

ACTION BRIEF

BOARD OF DIRECTORS



Agenda Number 10.d

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MEETING DATE: Thursday, May 4, 2023

AGENDA ITEM: Adopt Water Delivery and Capital Charge Rates on the Preliminary 2024-2028 Rate Schedule

RECOMMENDATION: The Finance, Audit and Power Committee recommends that the Board approve the attached CAP Preliminary 2024-2028 Water Rate Schedule that reflects application of taxes to:

- o Apply 1.5 cents of taxes toward repayment which reduces the 2025 Capital Charge from \$69 per acre-foot to \$54 per acre-foot

FISCAL IMPLICATIONS: Yes

Impact on Budget:

None

Additional spending authority requested: None

Impact on Reserves:

Water rates are designed to cover costs. Capital charges have been set to cover the estimated make-up payment for the federal debt repayment less any taxes applied.

Impact on Rates:

None

LINKAGE TO STRATEGIC PLAN, POLICY, STATUTE OR GUIDING PRINCIPLE:

2022 CAWCD Board Strategic Plan

Finance: *Maintaining long-term financial strength to achieve CAP's goals and being prepared to address opportunities or challenges*

PREVIOUS BOARD ACTION/ACTIVITY:

June 2022	Board approved Final 2023-2028 Rate Schedule
April 13, 2023	Staff held Stakeholder Rate Briefing
April 2023	FAP Committee discussed preliminary CAWCD rates and taxes and made a recommendation to the CAWCD Board

ISSUE SUMMARY/DESCRIPTION:

As provided in the District's rate setting policy, rates are set in even-numbered years with a firm rate for the next year, a provisional rate for the second year and advisory rates for the next 4 years. In odd-numbered years, the provisional rates are reviewed to determine if updates are needed for the provisional and advisory rates. If a change is not required, the provisional rates can become firm for the next year without Board action. Due to the situation on the Colorado River, rates must be revisited in 2023.

The CAWCD policy provides for a stakeholder briefing in mid-April, review and development of a recommendation at the April Finance, Audit and Power Committee meeting, adoption of preliminary rates at the May Board meeting and approval of a final water rate schedule in June.

The proposed rates are developed as part of a detailed long range financial planning model that is based on previous work done during the 2022-2023 budget cycle. The planning model considers water deliveries, fixed O&M expenses, electricity costs, capital replacements, revenue requirements, property taxes, strategic reserve and working capital levels and other concerns or situations that have potential impact on the District.

Water Volumes: Water volumes have been revised to a Tier 3 level for 2024-2028. Additional information has been provided for additional DCP Tier levels for planning purposes. While 2024 water volumes are not yet known, it is almost certain that they will not be at the DCP Tier 1 levels contemplated in the 2024 provisional rate. Staff recommends assuming at Tier 3 volume level at this time.

Power: Purchase power costs for 2024 are based on approximately 33 percent long-term contracts and approximately 67 percent market purchases. After 2024, purchase power costs are based on approximately 16 percent long-term contracts and approximately 84 percent market purchases.

Wheeling: Starts in 2026 at 4,000 acre-feet and remains at that level.

Non-Indian Ag (NIA) Reallocation: No additional reallocation has been included in the forecast.

Ag Programs: Fixed OM&R is covered through general ad valorem taxes for the Ag Settlement pool. No additional incentives or discounts are proposed. Rates are exclusive of any Ag Forbearance program benefits.

DCP Mitigation: Additional costs and water volumes Arizona's Implementation plan have not been included in the forecast. As these specifics will be defined in the coming months, the goal is to have balanced amounts of compensated mitigation and additional volumes so as to not impact the Fixed OM&R rate.

2020 Voluntary Rate Stabilization: This rate is a reduction in the Energy rate as a result of previous rate payer contributions into the 2014 Voluntary Supplemental Shortage Stabilization Program, which was renewed in 2020 under the current program. CAWCD made some partial matching contributions into this program. Only those entities that opted-in to the program are eligible for this reduction. The rate is consistent with the advisory rates that were based on stakeholder feedback.

Water Delivery Rates: Overall, the Fixed OM&R rates remained flat from the previous advisory rates at a Tier 3 level. Energy increased slightly due to increased market purchase estimates. As diversions decrease, energy has more variation due to the ability to shape use to utilize off-peak energy periods.

Capital Charges: Capital charges provide a funding source for the make-up payment to the federal government for the annual repayment. The current Board direction is to collect enough in capital charges to cover the estimated make-up payment with annual discussions of how much, if any, taxes will be utilized for repayment to subsequently reduce capital charges. The 2024 Capital Charge was reduced to \$53/AF by the previous Board allocation of 1.5-cents of general ad valorem tax in 2022. The Hohokam Cliff Dam Replacement allocation was removed from the denominator, increasing the capital charge rate in the advisory period due to the uncertainty related to reduced water availability. The FAP Committee recommended 1.5 cents of taxes be applied toward 2025 repayment, which reduces the 2025 capital charge rate from \$69/af to \$54/af.

STAKEHOLDER PERSPECTIVES:

A Stakeholder Rate Briefing was held on April 13, 2023 and is discussed in the presentation.

SUGGESTED MOTION:

I move that the Board of Directors approve the Finance, Audit, and Power Committee recommendation for the 2024-2028 preliminary rate schedule.

ATTACHMENTS:

1. CAWCD Preliminary 2024-2028 Water Rate Schedule (Committee Recommendation)