

Agenda Numbers 5.b.iii. and iv.

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MEETING DATE: June 8, 2017

AGENDA ITEM: Discussion and Consideration of Action to Fix the Water Storage Tax Rate Pursuant to A.R.S. §48-3715.02, Subsection B & Adopt a Resolution Regarding the Use of Water Storage Tax, Pursuant to A.R.S. §48-3715.02, Subsections B and C

RECOMMENDATION:

The Finance, Audit and Power Committee recommends that the Board of Directors fix the CAWCD Water Storage Tax Rate at 4 cents (\$0.04) per one hundred dollars (\$100) of assessed valuation for the 2017/2018 tax year and also recommends that the Board of Directors adopt a resolution regarding the use of Water Storage Tax, Pursuant to A.R.S. §48-3715.02, Subsections B and C.

FINANCIAL IMPLICATIONS:

Impact on Budget:

Revenues are included in the 2017 budget at the current rate of 4 cents per \$100 of assessed valuation.

Each cent of ad valorem taxes is worth approximately \$4.9 million for the 2017/2018 tax year.

Revenues (at the recommended 4 cents):	\$9.8 million in 2017
	\$9.8 million in 2018

Impact on Reserves: Water Storage tax proceeds have historically been held in a dedicated CAP Water Storage Reserve (separate from Strategic Reserves). The recommendation is to continue to place 2-cents proceeds of the Water Storage Tax in the CAP Water Storage Reserve and 2-cents in the working capital reserve to be applied to costs for the Ag Consideration program.

Impact on Rates: None at this time.

Additional spending authority requested: Not applicable.

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

2016 CAP Strategic Plan

- Finance: Maintaining CAP's Financial Health
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§A.R.S. 48-3715.02(B) authorizes CAP to levy a Water Storage tax up to four cents per \$100 of assessed valuation. The rate must be fixed by the third Monday in August each year.

A.R.S. 48-3715.03(A) provides that the Board shall determine whether all or any portion of such tax is to be applied to the payment or repayment of CAP construction or annual operations, maintenance and replacement costs. Any taxes levied for Water Storage that are not applied to the payment or repayment of CAP construction or annual operations, maintenance and replacement are to be deposited with the State Treasurer in the Arizona Water Banking Fund.

The Board establishes property tax rates each year in June.

PREVIOUS BOARD ACTION/ACTIVITY:

May 18, 2017 FAP Committee recommended that the Board fix the CAWCD Water Storage Tax Rate at 4 cents (\$0.04) per one hundred dollars (\$100) of assessed valuation for the 2017/2018 tax year and also recommended that the Board of Directors adopt a resolution regarding the use of Water Storage Tax, Pursuant to A.R.S. §48-3715.02, Subsections B and C.

April 20, 2017 FAP Committee discussed 2018 water and tax rates and made a recommendation to the Board on water rates

ISSUE SUMMARY/DESCRIPTION:

By statute, the counties must inform property owners of the assessed value of their properties by March of each year prior to the year the assessment takes effect (e.g., March 2016 for the tax year that begins July 1, 2017). The assessments are based on valuations from the middle of the previous calendar year (e.g., the valuation for the tax year beginning July 1, 2017, would be based on valuations from mid-2015). Valuations are approximately two years behind the pertinent tax year.

Because of this timing effect, CAWCD and other taxing authorities have an extremely accurate estimate of the tax that will be collected during the following tax year based on whatever tax rate is chosen.

During this planning cycle, the Elliot D. Pollack Co. was again retained to assist in developing property tax valuation estimates for the next few years. Valuation estimates were slightly higher than last year's forecast in the near term. As a result of Proposition 117, taxes are based on Limited Property Value (LPV) and LPV is constrained to rise no more than 5% per year, although newly built property will be recorded at its actual Full Cash Value (FCV) for the initial year. The total assessed valuation in the 3-county area is projected to increase by 4.9% for the 2017/2018 tax year, and then increase by 4.6% for the 2018/2019 tax year.

Since 2003, CAWCD has reserved Water Storage Tax proceeds for OM&R in order to protect the funds in its own accounts. For several years (2003-2008), those funds were designated for OM&R related to costs of M&I firming by the Arizona Water Banking Authority (AWBA). In 2009, the designation was for OM&R related to underground storage. In order to provide the Board with additional flexibility, in 2010 and 2011 the designation was simply for OM&R, and since 2012, the designation was broadened to include OM&R or Repayment.

Historically, the Board has levied the Water Storage Tax at the statutory maximum of 4 cents per \$100 of assessed valuation. At the maximum rate, the amounts collected in Pima and Pinal counties cannot satisfy all of the M&I firming needs for those counties and are completely consumed. However, since CAWCD is only allowed to assess a single rate for all three counties, a substantial balance has built up from collections in Maricopa County that are in excess of what has been needed for M&I firming in that county.

In early 2014, in conjunction with a bill introduced in the Arizona Legislature to allow the AWBA to purchase long-term storage credits (that subsequently passed), the Board approved an amendment to the IGA among CAWCD, AWBA and ADWR that governs the way in which 4-cent taxes can be used to help pay for such purchases. Under this amendment, the CAWCD Board will continue to establish the Water Storage Tax rate and use each June under the existing statutory authority and process followed in previous years. Later in the year, AWBA may make a request for some amount of the Water Storage tax levied for the current tax year for the purpose of purchasing long-term storage credits under this provision.

In addition, the Board may utilize these funds for operations and maintenance or repayment as there are many uncertainties in the near future (e.g. power market, NGS and other power concerns, shortage, structural deficit, etc.).

Staff recommends that the Water Storage tax rate be kept at the statutory maximum of 4 cents for the 2017/2018 tax year, and the proceeds designated for OM&R and Repayment as was done last year. Staff is recommending that 2-cents of the tax should be deposited into the CAP Water Storage Reserve, as has been done in the past, and 2-cents be placed in the Working Capital Reserve to be available for the cost of the Ag Consideration program. Funds deposited in the CAP Water Storage Reserve are available for use by the AWBA for M&I Firming and, under the terms of the amended IGA, available to be designated for the purchase of long-term storage credits.

SUGGESTED MOTION:

I move that the Board of Directors fix the CAWCD Water Storage Tax Rate at four cents (\$0.04) per one hundred dollars (\$100) of assessed valuation for the 2017/2018 tax year; and

I further move that the Board of Directors adopt a resolution determining that all of the tax levied for Water Storage in tax year 2017/2018 is required for CAP repayment or annual operations, maintenance and replacement costs, including CAWCD costs for AWBA M&I firming; and

I further move that 2-cents of the tax be deposited into the CAP Water Storage Reserve and 2-cents be deposited into the Working Capital Reserve to be available for the Ag Consideration program.

Attachment.

**Agenda Number 5.b.iv.
Attachment.**

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE
CENTRAL ARIZONA WATER CONSERVATION DISTRICT
REGARDING AD VALOREM TAX FOR WATER STORAGE

(June 8, 2017)

WHEREAS, House Bill 2494 adopted by the Arizona Legislature in 1996 (Chapter 308, Laws of Arizona 1996, Forty-second Legislature, Second Regular Session) established the Arizona Water Bank and amended A.R.S. § 48-3715.02 relating to the tax levy for water storage; and

WHEREAS, A.R.S. § 48-3715.02, subsection B, provides that the Board of Directors (the "Board") of the Central Arizona Water Conservation District (the "District") shall fix the amount to be raised by direct taxation pursuant to its provisions, which amount shall not exceed four cents per one hundred dollars of assessed valuation; and

WHEREAS, the Board by separate action has fixed the tax rate pursuant to A.R.S. § 48-3715.02, subsection B, for the 2017/2018 tax year at four cents per one hundred dollars of assessed valuation; and

WHEREAS, A.R.S. § 48-3715.03 further provides that the Board shall determine annually by resolution whether any or all of the tax levied pursuant to A.R.S. § 48-3715.02, subsections B and C, shall be applied to the repayment of the construction costs of the Central Arizona Project ("CAP" or the "Project") or to the annual operation, maintenance, and replacement costs of the Project; and

WHEREAS, A.R.S. § 48-3715.03 further provides that those monies specified in such resolution for repayment of the construction costs or payment of the annual operation, maintenance, and replacement costs of the Project shall be deposited in the District fund

established pursuant to A.R.S. § 48-3712, subsection A, paragraph 5; and

WHEREAS, A.R.S. § 48-3715.03 further provides that a certified copy of such resolution shall be delivered to the Arizona Department of Water Resources;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Central Arizona Water Conservation District, as follows:

1. That all of the taxes levied pursuant to A.R.S. § 48-3715.02, subsections B and C, in the 2017/2018 tax year shall be applied to repayment of the construction costs or payment of the annual operation, maintenance, and replacement costs of the Project, including underground storage for the purpose of M&I firming by the Arizona Water Banking Authority; and
2. That all taxes levied pursuant to A.R.S. § 48-3715.02, subsections B and C, in the 2017/2018 tax year be deposited in a designated District account in the District fund established pursuant to A.R.S. § 48-3712, subsection A, paragraph 5; and
3. That a certified copy of this resolution be delivered to the Arizona Department of Water Resources.

I, the undersigned, as Secretary of the Central Arizona Water Conservation District, hereby certify that the foregoing is a true and correct copy of the resolutions duly adopted by the Board of Directors of the Central Arizona Water Conservation District at a meeting thereof, duly called and held on June 8, 2017, at which a quorum was present and acting throughout. I further certify that said resolutions have not been modified or revoked since their adoption and are still in full force and effect.

SIGNED THIS 8th DAY OF JUNE 2017.

By: _____
Sharon B. Megdal
Secretary