



**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
Capital Charges and Use
of Property Taxes CAP
Water User Roundtable
March 19, 2019**

As part of the Customer Service Task Force recommendations, CAP staff conducted a roundtable with stakeholders to discuss capital charges and use of property taxes.

Board Members present included Alexandra Arboleda of Maricopa County, Pat Jacobs of Pima County and Mark Taylor of Pima County.

Participants of the roundtable included Silvia Amparano, City of Tucson, Erin Andres, City of Phoenix, Brian Biesemeyer, City of Scottsdale, Eric Braun, Town of Gilbert, Cynthia Campbell, City of Phoenix, Gregg Capps, City of Chandler, Chris Connor, City of Chandler, Derek Castaneda, City of El Mirage, Keith DeVore, City of Mesa, Brian Draper, City of Mesa, Alan Dulaney, City of Peoria, Doug Dunlap, CAP, Gretchen Erwin, City of Goodyear, Chris Hall, CAP, Lacey James, City of Avondale, Gina Kirkland, City of Scottsdale, Cape Powers, City of Peoria, Bridget Schwartz-Manock, CAP, Kim Sotomayor, City of Tucson, Tony Staffaroni, CAP, Fred Stevens, City of Surprise, Brad Strader, Roosevelt Water Conservation District, Drew Swieczkowski, City of Glendale, Karen Tenace, City of Tucson, Warren Tenney, Arizona Municipal Water Users Association (AMWUA), Jay Tomkus, Inter Tribal Council of Arizona, Wally Wilson, Metro Water

1. WELCOME - SCHWARTZ-MANOCK

Ms. Schwartz-Manock, Public Affairs Director, provided a welcome and overview of the roundtable process, stemming from the Customer Service Task Force, introducing Board Champions Jacobs and Taylor.

2. CAPITAL CHARGES AND TAX USE - HALL AND DUNLAP

Mr. Hall, Finance and Administration Director, presented on general fund sources and uses, property taxes, including the ad valorem tax and the water storage tax, and current and potential uses of those taxes, including repayment through reduced capital charges, covering operations and maintenance expenses for identified needs including recovery, or reduction of the tax rate.

Mr. Dunlap, Finance and Accounting Manager, presented on the impact of NGS closure on rates and expanded on potential future needs, including recovery, shortage mitigation and supply reliability, and salinity control. The needs related to recovery may be as high as \$35 million over the next five year.

Mr. Dent, Water Control Manager, provided additional detail on the Colorado River Basin

Salinity Control Program, highlighting the programs deficit of \$13.35 million and that Arizona is not currently contributing to the program.

Mr. Dunlap reported that a tax rate reduction of 1 cent will reduce CAP revenues by \$5.4 million. He then provided a preview of upcoming Board decision dates, including, preliminary rates being approved at the April Finance, Audit & Power Committee meeting and by the Board in May, and final approval of rates and tax rates at the June Board meeting.

3. CAPITAL CHARGES SCENARIOS AND DISCUSSION - DUNLAP

Mr. Dunlap gave an overview of three potential scenarios related to tax usage, and the impacts to capital charges for each scenario. Scenario 1 would set capital charge rates to collect the full cash make-up payment, keeping the 2020 capital charge at \$68/AF, and then applying 2.5 cents to a special reserve for identified needs. It would also reduce the tax rate by one cent. Scenario 2 would set capital charges lower than what would be needed for the make-up payment and would apply 2 cents toward repayment, and 1.5 cents for identified needs. This option would not lower the tax rate, and would lead to a lowering of capital charges by \$16/AF, from \$68 to \$52/AF. Scenario 3 would apply 3.5 cents toward repayment, lowering the capital charges by \$24/AF, resulting in a \$44/AF capital charge in 2020. There would be no tax reduction under this scenario.

Mr. Hall then asked for participants to provide comments, ask questions, and provide feedback on the information that was provided in the presentation.

All roundtable participants introduced themselves and provided the following questions, comments, or declared preference for one of the three scenarios:

Several clarification questions were asked related to the background of capital charges, strategic reserve amounts and how they are set, the impact of the NGS closure on capital charges, energy rate trends, the impacts of shortage on Ag consideration and how the savings can be used, and what future needs are and how will the amounts be determined and set? The questions were addressed and discussed by CAP staff as part of the overall discussion.

A number of comments were made by participants including the belief that property taxes should not be reduced, but remain at the maximum rate, that city budgets are impacted by major changes in capital charge rates, and those trickle down to their residents, that property taxes should be used for repayment, and that future planning should look at all sources of funds, and should focus on future issues and needs.

The following participants expressed support for the use of property taxes for federal repayment, or for one of the scenarios listed: Ms. Sotomayor, City of Tucson, Mr. Swieczkowski, City of Glendale, Mr. Dulaney, City of Peoria, Ms. James, City of Avondale, Mr. Braun, Town of Gilbert (Scenario 3), Mr. Tenney, AMWUA (Scenario 3), Mr. Biesemeyer, City of Scottsdale, (Scenario 3), Ms. Campbell, City of Phoenix, Mr. Wilson, Metro Water (Scenario 3).

4. RATE STABILIZATION GENERAL DISCUSSION -DUNLAP

Mr. Dunlap shared information about the rate stabilization funds to ask for feedback and a further discussion on how to use these funds once shortage is declared.