

ACTION BRIEF

BOARD OF DIRECTORS



Agenda Number 6

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- MEETING DATE:** Thursday, November 4, 2021
- AGENDA ITEM:** Discussion and Consideration of Action to Approve the Proposed CAP Biennial Budget for Calendar Years 2022 and 2023 (*Finance*[^]) - Hall/Dunlap
- RECOMMENDATION:** The District's 2022 / 2023 Biennial Budget has been provided to the Board. The FAP Committee recommends that the Board:
- a. Approve the Recommended 2022 / 2023 Biennial Budget.
 - b. Delegate to the General Manager the authority to execute the approved operating budget and to approve expense variances per budgetary controls as set forth in the budget.
 - c. Delegate to the General Manager the authority to execute the approved capital budget and to approve variances per budgetary controls as set forth in the budget.

FISCAL IMPLICATIONS: Yes

Impact on Budget:

Budget Proposed: (Dollars in Millions)	2022	2023
Total Revenues	\$ 420.2	\$ 450.5
Total Expenses	\$ 296.5	\$ 292.6
Capital Expenditures	\$ 38.1	\$ 41.9

Additional spending authority requested: N/A

Impact on Reserves:

N/A

Impact on Rates:

N/A

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*

Project Reliability: *Providing reliable and cost-effective operations, maintenance, and replacement of CAP's infrastructure and technology assets*

PREVIOUS BOARD ACTION/ACTIVITY:

- June 10, 2021 The Board adopted the 2022-2026 Final Rate Schedule.
- June 10, 2021 The Board fixed the 2021 / 2022 General Ad Valorem tax rate at \$0.10 per \$100 assessed valuation.
- June 10, 2021 The Board fixed the 2021 / 2022 water storage tax rate at \$0.04 per \$100 assessed valuation.
- October 14, 2021 An overview of the 2022 / 2023 Biennial Budget was presented at a Customer briefing.
- October 21, 2021 Staff presented the 2022 / 2023 Biennial Budget and the FAP Committee recommended that the CAWCD Board approve the budget as proposed.

ISSUE SUMMARY/DESCRIPTION:

The Recommended 2022 / 2023 Biennial Budget was provided to the Board and posted on the District's website by October 1, 2021. All of the financial information contained in the Budget, whether it is summary information, revenues, expenses, staffing, fund detail or group/department information, is presented using a five-year comparison: 2019 and 2020 actual data, the 2021 projection and the 2022 and 2023 budget. Although the Budget is a comprehensive document, some summary information is presented below.

Revenues

(\$ Millions)	2021 Projection	2022 Budget	2023 Budget	22 vs 21 Incr/(Decr)	23 vs 22 Incr/(Decr)
Water O&M Charges	\$ 181.3	\$ 220.0	\$ 233.5	\$ 38.7	\$ 13.5
Capital Charges	60.1	35.4	39.7	(24.7)	4.3
Power & Other BDF	7.9	8.0	8.1	0.1	0.1
Reimbursement	65.6	56.9	63.8	(8.7)	6.9
Property Taxes	86.9	92.1	97.2	5.2	5.1
Interest Income	13.3	7.8	8.2	(5.5)	0.4
Total Revenues	\$ 415.1	\$ 420.2	\$ 450.5	\$ 5.1	\$ 30.3

Water Deliveries and Water O&M Charges (Revenues) – Water deliveries in 2022 and 2023 are budgeted at 1.22 and 1.10 million acre – feet, respectively. The planned deliveries are based on Tier 1 for 2022 and Tier 2a for 2023 DCP levels, which includes a reduction of 512,000 acre-feet of deliveries in 2022 and a reduction of 592,000 acre-feet of deliveries in 2023. The Ag settlement Pool is reduced to 42,000 acre-feet in 2022 under Tier 1 and is fully eliminated in 2023 under Tier 2a. No other excess water is available during the budget period. Associated water O&M charges are expected to be \$38.7 million higher in 2022 and \$13.5 million higher in 2023. The increase in 2022 is mainly due to increased deliveries to M&I customers.

Capital Charges – The 2022 decrease of \$24.7 million is mainly associated with the decrease of the capital charge rate. The Non-Indian Ag Reallocation occurs in 2021 and all transactions are recorded in that period.

Power and Basin Development Fund (BDF) Revenues – Revenues are projected to increase slightly in 2022 and 2023 as compared to 2021.

Property Taxes – The 2022 and 2023 budget reflects maintaining the general ad valorem tax at \$0.10 per \$100 of assessed valuation and the water storage tax rate at \$0.04 per \$100 of assessed valuation. For 2021 / 2022 tax year, the Board set the General Ad Valorem tax rate to \$0.10 and designated that \$0.075 of this tax be set aside in a separate committed Extraordinary Cost reserve until such time that the Board authorizes its use.

Interest/Gain (Loss) Income – The interest income is primarily from investments held by the Arizona State Treasurer.

Other Income – Mainly CAGR D revenue, which increases as a result of increases in both rates and obligation volume.

Expenses

<i>(\$ Millions)</i>	2021 Projection	2022 Budget	2023 Budget	22 vs 21 Incr/(Decr)	23 vs 22 Incr/(Decr)
Salaries & Related Costs	\$ 70.3	\$ 75.7	\$ 80.3	\$ 5.4	\$ 4.6
Pumping Energy	68.0	65.0	64.4	(3.0)	(0.6)
Amortization & Depreciation	49.0	49.7	50.1	0.7	0.4
Other Operating Costs	39.4	63.4	64.0	24.0	0.6
Interest and Other Non-Operating Expense	38.2	26.7	18.2	(11.5)	(8.5)
Transmission	15.9	16.0	15.6	0.1	(0.4)
<i>Total Expenses</i>	\$280.8	\$296.5	\$292.6	\$ 15.7	\$ (3.9)

Pumping Energy – Energy market pricing is anticipated to increase during the budget period. The slight decrease in pumping energy costs from 2021 is due to lower water deliveries. CAWCD anticipates using 2,185 gigawatt hours (GWh) of energy in 2022 and 2,088 GWh in 2023 to meet the District’s pumping needs. Approximately 80% of total CAP energy needs are obtained from market purchases.

Salaries and Related Costs – The proposed budget includes 489.5 average full-time equivalent (FTE) employees for each year. No new positions are requested in the budget period, although two positions were added in 2021, and include a factor for vacancy/salary savings equivalents of 15 FTEs to reflect turnover and retirements.

Other Costs – These include costs for key initiatives, Board initiatives, Extraordinary Maintenance projects and disbursement to AWBA for LTSC purchases and administrative costs. For Extraordinary Maintenance cost, it includes the Mark Wilmer Pumping Plant Suction Tubes and Bouse Hills Right Manifold Reline project. In 2022, disbursements to AWBA include \$7.0 million for LTSC purchases and \$0.5 million for administrative costs. In 2023, no disbursements for LTSC purchases but \$0.5 million is budgeted for administrative costs.

Interest Expense – This is the interest on the federal repayment obligation and the CAWCD and CAGR D revenue bonds. The CAWCD Series 2016 bonds were sold at a premium and the annual amortization for the premium decreases the interest expense in 2022 and 2023.

Capital Budget

Capital expenditures for 2022 and 2023 are budgeted at \$ 38.1 million and \$ 41.9 million, respectively. New projects scheduled to start during the 2022 / 2023 budget period include: Discharge Valves at Bouse Hills, Little Harquahala & Hassayampa Pumping Plants, Elevator System Replacement (Phase 3), Fire Protection at San Xavier, Twin Peaks, Sandario, Brawley, Tucson Field Office, HVAC Replacement at Headquarters Building 2, Motor Exciters at Twin Peaks, Sandario, Snyder Hill & Black Mountain. Major projects that are scheduled to be completed in the 2022 / 2023 budget period include: Fire Protection System Upgrade at Mark Wilmer Pumping Plant, HVAC Replacement at Mark Wilmer Pumping Plant, Motor Exciters & Control Unit Replacements at West Plants, and Transformer Replacement at McCullough.

STAKEHOLDER PERSPECTIVES

Budget briefing held with Stakeholders on October 14, 2021. Perspectives or feedback were addressed at the FAP Committee meeting and were primarily focused on water volume assumptions.

SUGGESTED MOTION:

I move that the Board:

- a. Approve the Recommended 2022 / 2023 Biennial Budget.
- b. Delegate to the General Manager the authority to execute the approved operating budget and to approve expense variances per budgetary controls as set forth in the budget.
- c. Delegate to the General Manager the authority to execute the approved capital budget and to approve variances per budgetary controls as set forth in the budget.

ATTACHMENTS:

1. Presentation