FAP Agenda Number 2.

CAWCD 2011-2012
Property Taxes

Finance, Audit & Power Committee
May 19, 2011

Ted Cooke
Assistant General Manager,
Finance & Information Technology
Agenda

- CAWCD Property Tax Authorities
- Property Valuations
- General Ad Valorem Tax
- “Water Storage” Tax
General governments and school districts levy taxes based on the Limited Property Value (LPV) or “primary assessment.”

The LPV is limited as to how much it may increase year-over-year, and may never be more than the FCV.

Because of multiple years of market declines, the FCV has “crashed” into the LPV, bringing both numbers down, and, in many cases, the two numbers are equal.
The reductions in 2000 and 2003 were made in conjunction with the settlement of the Repayment dispute with the United States.

The reduction in 2007 was made as property values began to increase significantly.

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**General Ad Valorem Property Tax**

- General Ad Valorem Tax may be used for any authorized purpose except as a pledge towards repayment of revenue bonds
  - Uses have included creation of reserves, Operations & Maintenance, Repayment and capital expenditures
- Historical General Ad Valorem Tax rates:
  - 2000-2001 through 2002-2003 9 cents
  - 2007-2008 through 2010-2011 6 cents
Revenue sources are on the left.
Major uses of revenues are the buckets on the right.

General Ad Valorem property tax revenues are used for multiple purposes.
Property Valuations

- Property valuations used for tax purposes have an implicit 2-year lag between the time of the valuation and the collection of the tax
  - Taxes collected in 2011-2012 will be based on valuations published in March 2010
  - Valuations published in March 2010 are based on property values established during 2009

Valuation notices received by property owners in March 2011 (based on 2010 values) will apply to the 2012-2013 tax year
Valuation notices received by property owners in March 2011 (based on 2010 values) will apply to the 2012-2013 tax year.
Property values in effect for the 2011-2012 tax year will be lower for the first time than the year in which CAWCD reduced the tax rate from 8 cents to 6 cents (2007).

Property Valuations

- Property valuations increased significantly between 2004 and 2006
- Valuations have declined significantly since then
- The “boom-bust” cycle in property values has been about 6-7 years
  - Values are expected to “bottom” in 2011 at about 2004 levels
  - Expected “bottom” for tax purposes will be 2013-2014 tax year
General Ad Valorem tax rate was 8 cents for 2006-2007
- General Ad Valorem tax levy was approximately $36 million

General Ad Valorem tax rate at the peak of the market in 2006 and 2007 (2008-2009 and 2009-2010 tax years) was 6 cents
- CAWCD General Ad Valorem tax levy peaked at $43 million

General Ad Valorem tax rate was 6 cents for 2010-2011
- General Ad Valorem tax levy was approximately $37 million
• The reduction in valuations will be deeper and longer than previously anticipated
• Valuations used for tax purposes will take until 2019 to recover to 2009 (peak) levels
• The 2011 valuation forecast will reduce CAP tax revenues by approximately $23 million (at a rate of 6 cents) from last year’s forecast between 2011 and 2018
ARC revenues = Additional Rate Component paid by SRP for purchases of Navajo surplus power through September 2011 that previously were used towards CAP's revenue bonds

During 2010 and 2011, as the bonds were paid off, ARC revenues were paid to the CAP General Fund to bolster reserves

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**General Ad Valorem Property Tax**

- What was reported last year:
  - At a tax rate of 6 cents, in the short term (2011-2016) the General Ad Valorem Tax will be completely consumed by the cost of Ag Fixed OM&R and the Ag Incentive Program
  - General Fund Reserves in the short term will be maintained through receipt of ARC revenues and interest income

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During 2010 and 2011, as the bonds were paid off, ARC revenues were paid to the CAP General Fund to bolster reserves
Notes to last year’s slide:

- Reduced property tax revenues will be sufficient to cover water rate subsidies currently in place (Ag Incentive Program) and other anticipated business fluctuations (e.g., smoothing of “Big R”) through 2012 without increasing the ad valorem tax rate or diminishing reserves established for other purposes.

- The Ag Fixed OM&R subsidy is mostly covered across the 2013-2016 period.

- Ag Energy Subsidy for 2013-2016 is not published in the Advisory rates, but is the amount that would be required to maintain no more than a $2/AF per year increase in the energy rate based on the advisory energy rates.

- New water rate subsidies or new reserves will require a new source of revenue.
General Ad Valorem Property Tax

- The current situation:
  - At the current rate (6 cents), property tax revenues through 2016 will decline an additional $17 million from last year’s forecast
  - The “upside down” situation with Ag delivery costs is temporary, since the Ag pool will be reduced from 400,000 acre-feet to 300,000 acre-feet in 2017
• Reduced property tax revenues will be sufficient to cover water rate subsidies currently in place (Ag Incentive Program) and other anticipated business fluctuations (e.g., smoothing of “Big R) through 2012 without increasing the ad valorem tax rate or reducing reserves established for other purposes below target

• The Ag Fixed OM&R subsidy is mostly covered by property taxes across the 2013-2016 period – the balance of costs will be covered by existing reserves and interest earnings.

• Ag Energy Subsidy for 2013-2016 is not published in the Advisory rates, but is the amount that would be required to maintain no more than a $2/AF per year increase in the energy rate based on the advisory energy rates.

• New water rate subsidies or new reserves will require a new source of revenue
General Ad Valorem Property Tax

- The current situation:
  - Staff expects improvements in other areas to offset the property tax decline:
    - 2010 Strategic Reserve ending balance is $8 million higher due to favorable capital spending and basin fund activity
    - Interest earnings are improving due to higher reserve levels and higher investment yields
  - Current projections indicate that Strategic Reserves will be able to be maintained at or above target levels through 2016 without increasing taxes
  - Pressure on property tax revenues is expected to be relieved somewhat in 2017 when Ag Pool is reduced

Strategic Reserves:

<table>
<thead>
<tr>
<th>Master Contract Reserves</th>
<th>Target</th>
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</thead>
<tbody>
<tr>
<td>- O&amp;M Reserve</td>
<td>$5 Million</td>
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<tr>
<td>Operating Reserve</td>
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<tr>
<td>Capital/Major Repair &amp; Replacement Reserve</td>
<td>$75 Million</td>
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<tr>
<td>Contingency Reserve (Legal, Insurance and Regulatory)</td>
<td>$10 Million</td>
</tr>
<tr>
<td>Working Capital Reserve</td>
<td>$35 Million</td>
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Total Strategic Reserves $210 Million
Balances shown are for December 31 of each year, which is typically the high point of the year

Forecasts include sufficient funding for the capital improvement program and 2010 Board Strategic Plan initiatives

**Strategic Reserves:**

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Total Strategic Reserves $210 Million
SUGGESTED MOTION:
I move that the Finance, Audit and Power Committee recommend that the Board of Directors fix the ad valorem tax rate for CAWCD at six cents ($0.06) per one hundred dollars ($100) of assessed valuation for tax year 2011-2012.
"Water Storage" Property Tax

- The current tax was authorized beginning in 1996 and sunsets in 2016
  - A previous tax was collected to fund State Demonstration Recharge Projects (1991-1996)
- CAWCD must levy only a single "Water Storage" tax rate throughout the district
- Historical "Water Storage" Tax rates:
  1996-1997 through 2010-2011  4 cents
“Water Storage” Property Tax

- The statute requires CAWCD, by Board resolution, to determine how much, if any, of the “Water Storage” tax levy is to be reserved for repayment or OM&R.
- The remainder (if any) is to be deposited with the State Treasurer in the Arizona Water Banking Fund.
“Water Storage” Property Tax

- All “Water Storage” taxes collected through the 2002-2003 tax year were deposited in the Arizona Water Banking Fund.
- Beginning in 2003-2004, the Board reserved all “Water Storage” tax collections for OM&R, and has continued to use those tax proceeds for the same purpose (M&I firming).
- This approach allowed CAWCD to retain and protect “Water Storage” tax proceeds in its own account.

AWBA = Arizona Water Banking Authority
“Water Storage” Property Tax

- There is a dilemma presented by the single “Water Storage” tax rate and the differences in firming needs and revenues available among the three counties
  - All of the “Water Storage” tax collected in Pima and Pinal counties is needed to help meet M&I firming needs and, by itself, will not be sufficient to do so
  - The “Water Storage” tax collected in Maricopa County exceeds the need for M&I firming and has resulted in a substantial unused balance
“Water Storage” Property Tax

- A concept has been presented for further discussion that would allow some flexibility (under existing law and with no new taxes) in the use of AWBA withdrawal fees and water storage tax collected by CAWCD to fulfill both M&I firming goals and Indian firming obligations.

See Board Brief and accompanying materials from the April 7, 2011 Board Meeting, agenda item #11.
SUGGESTED MOTION:
I move that the Finance, Audit and Power Committee recommend that the Board of Directors fix the Water Storage ad valorem tax rate at four cents ($0.04) per one hundred dollars ($100) of assessed valuation for tax year 2011-2012.

SUGGESTED MOTION:
I move that the Finance, Audit & Power Committee recommend that the Board of Directors adopt a resolution determining that all of the tax levied for Water Storage in tax year 2011-2012 is required for CAP annual operations, maintenance and replacement costs and be deposited in a designated CAWCD account with the Arizona State Treasurer.
Questions???