Stakeholder Rate Briefing
April 9, 2020
Questions/Comments & CAWCD Responses

Question/Comment: Great presentation, CAWCD team! One of the best I have seen. I would like to offer some comments.

- Thank you for proposing the inclusion of taxes to support repayment. We budgeted a water delivery rate of $154 / AF in 2021 and a capital charge rate of $66. Seeing the changes offset each other was a huge relief!
- Thank you for making a capital charge recommendation two years forward versus one. This will be a big help this fall when we start budgeting for our FY22
- A little more on the significant change to Big R (p 14) would be welcome. There are a few explanatory lines at the bottom, but nothing in the way of before/after numbers and projects, similar to the before/after done for capital charges and rates
- Referencing pages 9 and 20, I think it would be useful to see how much undirected tax revenue exists from 2023-2026 if the working capital fund was held at the proposed target. I think folks are going to get worked up for no reason seeing the balance take off on page 20. Perhaps on page 9, for example, you could call out as section of the bar chart to say this is the amount that is undirected above what it would take to hold the working capital fund at $50M or, similarly this is how much it would take to hold capital charges at $50. Just thinking out loud while understanding you guys always have reasons for why you display things a certain way.
- Again referencing the chart on page 20, it might be helpful to have a second chart showing what might occur e.g., higher working capital target and the area between the green dotted line and purple dotted line called out as potentially used for repayment or lowering the tax rate. I am trying to think of how to show folks a more realistic decision space
- The shortage sensitivity table (p 19) is very helpful, as are the delivery volumes (p 13) used in the rate build-up.

Again, well done! After reading through the presentation, I felt like I had a good idea of why things changed and where they are headed. These sorts of things are incredibly valuable to us and our finance teams when doing cost projections.

> **CAWCD response:** Discussed prior to the meeting and incorporated some of feedback into the verbal portion of the presentation.

Question/Comment: While OM&R rates appear lower than what had been anticipated since it is projected that we will not be in a Tier 1 shortage in 2021, can staff provide more information on the various factors leading to the proposed $5 increase in this rate? Regarding the increase cost for capital projects, you mentioned that extraordinary maintenance has been required – why was not the Strategic Reserve used since it is supposed to be for unexpected or needed emergency repairs?

> **CAWCD response:** Half of the increase is attributed to “Big R” increases in construction costs and extraordinary maintenance projects (mainly siphon and coatings work) and the other half is due to an increase in operating costs, such as maintenance materials and supplies and employee-related costs including medical.

The increases in capital projects and extraordinary maintenance are included in the budget and these are normal business expenses. If reserves were used to offset these increases, the reserves would need to be replenished from rates, not taxes.

Question/Comment: AMWUA appreciates the recommendation to use 4.5 cents of CAWCD's tax receipts toward Federal Repayment. We agree with staff that it is important for CAWCD to specifically designate taxes towards its most significant expense, the repayment for the construction of the Central Arizona Project, which has benefited all residents of the three counties and the State at large. Additionally, it is positive to see capital charges being adjusted toward the levels they would be had NGS still been operating and contributing to federal debt repayment through 2044, as it was originally assumed. The AMWUA municipalities greatly appreciate having capital charges projected for two years in order to help with budgetary planning. It is also useful for budgetary purposes to have the chart projecting OM&R rate increases per DCP shortage tier.

Lastly, AMWUA understands that the proposed rates, taxes and capital charges were developed prior to the current pandemic situation. As the CAWCD Board considers these rates, it is important to understand that the full economic impact of the pandemic is uncertain at this moment; however, it is certain that municipalities will be severely financially harmed by the pandemic's economic fallout. This year and the next few years will be an important time for CAWCD to show solidarity with its stakeholders by finding ways to tighten its expenses and consider additional financial strategies to keep delivery rates and capital charges as low as possible while we weather this storm

Question/Comment: On your key assumptions, you reference the NIA reallocation. Is this included because you always include it, or do you have new information to indicate the reallocation will occur in 2021?

CAWCD response: The NIA reallocation has been coordinated with the Department of Water Resources and is currently anticipated to be allocated this year. We have been in contact with the Bureau of Reclamation and they have indicated the time frame is still appropriate. Once allocated, the contracting process should be completed and make water available beginning in 2022.

Question/Comment: What is the 2023 wheeling assumption based on? Wondering if it would be possible to see an illustration of expenditures for moving project water vs. expenditures for new water, storage credits, wheeling etc. - everything OTHER than project water/repayment etc.

CAWCD response: Besides the additional infrastructure costs, which will be paid for by the wheeling entity, it is not anticipated that there will be any additional ongoing operational costs. The wheeling party will be included in the calculation of Fixed OM&R and pay their portion based on the deliveries. This additional water will decrease the Fixed OM&R that current customers would have paid if the water was not wheeled. They will also pay the current capital charge equivalent for that year.

Question/Comment: How sensitive is the Capital Charge projection in 2022 to the 50kaf of NIA reallocation? In other words, what would be the Capital Charge projection for 2022 if the NIA reallocation is delayed another year? Land sales were incorporated in the 2021 estimate for Basin Development Fund revenues, but because they're delayed, the capital charge projection has *increased* from advisory? It looks to me like they're lowered from $66 to $57. What did I misunderstand? Thanks for all of this --- you did a great job!

> **CAWCD Response:** The Capital Charge rate for 2022 would be approximately $50, if the NIA reallocation was not included including the General Ad Valorem and Water Storage Tax reduction to the federal repayment.

Question/Comment: Not really a question, but a comment. We appreciate the forward looking inclusion of tax money for the repayment obligation, it is quite helpful for our planning purposes. As you know, the current economy is in an unsteady state, which will impact water utilities in many ways- including revenue changes due to customer nonpayment, changes in water use patterns and changes to our own costs due to possible supply chain and staffing disruptions. Efforts by CAWCD to hold down costs for end users are appreciated, including the use of tax money for the repayment. Thank you for this staff recommendation, which we support.

Question/Comment: Could it be assumed that the up-front charges (9d and back capital) being assessed on the NIA water (slide 5) would be assessed on the wheeled water? Does CAWCD know of additional water to be wheeled that would necessitate setting aside 1 cent for system use agreement now?

> **CAWCD response:** No, wheeled water does not pay 9(d) debt, only the water being allocated as part of the water set aside from the Arizona Water Settlement Act pays it. They do not pay back capital charges as that is only paid on M&I allocations. Wheeled water does pay the current capital charge rate for the annual access to the canal (similar to excess).

Question/Comment: Metropolitan Domestic Water Improvement District's General Manager, wishes to extend his appreciation for inclusion of the general ad valorem 10 cent and the storage 4 cent taxes to mitigate the increasing capital repayment charges that have traditionally been paid by long-term subcontractor rates. It is more cost equitable having all who benefit from the use of CAP water deliveries share in the repayment expenses.

Question/Comment: For the update on the NIA water reallocation deliveries, Does CAP expect to issue the NIA water contracts in 2021 and have acquisition fee payments due at the end of 2021? When do you expect to issue the contracts for the NIA water? When do expect the acquisition fee payments will be due? What do you expect the NIA water acquisition cost per acre-foot will be?

> **CAWCD response:** It is anticipated contracts will be completed during the remainder of 2020 through 2021. We currently anticipate the process will be completed prior to October 2021 in order to make the water available for delivery in 2022. Staff has assumed a 5-year payment option, which the CAWCD Board previously approved, at a 2.5% interest rate. The first payment would be due by October 1, 2021 prior to scheduling it for delivery. The rates for NIA

are on page 5 of the presentation: $665/AF for 9(d) debt and $1,339/AF for back capital charges at current proposed capital charge levels.

Post meeting update: The property chart usage on page 9 had an error on the year of tax usage. We have corrected the chart for the FAP presentation and clarified the dates (which were shown as the ending year of the tax year). Corrected chart is as follows: