance and Administration; Bridget Schwartz-Manock, Director of Public Affairs; Doug Dunlap, Finance and Accounting Manager; Brian Young, Power Programs Manager; Ramon Ramirez, Internal Audit Manager; Megan Casey, Public Affairs Management Analyst; Jenn Miller, Board Support Specialist; and Samantha Simpson, Executive Secretary.

**1. CONSIDERATION OF ACTION TO APPROVE THE MINUTES OF THE APRIL 18, 2019 FINANCE, AUDIT AND POWER COMMITTEE -TAYLOR**

**On a motion (Board Member Cesare) and a second (Board Member Jacobs), the FAP Committee approved the minutes of the April 18, 2019 meeting. Motion passed.**

*Voting yes: Jennifer Brown, Karen Cesare, Pat Jacobs, Jennifer Martin, Mark Taylor*

*Not voting: Alexandra Arboleda*

**2. REPORT ON INTERNAL AUDIT ACTIVITIES - RAMIREZ**

Ramon Ramirez, Internal Audit Manager, reported on the internal audit activities and indicated that a final report was issued for the expense reimbursement audit and that work on the Fleet Management Audit is in the fieldwork phase. Mr. Ramirez stated that work on the Palo Verde Morgan Transmission Project audit has been initiated and is in the preliminary survey phase. He also reported that this year, the CAGR staff will take the lead on the audits of selected water provider reports, but Internal Audit has provided planning assistance and will continue to consult throughout the audit as needed. Internal Audit will act as the contract administrator on IT penetration testing being done by an outside consultant and that work is in the preliminary stages. He specifically reviewed the expense reimbursement audit and covered the background, objective and scope and identified the improvement opportunities.

3. **REPORT ON RESULTS OF 2020 ENERGY AUCTION AND 2020 HEDGING TARGETS - YOUNG**

Brian Young, Power Programs Manager, presented the status of power purchases from energy auctions and provided a brief overview of CAP hedging targets. Mr. Young described the energy auction process and indicated that they are conducted by Enel X, which has most major suppliers in the West. There is no cost to CAWCD to conduct energy auctions, as suppliers pay a small fee to Enel X based on their awards. He reported that in the initial auction, CAP solicited 16 products, which varied by season, time of day, and point of delivery. Twelve different suppliers participated in the initial auction. The total energy secured for 2020 was increased to about 55% of expected load, which includes long-term resources, and the auction results are indicative of expected overall average energy costs for 2020. Mr. Young also informed the Committee of an upcoming staff recommendation to raise the variable load hedging target to 30%-70%. Staff anticipates this change will lead to increased savings from power purchases and more certain and stable energy rates.

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

Doug Dunlap, Finance and Accounting Manager provided a quick background on the three major parts of the agreement: Long Term Storage Credit Purchase, Recovery and Exchange Agreement, and CAP NIA Priority Water Lease. He noted the latter two agreements are "pay as you go," but the Long Term Storage Credit Purchase necessitates a large up-front expenditure requiring some short-term financing. Mr. Dunlap indicated that, due to the current Infrastructure and Water Rights reserve balance and the timing of tax collection through the County Treasurer, there would not be sufficient funds available for the LTSC purchase agreement when payment came due in August 2019.

Mr. Dunlap reviewed the three options available for making the final payment. The first option was to utilize terms in the purchase agreement with the associated interest as indicated in the agreement. The second option was to acquire a bond (loan) from an outside source. The third option was to borrow the funds from the CAWCD General Fund. Each option carried unique interest costs, as well as non-financial considerations. In order to meet the contractual time constraints, a method of payment would need to be determined by the June Board Meeting.

Ted Cooke, CAP General Manager, added a couple of comments for additional perspective. His primary comment related to Committee members' desires to see an "apples-to-apples" comparison between the options. He indicated that such an analysis was not possible because there were primary differences between the options being considered and the proposed options were based on advice of financial advisors.

The options were discussed and each board member provided comments. Acting Chair Taylor hoped to see more of an "apples to apples" to do a true comparison. He agreed from a numbers standpoint, Option 3 is less expensive, but based on optics and other benefits, Option 2 would also be a viable choice.

Board Member Jacobs expressed support for Option 2.

Board Member Brown stated that she is a proponent for establishing credit and favors Option 2.

Board Member Cesare held her comments for the CAGR D Committee meeting but said she would convey the discussions.

Board Member Arboleda expressed support of Option 2 and reiterated some of the benefits mentioned by other members.

Board Member Martin, upon reflection of previous discussions when Option 3 was favored, expressed her current preference for Option 2.

Several individuals submitted public testimony:

Brian Draper, City of Mesa Water Resources Department, submitted an electronic blue card in opposition to Option 3 to utilize CAWCD financing, noting the proposal to loan funds to CAGR D highlights the conflicts of interest with CAWCD governance of CAGR D.

Kathy Rall, City of Scottsdale Water Department, submitted an electronic blue card in support of Option 2 to utilize outside financing and asked the Board to consider the optics of using reserves.

Alan Dulaney, Water Policy Administrator for the City of Peoria, submitted an electronic blue card in support of Option 2 to utilize outside financing, noting that this option would have CAGR D pay for the loan costs to cover CAGR D expenses and provides extra reserves for any potential long term storage credit acquisitions that might appear in the future. He also expressed opposition to Option 3 to utilize CAWCD financing.

Brett Fleck, Arizona Municipal Water Users Association, spoke in support of Option 2 to utilize outside financing and encouraged the committee to support pursuing all avenues with Option 2 before considering Option 3.

**5. FUTURE AGENDA ITEMS**

Acting Chair Taylor reported that the June FAP Meeting has been cancelled and the Board will not meet at all in July. The next FAP meeting is scheduled for August 15 at 10:00 a.m.

**6. PUBLIC COMMENT**

No additional public comment.

**7. ADJOURN**

There being no further business to come before the Committee, the meeting adjourned at 10:43 a.m.



Terry Goddard  
Chair