



**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
CAGR and Underground Storage Committee
May 16, 2019**

A meeting of the Central Arizona Groundwater Replenishment District ("CAGR") and Underground Storage Committee ("Committee") of the Central Arizona Water Conservation District's ("CAP" or "CAWCD") Board of Directors was called to order by Chair Megdal on 5/16/2019 at 01:30 PM. The meeting was held at the Central Arizona Project, 23636 North Seventh Street, Phoenix, Arizona, in the Board Room.

Committee Members present were: Chair Sharon B. Megdal, Pima County; Karen Cesare, Pima County; Jim Hartdegen, Pinal County; Pat Jacobs, Pima County; Heather A. Macre, Maricopa County (*via teleconference*); and Jennifer Martin, Maricopa County (*via teleconference*).

Staff members present were: Ted Cooke, General Manager; Jay Johnson, General Counsel; Suzanne Ticknor, Director of Water Policy; Bridget Schwartz-Manock, Director of Public Affairs; Chris Hall, Director of Finance and Administration; Laura Grignano, CAGR Manager, Ken Seasholes, Resource Planning and Analysis Manager, Doug Dunlap, Finance and Accounting Manager; Kim Grouse, Senior Attorney; Jessica Fox, Senior Policy Analyst; Angie Lohse, Senior Policy Analyst; Megan Casey, Public Affairs Management Analyst, Jenn Miller, Board Support Specialist; and Nelle Carlsmith, CAGR Specialist.

1. CONSIDERATION OF ACTION TO APPROVE THE MINUTES OF THE APRIL 18, 2019 CAGR AND UNDERGROUND STORAGE COMMITTEE - MEGDAL

On a motion (Board Member Jacobs) and a second (Board Member Hartdegen), the Committee approved the minutes of the April 18, 2019 CAGR and Underground Storage Committee Meeting. Motion passed.

Voting yes: Sharon B. Megdal, Karen Cesare, Jim Hartdegen, Pat Jacobs, Jennifer Martin

Not voting: Heather A. Macre

2. DISCUSSION AND CONSIDERATION OF ACTION TO RECOMMEND TO THE BOARD A FINANCING OPTION FOR THE WATER ACQUISITION APPROVED BY THE BOARD BETWEEN CAWCD, GILA RIVER INDIAN COMMUNITY AND GILA RIVER WATER STORAGE LLC (REPLENISHMENT: WATER SUPPLY) - DUNLAP

Doug Dunlap, Finance and Accounting Manager, gave a presentation about financing options for the agreement that CAWCD, on behalf of CAGR, entered into with the Gila River Indian Community (GRIC) and Gila River Water Storage LLC (GRWS) for the purchase of 375,000 AF of LTSCs (Pinal AMA) and 70,375 AF of LTSCs (Phoenix AMA). He noted the purchase price was for \$95 million consisting of an initial payment 30 days after signing of \$65 million and the remaining payment of \$30 million 6 months subsequent to the signing. Mr. Dunlap noted that the agreement was signed February 1, 2019, the initial payment of \$65 million was made on March 4, 2019, and the second payment is due August 1, 2019.

Mr. Dunlap reported that the CAGRD Infrastructure & Water Rights (I&WR) reserve does not have the full amount of the payment at this time, and CAGRD will not have the funds for the final payment until late 2019 when its tax collections are received. He noted that staff previously presented 3 options to make the final payment and reviewed the options. The first option is to utilize payment terms in the purchase agreement. The second option is to acquire a loan from an outside source. The third option is to borrow from the CAWCD General Fund. He noted that each option carries interest cost and issues to consider.

The Committee discussed the costs as well as the pros and cons associated with each option. Board Member Cesare also gave the Committee a summary of the discussion held earlier that day at the Finance Audit and Power (FAP) Committee, where FAP Committee members generally supported Option 2 (Outside Financing).

Several individuals submitted public testimony:

Patrick Adams, Water Policy Analyst, representing Arizona Municipal Water Users Association (AMWUA), spoke in support of Option 2. He stated that AMWUA believes the option aligns with the Board's approach of maintaining robust healthy reserves and avoids any problematic shifts or at least the appearance of CAWCD to be seen as a lending institution.

Alan Dulaney, City of Peoria, submitted an electronic blue card in support of adoption of Option 2 - outside financing. He noted that Peoria sees several advantages to obtaining the suggested \$20,000,000.00 loan externally: 1) provides credit history for CAGRD 2) ensures reserves are not entirely depleted and most importantly added, 3) CAGRD debts should be paid for by CAGRD rate payers, not CAWCD customers.

Brian Draper, City of Mesa Water Resources Water Department, submitted an electronic blue card in opposition to the staff recommended motion. He stated that Option 3 highlights the conflict of interest with CAWCD governance of CAGRD, and that it is Mesa's perspective that the optics of this proposal is are not good and they prefer Option 2.

The Committee further discussed the benefits of Option 2, specifically that it provides: 1) the opportunity for CAGRD to establish its own financing history, 2) a higher near-term reserve balance in case other attractive acquisition opportunities arise in next year or so and, although loans by CAWCD to CAGRD are permissible by statute, 3) reinforcement of the concept that CAGRD is financially independent of CAWCD. Although the CAGRD Committee had been leaning towards Option 3 (CAWCD Financing) at its April meeting, after discussing the matter in more detail and listening to comments from interested stakeholders, the Committee unanimously voted to recommend that the Board approve authorization for CAWCD to enter into an external debt agreement (Option 2).

On a motion (Board Member Cesare) and a second (Board Member Jacobs), the CAGRD and Underground Storage Committee recommended that the Board of Directors approve Ordinance No. 2019-01 authorizing and approving CAWCD to enter into an external debt agreement not to exceed \$20,000,000 for CAGRD for Water Acquisition at terms as indicated in the presentation material. Motion passed.

Voting yes: Sharon B. Megdal, Karen Cesare, Jim Hartdegen, Pat Jacobs, Heather A. Macre, Jennifer Martin

3. **REPORT ON CAGRD MID-PLAN REVIEW: ENROLLMENT & OBLIGATION PART 1 (REPLENISHMENT: CAGRD MANAGEMENT AND OVERSIGHT^) - SEASHOLES**

Ken Seasholes, Resource Planning and Analysis, provided the Committee with the second in a series of Mid-Plan Review topics – Enrollment & Obligation (Part 1). His presentation compared actual enrollment over the last five years to the projected enrollment in the 2015 Plan of Operation. He explained that overall, enrollment is lower than projected due to a number of factors. These factors include: 1) rate of growth (lower than projected), 2) location of growth (more infill vs. suburban growth), 3) type of growth (more multifamily housing vs. single family housing) and 4) vintage of growth (higher number of older plats developed vs. new plats). He noted that, as a result of these factors, enrollment has not risen to levels projected in the plan, there remains a large inventory of enrolled but unconstructed lots and lower enrollment means less future obligation than anticipated from the first five years of the 2015 Plan of Operation.

3.a. **REPORT ON MARKET TRENDS - SPENCER KAMPS, HOME BUILDERS OF CENTRAL ARIZONA**

Spencer Kamps from the Home Builders Association of Central Arizona provided an update on trends in the housing market. He reported that trends show consistent demand from first time home buyers in the millennial generation. He noted that developers are focused on meeting the demands of the first time home buyers, while facing constraints in the market which include costly building materials and the lack of skilled workers. Mr. Kamps reiterated the role that CAGRD plays in the development community and stated that the industry expects to see slow consistent growth, especially in the entry level market where the CAGRD service area plays an important role.

4. **REPORT ON CAGRD CONSERVATION PLAN DEVELOPMENT PROCESS (REPLENISHMENT: WATER SUPPLY^) - FOX**

Jessica Fox, CAGRD, updated the Committee on recent Conservation Program related work, reporting that last year CAGRD hired a contractor to work with staff to develop and implement a new conservation program. She noted that staff worked with the contractor over the past several months but determined the work was insufficient, and ultimately the contract was terminated in April. CAGRD staff has followed CAWCD's purchasing procedures and, as a next step, contacted the second ranked bidder on the project short list. Ms. Fox reported that bidder, Montgomery and Associates, has declined the work, because their key staffing resource for the project has since left the company. CAGRD staff will continue to work closely with Purchasing staff and update the committee on next steps.

5. **REPORT ON RECOVERY PLANNING AND IMPLEMENTATION (WATER SUPPLY: RELIABILITY OF THE CAP WATER SUPPLY^) - LOHSE**

Angie Lohse, Resource Planning & Analysis, gave a brief report on recovery planning which included an update on the Recovery Planning Advisory Group and the Recovery Alternatives for Tonopah Desert Recharge study. The Recovery Planning Advisory Group (RPAG) had their ninth meeting on April 16, 2019. The meeting included a review of all the material that the group

has developed to date. The group is taking a recess for addendum preparation with the next meeting scheduled for October 15. Ms. Lohse also provided an update on the Recovery Alternatives for Tonopah Desert Recharge. Montgomery & Associates has identified three alternative recovery sites with a recommendation for additional geophysical work in and around TDRP to investigate the feasibility of expanding the geophysical investigation to the alternative sites.

6. FUTURE AGENDA ITEMS

The next CAGRD and Underground Storage Committee meeting is June 20th at 10:00 AM. Future agenda topics include: the second part on Enrollment and Obligation in a series of Mid-Plan Review presentations which will include a guest speaker, Dr. George Hammond, from the Eller College of Management at the University of Arizona, who will give an economic outlook on Central and Southern Arizona; a follow up on any items from this meeting and an update related to DCP investments in Pinal AMA agricultural infrastructure as it relates to recovery.

7. PUBLIC COMMENT

No additional public comment.

8. ADJOURN

There being no further business to come before the Committee, the meeting adjourned at 03:22 PM.



Sharon Megdal
Chair